

TOMPKINS FINANCIAL CORP  
Form S-4  
April 19, 2012

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As filed with the Securities and Exchange Commission on April 19, 2012

File No. 333-

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form S-4**

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**Tompkins Financial Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**New York**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**6022**  
(Primary Standard Industrial  
Classification Code Number)  
**The Commons, P.O. Box 460, Ithaca, NY 14851**  
**(607) 273-3210**

**16-1482357**  
(IRS Employer  
Identification Number)

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Stephen S. Romaine, President and Chief Executive Officer**  
**The Commons, P.O. Box 460, Ithaca, NY 14851**  
**(607) 273-3210**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

**Copies to:**

**Thomas E. Willett, Esq.**  
**Harris Beach PLLC**  
**99 Garnsey Road**  
**Pittsford, NY 14534**  
**Telephone: (585) 419-8800**

**David W. Swartz**  
**Stevens & Lee, P.C.**  
**111 North Sixth Street**  
**P.O. Box 679**  
**Reading, PA 19603-0679**  
**Telephone: (610) 478-2000**

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## Approximate Date of Commencement of Proposed Sale of Securities to the Public:

**As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the enclosed document.**

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share of Common Stock	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock	2,627,904 shares	N/A	\$89,689,009	\$10,279

(1) The maximum number of shares of Tompkins Financial Corporation ("Tompkins") common stock estimated to be issuable upon the completion of the merger described herein between a wholly owned subsidiary of Tompkins and VIST Financial Corp. ("VIST"). This number is based on (a) the number of shares of VIST common stock outstanding and reserved for issuance as of April 11, 2012, and (b) a share exchange ratio of 0.3475 shares of Tompkins common stock, solely for purposes of calculating the registration fee, issuable in exchange for each of those shares of VIST common stock in accordance with the Agreement and Plan of Merger, dated January 25, 2012, by and among Tompkins, TMP Mergeco. Inc., and VIST.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended (the "Securities Act") and computed pursuant to Rules 457(f)(1) and 457(c) of the Securities Act. The proposed maximum aggregate offering price of the registrant's common stock was calculated based upon the market value of shares of VIST common stock (the securities to be cancelled in the merger) in accordance with Rule 457(c) under the Securities Act as follows: (A) the product of (1) \$11.86, the average of the high and low prices per share of the common stock of VIST as reported on The Nasdaq Global Market on April 11, 2012 and (2) 7,562,311, the estimated maximum number of shares of VIST common stock outstanding and reserved for issuance as of April 11, 2012, including shares issuable upon the exercise of outstanding stock options.

(3) Calculated pursuant to Rule 457(f) and Section 6(b) of the Securities Act and Securities and Exchange Commission Fee Rate Advisory #5 for Fiscal Year 2012 at a rate equal to \$114.60 per \$1,000,000 of the proposed maximum aggregate offering price.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**



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**The information in this joint proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement/prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED APRIL 19, 2012**

**PROXY STATEMENT/PROSPECTUS  
OF  
TOMPKINS FINANCIAL CORPORATION**

**PROXY STATEMENT  
OF  
VIST FINANCIAL CORP.**

**2012 ANNUAL MEETING OF SHAREHOLDERS**

**SPECIAL MEETING OF SHAREHOLDERS**

**PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT**

Tompkins Financial Corporation, which we refer to as "Tompkins," and VIST Financial Corp., which we refer to as "VIST," have entered into a merger agreement that provides for the combination of the two companies. Under the merger agreement, VIST will merge with and into a wholly owned subsidiary of Tompkins, with Tompkins' subsidiary remaining as the surviving entity, and the separate corporate existence of VIST will cease. Before we complete the merger, the shareholders of VIST must approve and adopt the merger agreement. VIST shareholders will vote to approve and adopt the merger agreement and the other transactions and matters described below at a special meeting of shareholders to be held on \_\_\_\_\_, 2012. Tompkins shareholders must approve the issuance of shares of Tompkins common stock to the shareholders of VIST in the merger. Tompkins shareholders will vote to approve the issuance of the shares of Tompkins common stock to the shareholders of VIST in the merger and the other transactions and matters described below at an annual meeting of shareholders to be held on \_\_\_\_\_, 2012.

If the merger is completed, VIST shareholders will receive 0.3127 shares of Tompkins common stock in exchange for each share of VIST common stock they own immediately prior to completion of the merger, which we refer to as the "Exchange Ratio." The Exchange Ratio is subject to adjustment based on the average of the closing price of Tompkins common stock for the 20 consecutive business days ending three days prior to the date of the VIST special meeting of shareholders, which is to be held on \_\_\_\_\_, 2012. If this average closing price is greater than \$43.98, the Exchange Ratio will be adjusted and fixed at 0.2842 shares of Tompkins common stock for each VIST share of common stock, and if this average closing price is less than \$35.98, the Exchange Ratio will be adjusted and fixed at 0.3475 shares of Tompkins common stock for each VIST share of common stock. The aggregate number of shares of Tompkins common stock to be issued in the merger and the other transactions described below is approximately \_\_\_\_\_ million, assuming that the Exchange Ratio is 0.3127. The exact total number of shares of Tompkins common stock to be issued in the merger will depend on the total number of shares of VIST common stock outstanding immediately prior to the effective time of the merger.

The common stock of Tompkins trades on the NYSE-Amex under the symbol "TMP." The common stock of VIST trades on the NASDAQ Global Market system under the symbol "VIST." On \_\_\_\_\_, 2012, the most recent practicable trading day prior to the printing of this joint proxy statement/prospectus, the closing price of Tompkins common stock was \$ \_\_\_\_\_ per share and the closing price of VIST common stock was \$ \_\_\_\_\_ per share. The market price of both Tompkins common stock and VIST common stock will fluctuate before the completion of merger, therefore, you are urged to obtain current market quotations for both Tompkins common stock and VIST common stock.

The VIST board of directors has determined that the combination of VIST and Tompkins is advisable and in the best interests of VIST based upon its analysis, investigation and deliberation, and the VIST board of directors unanimously recommends that the VIST shareholders vote "FOR" the approval and adoption of the merger agreement and "FOR" the approval of the other proposals described in this joint proxy statement/prospectus.

The Tompkins board of directors has determined that the combination of Tompkins and VIST is in the best interests of Tompkins shareholders based upon its analysis, investigation and deliberation, and the Tompkins board of directors unanimously recommends that the Tompkins shareholders vote "FOR" the issuance of the shares of Tompkins common stock to the shareholders of VIST in connection with the merger and "FOR" the approval of the other proposals described in this joint proxy statement/prospectus.

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You should read this entire joint proxy statement/prospectus, including the annexes hereto and the documents incorporated by reference herein, carefully because it contains important information about the merger and the related transactions. **In particular, you should read carefully the information under the section entitled "Risk Factors" beginning on page 20.**

**The shares of Tompkins common stock to be issued to VIST shareholders in the merger are not deposits or savings accounts or other obligations of any bank or savings association, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the Merger described in this joint proxy statement/prospectus or the Tompkins common stock to be issued in the merger, or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

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**ADDITIONAL INFORMATION**

**This joint proxy statement/prospectus incorporates business and financial information about Tompkins and VIST that is not included in or delivered with this document. This information is available from Tompkins or VIST without charge by first class mail or equally prompt means within one business day of receipt of your request, excluding exhibits unless the exhibit has been specifically incorporated by reference into the information that this document incorporates. To obtain timely delivery, you must request the information no later than five business days before you must make your investment decision. In the case of Tompkins shareholders, this means that you must make your request no later than [ ], 2012, and in the case of VIST shareholders, this means that you must make your request no later than [ ], 2012. If you want to receive a copy of any document incorporated by reference, please request it in writing or by telephone from the appropriate company at the following address:**

**Tompkins Financial Corporation  
The Commons  
P.O. Box 460  
Ithaca, NY 14851  
Attention: Ms. Linda M. Carlton, Assistant Vice  
President and Corporate Secretary  
Telephone: (607) 273-3210**

**VIST Financial Corp.  
P.O. Box 6219  
1240 Broadcasting Road  
Wyomissing, PA 19610  
Attention: Ms. Donna O. Kowalski, Assistant  
Corporate Secretary  
Telephone: (610) 603-7211**

Shareholders may also consult Tompkins' or VIST's websites for more information concerning the merger described in this joint proxy statement/prospectus and each of the parties thereto. Tompkins' website is [www.tompkinsfinancial.com](http://www.tompkinsfinancial.com) and VIST's website is [www.vistfc.com](http://www.vistfc.com). Information included on these websites is not incorporated by reference into this joint proxy statement/prospectus.

This joint proxy statement/prospectus is dated \_\_\_\_\_, 2012 and is first being mailed to the shareholders of VIST and the shareholders of Tompkins on or about \_\_\_\_\_, 2012.

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, 2012

**NOTICE OF 2012 ANNUAL MEETING OF SHAREHOLDERS  
TO THE SHAREHOLDERS OF TOMPKINS FINANCIAL CORPORATION**

The Annual Meeting of Shareholders of Tompkins Financial Corporation, or "Tompkins," will be held on [Day of Week], , 2012 at 5:30 p.m., at the Country Club of Ithaca, 189 Pleasant Grove Road, Ithaca, New York, for the following purposes:

1. To approve the issuance of shares of Tompkins common stock in the merger of VIST Financial Corp. with and into TMP Mergeco. Inc., a wholly owned subsidiary of Tompkins, whereby the operating subsidiaries of VIST Financial Corp. will become wholly-owned subsidiaries of Tompkins;
2. To elect sixteen (16) Directors for a term of one year expiring in the year 2013;
3. To ratify the appointment of the independent registered public accounting firm, KPMG LLP, as Tompkins' independent auditor for the fiscal year ending December 31, 2012;
4. To approve the adjournment of the Tompkins annual meeting, if necessary, to solicit additional proxies; and,
5. To transact such other business as may properly come before the annual meeting or any adjournment thereof.

The board of directors has fixed the close of business on , 2012 as the record date for determining shareholders entitled to notice of and to vote at the annual meeting. Only shareholders of record at the close of business on that date are entitled to vote at the annual meeting. A shareholder's information meeting for our shareholders in western New York will be held at 5:30 p.m. on [Day of Week], , 2012, at Terry Hills Restaurant, 5122 Clinton Street Road (Rt. 33), Batavia, New York. A shareholder's information meeting for our shareholders in the Hudson Valley will be held at 6:00 p.m. on [Day of Week], , 2012, at Travelers Rest, Route 100, Ossining, New York.

Please refer to the attached joint proxy statement/prospectus with respect to the business to be transacted at the annual meeting of Tompkins shareholders. Information relating to the activities and operations of Tompkins during the fiscal year ended December 31, 2011 is also contained in the joint proxy statement/prospectus.

**The Tompkins board of directors unanimously recommends that you vote "FOR" all of the Tompkins proposals.** Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the annual meeting, you are urged to read and carefully consider the enclosed joint proxy statement/prospectus. You may vote by telephone, via the Internet, or mark, sign, date, and return the enclosed form of proxy in the accompanying pre-addressed postage-paid envelope. Your proxy may be revoked prior to its exercise by filing a written notice of revocation or a duly executed proxy bearing a later date with the Corporate Secretary of Tompkins Financial prior to the annual meeting, or by attending the annual meeting and filing a written notice of revocation with the Corporate Secretary at the annual meeting prior to the vote and voting in person.

By Order of the Board of Directors,

/s/ JAMES J. BYRNES

/s/ LINDA M. CARLTON

James J. Byrnes  
*Chairman*

Linda M. Carlton  
*Asst. Vice President & Corporate Secretary*

TOMPKINS FINANCIAL CORPORATION, THE COMMONS, P.O. BOX 460, ITHACA, NEW YORK 14851 (607) 273-3210

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS**

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**FOR THE STOCKHOLDER MEETING TO BE HELD , 2012**

This joint proxy statement/prospectus and Tompkins' annual report to security holders are available under the "SEC Filings" tab at [www.tompkinsfinancial.com](http://www.tompkinsfinancial.com).

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD , 2012**

TO THE SHAREHOLDERS OF VIST FINANCIAL CORP.:

**NOTICE IS HEREBY GIVEN** that the Special meeting of Shareholders of VIST Financial Corp. will be held at :00 .M. (Eastern Time) on , , 2012, at the [Location], to consider and vote on the following proposals:

1. Approval and adoption of the Agreement and Plan of Merger, dated January 25, 2012, by and among Tompkins, Merger Sub, and VIST, which provides for, among other things, the merger of VIST with and into Merger Sub;
2. Approval, in an advisory (non-binding) vote, of the compensation payable to VIST's named executive officers in connection with the merger;
3. Approval of a proposal to authorize the board of directors to adjourn the special meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes to approve any of the other proposals; and
4. Transaction of such other business as may properly be presented at the meeting or any adjournment or postponement of the meeting.

All of these items, including the proposal to adopt the merger agreement, are described in more detail in the accompanying joint proxy statement/prospectus and its appendices. You should read these documents in their entirety before voting. We have fixed , 2012 as the record date for determining those VIST shareholders entitled to vote at the special meeting. Accordingly, only shareholders of record at the close of business on that date are entitled to notice of and to vote at the special meeting or any adjournment or postponement of the meeting. A list of such shareholders will be available for inspection at the special meeting and for ten days prior to the meeting at VIST's headquarters located at 1240 Broadcasting Road, Wyomissing, PA 19610, during normal business hours.

**Your board of directors has unanimously determined that the proposed merger is advisable and in the best interests of VIST and its shareholders and unanimously recommends that you vote "FOR" the proposal to approve and adopt the merger agreement. Your board of directors also recommends that you vote "FOR" proposals 2 and 3 listed above.**

**We urge you to vote as soon as possible so that your shares will be represented. Please do not send in any VIST stock certificates until you receive written instructions to do so.**

BY ORDER OF THE BOARD OF DIRECTORS,

, 2012

*Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign, date and return your proxy card or voting instruction card in the enclosed envelope promptly. For many shareholders, you may also vote your shares by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card or voting instruction card. If you later decide to attend the meeting, you can, if you wish, revoke the proxy and vote in person.*

The Notice of Special Meeting and Joint Proxy Statement/Prospectus and the Proxy Card are available at <http://www.vistfc.com>.

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**QUESTIONS AND ANSWERS**

*The following questions and answers briefly address some commonly asked questions about the merger (as defined below) and the shareholders meetings. They may not include all the information that is important to the shareholders of VIST and of Tompkins. Shareholders of VIST and of Tompkins should each read carefully this entire joint proxy statement/prospectus, including the annexes and other documents referred to in this document.*

**About the Merger**

**Q:**  
**What is the merger?**

A: Tompkins and VIST have entered into an Agreement and Plan of Merger, dated January 25, 2012, which is referred to as the "merger agreement." A copy of the merger agreement is attached as Annex A to, and is incorporated by reference in, this joint proxy statement/prospectus. The merger agreement contains the terms and conditions of the proposed business combination of Tompkins and VIST. Under the merger agreement, VIST will merge with and into TMP Mergeco, Inc., a wholly owned subsidiary of Tompkins which is referred to as "merger sub," with merger sub remaining as the surviving entity, and the separate corporate existence of VIST will cease. We refer to this transaction as the "merger."

**Q:**  
**Why am I receiving these materials?**

A: Tompkins is sending these materials to its shareholders to help them decide how to vote their shares of Tompkins common stock with respect to the issuance of Tompkins common stock in the merger and the other matters to be considered at the Tompkins annual meeting.

VIST is sending these materials to its shareholders to help them decide how to vote their shares of VIST common stock with respect to the proposed merger and the other matters to be considered at the VIST special meeting.

The merger cannot be completed unless VIST shareholders adopt the merger agreement and approve the merger and Tompkins shareholders approve the issuance of Tompkins common stock in the merger. VIST is holding its special meeting of shareholders to vote on the proposal necessary to complete the merger in addition to the other proposals described in "*VIST Special Meeting of Shareholders*" beginning on page [ ]. Tompkins is holding its 2012 annual meeting of shareholders to vote on the merger in addition to the other proposals described in "*Tompkins Annual Meeting*," beginning on page 141. Information about these meetings, the merger and the other business to be considered at the meetings is contained in this joint proxy statement/prospectus.

This document constitutes both a joint proxy statement of Tompkins and VIST and a prospectus of Tompkins. It is a joint proxy statement because the boards of directors of both companies are soliciting proxies from their respective holders of common stock. It is a prospectus because Tompkins will issue shares of its common stock in exchange for shares of VIST common stock in the merger.

**Q:**  
**Why is Tompkins proposing the merger?**

A: Tompkins' board of directors believes that the merger is in the best interest of Tompkins. In reaching this decision, Tompkins' board, in consultation with Macquarie Capital, its financial advisor, and Harris Beach PLLC, its legal advisor, identified several key strategic and financial reasons for the merger. These key reasons include the potential to diversify and expand Tompkins' market area in a region with favorable demographics, as well as the anticipated operating efficiencies, cost savings and opportunities for revenue enhancements of the combined company.

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For a more detailed discussion of Tompkins' reasons for the merger, see "*The Merger Background and Negotiation of the Merger*" and "*The Merger Tompkins' Reasons for the Merger*," beginning on pages [ ] and [ ], respectively.

**Q:**  
**Why is VIST proposing the merger?**

A: The VIST board of directors, in unanimously determining that the merger is in the best interests of VIST, considered a number of key factors which are described under the headings "*The Merger Background and Negotiation of the Merger*" and "*The Merger VIST's Reasons for the Merger*," beginning on pages and , respectively.

**Q:**  
**What will VIST shareholders receive in the merger, and how will this affect holders of Tompkins common stock?**

A: In the proposed merger, VIST shareholders will receive 0.3127 shares of Tompkins common stock in exchange for each share of VIST common stock they own immediately prior to completion of the merger, which we refer to as the "Exchange Ratio." The Exchange Ratio is subject to adjustment based on the average closing prices of Tompkins common stock for the twenty consecutive business days ending three days prior to the date of the VIST special meeting of shareholders, which is to be held on , 2012. If this average closing price is greater than \$43.98, the Exchange Ratio will be adjusted and fixed at 0.2842 shares of Tompkins common stock for each VIST share of common stock, and if this average closing price is less than \$35.98, the Exchange Ratio will be adjusted and fixed at 0.3475 shares of Tompkins common stock for each VIST share of common stock. As a result, the value of the Tompkins shares that VIST shareholders will receive in the merger will change, and we cannot predict what the value will be at the closing of the merger.

Further, if the Exchange Ratio decreases to 0.2842, this would increase the total number of shares of Tompkins common stock issued to VIST shareholders, which would have a dilutive effect on the relative ownership interest of each Tompkins shareholder in the combined company. Accordingly, at the time of the mailing of this joint proxy statement/prospectus, neither Tompkins nor VIST shareholders will be able to assess whether and to what extent Tompkins common stock issued in the merger will impact their relative holdings in the combined company following the merger.

Fractional shares of Tompkins common stock resulting from the application of the exchange ratio to a VIST shareholder's holdings of VIST common stock will be converted to the right to receive a cash payment for such fractional shares. The cash payment will be equal to an amount, rounded to the nearest cent and without interest, equal to the product of (i) the fraction of a share to which such holder would otherwise have been entitled and (ii) the average of the daily closing price of a share of Tompkins common stock as reported on Amex for the five consecutive trading days immediately preceding the Closing Date.

Tompkins shareholders will continue to own their existing shares of Tompkins common stock after the merger. Because of the number of shares of Tompkins common stock being issued in the merger, the interest in Tompkins represented by the existing shares of Tompkins common stock will be diluted. The existing shares of Tompkins will represent in the aggregate ownership of approximately 81% of the outstanding shares of Tompkins common stock upon the completion of the merger.

**Q:**  
**When do Tompkins and VIST expect to complete the merger?**

A: Tompkins and VIST expect to complete the merger after all conditions to the merger in the merger agreement are satisfied or waived, including after shareholder approvals are received at the respective meetings of Tompkins and VIST. Tompkins and VIST currently expect to complete the

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merger early in the third quarter of 2012. It is possible, however, that factors outside of either company's control could result in Tompkins and VIST completing the merger at a later time or not completing it at all.

**Q:**  
**What are the federal income tax consequences of the merger?**

**A:**  
The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to as the Internal Revenue Code, and it is a condition to the completion of the merger that each of Tompkins and VIST receive a written opinion from their respective legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that holders of VIST common stock will not recognize gain or loss for U.S. federal income tax purposes upon the exchange of their VIST common stock for Tompkins common stock pursuant to the merger. For further discussion of the material U.S. federal income tax consequences of the merger, see "*The Merger Material Federal Income Tax Consequences*," beginning on page 56.

***About the Tompkins Annual Meeting***

**Q:**  
**What am I being asked to vote on?**

**A:**  
Tompkins shareholders are being asked to vote on the following proposals:

1. *Issuance of Common Stock in the Merger.* To approve the issuance of Tompkins common stock in the merger contemplated by the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/prospectus;
2. *Election of Directors.* To elect sixteen (16) Directors for a term of one year expiring in the year 2013;
3. *Ratification of Auditor Appointment.* To ratify the appointment of the independent registered public accounting firm, KPMG LLP, as Tompkins' independent auditor for the fiscal year ending December 31, 2012;
4. *Adjournment of Meeting.* To approve the adjournment of the Tompkins annual meeting, if necessary, to solicit additional proxies; and,
5. *Other Matters.* To transact such other business as may properly come before the Tompkins annual meeting or any adjournment thereof.

**Q:**  
**How does the board of directors of Tompkins recommend that I vote?**

**A:**  
The Tompkins board of directors recommends that holders of Tompkins common stock vote "**FOR**" all Tompkins proposals described in this joint proxy statement/prospectus.

**Q:**  
**What do I need to do now?**

**A:**  
After carefully reading and considering the information contained in this joint proxy statement/prospectus, please submit your proxy as soon as possible so that your shares will be represented at the meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker or other nominee.





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**Q: How do I vote?**

A: If you are a shareholder of record of Tompkins as of \_\_\_\_\_, 2012, which is referred to as the Tompkins record date, you may submit a proxy before the Tompkins annual meeting in one of the following ways:

use the toll-free number shown on your proxy card;

visit the website shown on your proxy card to submit a proxy via the Internet; or

complete, sign, date and return the enclosed proxy card in the enclosed postage-paid envelope.

You may also cast your vote in person at the Tompkins annual meeting, as applicable.

If your shares are held in "street name" through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. Holders in "street name" who wish to vote in person at the Tompkins annual meeting will need to obtain a proxy form from the institution that holds their shares.

**Q: When and where is the Tompkins annual meeting of shareholders?**

A: The annual meeting of Tompkins shareholders will be held on [Day of Week], \_\_\_\_\_, 2012 at 5:30 p.m., at the Country Club of Ithaca, 189 Pleasant Grove Road, Ithaca, New York. All shareholders of Tompkins as of the Tompkins record date, or their duly appointed proxies, may attend the Tompkins annual meeting. Since seating is limited, seating at the Tompkins annual meeting will be on a first-come, first-served basis.

**Q: If my shares are held in "street name" by a broker or other nominee, will my broker or nominee vote my shares for me?**

A: Tompkins believes that brokers or other nominees will have discretionary authority to vote only on the ratification of auditors proposal (Proposal 3). Therefore, if you are a Tompkins shareholder and you do not instruct your broker or other nominee on how to vote your shares:

your broker or other nominee may not vote your shares on Proposal 1 (to authorize issuance of Tompkins common stock in connection with the merger), nor on Proposal 2 (the election of directors), nor on Proposal 4 (the adjournment proposal), and these "broker non-votes" will have no effect on the vote on these proposals; and

your broker or other nominee may vote your shares on Proposal 3 (to ratify the selection of KPMG LLP as Tompkins' independent registered public accounting firm for the fiscal year ending December 31, 2012).

This is because, if your shares are held in "street name" in a stock brokerage account or by a bank or other nominee, you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your bank or broker. Please note that you may not vote shares held in street name by returning a proxy card directly to Tompkins or by voting in person at the Tompkins annual meeting unless you provide a "legal proxy," which you must obtain from your bank or broker.

Brokers or other nominees who hold shares in street name for a beneficial owner typically have the authority to vote in their discretion on "routine" proposals when they have not received instructions from beneficial owners. However, brokers or other nominees are not allowed to exercise their voting discretion on matters that are determined to be "non-routine" without specific instructions from the beneficial owner. Broker non-votes are shares held by a broker or other nominee that are

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represented at the applicable meeting but with respect to which the broker or other nominee is not instructed by the beneficial owner of such shares to vote on the particular

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proposal and the broker or other nominee does not have discretionary voting power on such proposal.

**Q: What constitutes a quorum for the Tompkins annual meeting?**

A: The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Tompkins common stock entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting and any adjournment thereof. Each share is entitled to one vote on all matters. Abstentions and broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum.

**Q: What vote is required to approve each proposal to be considered at the Tompkins annual meeting?**

A: *To elect Tompkins directors:* Election of the Tompkins directors requires the affirmative vote of a plurality of the votes cast at the Tompkins annual meeting. Accordingly, the sixteen (16) director nominees receiving the highest number of votes will be elected.

*To act on all other matters:* All other proposals on the agenda for the Tompkins annual meeting require the affirmative vote of a majority of the votes cast at the annual meeting. Accordingly, these proposals will be approved if the number of votes cast in favor of the proposal at the annual meeting or any adjournment thereof exceeds the number of votes cast against the proposal.

As of the record date for the Tompkins annual meeting, Tompkins' directors and executive officers collectively had the right to vote approximately [10]% of the Tompkins common stock outstanding and entitled to vote at the Tompkins annual meeting. **Each of the directors and executive officers of Tompkins has indicated to us that he or she intends to vote "FOR" approval and adoption of the merger agreement**, although none of them has entered into any agreements obligating them to do so.

**Q: What if I abstain from voting or do not vote at the Tompkins annual meeting?**

A: For the purposes of the Tompkins annual meeting, an abstention, which occurs when a Tompkins shareholder attends the Tompkins annual meeting, either in person or by proxy, but abstains from voting, will have no effect on the outcome of the proposals to be considered at the Tompkins annual meeting.

**Q: What if I hold stock of both Tompkins and VIST?**

A: If you hold shares of both Tompkins and VIST, you will receive two separate packages of proxy materials. A vote as a VIST shareholder for the merger proposal or any other proposals to be considered at the VIST special meeting will not constitute a vote as a Tompkins shareholder for the share issuance proposal relating to the merger or any other proposals to be considered at Tompkins annual meeting, and vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from Tompkins or VIST, or submit separate proxies as both a Tompkins shareholder and a VIST shareholder by Internet or telephone.

**Q: May I change my vote or revoke my proxy after I have delivered my proxy or voting instruction card?**

A: Yes. You may change your vote at any time before your proxy is voted at the Tompkins annual meeting. You may do this in one of four ways:

by sending a notice of revocation to the corporate secretary of Tompkins;

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by sending a completed proxy card bearing a later date than your original proxy card;

by logging onto the website specified on your proxy card in the same manner you would to submit your proxy electronically or by calling the telephone number specified on your proxy card, in each case if you are eligible to do so, and following the instructions on the proxy card; or

by attending the Tompkins annual meeting and voting in person; however, your attendance alone will not revoke any proxy.

If you choose any of the first three methods, you must take the described action no later than 11:59 p.m., Eastern time, on the day before the date of the Tompkins annual meeting.

If your shares are held in an account at a broker or other nominee, you should contact your broker or other nominee to change your vote.

**Q: What happens if I sell my Tompkins shares after the Tompkins record date but before the Tompkins annual meeting?**

A: The record date for the Tompkins annual meeting is earlier than both the date of such meeting and the date that the merger is expected to be completed. If you transfer your Tompkins common stock after the Tompkins record date but before the date of the Tompkins annual meeting, you will retain your right to vote at the Tompkins annual meeting (provided that such shares remain outstanding on the date of the Tompkins annual meeting).

**Q: What do I do if I receive more than one joint proxy statement/prospectus or set of voting instructions?**

A: If you hold shares directly as a record holder and also in "street name," or otherwise through a nominee, you may receive more than one joint proxy statement/prospectus and/or set of voting instructions relating to the applicable meeting. These should each be voted or returned separately to ensure that all of your shares are voted.

**Q: Do I have appraisal or dissenters' rights?**

A: No. Under New York law, holders of Tompkins common stock will not be entitled to exercise any dissenters' or appraisal rights in connection with any of the proposals being presented to them.

**Q: Should I send in my Tompkins stock certificates?**

A: No. Please do not send your stock certificates with your proxy card.

Tompkins shareholders will not be required to exchange or take any other action regarding their stock certificates in connection with the merger. Tompkins shareholders holding stock certificates should keep their stock certificates both now and after the merger is completed.

**Q: Whom should I contact if I have additional questions?**

A: If you are a Tompkins shareholder and have any questions about the merger, or if you need additional copies of this document or the enclosed proxy card, you should contact:

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Tompkins Financial Corporation

The Commons

P.O. Box 460

Ithaca, NY 14851

Attention: Ms. Linda M. Carlton, Assistant Vice President and Corporate Secretary

Telephone: (607) 273-3210

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*About the VIST Special Meeting*

**Q: What are the matters on which I am being asked to vote at the VIST special meeting?**

A: You are being asked to consider and vote on the following matters:

Approval and adoption of the merger agreement, a copy of which is attached as Annex A to this proxy statement/prospectus;

Approval, in an advisory (non-binding) vote, of compensation payable to the named executive officers of VIST in connection with the merger ("merger-related executive compensation"); and

Adjournment of the VIST special meeting, if necessary, to solicit additional proxies.

**Q: How does the VIST board of directors recommend that I vote my shares?**

A: The VIST board of directors recommends that the VIST shareholders vote their shares as follows:

"FOR" approval and adoption of the merger agreement;

"FOR" approval, in an advisory (non-binding) vote, of the merger-related executive compensation; and

"FOR" an adjournment of the VIST special meeting, if necessary, to solicit additional proxies.

**Q: What do I need to do now?**

A: After carefully reading and considering the information contained in this joint proxy statement/prospectus, please submit your proxy as soon as possible so that your shares will be represented at VIST's special meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker or other nominee.

**Q: Who is entitled to vote at the VIST special meeting?**

A: VIST shareholders of record as of the close of business on \_\_\_\_\_, \_\_\_\_\_, 2012, which is referred to as the VIST record date.

**Q: How many votes do I have?**

A: Each share of VIST common stock is entitled to one vote.

**Q: How do I vote my VIST shares?**

A:



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**Voting by Internet.** If you are a registered shareholder, you may vote electronically through the Internet by following the instructions included with your proxy card. If your shares are registered in the name of a broker or other nominee, your nominee may be participating in a program provided through ADP Investor Communication Services that allows you to vote via the Internet. If so, the voting form your nominee sends you will provide Internet instructions.

**Voting in person.** If you attend the VIST special meeting, you may deliver your completed proxy card in person or may vote by completing a ballot which will be available at the VIST special meeting.

Should you have any questions on the procedure for voting your shares, please contact [ ].

**Q: Why is my vote important?**

A: Because the merger cannot be completed without the affirmative vote of the holders of at least 70% of the shares of VIST common stock outstanding on , 2012, and because a majority of the outstanding VIST common stock entitled to vote is necessary to constitute a quorum in order to transact business at the special meeting, every shareholder's vote is important.

**Q: If my shares of VIST common stock are held in street name by my broker, will my broker automatically vote my shares for me?**

A: No. Your broker **CANNOT** vote your shares on any proposal at the VIST special meeting without instructions from you. You should instruct your broker as to how to vote your shares, following the directions your broker provides to you. Please check the voting form used by your broker.

**Q: What if I fail to instruct my broker?**

A: If you do not provide your broker with instructions, your broker generally will not be permitted to vote your shares on the merger proposal or any other proposal (a so-called "broker non-vote") at the VIST special meeting. For purposes of determining the number of votes cast with respect to the merger proposal, only those votes cast "for" or "against" the proposal are counted. Broker non-votes, if any, are submitted by brokers or nominees in connection with the special meeting, will not be counted as votes "for" or "against" for purposes of determining the number of votes cast, but will be treated as present for quorum purposes. Because the affirmative vote of the holders of at least 70% of the shares of VIST common stock is required for the adoption of the merger agreement, abstentions and broker non-votes will have the effect of a vote against adoption of the merger agreement but will not affect the outcome of any of the other matters being voted on at the meeting.

**Q: What constitutes a quorum for the VIST special meeting?**

A: As of , 2012, [ ] shares of VIST common stock were issued and outstanding, each of which will be entitled to one vote at the meeting. A majority of the outstanding shares, present or represented by proxy, constitutes a quorum. If you vote by proxy, your shares will be included for determining the presence of a quorum. Both abstentions and broker non-votes are also included for purposes of determining the presence of a quorum.

**Q: Assuming the presence of a quorum, what is the vote required to approve the matters to be considered at the VIST special meeting?**

A: The affirmative vote of the holders of at least 70% of the shares of VIST common stock outstanding on , 2012 is required for the approval and adoption of the merger



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agreement. The affirmative vote of a majority of all votes cast, in person and by proxy, at the meeting is required to approve the other matters to be considered at the meeting. Abstentions and broker non-votes will have the effect of a vote against adoption of the merger agreement but will not affect the outcome of any of the other matters being voted on at the meeting.

Simultaneously with the execution of the merger agreement, the directors and executive officers of VIST holding approximately [ ]% of the outstanding shares of VIST common stock each entered into a voting agreement with Tompkins pursuant to which each executive officer and director agreed that he or she will vote his or her shares of VIST common stock (i) in favor of the approval and adoption of the merger agreement and (ii) against any proposal made in opposition to or competition with the merger agreement or that would impede, interfere with, delay or otherwise adversely affect the consummation of the merger.

**Q: Do I have appraisal or dissenters' rights?**

A:

No. Under Pennsylvania law, holders of VIST common stock will not be entitled to exercise any appraisal rights in connection with the merger or any of the other proposals being presented to them.

**Q: Can I attend the VIST special meeting and vote my shares in person?**

A:

Yes. All shareholders, including shareholders of record and those who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Holders of record of VIST common stock can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

**Q: Can I change my vote?**

A:

Yes. You may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to the Secretary of VIST, or (3) attending the special meeting in person, notifying the Secretary and voting by ballot at the special meeting. VIST Secretary's mailing address is VIST Financial Corp., P.O. Box 6219, Wyomissing PA 19610.

Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, and such vote will revoke any previous proxy, but the mere presence (without notifying the Secretary of VIST) of a shareholder at the special meeting will not constitute revocation of a previously given proxy.

**Q: Who will count the vote?**

A:

A representative of [ ] will tabulate the votes and act as the inspector of election.

**Q: Is my vote confidential?**

A:

Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner designed to protect your voting privacy. Your vote will not be disclosed either within VIST or to third parties except (1) as necessary to meet applicable legal requirements, (2) to allow

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for the tabulation of votes and certification of the vote, or (3) to facilitate a successful proxy solicitation by the Board. Occasionally, shareholders provide written comments on their proxy card, which are then forwarded to management.

**Q: Who will bear the cost of soliciting votes for the VIST special meeting?**

A:

[ ] will pay the cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone, or by electronic communication by our directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. [VIST has retained the services of [ ] to aid in the solicitation of proxies from banks, brokers, nominees and intermediaries, and to tabulate votes at the meeting. VIST estimates that it will pay a fee of \$ [ ] for these services.] In addition, VIST may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.

**Q: What happens if additional proposals are presented at the VIST special meeting?**

A:

Other than the proposals described in this joint proxy statement/prospectus, VIST does not expect any matters to be presented for a vote at the special meeting. If you grant a proxy, the persons named as proxy holders, [ ] and [ ], will have the discretion to vote your shares on any additional matters properly presented for a vote at the special meeting.

**Q: When do you expect to complete the merger?**

A:

We expect to complete the merger in the third quarter of 2012. However, we cannot assure you when or if the merger will occur. Among other things, we cannot complete the merger until we obtain the approval of VIST shareholders at the special meeting.

**Q: Whom should I call with questions about the special meeting or the merger?**

A:

VIST shareholders should call VIST's Investor Relations at (610) 306-7211, or [ ], VIST's proxy solicitor, at [ ], with any questions about the special meeting, the merger or any related transactions.

**Q: Will I be able to trade the shares of Tompkins common stock that I receive in the merger?**

A:

Yes. The shares of Tompkins common stock that you receive pursuant to the merger will be listed on the NYSE-Amex under the symbol "TMP." Certain persons who are deemed affiliates of VIST will be required to comply with Rule 145 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), if they sell their shares of Tompkins common stock received pursuant to the merger.

**Q: Should I send in my VIST stock certificates now?**

A:

No. If VIST shareholders approve the merger agreement, after the merger is completed, you will receive written instructions, including a letter of transmittal, that will explain how to exchange your VIST stock certificates for Tompkins common stock certificates. **Please do not send in any VIST stock certificates until you receive these written instructions and the letter of transmittal.**

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**Q: Are there risks that I should consider in deciding whether to vote to approve the merger agreement?**

A:

Yes. You should consider the risk factors set out in the section entitled "*Risk Factors*" beginning on page [ ] of this joint proxy statement/ prospectus.

**Q: What if I hold stock of both Tompkins and VIST?**

A:

If you hold shares of both Tompkins and VIST, you will receive two separate packages of proxy materials. A vote as a VIST shareholder for the merger proposal or any other proposals to be considered at the VIST special meeting will not constitute a vote as a Tompkins shareholder for the share issuance proposal relating to the merger or any other proposals to be considered at Tompkins annual meeting, and vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from Tompkins or VIST, or submit separate proxies as both a Tompkins shareholder and a VIST shareholder by Internet or telephone.

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**SUMMARY**

*This summary highlights selected information in this document, and it may not include all the information that is important to the shareholders of VIST and the shareholders of Tompkins. Shareholders of VIST and shareholders of Tompkins should each read carefully this entire joint proxy statement/prospectus, including the annexes and other documents referred to in this document.*

**The Companies**

***Tompkins***

Tompkins 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. Tompkins offers a variety of financial products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. Tompkins' subsidiaries include: three wholly-owned banking subsidiaries, Tompkins Trust Company, The Bank of Castile, The Mahopac National Bank; AM&M Financial Services, Inc., a wholly owned registered investment advisor; and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. AM&M and the trust division of Tompkins Trust Company provide investment services under the Tompkins Financial Advisors name, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services.

At December 31, 2011, Tompkins had total assets of approximately \$3.4 billion, deposits of \$2.7 billion, and stockholders' equity of \$299.1 million. Tompkins' principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. Tompkins' common stock is traded on the NYSE-Amex under the Symbol "TMP." Tompkins was organized in 1995, under the laws of the State of New York, as a bank holding company for Tompkins Trust Company, a commercial bank that has operated in Ithaca, New York and surrounding communities since 1836.

***VIST***

VIST is a Pennsylvania business corporation headquartered in Wyomissing, Pennsylvania. VIST was organized as a bank holding company on January 1, 1986 and became a financial holding company on February 7, 2002 upon election with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). VIST offers a wide array of financial services, including banking, insurance, investment, and mortgage services, through its various subsidiaries VIST Bank, VIST Insurance, LLC and VIST Capital Management, LLC. As of December 31, 2011, VIST Bank's wholly-owned subsidiary, VIST Mortgage Holdings, LLC, was inactive.

At December 31, 2011, VIST had total assets of \$1.43 billion, total shareholders' equity of \$115.7 million, and total deposits of \$1.19 billion. VIST's executive offices are located at 1240 Broadcasting Road, Wyomissing, Pennsylvania 19610, and its telephone number is (610) 603-7211. VIST's common stock is traded on the NASDAQ Global Market system under the symbol "VIST." For further information about VIST, its business and operations, please see "*Additional Information about VIST*" beginning on page [     ].

***Merger Sub***

Merger Sub was incorporated in the State of New York on January 24, 2012, and is a wholly owned subsidiary of Tompkins. Merger Sub has not, and prior to the completion of the merger will not, conduct any activities other than those incidental to its formation and the matters contemplated by the merger agreement.

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**The Merger**

Each of the Tompkins board of directors and VIST board of directors has approved and adopted the merger agreement, which provides that, subject to the terms and conditions of the merger agreement and in accordance with the New York Business Corporation Law, which is referred to in this joint proxy statement/prospectus as the NYBCL, upon completion of the merger, VIST will merge with and into Merger Sub, a wholly owned subsidiary of Tompkins, with Merger Sub being the surviving corporation in the merger and remaining a wholly owned subsidiary of Tompkins.

Each share of VIST common stock issued and outstanding immediately prior to the completion of the merger (except any shares of VIST common stock held by VIST, Tompkins, or Merger Sub, which will be cancelled upon completion of the merger) will be converted into the right to receive 0.3127 shares of Tompkins common, which we refer to as the "Exchange Ratio." The Exchange Ratio is subject to adjustment based on the average of the closing price of Tompkins common stock for the 20 consecutive business days ending three days prior to the date of the VIST special meeting of shareholders, which is to be held on \_\_\_\_\_, 2012. If this average closing price is greater than \$43.98, the Exchange Ratio will be adjusted and fixed at 0.2842 shares of Tompkins common stock for each VIST share of common stock, and if this average closing price is less than \$35.98, the Exchange Ratio will be adjusted and fixed at 0.3475 shares of Tompkins common stock for each VIST share of common stock. As a result, the value of the Tompkins shares that VIST shareholders will receive in the merger will change, and we cannot predict what the value will be at the closing of the merger. Further, if the Exchange Ratio decreases to 0.2842, this would increase the total number of shares of Tompkins common stock issued to VIST shareholders, which would have a dilutive effect on the relative ownership interest of each Tompkins shareholder in the combined company. Accordingly, at the time of the mailing of this joint proxy statement/prospectus, neither Tompkins nor VIST shareholders will be able to assess whether and to what extent Tompkins common stock issued in the merger will impact their relative holdings in the combined company following the merger.

Fractional shares of Tompkins common stock resulting from the application of the Exchange Ratio to a VIST shareholder's holdings of VIST common stock will be converted to the right to receive a cash payment for each such fractional share. The cash payment will equal an amount, rounded to the nearest cent and without interest, equal to the product of (i) the fraction of a share to which such holder would otherwise have been entitled and (ii) the average of the daily closing sales prices of a share of Tompkins Common Stock as reported on NYSE-Amex for the five consecutive trading days immediately preceding the Closing Date.

For further discussion of the merger consideration, see "*The Merger Agreement Merger Consideration*," beginning on page [    ].

**Recommendation of the Tompkins Board of Directors**

Tompkins' board of directors recommends that holders of Tompkins common stock vote as follows:

"FOR" the proposal to issue shares of Tompkins common stock in connection with the merger;

"FOR" each of the director nominees;

"FOR" the proposal to ratify Tompkins' appointment of an independent auditor;

"FOR" the proposal to adjourn the Tompkins annual meeting, if necessary, to solicit additional proxies; and

"FOR" the proposal to to transact other proper business at the annual meeting, or any adjournment thereof.

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For further discussion of Tompkins' reasons for the merger and the recommendations of Tompkins' board of directors, "*The Merger Tompkins' Reasons for the Merger*" and "*The Merger Recommendation of Tompkins' Board of Directors*," beginning on pages [ ] and [ ], respectively.

**Recommendation of the VIST Board of Directors**

VIST's board of directors recommends that holders of VIST common stock vote as follows:

"FOR" the approval and adoption of the merger agreement;

"FOR" approval, in an advisory (non-binding) vote, of the merger-related executive compensation; and

"FOR" an adjournment of the VIST special meeting, if necessary, to solicit additional proxies.

For further discussion of VIST's reasons for the merger and the recommendations of VIST's board of directors, see "*The Merger VIST's Reasons for the Merger*" and "*The Merger Recommendation of VIST's Board of Directors*," beginning on pages [ ] and [ ], respectively.

**Opinion of VIST's Financial Advisor**

In connection with the VIST board of directors' consideration of the merger agreement, VIST's financial advisor, Stifel, Nicolaus & Company, Incorporated, or "Stifel," provided its opinion to the VIST board of directors at the January 24, 2012 meeting of the VIST board of directors that, as of that date, and subject to and based on the qualifications and assumptions set forth in its opinion, the exchange ratio stated in the merger agreement was fair, from a financial point of view, to VIST's shareholders. The full text of Stifel's opinion is attached as Annex B to this joint proxy statement/prospectus. VIST shareholders should read that opinion and the description of Stifel's opinion contained in this document in their entirety. The opinion of Stifel does not reflect any developments that may have occurred or may occur after the date of its opinion and prior to the completion of the merger.

VIST paid Stifel a cash fee of \$250,000 concurrently with the rendering of the fairness opinion. Additionally, VIST has agreed to pay to Stifel at the time of completion of the merger a cash fee estimated to be approximately \$1.06 million.

**Interests of VIST's Directors and Executive Officers in the Merger**

In addition to their interests as VIST shareholders, the directors and executive officers of VIST may have interests in the merger that are different from or in addition to interests of other VIST shareholders. These interests include, among others, provisions in the merger agreement regarding board membership, as well as change in control agreements, employment agreements, indemnification, insurance, stock options, vesting of restricted stock, and eligibility to participate in various employee benefit plans. For purposes of the VIST agreements and plans, the completion of the merger will generally constitute a change in control. These additional interests may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a VIST shareholder. The financial interests of VIST's executive officers and directors in the merger include the following:

the appointment, effective at the closing of the merger, of two current VIST directors (to be mutually identified by Tompkins and VIST, subject to certain limitations) to the board of directors of Tompkins and the payment of compensation to such individuals in accordance with the policies of Tompkins, which currently consists of the following payments to each of Tompkins' non-employee directors: an annual retainer of \$13,000, a per diem payment of \$1,250



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for each Tompkins board meeting and between \$400 and \$750 for each committee meeting attended, depending on the committee;

the appointment, effective at the closing of the merger, of five current VIST directors (to be mutually identified by Tompkins and VIST, subject to certain limitations) to the board of directors of VIST Bank and the payment of compensation to such individuals in accordance with the policies of Tompkins related to its subsidiary banks, which currently consists of the following payments to each of the banks' non-employee directors: an annual retainer of \$14,200, and \$400 for each committee meeting attended;

the nomination of two (2) members of the current VIST board of directors which persons may or may not be those selected to fill the vacancies described above-for election at the first annual meeting of Tompkins following the merger;

the continued indemnification of current directors and executive officers of VIST and its subsidiaries pursuant to the terms of the merger agreement and providing these individuals with director's and officer's liability insurance;

the retention of certain executive officers of VIST, and payment of compensation to such executive officers, pursuant to employment agreements between Tompkins and each of them that are expected become effective at the closing of the merger;

each of VIST's named executive officers, as well as certain other executives, will be entitled to severance or change-in-control benefits upon a termination of their employment following the merger (except in certain limited circumstances); and,

the acceleration of vesting of unvested VIST stock options and restricted stock held by VIST directors and officers, and either the cashing out or the conversion of VIST stock options held by directors and officers into stock options to purchase shares of Tompkins common stock.

VIST's board of directors was aware of these interests and took them into account in its decision to approve the merger agreement. Please see "*The Merger Interests of Certain Persons in the Merger*" beginning on page [ ] for a more detailed description of these interests, as well as the costs associated with them. Certain officers of VIST and its subsidiaries are expected to be appointed as officers of Tompkins or its subsidiaries upon completion of the merger, and as employees of these surviving entities, they will be eligible for certain employee benefits. Please see "*The Merger Employee Benefit Plans*" on page [ ] for more information. All of these circumstances may cause some of VIST's directors and executive officers to view the proposed merger differently than VIST shareholder may view it.

**Material United States Federal Income Tax Consequences of the Merger**

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and it is a condition to the completion of the merger that each of Tompkins and VIST receive a written opinion from their respective legal counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Stevens and Lee, P.C., counsel to VIST, will also render an opinion that the holders of VIST common stock will not recognize gain or loss for U.S. federal income tax purposes upon the exchange of their VIST common stock for Tompkins common stock pursuant to the merger. For further discussion of the material U.S. federal income tax consequences of the merger, see "*The Merger Material Federal Income Tax Consequences*," beginning on page [ ].

**Holders of VIST common stock should consult their tax advisors to determine the tax consequences to them, including the application and effect of any state, local or non-U.S. income and other tax laws, of the merger.**





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**Accounting Treatment of the Merger**

The merger will be treated as a "business combination" using the acquisition method of accounting with Tompkins treated as the acquiror under generally accepted accounting principles, or GAAP.

For further discussion of the accounting treatment of the merger, see "*The Merger Accounting Treatment*," beginning on page [ ].

**No Appraisal Rights**

Neither shareholders of Tompkins nor shareholders of VIST will have appraisal or dissenters' rights in connection with any of the proposals to be voted upon at their respective meetings.

**Regulatory Matters**

The Federal Reserve must approve the merger under the provisions of the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), relating to the acquisition of a bank holding company by another bank holding company, and the applicable waiting period must expire before it can be completed. In addition, the Pennsylvania Department of Banking must approve the merger under the Pennsylvania Banking Code of 1965. It is expected that the applications for approval of the merger will be filed with the Federal Reserve, and with the Pennsylvania Department of Banking, during April 2012.

For further discussion of the regulatory requirements in connection with the merger, see "*The Merger Regulatory Approvals*," beginning on page [ ].

**Conditions to Completion of the Merger**

Currently, we expect to complete the merger in the third quarter of 2012. As more fully described in this joint proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others:

the approval of the issuance of the shares of Tompkins common stock in the merger by the affirmative vote of the holders of a majority of the votes cast, in person or by proxy, at the Tompkins annual meeting;

the approval and adoption of the merger agreement by the affirmative vote of the holders of seventy percent (70%) of the outstanding shares of VIST common stock entitled to vote thereon;

the purchase or redemption of all VIST Series A Preferred Stock, and the warrant to purchase shares of VIST common stock, from the U.S. Treasury, with the result that any and all restrictions, limitations or conditions associated with VIST's participation in the Capital Purchase Program of the Troubled Asset Relief Program of the United States Department of the Treasury, or "TARP," will have terminated and no longer be of any force and effect;

the receipt of all required regulatory approvals, including the expiration of all waiting periods relating to such approvals, without the imposition of any condition or requirement that Tompkins' board of directors reasonably determines would materially and adversely affect the combined enterprise or materially impair the value of VIST (including its subsidiaries) to Tompkins;

the approval for listing on NYSE-Amex of the Tompkins common stock to be issued in the merger; and



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receipt by Tompkins and VIST of an opinion of their respective legal counsel to the effect that, for federal income tax purposes, the merger will constitute a reorganization or be treated as part of a reorganization, within the meaning of Section 368(a) of the Internal Revenue Code.

Tompkins' obligation to complete the merger is also separately subject to the satisfaction or waiver of the following conditions, among others:

the execution and delivery of employment agreements by certain of VIST's key employees, on terms and conditions satisfactory to Tompkins, as described below under "*The Merger Interests of Certain Persons in the Merger New Employment Agreements*" on page [    ];

the approval, on terms and conditions satisfactory to Tompkins, by the Federal Deposit Insurance Corporation, or "FDIC," of the assignment by merger of a certain Shared-Loss Agreement, dated November 19, 2010, by and among the FDIC as Receiver for Allegiance Bank of North America, and VIST and VIST Bank;

the execution and delivery of resignations from each of the directors of VIST's subsidiaries; and

VIST's representations and warranties in the merger agreement being true and correct, subject to the materiality standards contained in the merger agreement, and the performance by VIST, in all material respects, of all of its obligations under the merger agreement.

VIST's obligation to complete the merger is also separately subject to the satisfaction or waiver of the following conditions, among others:

Tompkins' representations and warranties in the merger agreement being true and correct, subject to the materiality standards contained in the merger agreement, and the performance by Tompkins, in all material respects, of all of its obligations under the merger agreement.

We cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. For further discussion of the conditions to the merger, see "*The Merger Agreement Closing and Conditions to Closing of the Merger*," beginning on page [    ].

**No Solicitation of Other Offers**

VIST has agreed that it, its subsidiaries, and its representatives (including its directors and officers) will not, directly or indirectly:

initiate, solicit, induce or knowingly encourage, the making or implementation of any alternative acquisition proposal; or

participate in any discussions or negotiations regarding any alternative acquisition proposal, or furnish information or access to any person that has made an alternative acquisition proposal.

The merger agreement does not, however, prohibit VIST from furnishing information or access to a third party who has made an alternative acquisition proposal and participating in discussions and negotiating with such person prior to the receipt of shareholder approval if specified conditions are met. Among those conditions is a good faith determination by VIST's board of directors that the acquisition proposal constitutes a proposal that is more favorable to VIST and its shareholders than the transactions contemplated by the merger agreement and is reasonably capable of being completed on its stated terms, taking into account all financial, regulatory, legal and other aspects of the proposal.

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For further discussion of the restrictions on solicitation of acquisition proposals from third parties, see "*The Merger Agreement Restrictions on VIST's Ability to Solicit Other Offers*," beginning on page [    ].

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**Termination and Termination Fee**

The merger agreement contains customary termination provisions for a transaction of this type that may apply even if VIST's and Tompkins' shareholders approve the merger. Tompkins and VIST can agree by mutual consent to terminate the merger agreement, if the board of directors of each determines to do so. In addition, either VIST or Tompkins may decide, without the consent of the other, to terminate the merger agreement if the merger is not completed by December 31, 2012.

VIST may terminate the merger agreement, without the consent of Tompkins, for the following reasons, among others, which are more fully described in this document:

if VIST has received a proposal for a competing business combination between VIST and a third party that is financially superior to the merger with Tompkins, and following certain procedures specified in merger agreement, the board of directors of VIST has made a determination to accept such superior proposal; and

if the average of the closing prices of Tompkins' common stock is less than \$32.00 (as adjusted for certain capital transactions) for the 10 consecutive trading days ending on the date on which certain closing conditions to the merger have been satisfied or waived by the party entitled to enforce such conditions.

Tompkins may terminate the merger agreement, without the consent of VIST, for the following reasons, among others, which are more fully described in this document:

if VIST has entered into an acquisition agreement with respect to a different transaction, or terminated the merger agreement, or if VIST withdraws or modifies, in a manner adverse to Tompkins, its recommendation to its shareholders in order to accept a proposal for a competing business combination between VIST and a third party that is financially superior to the merger with Tompkins; and

if the aggregate amount of VIST past-due loans and non-performing assets exceeds \$65,000,000 as of any month end prior to the closing date of the merger.

In addition, if Tompkins terminates the merger agreement as described above or under certain other circumstances, which are described in detail later in this joint proxy statement/prospectus, VIST will be required either to reimburse Tompkins' out-of-pocket expenses associated with the merger, to reimburse Tompkins for both its out-of-pocket expenses as well as for burdened staff costs, or to pay a termination fee of \$3,300,000, depending upon the reason for termination. For further discussion of these reimbursements and the termination fee and the circumstances under which the merger agreement may be terminated, see "*The Merger Agreement Termination and Termination Fee*," beginning on page [    ].

**Matters to Be Considered at the Meetings**

*Tompkins*

Tompkins shareholders will be asked to vote on proposals related to the following:

the issuance of shares of Tompkins common stock in connection with the merger;

the election of sixteen (16) Directors for a term of one year expiring in the year 2013;

the ratification of the appointment of the independent registered public accounting firm, KPMG LLP, as Tompkins' independent auditor for the fiscal year ending December 31, 2012; and

the adjournment of the Tompkins annual meeting, if necessary, to solicit additional proxies.

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The Tompkins board of directors recommends that Tompkins shareholders vote "FOR" all of the proposals set forth above. For further discussion of the Tompkins annual meeting, see "*Tompkins Annual Meeting of Shareholders*," beginning on page [    ].

**VIST**

VIST shareholders will be asked to consider and vote on the following proposals:

adoption of the merger agreement;

approval, in an advisory (non-binding) vote, of the merger-related executive compensation; and

approval of an adjournment of the VIST special meeting, if necessary, to solicit additional proxies.

The VIST board of directors recommends that VIST shareholders vote "FOR" all of the proposals set forth above. For further discussion of the VIST special meeting, see "*VIST Special Meeting of Shareholders*," beginning on page [    ].

**Rights of VIST Shareholders Will Change as a Result of the Merger**

The rights of Tompkins shareholders are governed by New York law and by Tompkins' restated certificate of incorporation and second amended and restated bylaws. The rights of VIST shareholders are governed by Pennsylvania law and by VIST's articles of incorporation, as amended, and bylaws. Upon the completion of the merger, the rights of VIST shareholders will be governed by New York law and by Tompkins' restated certificate of incorporation and second amended and restated bylaws. Therefore, VIST shareholders receiving merger consideration will have different rights once they become Tompkins shareholders. These differences are described in greater detail under "*Comparison of Rights of Holders of VIST Common Stock and Tompkins Common Stock*," beginning on page [    ].

**Litigation Related to the Merger**

On February 2, 2012, Gary Veitch, a purported shareholder of VIST, filed a complaint in the Supreme Court of Pennsylvania, Court of Common Pleas, Berks County against VIST, its directors, Tompkins, and Merger Sub, in connection with merger agreement. The lawsuit is brought on behalf of a putative class of similarly situated shareholders, and alleges that VIST's board of directors breached its fiduciary duties regarding the merger, that Tompkins and Merger Sub aided and abetted the alleged breach of fiduciary duties, and that the merger represents a waste of corporate assets. The plaintiffs ask that, among other equitable remedies, the merger be enjoined and that plaintiffs be reimbursed for costs and reasonable legal fees. Additionally, on February 6, 2012, William K. Serp, a purported shareholder of VIST, made a separate demand under Pennsylvania law on VIST's board of directors, demanding that the VIST board of directors rectify alleged failures of fiduciary duty in connection with the merger. VIST intends to vigorously defend itself, and Tompkins intends to vigorously defend itself and Merger Sub, against these allegations.

**Where You Can Find More Information**

If you would like more information about Tompkins or VIST, you should refer to the documents filed by each of us with the SEC. We have identified these documents and have set out instructions as to how you can obtain copies of these documents beginning on page [    ] under the heading "Where You Can Find More Information."



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**RISK FACTORS**

*In considering whether to vote in favor of the proposal to approve the Merger Agreement, you should consider all of the information included in this document and its annexes and all of the information included in the documents we have incorporated by reference. In particular, you should consider the following risk factors.*

**Risks Relating to VIST and Tompkins Shareholders in Connection with the Merger**

***VIST shareholders cannot be sure of the market value of the Tompkins common stock that they will receive in the merger.***

In the proposed merger, VIST shareholders will receive Exchange Ratio. The Exchange Ratio is subject to adjustment based on the average of the closing prices of Tompkins common stock for the 20 consecutive business days ending three days prior to the date of the VIST special meeting of shareholders, which is to be held on \_\_\_\_\_, 2012. If this average closing price is greater than \$43.98, the Exchange Ratio will be adjusted and fixed at 0.2842 shares of Tompkins common stock for each VIST share of common stock, and if this average closing price is less than \$35.98, the Exchange Ratio will be adjusted and fixed at 0.3475 shares of Tompkins common stock for each VIST share of common stock. As a result, the value of the Tompkins shares that VIST shareholders will receive in the merger will change, and we cannot predict what the value will be at the closing of the merger. Further, if the Exchange Ratio decreases to 0.2842, this would increase the total number of shares of Tompkins common stock issued to VIST shareholders, which would have a dilutive effect on the relative ownership interest of each Tompkins shareholder in the combined company. Accordingly, at the time of the mailing of this joint proxy statement/prospectus, neither Tompkins nor VIST shareholders will be able to assess whether and to what extent Tompkins common stock issued in the merger will impact their relative holdings in the combined company following the merger.

In addition, relative prices of Tompkins common stock and VIST common stock are likely to change between the date of this Joint Proxy Statement/Prospectus and the date that the merger is completed. The market prices of Tompkins and VIST common stock may change as a result of a variety of factors, including general market and economic conditions, changes in business, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of Tompkins and VIST. As Tompkins and VIST market share prices fluctuate, the value of the shares of Tompkins common stock that a VIST shareholder will receive will correspondingly fluctuate. It is impossible to predict accurately the market price of Tompkins common stock upon, or after completion of, the merger. Accordingly, it is also impossible to predict accurately the market value of the consideration to be received by shareholders of VIST in the merger upon their exchange of shares of VIST common stock for shares of Tompkins common stock.

***The market price of Tompkins common stock may be affected by factors different from those affecting VIST common stock.***

Upon completion of the merger, VIST shareholders will own approximately 19% of the combined company. Tompkins' current businesses and markets differ from those of VIST and, accordingly, the results of operations of Tompkins after the merger may be affected by factors different from those currently affecting the results of operations of VIST. For a discussion of the businesses of Tompkins and VIST and of certain factors to consider in connection with those businesses, see the documents incorporated by reference into this document and referred to under "Where You Can Find More Information" beginning on page [ ].

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***The credit quality of VIST's loans may be poorer than Tompkins expected, which would require Tompkins to increase its allowance for loan losses and negatively affect Tompkins' earnings.***

In the merger Tompkins will acquire from VIST approximately \$958 million of corporate, commercial real estate, residential mortgage and construction and development related loans. As part of its due diligence on the merger, Tompkins reviewed a sample of these loans in various categories and has applied a fair value discount of approximately \$55 million to reflect the credit risk of the loan portfolio. Tompkins' examination of these loans was made using the same criteria, analyses and collateral evaluations that Tompkins has traditionally used in the ordinary course of our business. Although Tompkins believes the loans that it will acquire are of acceptable credit quality, no assurance can be given as to the future performance of these loans. If the credit quality of these loans deteriorates more than Tompkins expects, it will require Tompkins to increase its allowance for loan losses and could affect Tompkins' earnings in future periods in a material and adverse manner.

***The required regulatory approvals and filings may not be obtained or completed, may delay the date of completion of the merger or may contain materially burdensome conditions.***

Tompkins and VIST will be required to obtain regulatory approvals with respect to certain filings and/or applications regarding the merger. These approvals and filings may include, among other items, applications and notices filed with the Federal Reserve, approval of the listing of Tompkins common stock issued in the merger on NYSE-Amex, approval of the merger by the Pennsylvania Department of Banking and/or related filings pursuant to the Pennsylvania Banking Code, as amended, and such other relevant filings, registrations, authorizations or approvals as may be required by a governmental or regulatory entity. Such filings and approvals must be completed prior to effecting the merger. Tompkins and VIST have agreed to use their reasonable best efforts to complete these filings and obtain these approvals; however, satisfying any requirements of regulatory agencies may delay the date of completion of the merger or such approval may not be obtained at all. In addition, you should be aware that, as in any transaction, it is possible that, among other things, restrictions on Tompkins after the merger may be sought by governmental agencies as a condition to obtaining the required regulatory approvals and these conditions could be materially burdensome to Tompkins following the closing of the merger. We cannot assure you as to whether these regulatory approvals will be received, the timing of the approvals or whether any conditions will be imposed.

***Failure to complete the merger could negatively affect the market price of Tompkins' and VIST's common stock.***

If the merger is not completed for any reason, Tompkins and VIST will be subject to a number of material risks, including the following:

the market price of their common stock may decline to the extent that the current market prices of their shares already reflect a market assumption that the merger will be completed;

costs relating to the merger, such as legal, accounting and financial advisory fees, and, in specified circumstances, additional reimbursement and termination fees, must be paid even if the merger is not completed;

the diversion of management's attention from the day-to-day business operations and the potential disruption to each company's employees and business relationships during the period before the completion of the merger may make it difficult to regain financial and market positions if the merger does not occur.

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***If Tompkins does not successfully integrate VIST into its business and operations following the merger, the combined company may not realize the expected benefits from the merger.***

Integration in connection with any merger transaction is difficult and there is a risk that integrating the two companies may take more time and resources than we presently expect. Tompkins' ability to integrate VIST, which currently operates as a stand-alone business, into its operations and business divisions after the merger and its future success depends in large part on the ability of the management teams to work together effectively. The integration efforts may also be more difficult and time consuming than the companies anticipate. As with any merger of financial institutions, there may also be disruptions that cause VIST to lose customers or cause customers to withdraw deposits from VIST or Tompkins banking subsidiaries, or other unintended consequences that could have a material adverse effect on Tompkins' results of operations or financial condition.

***Tompkins and VIST will be subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainties about the effect of the merger on their businesses may have an adverse effect on Tompkins and VIST. These uncertainties may also impair VIST's ability to attract, retain and motivate strategic personnel until the merger is consummated, and could cause their customers and others that deal with VIST to seek to change their existing business relationship, which could negatively impact Tompkins upon consummation of the merger. In addition, the merger agreement restricts Tompkins and VIST from taking certain specified actions without the other's consent until the merger is consummated. These restrictions may prevent Tompkins and VIST from pursuing or taking advantage of attractive business opportunities that may arise prior to the completion of the merger.

***The merger agreement limits VIST's ability to pursue alternatives to the merger with Tompkins.***

The merger agreement contains terms and conditions that make it more difficult for VIST to engage in a business combination with a party other than Tompkins. Subject to limited exceptions, VIST is required to convene a special meeting and VIST's board of directors is required to recommend approval of the merger agreement. If the VIST board of directors determines to accept a superior acquisition proposal from a competing third party, VIST will be obligated to pay a \$3.3 million termination fee to Tompkins. A competing third party may be discouraged from considering or proposing an acquisition of VIST, including an acquisition on better terms than those offered by Tompkins, due to the termination fee and VIST's obligations under the merger agreement. Further, the termination fee might result in a potential competing third party acquiror proposing a lower per share price than it might otherwise have proposed to acquire VIST. See "*The Merger Termination of the Merger Agreement Termination Fee*" beginning on page [ ].

***The opinion of VIST's financial advisor does not reflect changes in circumstances since January 24, 2012.***

VIST's financial advisor, Stifel, rendered an opinion dated January 24, 2012, to the VIST board of directors that, as of such date, and subject to and based on the considerations referred to in its opinion, the Exchange Ratio to be received for each VIST share was fair, from a financial point of view, to holders of VIST common stock. The opinion was based on economic, market and other conditions in effect on, and the information made available to it as of, the date thereof. Changes in the operations and prospects of Tompkins or VIST, general market and economic conditions and other factors on which Stifel's opinion to VIST was based, may significantly alter the value of Tompkins or VIST or the prices of shares of Tompkins common stock or VIST common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. The VIST board of directors' recommendation that holders of VIST common stock vote "FOR" adoption of the merger agreement, however, is as of the

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date of this joint proxy statement/prospectus. For a description of the opinion that VIST received from its financial advisor, please refer to "*The Merger Opinion of VIST's Financial Advisor*" beginning on page [ ]. For a description of the other factors considered by VIST's board of directors in deciding to approve the merger, please refer to "*The Merger VIST's Reasons for the Merger*" beginning on page [ ].

***VIST directors and executive officers may have interests in the merger that differ from your interests.***

Some of VIST's directors and executive officers have interests in the transaction other than their interests as shareholders. These interests include, among others, provisions in the merger agreement regarding board membership, as well as change in control agreements, employment agreements, indemnification, insurance, stock options, vesting of restricted stock, and eligibility to participate in various employee benefit plans. For purposes of the VIST agreements and plans, the completion of the merger will generally constitute a change in control. These additional interests may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a VIST shareholder. The financial interests of VIST's executive officers and directors in the merger include the following:

the appointment, effective at the closing of the merger, of two current VIST directors (to be mutually identified by Tompkins and VIST, subject to certain limitations) to the board of directors of Tompkins and the payment of compensation to such individuals in accordance with the policies of Tompkins;

the appointment, effective at the closing of the merger, of five current VIST directors (to be mutually identified by Tompkins and VIST, subject to certain limitations) to the board of directors of VIST Bank and the payment of compensation to such individuals in accordance with the policies of Tompkins;

the nomination of two (2) members of the current VIST board of directors which persons may or may not be those selected to fill the vacancies described above-for election at the first annual meeting of Tompkins following the merger;

the continued indemnification of current directors and executive officers of VIST and its subsidiaries pursuant to the terms of the merger agreement and providing these individuals with director's and officer's liability insurance;

the retention of certain executive officers of VIST, and the payment of compensation to these executives, including a retention payment, pursuant to employment agreements between Tompkins and these executives that will become effective at the closing of the merger;

each of VIST's named executive officers, as well as certain other executives, will be entitled to severance benefits upon a termination of their employment following the merger (except in certain limited circumstances); and,

the acceleration of vesting of unvested VIST stock options and restricted stock held by VIST directors and officers, and either the cashing out or the conversion of VIST stock options held by directors and officers into stock options to purchase shares of Tompkins common stock.

Please see "*The Merger Interests of Certain Persons in the Merger*" beginning on page [ ] for a more detailed description of these interests, as well as the costs associated with such interests. Certain officers of VIST and its subsidiaries are expected to be appointed as officers of Tompkins or its subsidiaries upon completion of the merger, and as employees of these surviving entities, they will be eligible for certain employee benefits. Please see "*The Merger Employee Benefit Plans*" on page [ ] for more information. All of these circumstances may cause some of VIST's directors and executive officers to view the proposed merger differently than VIST shareholders may view it.

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***The unaudited pro forma financial data included in this joint proxy statement/prospectus is preliminary and Tompkins' actual financial position and results of operations after the merger may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus.***

The unaudited pro forma financial data in this joint proxy statement/prospectus is presented for illustrative purposes only and is not necessarily indicative of what the combined company's actual financial position or results of operations would have been had the merger been completed on the dates indicated. The pro forma financial data reflect adjustments, which are based upon preliminary estimates, to record VIST's identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation reflected in this document is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of VIST as of the date of the completion of the merger. Accordingly, the final purchase accounting adjustments may differ materially from the pro forma adjustments reflected in this document.

***After the merger is completed, VIST shareholders will become Tompkins shareholders and will have different rights that may be less advantageous than their current rights.***

Upon completion of the merger, VIST shareholders will become Tompkins shareholders. Differences between VIST's articles of incorporation and bylaws and Tompkins' restated certificate of incorporation and second amended and restated bylaws will result in changes to the rights of VIST shareholders who become Tompkins shareholders.

***VIST shareholders will have less influence as shareholders of Tompkins than as shareholders of VIST.***

VIST shareholders currently have the right to vote in the election of the board of directors of VIST and on other matters affecting VIST. The amount of Tompkins common stock VIST shareholders will receive for their shares of VIST common stock will result in the transfer of control of VIST to the shareholders of Tompkins. The percentage ownership of VIST shareholders in Tompkins will be much less than their percentage ownership of VIST. Because of this, VIST shareholders in the aggregate will have significantly less influence on the management and policies of Tompkins than they now have on the management and policies of VIST.

***Litigation relating to the merger could require us to incur significant costs and suffer management distraction, as well as delay and/or enjoin the merger.***

On February 2, 2012, Gary Veitch, a purported shareholder of VIST, filed a complaint in the Supreme Court of Pennsylvania, Court of Common Pleas, Berks County against VIST, its directors, Tompkins, and Merger Sub, in connection with the merger agreement. The lawsuit is brought on behalf of a putative class of similarly situated shareholders, and alleges that VIST's board of directors breached its fiduciary duties regarding the merger, that Tompkins and Merger Sub aided and abetted the alleged breach of fiduciary duties, and that the merger represents a waste of corporate assets. The plaintiffs ask that, among other equitable remedies, the merger be enjoined and that plaintiffs be reimbursed for costs and reasonable legal fees. Additionally, on February 6, 2012, William K. Serp, a purported shareholder of VIST, made a separate demand under Pennsylvania law on VIST's board of directors, demanding that the VIST board of directors rectify alleged failures of fiduciary duty in connection with the merger. VIST intends to vigorously defend itself, and Tompkins intends to vigorously defend itself and Merger Sub, against these allegations. Such actions, however, create additional uncertainty relating to the merger and responding to such demands and defending such actions is costly and distracting to management. While there can be no assurance as to the ultimate outcomes of the demands or the litigation, neither Tompkins nor VIST believes that their resolution will have a material adverse effect on its respective financial position, results of operations or cash flows.

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**Risks Relating to Combined Operations Following the Merger**

***Tompkins may fail to realize the cost savings estimated for the merger.***

The success of the merger will depend, in part, on Tompkins' ability to realize the estimated cost-savings from combining the businesses of Tompkins and VIST. Tompkins' management estimated at the time the proposed merger was announced that it believes it can achieve total cost-savings of approximately \$8.9 million, to be phased in between 2012 and 2014. While Tompkins and VIST continue to believe these cost-savings estimates are possible as of the date of this document, it is possible that the potential cost-savings could turn out to be more difficult to achieve than originally anticipated. The cost-savings estimates also depend on the ability to combine the businesses of Tompkins and VIST in a manner that permits those cost-savings to be realized. If the estimates of Tompkins and VIST turn out to be incorrect or Tompkins and VIST are not able to successfully combine their two companies, the anticipated cost-savings may not be realized fully or at all, or may take longer than expected to realize.

***Unanticipated costs relating to the merger could reduce Tompkins' future earnings per share.***

We believe that we have reasonably estimated the likely incremental costs of the combined operations of Tompkins and VIST following the merger. However, it is possible that unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as unanticipated costs to integrate the two businesses, increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, including negative changes in the value of VIST's loan portfolio, could have a material adverse effect on the results of operations and financial condition of Tompkins following the merger. In addition, if actual costs are materially different than expected costs, the merger could have a significant dilutive effect on Tompkins' earnings per share.

***Failure to comply with the terms of the Shared-Loss Agreement with the FDIC may result in significant losses.***

It is a condition of closing that the FDIC approve, on terms and conditions satisfactory to Tompkins, the assignment by merger of a certain Shared-Loss Agreement, dated November 19, 2010, by and among the FDIC as Receiver for Allegiance Bank of North America, VIST and VIST Bank. This loss sharing agreement covers approximately \$51 million in assets (as of December 31, 2011), and provides that the FDIC will reimburse VIST for 70 percent of net losses on covered assets incurred up to \$12.0 million, and 80 percent of net losses exceeding \$12.0 million. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. If the FDIC consents to the assignment of this loss sharing agreement from VIST to Tompkins, Tompkins must comply with the specific, detailed and cumbersome compliance, servicing, notification and reporting requirements provided in the Shared-Loss Agreement. Tompkins' failure to comply with the terms of the agreements or to properly service the loans and other real estate owned under the requirements of the loss sharing agreements may cause individual loans or large pools of loans to lose eligibility for loss share payments from the FDIC. This could result in material losses that are currently not anticipated.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This document contains certain forward-looking information about Tompkins, VIST and the combined company that is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements for the period after the completion of the merger. Representatives of Tompkins and VIST may also make forward-looking statements. Forward-looking statements are statements that are not historical facts. Words such as "expect," "believe," "will," "may," "anticipate," "plan," "estimate," "intend," "should," "can," "likely," "could" and similar expressions are intended to identify forward-looking statements. These statements include statements about the expected benefits of the merger, information about the combined company's objectives, plans and expectations, the likelihood of satisfaction of certain conditions to the completion of the merger and whether and when the merger will be completed. Forward-looking statements are not guarantees of performance. These statements are based upon the current beliefs and expectations of the management of each of Tompkins and VIST and are subject to risks and uncertainties, including the risks described in this joint proxy statement/prospectus under the section "Risk Factors," that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

In light of these risks, uncertainties, assumptions and factors, the results anticipated by the forward-looking statements discussed in this joint proxy statement/prospectus or made by representatives of Tompkins or VIST may not occur. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof or, in the case of statements made by representatives of Tompkins or VIST, on the date those statements are made. All subsequent written and oral forward-looking statements concerning the merger or the combined company or other matters addressed in this joint proxy statement/prospectus and attributable to Tompkins or VIST or any person acting on behalf of either are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, neither Tompkins nor VIST undertakes any obligation to update or publish revised forward-looking statements to reflect events or circumstances after the date hereof or the date of the forward-looking statements or to reflect the occurrence of unanticipated events.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA OF TOMPKINS**

The following tables set forth selected consolidated financial information for Tompkins. The selected income statement data for each of the years ended December 31, 2011, 2010, 2009, 2008, and 2007 and the selected balance sheet data as of December 31, 2011, 2010, 2009, 2008, and 2007 have been derived from Tompkins' consolidated financial statements that were audited by KPMG LLP. You should read this information in conjunction with Tompkins' consolidated financial statements and related notes included in Tompkins' Annual Report on Form 10-K for the year ended December 31, 2011, which are incorporated by reference herein and from which this information is derived. Please see "Where You Can Find More Information" beginning on page [ ].

(in thousands except per share data)	Year ended December 31,				
	2011	2010	2009	2008	2007
<b>Balance Sheet Data:</b>					
Assets	\$ 3,400,248	\$ 3,260,343	\$ 3,153,260	\$ 2,867,722	\$ 2,359,459
Total loans	1,981,849	1,910,358	1,914,818	1,817,531	1,440,122
Deposits	2,660,564	2,495,873	2,439,864	2,134,007	1,720,826
Other borrowings	186,075	244,193	208,956	274,791	210,862
Shareholders' equity	299,143	273,408	245,008	219,361	198,647
<b>Income Statement Data:</b>					
Interest and dividend income	137,088	144,062	146,795	140,783	132,441
Interest expense	25,682	32,287	39,758	50,393	58,412
Net interest income	111,406	111,775	107,037	90,390	74,029
Provision for loan and lease losses	8,945	8,507	9,288	5,428	1,529
Net securities gains	396	178	348	477	384
Net income attributable to Tompkins Financial Corporation	35,419	33,831	31,831	29,834	26,371
<b>Per Common Share(1)</b>					
Basic earnings per share	3.21	3.13	2.98	2.81	2.47
Diluted earnings per share	3.20	3.11	2.96	2.78	2.45
Cash dividends per share	1.40	1.33	1.24	1.20	1.13
Book value per share	26.89	25.09	22.87	20.44	18.71
Tangible book value per share(2)	22.58	20.88	18.51	16.05	16.20
<b>Earnings Performance Ratios</b>					
Return on average assets	1.07%	1.06%	1.06%	1.13%	1.16%
Return on average equity	12.02%	12.72%	13.66%	14.15%	13.88%
Net interest margin	3.72%	3.86%	3.92%	3.81%	3.63%
Noninterest income to operating revenue	30.12%	29.23%	30.16%	33.74%	37.31%
<b>Asset Quality Ratios</b>					
Nonperforming assets to assets	1.26%	1.43%	1.12%	0.56%	0.40%
Allowance for loan and lease losses to total loans and leases	1.39%	1.46%	1.27%	1.03%	1.01%
Allowance for loan and lease losses to nonperforming loans and leases	66.65%	61.46%	69.72%	116.50%	156.27%
Net loan and leases charge-offs to average loans and leases	0.48%	0.26%	0.20%	0.18%	0.09%
<b>Capital ratios</b>					
Tangible common equity to tangible assets(3)	7.5%	7.1%	6.4%	6.1%	7.4%
Tier 1 capital (to average assets)	8.5%	8.0%	7.4%	6.7%	7.9%
Tier 1 capital (to risk-weighted assets)	12.9%	12.2%	10.9%	9.6%	11.3%
Total capital (to risk-weighted assets)	14.2%	13.4%	12.1%	10.6%	12.2%

(1) Per share data has been retroactively adjusted to reflect a 10% stock dividend paid on February 15, 2010

(2) Tangible book value per share is a non-GAAP based financial measure calculated using non-GAAP based amounts. The most directly comparable GAAP based measure is book value per share. To calculate tangible book value per share, we divide tangible common equity, which is a non-GAAP based measure calculated as common shareholders' equity less tangible assets, by the number of shares of common stock outstanding. In contrast, book value per share is calculated by dividing total common shareholders' equity by the number of shares of common stock outstanding. We included tangible book value per share because it is a basis upon which we assess our financial performance and it is a financial measure commonly used in our industry.

(3) The ratio of tangible common equity to tangible assets is a non-GAAP financial measure calculated using non-GAAP based measures. The most direct comparable GAAP measure is the ratio of common shareholders' equity to total assets. To calculate tangible common shareholders' equity and assets, we subtract intangible assets from both common shareholders' equity and total assets. Tangible common equity is then divided by tangible assets to arrive at the ratio.





Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA OF VIST**

The following tables set forth selected consolidated financial information for VIST. The selected income statement data for each of the years ended December 31, 2011, 2010, 2009, 2008, and 2007 and the selected balance sheet data as of December 31, 2011, 2010, 2009, 2008, and 2007 have been derived from VIST's consolidated financial statements that were audited by ParenteBeard LLC (for fiscal years 2007 through 2010) and Grant Thornton LLP (for fiscal year 2011). You should read this information in conjunction with VIST's consolidated financial statements and related notes included in VIST's Annual Report on Form 10-K for the year ended December 31, 2011, which are incorporated by reference herein and from which this information is derived. Please see "Where You Can Find More Information" beginning on page [ ].

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands except per share data)				
<b>Balance Sheet Data:</b>					
Total assets	\$ 1,431,715	\$ 1,425,012	\$ 1,308,719	\$ 1,226,070	\$ 1,124,951
Securities available for sale	375,691	279,755	268,030	226,665	186,481
Securities held to maturity	1,555	2,022	3,035	3,060	3,078
Federal Home Loan Bank stock	5,800	7,099	5,715	5,715	5,562
Loans, net of unearned income	907,177	954,363	910,964	886,305	820,998
Covered Loans	50,706	66,770			
Allowance for loan losses	14,049	14,790	11,449	8,124	7,264
Deposits	1,187,449	1,149,280	1,020,898	850,600	712,645
Repurchase agreements	103,362	106,843	115,196	120,086	110,881
Federal funds purchased				53,424	118,210
Borrowings		10,000	20,000	50,000	45,000
Junior subordinated debt	18,534	18,437	19,658	18,260	20,232
Shareholders' equity	115,683	132,447	125,428	123,629	106,592
Book value per share	13.66	16.44	17.29	17.30	18.84
<b>Income Statement Data:</b>					
Interest income	\$ 67,809	\$ 64,087	\$ 62,740	\$ 65,838	\$ 68,076
Interest expense	21,508	23,343	27,318	30,637	34,835
Net interest income before provision for loan losses	46,301	40,744	35,422	35,201	33,241
Provision for loan losses	9,036	10,210	8,572	4,835	998
Net interest income after provision for loan losses	37,265	30,534	26,850	30,366	32,243
Fee based income	17,737	18,854	19,555	19,209	20,171
Gain on sale of equity interest		1,875			
(Loss) gain on sale of other real estate owned	(1,245)	(1,640)	(1,117)	(120)	28
Net realized gains (losses) on sales of securities	1,473	691	344	(7,230)	(2,324)
Net credit impairment losses	(1,519)	(850)	(2,468)		
Noninterest expense	74,457	45,945	44,586	43,518	40,902
(Loss) income before income taxes	(20,746)	3,519	(1,422)	(1,293)	9,216
Income tax (benefit) expense	(165)	(465)	(2,029)	(1,858)	1,746
Net (loss) income	(20,581)	3,984	607	565	7,470
Preferred stock dividends and discount accretion	1,709	1,678	1,649		
Net (loss) income available to common shareholders	\$ (22,290)	\$ 2,306	\$ (1,042)	\$ 565	\$ 7,470
<b>Per Share Data:</b>					

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(Loss) earnings per common share basic	\$	(3.39)	\$	0.37	\$	(0.18)	\$	0.10	\$	1.32
(Loss) earnings per common share diluted	\$	(3.39)	\$	0.37	\$	(0.18)	\$	0.10	\$	1.31
Cash dividends per common share	\$	0.20	\$	0.20	\$	0.30	\$	0.50	\$	0.77
<b>Selected Ratios:</b>										
Return on average assets		(1.42)%		0.29%		0.05%		0.05%		0.70%
Return on average shareholders' equity		(14.90)%		3.02%		0.51%		0.54%		7.15%
Dividend payout ratio		(5.90)%		53.69%		(166.22)%		503.89%		58.53%
Average equity to average assets		9.41%		9.73%		9.38%		8.95%		9.78%

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**UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma combined consolidated financial information assumes that each share of VIST common stock will be exchanged for .3127 shares of Tompkins common stock, and further assumes an average Tompkins common stock price of \$39.98 (using the trading day average for the 20-day period ending January 24, 2012, the day before the signing of the merger agreement on January 25, 2012). Utilizing the exchange ratio of .3127, it is anticipated that VIST common shareholders will own approximately 14.6% of the voting stock of the combined company after the merger.

The unaudited pro forma combined consolidated financial information is based upon the assumption that the total number of shares of VIST common stock outstanding immediately prior to the completion of the merger will be 6,638,603 and utilizes the exchange ratio of .3127 which will result in 2,075,891 Tompkins common shares being issued in the transaction. Upon completion of the merger, unvested VIST stock options totaling 922,549 will become fully vested. Certain options will convert into options to purchase Tompkins common stock and the holders of other options will be paid cash reflecting the difference between the merger consideration and the option exercise price. The unaudited pro forma combined consolidated financial statements assume that a total of \$1.1 million is paid in cash for the settlement of 603,164 outstanding stock options and the remaining 319,385 stock options will be converted into options to purchase Tompkins common stock and have an estimated fair value of \$1.8 million.

The following unaudited pro forma combined consolidated financial statements as of December 31, 2011 combines the historical consolidated financial statements of Tompkins and VIST. The unaudited pro forma combined consolidated financial statements give effect to the proposed acquisition as if the acquisition occurred on December 31, 2011 with respect to the consolidated statement of condition, and at the beginning of the period for the year ended December 31, 2011, with respect to the consolidated statement of income for the year. In addition, the pro forma combined consolidated financial statements assume that immediately prior to or contemporaneously with the completion of the merger, Tompkins will fund the redemption of VIST's TARP in the amount of \$25 million, plus any accrued dividends payable at the time of the redemption, using the proceeds of Tompkins' April 2012 issuance of 1,006,250 shares of Tompkins common stock, which issuance raised \$38.2 million, net of underwriting discounts but not excluding other offering expenses. The related VIST TARP warrants will also be purchased from the U.S. Treasury for an assumed price of \$2.3 million, consistent with VIST's book value of warrants, subject to final negotiation with the U.S. Treasury.

The notes to the unaudited pro forma combined consolidated financial statements describe the pro forma amounts and adjustments presented below. **This pro forma data is not necessarily indicative of the operating results that Tompkins would have achieved had it completed the merger as of the beginning of the period presented and should not be considered as representative of future operations.**

The unaudited pro forma combined consolidated financial information presented below is based on, and should be read together with, the historical financial information that Tompkins and VIST have included in this joint proxy statement/prospectus as of and for the indicated periods.

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**Selected Unaudited Pro Forma Combined Consolidated Financial Data**  
**(In Thousands, Except Per Share Data)**

	<b>As of or for the Twelve Months Ended December 31, 2011</b>
<b>Combined consolidated statement of income(1):</b>	
Total interest income	\$ 201,946
Total interest expense	41,514
Net interest income	160,432
Provision for loan and lease losses	17,981
Net interest income after provision for loan and leases losses	142,451
Total noninterest income	64,460
Total noninterest expenses(2)	174,028
Income before income tax expense	32,883
Income tax expense	17,551
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	15,332
Net income attributable to noncontrolling interests	131
Preferred stock dividends and discount accretion	
Net income attributable to Tompkins Financial Corporation	\$ 15,201
Net income per share (Basic)	\$ 1.08
Net income per share (Diluted)	\$ 1.07
<b>Selected combined consolidated statement of condition items(1):</b>	
Available-for-sale securities	\$ 1,512,435
Held-to-maturity securities	28,286
Total loans and leases, net	2,817,614
Total assets	4,869,371
Total deposits	3,869,403
Borrowing	512,045
Equity	421,133

(1) The selected unaudited pro forma combined consolidated statement of condition items for Tompkins and VIST include estimated fair value purchase accounting adjustments of assets and liabilities of VIST. The selected unaudited pro forma combined consolidated statement of income does not include anticipated merger-related expenses or cost savings from the merger.

(2) Total noninterest expenses include a \$25.1 million noncash expense for goodwill impairment recorded on VIST's books in the fourth quarter of 2011.

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**Unaudited Pro Forma Combined Consolidated Statement of Condition as of December 31, 2011**  
**(In Thousands, Except Share and Per Share Data)**

	<b>Tompkins Financial Corporation</b>	<b>VIST Financial Corp.</b>	<b>Pro Forma Adjustments</b>	<b>Equity Issuance</b>	<b>Pro Forma Combined</b>
<b>Assets</b>					
Cash and due from banks	\$ 47,297	\$ 16,361	\$	\$	\$ 63,658
Interest-bearing deposits	2,170	6,314			8,484
Money market funds	100				100
Cash and cash equivalents	49,567	22,675			72,242
Trading securities, at fair value	19,598				19,598
Available-for-sale securities, at fair value	1,143,546	375,691	(17,524)(4)(10)	10,722(12)	1,512,435
Held-to-maturity securities	26,673	1,555	58(4)		28,286
Loans and leases, net of unearned income and deferred costs and fees	1,981,849	910,542	7,839(5)		2,900,230
Credit fair value of loans purchased			(55,023)(6)		(55,023)
Loans, net of fair value adjustments	1,981,849	910,542	(47,184)		2,845,207
Less: allowance for possible loan and lease losses	27,593	14,049	(14,049)(6)		27,593
Net loans and leases	1,954,256	896,493	(33,135)		2,817,614
Covered loans, net		50,706	(6)		50,706
Federal Home Loan Bank stock and Federal Reserve Bank stock	19,070	5,800			24,870
Premises and equipment, net	44,712	6,587	(9)		51,299
Bank owned life insurance	43,044	19,830			62,874
Goodwill	43,898	16,513	41,702(1)		102,113
Other intangible assets, net	4,096	3,319	5,603(3)		13,018
Accrued interest and other assets	51,788	32,546	29,982(11)(13)		114,316
<b>Total Assets</b>	<b>\$ 3,400,248</b>	<b>\$ 1,431,715</b>	<b>\$ 26,686</b>	<b>\$ 10,722</b>	<b>\$ 4,869,371</b>
<b>Liabilities</b>					
<b>Deposits:</b>					
<b>Interest-bearing</b>					
Checking, savings and money market	\$ 1,356,870	\$ 638,108	\$	\$	\$ 1,994,978
Time	687,321	419,947	21,390(7)		1,128,658
Noninterest bearing	616,373	129,394			745,767
Total Deposits	2,660,564	1,187,449	21,390		3,869,403
Federal funds purchased and securities sold under agreements to repurchase	169,090	103,362	14,373(8)		286,825
Other borrowings, including certain amounts at fair value	186,075				186,075
Trust preferred debentures	25,065	18,534	(4,454)(8)		39,145
Other liabilities	60,311	6,687		(208)(12)	66,790
<b>Total liabilities</b>	<b>3,101,105</b>	<b>1,316,032</b>	<b>31,309</b>	<b>(208)</b>	<b>4,448,238</b>
<b>Equity</b>					
Tompkins Financial Corporation shareholders' equity					
Preferred stock		23,979		(23,979)(12)	
Common stock	1,116	33,245	(33,037)(2)	101(12)	1,425
Stock warrant		2,307		(2,307)(12)	
Additional paid-in capital	206,395	65,626	18,940(2)	38,136(12)	329,097
Retained earnings	96,445	(10,644)	10,644(2)	(1,021)(12)	95,424
Accumulated other comprehensive (loss) income	(3,677)	1,361	(1,361)(2)		(3,677)
Treasury stock, at cost	(2,588)	(191)	191(2)		(2,588)
Total Tompkins Financial Corporation Shareholders' Equity	297,691	115,683	(4,623)	10,930	419,681

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Noncontrolling interests		1,452			1,452
<b>Total Equity</b>	299,143	115,683	(4,623)	10,930	421,133
<b>Total liabilities and equity</b>	\$ 3,400,248	\$ 1,431,715	\$ 26,686	\$ 10,722	\$ 4,869,371
<b>Per Share Data</b>					
Shares Outstanding	11,123,556	6,638,603	(4,562,712)(1)	1,006,250(12)	14,205,697
Book Value Per Share	\$ 26.89	\$ 17.43			\$ 29.65
Tangible Book Value Per Share	\$ 22.57	\$ 14.44			\$ 21.54
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**Unaudited Pro Forma Combined Consolidated Statement of Income**  
**for the Twelve Months Ended December 31, 2011**  
(In Thousands, Except Per Share Data)

	Tompkins Financial Corporation	VIST Financial Corp.	Pro Forma Adjustments	Equity Issuance	Pro Forma Combined
<b>Interest Income</b>					
Loans	\$ 103,998	\$ 54,592	\$ (1,960)(5)	\$	\$ 156,630
Due from banks	12	31			43
Federal funds sold	7	8			15
Trading securities	873				873
Available-for-sale securities	30,103	13,067	(1,205)(4)	214(12)	42,179
Held-to-maturity securities	1,185				1,185
Other		24			24
Federal Home Loan Bank stock and Federal Reserve Bank stock	910	87			997
Total interest income	137,088	67,809	(3,165)	214	201,946
<b>Interest Expense</b>					
Deposits	13,087	15,103	(3,024)(7)		25,166
Federal funds purchased and securities sold under agreements to repurchase	4,872	4,762	(2,875)(8)		6,759
Trust preferred debentures	1,580	1,636	223(8)		3,439
Other borrowings	6,143	7			6,150
Total interest expense	25,682	21,508	(5,676)		41,514
Net interest income	111,406	46,301	2,511	214	160,432
Provision for loan and lease losses	8,945	9,036			17,981
Net interest income after provision for loan and lease losses	102,461	37,265	2,511	214	142,451
<b>Other Income</b>					
Investment services income	14,287	610			14,897
Insurance commissions and fees	13,542	12,201			25,743
Service charges on deposit accounts	8,491	1,673			10,164
Card services income	5,060	1,404			6,464
Mark-to-market gain on trading securities	62				62
Mark-to-market loss on liabilities held at fair value	(464)				(464)
Other income	6,705	604			7,309
Net other-than-temporary impairment losses	(65)	(1,519)			(1,584)
Net gain on securities transactions	396	1,473			1,869
Total noninterest income	48,014	16,446			64,460
<b>Other Expense</b>					
Salaries and wages	44,140	21,800			65,940
Pension and other employee benefits	14,275	2,315			16,590
Net occupancy expense of premises	7,117	4,977			12,094
Furniture and fixture expense	4,463	2,760			7,223
FDIC insurance	2,527	1,827			4,354
Amortization of intangible assets	589	476	1,019(3)		2,084
Goodwill impairment		25,069			25,069
Other operating expense	25,441	15,233			40,674
Total other expenses	98,552	74,457	1,019		174,028
Income (loss) before income tax expense	51,923	(20,746)	1,492	214	32,883
Income tax expense (benefit)	16,373	(165)	1,257(11)	85(11)	17,551
	35,550	(20,581)	235	129	15,332



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Net income (loss) attributable to noncontrolling interests and Tompkins Financial Corporation						
Less net income attributable to noncontrolling interests		131				131
Less preferred stock dividends and discount accretion			1,709		(1,709)(12)	
Net income (loss) attributable to Tompkins Financial Corporation	\$	35,419	\$ (22,290)	\$	235	\$ 1,838
						\$ 15,201
<b>Earnings (loss) per common share:</b>						
Basic	\$	3.21	\$ (3.39)			1.08
Diluted	\$	3.20	\$ (3.39)			1.07
Cash dividends per common share	\$	1.40	\$ 0.20			1.40
Average common shares outstanding:						
Basic		11,002	6,577	(4,501)(1)	1,006(12)	14,084
Diluted		11,035	6,577	(4,501)(1)	1,061(12)	14,172

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**NOTES TO UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS**

(1)

The acquisition will be effected by the issuance of shares of Tompkins common stock to VIST's common shareholders. The unaudited pro forma combined consolidated financial information assumes that each share of VIST common stock will be exchanged for .3127 shares of Tompkins common stock and based on an average Tompkins common stock price of \$39.98 (using the trading day average for the 20-day period ending January 24, 2012, the day before the signing of the merger agreement on January 25, 2012). At the closing date of the merger, the exchange ratio may be adjusted in the manner described in the merger agreement based on the average closing price of Tompkins common stock during the 20 trading days ending on the day that is three days before the VIST shareholder meeting held to adopt the merger agreement. If that average closing price is more than \$43.98, then the exchange ratio shall be 0.2842 shares of Tompkins common stock for each share of VIST common stock and, if the average closing price is less than \$35.98, then the exchange ratio shall be 0.3475 shares of Tompkins common stock for each share of VIST common stock. The exchange ratios are subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions with respect to the Tompkins common stock. Utilizing the exchange ratio of .3127, it is anticipated that VIST common shareholders will own approximately 14.6% of the voting stock of the combined company after the merger. Upon completion of the merger, unvested VIST stock options will become fully vested. Certain options will convert into options to purchase Tompkins common stock and the holders of other options will be paid cash reflecting the difference between the merger consideration and the option exercise price. The final accounting purchase price assigned to record the shares issued in the acquisition will be based on the closing price of Tompkins common stock on the closing date of the acquisition. Tompkins and VIST cannot predict what the value or price of Tompkins' common stock will be at the closing of the transaction or how the value or price of Tompkins's stock may trade at any time, including the date hereof.

The unaudited pro forma combined consolidated financial information is based upon the assumption that the total number of shares of VIST common stock outstanding immediately prior to the completion of the merger will be 6,638,603 and utilizes the exchange ratio of .3127, which results in 2,075,891 Tompkins common shares being issued in the transaction. Upon completion of the merger, 922,549 unvested VIST stock options will become fully vested. Certain options will convert into options to purchase Tompkins common stock and the holders of other options will be paid cash reflecting the difference between the merger consideration and the option exercise price. It is anticipated in these pro forma financials that a total of \$1.1 million is paid in cash for the settlement of 603,164 outstanding stock options and the remaining 319,385 stock options will be converted into options to purchase Tompkins common stock and have an estimated fair value of \$1.8 million. The final allocation of the purchase price will be determined after the acquisition is completed and additional analyses are performed to determine the fair values of VIST tangible and identifiable intangible assets and liabilities as of the date the acquisition is completed. The final adjustments may be materially different from the unaudited pro forma adjustments presented herein. The unaudited pro forma combined consolidated financial information has been prepared to include the estimated adjustments necessary to record the assets and liabilities of VIST at their respective fair values and represents management's best estimate based upon the information available at this time. These pro forma adjustments included herein are subject to change as additional information becomes available and as additional analyses are performed. Such adjustments, when compared to the information shown in this document, may change the amount of the purchase price allocated to goodwill while changes to other assets and liabilities may impact the statement of income due to adjustments in the yield and/or amortization/accretion of the adjusted assets and liabilities.

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The total estimated purchase price for the purpose of this unaudited pro forma combined consolidated financial information is \$85.9 million. The following table provides the calculation and allocation of the purchase price used in the pro forma financial statements and a reconciliation of pro forma shares to be outstanding with estimated goodwill created in the transaction of \$58.2 million.

**Summary of Purchase Price Calculation and Goodwill Resulting from Merger  
And Reconciliation of Pro Forma Shares Outstanding at December 31, 2011**

(In thousands except share and per share data)	December 31, 2011
<b>Purchase Price Consideration in Common Stock</b>	
VIST common shares settled for stock	6,638,603
Exchange Ratio	0.3127
Tompkins shares to be issued	2,075,891
Value assigned to Tompkins common share	\$ 39.98
Purchase price assigned to VIST common shares exchanged for Tompkins stock	\$ 82,994
<b>Purchase Price Consideration Cash for Outstanding Options</b>	1,124
<b>Fair Value of VIST Options Rolled Over to Tompkins Options</b>	1,780
<b>Total Purchase Price</b>	<b>85,898</b>
Net Assets Acquired:	
VIST common shareholders' equity, excluding TARP and TARP Warrants	\$ 89,397
VIST goodwill and intangibles	(19,832)
<b>Estimated adjustments to reflect assets acquired at fair value:</b>	
Investments	58
Loans	
Interest rate fair value mark	7,839
Credit fair value mark	(55,023)
Allowance for loan losses	14,049
Core deposit intangible	5,603
Other identifiable intangibles, such as customer list and trade mark intangibles	3,319
Deferred tax assets	29,981
<b>Estimated adjustments to reflect liabilities assumed at fair value:</b>	
Time deposits	(21,390)
Borrowings	(9,919)
Transaction merger expenses incurred by VIST	(16,400)
	27,682
<b>Goodwill resulting from merger</b>	<b>\$ 58,216</b>

Table of Contents**Reconciliation of Pro Forma Shares Outstanding**

<b>VIST shares outstanding</b>	6,638,603
<b>Exchange ratio</b>	0.3127
<b>Tompkins shares to be issued to VIST</b>	2,075,891
<b>Tompkins shares outstanding*</b>	12,129,806
<b>Pro Forma Tompkins shares outstanding*</b>	14,205,697
<b>Percentage ownership for Tompkins*</b>	85.39%
<b>Percentage ownership for VIST*</b>	14.61%

\*

Includes the 1,006,250 common shares issued by Tompkins in April 2012.

- (2) Adjustment to reflect the issuance of common shares of Tompkins common stock with a \$0.10 par value in connection with the acquisition and an estimated fair value of VIST options rolled over to Tompkins options and the adjustments to shareholders' equity for the elimination of VIST historical equity accounts (common stock, accumulated other comprehensive loss, cost of treasury stock, and undivided profits) into surplus and adjustment for goodwill created in the transaction.
- (3) Adjustment for core deposit intangible to reflect the fair value of this asset and the related amortization using an accelerated method based upon an expected life of 10 years. The amortization of the core deposit intangible is expected to increase pro forma pre-tax noninterest expense by \$1.0 million in the first year following consummation. The fair value of other identifiable intangibles such as a customer list intangible asset are estimated to approximate the December 31, 2011 carrying value of VIST's other identifiable intangible assets. The amortization of the other identifiable intangibles on a proforma combined basis for 2011 is estimated to approximate the amortization of the other identifiable intangibles included in the VIST 2011 consolidated statement of income.
- (4) Adjustment to record held-to-maturity securities at fair value results in a premium of \$58 thousand. Income statement adjustments reflect prospective amortization of existing available-for-sale and held-to-maturity unrealized gains, which are amortized based on the expected lives of the securities. These adjustments are expected to decrease pro forma pre-tax interest income by \$1.2 million in the first year following consummation.
- (5) A fair value premium of \$7.8 million to reflect fair values of loans based on current interest rates of similar loans. The adjustment will be substantially recognized over approximately 7 years using an amortization method based upon the expected life of the loans and is expected to decrease pro forma pre-tax interest income by \$2.0 million in the first year following consummation.
- (6) A fair value discount of \$55.0 million to reflect the credit risk of the loan portfolio. Included is the reversal of the VIST allowance for loan losses of \$14.0 million in accordance with acquisition method of accounting for the acquisition. No pro forma earnings impact was assumed from the loan credit adjustments. The estimated fair value of the covered loans approximates their carrying value.
- (7) A fair value premium of \$21.4 million to reflect the fair values of certain interest-bearing time deposit liabilities based on current interest rates for similar instruments. The adjustment will be recognized using an amortization method based upon the estimated maturities of the deposit liabilities. This adjustment is expected to decrease pro forma pre-tax interest expense by \$3.0 million in the first year following consummation.
- (8) A fair value premium of \$14.4 million to reflect fair values of repurchase agreements with various terms and maturities. The adjustment will be recognized using an amortization method based upon the estimated maturities of these liabilities. This adjustment is expected to decrease pro forma pre-tax interest expense by \$2.9 million in the first year following consummation. Also a fair value

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discount of \$4.5 million to reflect fair values of trust preferred debentures with various terms and maturities. The adjustment will be recognized using an amortization method based upon the estimated maturities of these debentures. This adjustment is expected to increase pro forma pre-tax interest expense by \$223 thousand in the first year following consummation.

- (9) Tompkins is continuing to evaluate the fair value adjustment for premises and leased facilities. For purposes of these unaudited pro forma combined consolidated financial statements there is not an adjustment made as the fair value adjustment is not expected to be material.
- (10) Adjustment assumes VIST acquisition-related costs and cash settlement of certain VIST stock options will be paid for by the reduction of securities available-for-sale. For purposes of the unaudited pro forma combined consolidated financial statements, merger costs for both VIST and Tompkins are not included in the unaudited pro forma combined consolidated statement of income. The merger costs related to Tompkins and VIST, respectively, associated with the acquisition will be recorded as expense as incurred for GAAP reporting.
- (11) Adjustment assumes a tax rate of 40% related to fair value adjustments on the balance sheet and an effective tax rate of 40% on pre-tax amounts in the unaudited pro forma combined consolidated statement of income. A tax benefit was not taken for certain acquisition obligations and costs that were considered to be not tax deductible.
- (12) Immediately prior to or contemporaneously with the completion of the merger, Tompkins will fund the redemption of VIST's TARP in the amount of \$25 million, which is the original purchase price of the preferred stock plus any accrued dividends payable at the time of the redemption, using the proceeds of Tompkins' April 2012 issuance of 1,006,250 shares of Tompkins common stock, which issuance raised \$38.2 million, net of underwriting discounts but not excluding other offering expenses. As a result of the redemption, the remaining unamortized discount of \$1.0 million was recognized as an additional preferred stock dividend. For purposes of these unaudited pro forma combined consolidated statements, it is assumed that the related VIST TARP warrants will also be purchased from the U.S. Treasury for an assumed price of \$2.3 million, subject to final negotiation with Treasury. The unaudited pro forma combined consolidated financial statements assume that the excess funds from the stock issuance are invested in available-for-sale securities.
- (13) Other assets for VIST include a net FDIC Indemnification Asset representing the FDIC's indemnification obligation over the loss sharing agreements for covered loans and other real estate. The unaudited pro forma combined consolidated statements assume transfer of this asset to Tompkins.

Table of Contents**COMPARATIVE PER SHARE DATA (UNAUDITED)**

The following table sets forth certain historical VIST and Tompkins per share data. This data should be read together with VIST's and Tompkins' historical financial statements and notes thereto, incorporated by reference in this document, and the Tompkins unaudited pro forma financial statements included in this document. Please see *"Where You Can Find More Information"* beginning on page [ ]. **The per share data is not necessarily indicative of the operating results that Tompkins would have achieved had it completed the merger as of the beginning of the periods presented and should not be considered as representative of future operations.**

As of and for the  
Twelve Months Ended  
December 31, 2011

(In dollars)

<b>Comparative Per Share Data</b>	
<b>Basic net income (loss) per share</b>	
Tompkins historical	3.21
VIST historical(4)	(3.39)
Pro forma combined(1)(2)(4)	1.08
Equivalent pro forma for one share of VIST common stock(3)	0.34
<b>Diluted net income (loss) per share</b>	
Tompkins historical	3.20
VIST historical(4)	(3.39)
Pro forma combined(1)(2)(4)	1.07
Equivalent pro forma for one share of VIST common stock(3)	0.33
<b>Cash dividends declared per share</b>	
Tompkins historical	1.40
VIST historical	0.20
Pro forma combined(1)(2)	1.40
Equivalent pro forma for one share of VIST common stock(3)	0.44
<b>Book value per share</b>	
Tompkins historical	26.89
VIST historical	17.43
Pro forma combined(1)(2)	29.65
Equivalent pro forma for one share of VIST common stock(3)	9.27

- (1) The pro forma combined basic earnings and diluted earnings of Tompkins common stock is based on the pro forma combined net income for Tompkins and VIST divided by total pro forma common shares or diluted common shares of the combined entity. The pro forma information includes adjustments related to the estimated fair value of assets and liabilities and is subject to adjustment as additional information becomes available and as additional analysis is performed. The pro forma information does not include anticipated cost savings or revenue enhancements.
- (2) The pro forma combined book value of Tompkins common stock is based on the pro forma combined common stockholders' equity of Tompkins and VIST divided by total pro forma common shares of the combined entities. The unaudited pro forma combined consolidated financial information does not include anticipated cost savings or revenue enhancements.
- (3) The pro forma equivalent per share amount is calculated by multiplying the pro forma combined per share amount by an assumed exchange ratio of .3127 in accordance with the merger agreement.
- (4) Net income (loss) per share amounts for VIST and pro forma combined reflect the impact of \$24.4 million noncash expense for goodwill impairment recorded on VIST's books in the fourth quarter of 2011.

Table of Contents**MARKET PRICES, DIVIDENDS AND OTHER DISTRIBUTIONS**

Tompkins common stock trades on the NYSE-Amex under the symbol "TMP," and VIST common stock trades on the NASDAQ Global Market system under the symbol "VIST."

**Stock Prices**

The table below sets forth, for the calendar quarters indicated, the high and low closing sales per share of Tompkins common stock, as reported on the NYSE-Amex, and VIST common stock, as reported on the NASDAQ Global Market System. As of \_\_\_\_\_, 2012, there were approximately [ ] record holders of Tompkins' common stock and approximately [ ] record holders of VIST's common stock.

	Tompkins Common Stock		VIST Common Stock	
	High	Low	High	Low
<b>2009</b>				
First Quarter	\$ 50.76	\$ 29.55	\$ 9.40	\$ 5.75
Second Quarter	45.95	36.64	8.43	6.61
Third Quarter	43.59	38.25	7.71	5.71
Fourth Quarter	41.23	35.68	6.21	5.00
<b>2010</b>				
First Quarter	39.05	35.00	9.89	5.24
Second Quarter	43.44	36.52	9.40	7.40
Third Quarter	42.03	36.13	7.89	6.57
Fourth Quarter	41.91	38.04	7.65	6.84
<b>2011</b>				
First Quarter	41.85	39.15	9.34	7.40
Second Quarter	42.20	36.43	8.61	6.72
Third Quarter	41.00	34.01	7.11	5.41
Fourth Quarter	40.49	33.75	7.34	5.40
<b>2012</b>				
First Quarter	42.60	39.29	12.35	6.13
Second Quarter (through _____, 2012)				

**Market Value of Securities**

On January 25, 2012, the last trading day before the public announcement of the signing of the merger agreement, the last sale prices per share of Tompkins common stock on NYSE-Amex and VIST common stock on the NASDAQ Global Market system were \$41.01 and \$6.90, respectively. On \_\_\_\_\_, 2012, the latest practicable date before the date of this joint proxy statement/prospectus, the closing prices per share of Tompkins common stock on NYSE-Amex and VIST common stock on the NASDAQ Global Market system were \$[ ] and \$[ ], respectively.

The following table sets forth the market value per share of Tompkins common stock, the market value per share of VIST common stock and the equivalent market value per share of VIST common stock on January 25, 2012 (the last full trading day preceding public announcement of the merger) and \_\_\_\_\_, 2012 (the latest practicable trading day prior to the date of this joint proxy statement/prospectus). The equivalent market value per share is based upon an Exchange Ratio of 0.3127 shares of Tompkins common stock for each share of VIST common stock, multiplied by the closing sales price for Tompkins common

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stock on the date specified, because this Exchange Ratio is the mid-point of the three possible exchange ratios.

	<b>Tompkins Common Stock</b>	<b>VIST Common Stock</b>	<b>Equivalent Value Per Share of VIST Common Stock</b>
January 25, 2012	\$ 41.01	\$ 6.90	\$ 12.82

, 2012                                   \$                                   \$                                   \$

The market value of the Tompkins common stock to be issued in exchange for shares of VIST common stock upon the completion of the merger will not be known at the time of the VIST special meeting. The above tables show only historical comparisons. Because the market prices of Tompkins common stock and VIST common stock will likely fluctuate prior to the merger, these comparisons may not provide meaningful information to VIST shareholders in determining whether to adopt the merger agreement. VIST shareholders are encouraged to obtain current market quotations for Tompkins common stock and VIST common stock and to review carefully the other information contained, or incorporated by reference, in this joint proxy statement/prospectus. See "*Where You Can Find More Information*," at page [ ] of this joint proxy statement/prospectus. Following the merger, Tompkins' common stock will continue to be listed on NYSE-Amex, and there will be no further market for VIST common stock.

**Dividends and Other Distributions**

Dividends are paid by Tompkins as and when declared by Tompkins' board of directors. During the two most recent fiscal years, cash dividends on Tompkins common stock have been paid quarterly in the following amounts per share:

<b>Tompkins Payment Date</b>	<b>Amount</b>
2/15/2012	\$ 0.36
11/15/2011	\$ 0.36
8/15/2011	\$ 0.36
5/16/2011	\$ 0.34
2/15/2011	\$ 0.34
11/15/2010	\$ 0.34
8/16/2010	\$ 0.34
5/14/2010	\$ 0.34
2/15/2010	\$ 0.31

Dividends are paid by VIST as and when declared by VIST's board of directors. During the two most recent fiscal years, cash dividends on VIST common stock have been declared quarterly in the following amounts per share:

<b>VIST Payment Date</b>	<b>Amount</b>
2/27/2012	\$ 0.05
11/15/2011	\$ 0.05
8/15/2011	\$ 0.05
5/13/2011	\$ 0.05
2/15/2011	\$ 0.05
11/15/2010	\$ 0.05
8/13/2010	\$ 0.05
5/14/2010	\$ 0.05
2/22/2010	\$ 0.05



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**THE MERGER**

**Background and Negotiation of the Merger**

Tompkins' 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, Tompkins from time to time considers acquiring banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses within markets currently served by Tompkins or in other locations that would complement Tompkins' business or its geographic reach. Tompkins generally targets merger or acquisition partners that are culturally similar and have experienced management and either possess significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. Tompkins has pursued acquisition opportunities in the past, and continues to review new opportunities.

Tompkins did not make any acquisitions in 2011, 2010 or 2009, other than the acquisition of certain insurance agencies and financial services companies, none of which were material. In 2008, Tompkins acquired Sleepy Hollow Bancorp, Inc, a privately held bank holding company located in Sleepy Hollow, New York. Upon completion of that merger, Sleepy Hollow Bancorp's banking subsidiary was merged into Mahopac National Bank, and its five full service offices and one limited service office, all in Westchester County, New York, became offices of Mahopac National Bank.

In July 2011, VIST filed a registration statement with the Securities and Exchange Commission registering \$30 million of its common stock for a proposed underwritten public offering. VIST intended to use the proceeds from the public offering to, among other things, fund organic growth and also pursue strategic acquisitions consistent with VIST's historic business strategy to expand opportunistically through the purchase of banks and related financial services businesses. The registration statement also provided that, to the extent that VIST was unable to deploy the net proceeds from the offering in a manner that provided attractive risk-adjusted returns or a strategic benefit to its growth strategy, it might use some of the proceeds to redeem a portion of the outstanding shares of preferred stock, with a liquidation value of \$25.0 million, previously issued to the United States Department of Treasury in December 2008 in connection with the TARP Capital Purchase Program. Due to continued volatility in the capital markets for financial institution equity offerings through the summer and fall of 2011, the offering was not commenced, although the registration statement remained on file with the SEC and VIST continued to evaluate with its financial advisors the timing of a potential public offering.

On September 1, 2011, VIST's Chief Executive Officer and its Chief Financial Officer attended an unsolicited meeting requested by senior representatives of a large regional bank holding company ("Company A"), at which meeting Company A indicated its interest in considering a business combination with VIST. The Company A representatives indicated preliminarily that, depending on the results of further investigation, including comprehensive due diligence, Company A might be willing to consider a price in the range of \$10.00 to \$12.00 per share. Following the meeting on September 1, 2011, VIST's Chief Executive Officer informed VIST's Chairman of the occurrence of the meeting with the Company A representatives.

On September 14, 2011, VIST publicly announced that it had withdrawn its previously filed application to the U.S. Department of Treasury to participate in Treasury's Small Business Lending Fund, which had been created as part of the Small Business Jobs Act enacted in September 2010. VIST decided to withdraw the application after being notified by Treasury representatives that VIST's application would not be approved. Under the terms of the Small Business Lending Fund program, outstanding preferred stock issued by financial institutions under the TARP Capital Purchase Program, including the preferred stock issued by VIST under the Capital Purchase Program, was required to be redeemed with the proceeds of the securities issued under the Small Business Lending Fund that provided certain favorable interest rate and other terms.

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On September 19, 2011, VIST's board of directors held its annual strategic planning session. As part of those discussions, and in light of the continued volatility in the capital markets and the September 1, 2011 meeting with the representatives of Company A, the board generally discussed the possibility of considering strategic alternatives other than the capital raise pursuant to the registration statement then on file with the SEC. The board of directors concluded to invite representatives of Stifel and representatives of another investment banking firm to make presentations to the board on strategic alternatives, including the capital raise and also consideration of a business combination transaction.

On October 13, 2011, VIST's board held a special meeting at which representatives of Stifel and the second investment banking institution gave separate presentations on three broad potential strategic alternatives available to VIST: (i) maintain the status quo and continue to operate with no new or additional capital; (ii) continue to pursue the capital raise alternative pursuant to the registration statement then on file, giving due consideration to the size, timing and pricing of any offering in challenging market conditions; and (iii) pursue a business combination transaction with a potential merger partner. At the conclusion of this meeting, the board of directors determined to continue to pursue the public offering alternative in the event that market conditions improved, but also determined to engage Stifel to contact confidentially a select list of potential merger candidates, determined by management in conjunction with input from Stifel, who might have an interest in a business combination with VIST. A representative of VIST's outside general counsel, Stevens & Lee, P.C., also attended this meeting in person.

From October 14, 2011 through approximately November 7, 2011, VIST and Stifel prepared a confidential information memorandum to be distributed to selected parties to solicit their interest in a potential business combination transaction involving VIST, as well as a form of confidentiality agreement to be executed by such selected parties prior to their receipt of the confidential information memorandum. In addition, during this period VIST and Stifel populated a confidential virtual data room (the "VDR") with due diligence information regarding VIST. On November 7, 2011, management approved the form of confidential information memorandum to be distributed by Stifel to the selected parties.

From November 7, 2011 through November 10, 2011, Stifel initiated contact with a total of six selected parties provided by management based on discussions with Stifel. Such parties consisted of Tompkins, Company A and four additional publicly-traded financial institutions: "Company B," "Company C," "Company D," and "Company E." Tompkins first became aware of the potential business combination with VIST on November 8, 2011, and signed a confidentiality agreement the same day. By November 14, 2011, all six parties had executed confidentiality agreements, received a copy of the confidential information memorandum, and begun to conduct due diligence of VIST via the VDR.

On November 10, 2011, a representative of Stifel met in person with the President and Chief Executive Officer of Tompkins. At this meeting, Stifel discussed the intended process and timing with Tompkins.

On November 15, 2011, VIST held a regularly scheduled board meeting. At this meeting, a representative of Stifel's capital markets group (which had been named as sole book running manager for the proposed public underwritten offering under the registration statement filed in July 2011) attended the first portion of the board meeting by telephone and updated the board of directors on the state of the capital markets for financial institution offerings in light of VIST's continued consideration of the capital raising alternative in addition to the potential business combination transaction. Following departure from the meeting of the Stifel capital markets representative (who was not at the time of the board meeting aware of VIST's consideration of a potential business combination transaction), the board acknowledged that the state of the capital markets for financial institutions continued to present challenges to raising capital on acceptable terms, but concluded that the capital raise continue as a potential strategic alternative, in addition to consideration of a potential business combination

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transaction, in the event that conditions in the capital markets for financial institutions improved. Representatives of Stifel's investment banking group acting as VIST's financial advisor in connection with the business combination transaction, and who were present during the entire board meeting, then updated the board on the status of the discussions with the various potential merger candidates and informed the board of directors that initial written indications of interest had been requested from all parties by November 28, 2011. A representative of Stevens & Lee also attended this meeting by telephone.

On November 16, 2011, Tompkins contacted Macquarie Capital (USA) Inc. to request that it act as Tompkins' financial advisor should Tompkins determine to pursue a business combination with VIST.

On November 17, 2011, members of VIST's senior management participated in a conference call with members of Tompkins' senior management.

On November 22, 2011, members of VIST's senior management and Stifel met separately with representatives of Company B and Company C.

Also on November 22, 2011, a special meeting of the Tompkins Board of Directors was called to discuss the potential business combination with VIST and review potential transaction terms, at which Tompkins' management was authorized to submit a non-binding indication of interest to Stifel. Representatives of Harris Beach PLLC and Macquarie Capital (USA) Inc. attended this special meeting of the Tompkins board.

On November 28, 2011, VIST received initial written indications of interest from Company A, Company B and Tompkins. Each of Company C, Company D and Company E elected not to submit initial indications of interest. The initial indication of interest letters received from the three parties provided for per share merger consideration of \$11.00 to \$12.00 (Company A), \$11.50 to \$13.50 (Company B), and \$11.00 to \$12.50 (Tompkins). The indication of interest from Company A provided for consideration in the form of common stock and cash (with a maximum of 25% cash), and the indications of interest from both Company B and Tompkins provided for 100% common stock consideration.

On December 2, 2011, the board of directors held a special meeting to consider the indications of interest received from the three potential merger candidates. In addition to the board of directors and VIST's Chief Financial Officer, this meeting was attended by representatives of Stifel and a representative of Stevens & Lee. At this meeting, Stifel reviewed with the board a comparison of the financial terms of the indications of interest received, as well as a comparison of the non-financial terms of the indications of interest and a summary of each of Tompkins, Company A and Company B. At the conclusion of this meeting, the board elected to pursue a dual track process consisting of continuing the potential business combination discussions by scheduling on-site due diligence with the three parties that had submitted written indications of interest, while also continuing to consider and evaluate capital raising alternatives.

On December 5, 2011, VIST's Chairman, its Chief Executive Officer, and its Chief Financial Officer met with select senior executive officers of VIST to advise them that VIST was in discussions with three parties regarding a potential business combination and that due diligence was scheduled for December 8, 2011 through December 15, 2011. Representatives from Stifel and Stevens & Lee attended this meeting. Company A conducted on-site due diligence from December 8, 2011 through December 10, 2011; Tompkins conducted on-site due diligence from December 12, 2011 through December 14, 2011; and Company B conducted on-site due diligence on December 15, 2011 with additional conference calls with VIST's senior management on December 16, 2011.

From December 19, 2011 through December 23, 2011, Stifel contacted each of Tompkins, Company A and Company B regarding their ongoing due diligence efforts and continued interest in the potential business combination transaction.

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On December 22, 2011 each of Company A and Company B separately advised Stifel that they had elected not to continue in the process and would not be submitting a revised indication of interest. On December 23, 2011, Tompkins submitted a revised indication of interest letter.

The board of directors considered Tompkins' revised indication of interest at a special meeting of the board held on December 28, 2011. At this meeting, representatives of Stifel first reviewed with the board the status of the equity capital markets, particularly for smaller market capitalization public companies, in light of the public offering registration statement still on file with the SEC. The board concluded that the prospects for a successful equity capital raise in an amount sufficient to meet business objectives that would not result in substantial dilution to existing shareholders were not sufficiently positive under current market conditions. The board then reviewed the terms of the revised indication of interest received from Tompkins. The revised Tompkins offer was for a 100% stock transaction with a fixed exchange ratio within a 10% collar based on Tompkins 20-day average stock price designed to result in a value of \$12.50 per share for VIST common shareholders. Based on the 20-day average Tompkins stock price for the period ending December 22, 2011, the fixed exchange ratio within the collars would be 0.319 shares of Tompkins common stock for each VIST share of common stock. As of the date of the board meeting, the price represented a 93% premium to VIST's current market price per share, a 28.4x multiple to last twelve months earnings, and 117% of VIST's tangible book value per share, and also would result in per share dividend accretion of 130% based on Tompkins' common stock dividend rate. At this meeting, the board of directors also reviewed and considered certain non-financial factors of the Tompkins offer, including the fact that VIST Bank would retain its separate bank charter and operate as a wholly owned subsidiary of Tompkins with a board of directors that included local representatives, that Tompkins intended to retain local decision-making authority for the markets served by VIST Bank, that Tompkins supported VIST's current strategic bank branching plans and had no present plans for branch closings or relocations, that the offer contained no financing contingencies, and that severance would be offered to any terminated employees in accordance with VIST's severance policy. The board also noted that Tompkins intended to purchase and retire VIST's outstanding preferred stock and related warrants issued to the United States Department of Treasury in connection with the TARP Capital Purchase Program, which would address VIST's need to refinance such securities at some point in the future. Stevens & Lee also attended this meeting and reviewed with the board its fiduciary duties under Pennsylvania law relating to the transaction under consideration.

At the conclusion of discussion at the board of directors meeting held on December 28, 2011 the board directed Stifel to contact Tompkins and inform Tompkins that its indication of interest had been accepted unanimously, pending negotiation and approval by the boards of directors of both parties of definitive documentation for a business combination transaction.

Representatives of Stifel conducted onsite reverse due diligence on Tompkins on January 9, 2012, including management interview telephone calls involving members of VIST's senior management, Stifel, and Stevens & Lee. Additional follow-up due reverse due diligence conference calls involving Stifel, Stevens & Lee and senior management of both VIST and Tompkins were held on January 11, 2012 and January 12, 2012.

Stevens & Lee received a draft merger agreement from Harris Beach PLLC, Tompkins' outside counsel, on January 9, 2012. The parties and their respective counsel and advisors negotiated the terms of the transaction and the merger agreement from January 9, 2012 through January 24, 2012.

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On January 24, 2012, VIST's board of directors met to consider the final merger proposal as set forth in the proposed definitive merger agreement and related documents negotiated by Tompkins and VIST and their respective counsel and advisors. At this meeting, representatives of Stifel presented a summary of its financial analyses of the proposed transaction and delivered Stifel's oral and written opinion that, as of the date of the meeting, the per share merger consideration to be received from Tompkins by holders of shares of VIST common stock in the merger pursuant to the merger agreement was fair to such holders from a financial point of view. A representative from Stevens & Lee, as counsel to VIST, made a detailed presentation on the terms of the proposed merger and the merger agreement, including the provisions of the voting agreements which each VIST director would be required to execute. Following extensive discussion and after all questions were addressed by VIST's advisors, the board of directors unanimously approved the merger agreement and the transactions set forth in the agreement, and resolved to submit the merger agreement to shareholders for consideration and approval.

At its regularly scheduled meeting on January 24, 2012, the Tompkins board of directors considered the proposed transaction with VIST. Also attending the meeting were representatives of Harris Beach and Macquarie Capital (USA) Inc. At the meeting, Mr. Romaine reviewed with the board the financial analysis and the financial terms of the proposed transaction with VIST. Representatives of Harris Beach PLLC and Macquarie Capital (USA) Inc. also reviewed with the board of directors the terms of the proposed merger agreement, as well as fiduciary duties of the directors in connection with the transaction. After lengthy discussion, Tompkins' board of directors unanimously approved the merger agreement and agreed to recommend that the Tompkins shareholders approve the merger agreement.

The merger agreement was executed by the parties on January 25, 2012 and publicly announced on January 26, 2012.

**Tompkins' Reasons for the Merger**

Tompkins board of directors reviewed and discussed the transaction with Tompkin's management and its financial and legal advisors in unanimously determining that the merger was advisable and in the best interests of Tompkins and its shareholders. This discussion of the Tompkins board of directors' reasons for approving the merger is forward looking in nature and, therefore, should be read in light of the factors discussed under the heading "*Forward Looking Statements*" on page [ ]. In reaching its determination, the Tompkins directors considered a number of factors, including, among others, the following:

the board's understanding of, and presentations of Tompkin's management and financial advisor regarding, VIST's business, operations, management, financial condition, asset quality and prospects;

the board's agreement with Tompkin's management that the merger provides Tompkins with a sizeable expansion opportunity in a Southeast Pennsylvania market with attractive demographics and is consistent with Tompkins conservative acquisition strategy of selectively entering into new, attractive markets;

the board's view that VIST's business mix and branch network is well suited to Tompkin's own product set and will provide Tompkins with an opportunity to accelerate loan growth, grow VIST's trust and investment management business in affluent markets and integrate a well-developed insurance agency into Tompkin's own operations;

its understanding, based on information then available, that the merger should be accretive to earnings in the first year and thereafter;

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the results of management's due diligence investigation of VIST and the reputation, business practices and management of VIST, including its impression that VIST is a well run bank holding company with a business model very similar to Tompkin's own, and that operation of VIST bank as a separate subsidiary will be consistent with the operations of Tompkin's other bank subsidiaries;

the board's view as to the potential synergies resulting from a combination of Tompkins and VIST, the potential long term cost savings and the growth prospects associated with the combined operations;

the board's view that the combined company will have the potential to realize a stronger competitive position and improved long-term operating results, including revenue and earnings enhancements; and,

the review by Tompkin's board of directors with its legal and financial advisors of the structure of the merger and the financial and other terms of the merger agreement, including deal protections in the event of any termination of the merger.

This discussion of factors considered by Tompkins board of directors is not exhaustive but sets out the material factors considered by the Tompkins board of directors. The board did not attempt to quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision and individual directors may have given different weights to each factor. Rather, the board of directors considered these factors as a whole and, after its evaluation, including asking questions of Tompkin's management and financial and legal advisors, determined them to be favorable to, and supportive of, its determination.

#### **Recommendation of Tompkins' Board of Directors**

Tompkins' board of directors believes that the terms of the transaction are in the best interests of Tompkins and its shareholders and has approved the issuance of Tompkins common stock pursuant to the merger agreement. Accordingly, Tompkins' board of directors unanimously recommends that Tompkins shareholders vote "FOR" the issuance of shares of Tompkins common stock pursuant to the merger agreement.

#### **VIST's Reasons for the Merger**

**VIST's board of directors carefully considered the process by which potentially interested acquirers were identified, the indications of interest that were received, the terms of the merger agreement and the value of the merger consideration to be received by the holders of VIST common stock. After careful consideration, VIST's board of directors determined that it is advisable and in the best interests of VIST for VIST to enter into the merger agreement with Tompkins. Accordingly, VIST's board of directors unanimously recommends that VIST's shareholders vote "FOR" approval and adoption of the merger agreement.**

In the course of making its decision to approve the transaction with Tompkins, VIST's board of directors consulted with VIST's senior management and VIST's financial and legal advisors. VIST's board of directors considered, among other things, the following factors:

the board's understanding of the current and prospective environment in which VIST operates, including national, regional and local economic conditions, the competitive environment for financial institutions, the increased regulatory burdens on financial institutions and the uncertainties in the regulatory climate going forward, the trend toward consolidation in the financial services industry generally and the likely effect of these factors on VIST's potential growth, profitability and strategic options;

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the board's assessment of the challenges in completing an underwritten public offering under the registration statement on file with the SEC to realize sufficient proceeds to permit VIST to execute its business plan at a price that would not result in significant dilution to existing shareholders;

the board's view that the size of the institution and related economies of scale, beyond the level it believed to be reasonably achievable on an independent basis, was becoming increasingly important to continued success in the current and prospective financial services environment;

the comprehensive process conducted by VIST's management and Stifel, VIST's financial advisor, to identify potential merger partners and to solicit proposals as to the terms, structure and other aspects of a potential transaction from potential merger partners;

the board's understanding of VIST's business, operations, financial condition, earnings and prospects and of Tompkins's business, operations, financial condition, earnings and prospects, including the respective geographic markets in which the companies and their banking subsidiaries each operate;

the board's perception that VIST's operating philosophy as a community-oriented financial services company with a strong customer focus is compatible with Tompkins's operating philosophy;

Tompkins commitment to continue VIST Bank as a separately chartered banking subsidiary of Tompkins, and Tompkins' operating history with its current subsidiary banks;

the board's perception regarding the enhanced future prospects of the combined company compared to those VIST was likely to achieve on a stand-alone basis, including the projected market capitalization and market position of the combined entity and the compatibility of VIST's and Tompkins' business activities, as well as opportunities for increasing revenues as a result of a higher lending limit to originate larger and more profitable commercial loans and revenues associated with fee income products, such as insurance and investment products;

the board's review with its legal and financial advisors of the structure of the merger and the financial and other terms of the merger agreement and related documents, including the board's assessment of the adequacy of the merger consideration, not only in relation to the current market price of VIST's common stock, but also in relation to the historical, present and anticipated future operating results and financial position of VIST;

the fact that, as of January 24, 2012, the price resulting from the exchange ratio represented an 81% premium to VIST's market price as of January 23, 2012, a 28.4x multiple to last twelve months earnings, and 117% of VIST's tangible book value, and also would result in dividend accretion of 125% based on current quarterly common stock dividend rates;

the prices and premiums over book value and market value paid in other recent acquisitions of financial institutions as presented by Stifel to VIST's board of directors;

Tompkins's historical and current quarterly dividend rate as compared to VIST's historical dividend rate and the board's perception regarding the prospects for maintaining or increasing such dividends;

the proposed board and management arrangements, including Tompkins's commitment to (i) appoint two VIST directors to the Tompkins board of directors and appoint five existing VIST directors to the VIST Bank board of directors, (ii) employ

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certain senior executive officers of VIST Bank after the merger and the perceived benefits to the combined institution of the continued service of persons with knowledge and experience regarding VIST's operations and its



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market area, and (iii) nominate two (2) members of the current VIST board of directors for election at the first annual meeting of Tompkins following the merger;

the reports of VIST's management and financial presentation by Stifel to VIST's board of directors concerning the operations, financial condition and prospects of Tompkins and the expected financial impact of the merger on the combined company;

the effects of the merger on VIST's employees and customers, including the prospects for continued employment and the severance and other benefits agreed to be provided to VIST employees;

the fact that VIST shareholders will receive shares of Tompkins common stock in the merger, which will allow VIST shareholders to participate in a portion of the future performance of the combined company's businesses and synergies resulting from the merger, and the value to VIST's shareholders represented by that consideration; and

the financial information and analyses presented by Stifel to the board of directors, and the opinion of Stifel to the effect that, as of the date of such opinion, based upon and subject to the factors and assumptions set forth in such opinion, the consideration in the proposed merger was fair to holders of VIST common stock from a financial point of view. A copy of the Stifel written opinion that was delivered to the VIST board is included as Annex B to this joint proxy statement/prospectus and described under "*Opinion of VIST's Financial Advisor*"; shareholders are encouraged to read the Stifel opinion in its entirety.

VIST's board of directors also considered certain potentially adverse factors in connection with the merger, including the following:

the potential challenges associated with obtaining the regulatory approvals required to complete the transaction in a timely manner;

the fact that certain provisions of the merger agreement prohibit VIST from soliciting, and limit its ability to respond to, proposals for alternative transactions, and the obligation to pay a termination fee in the event that the merger agreement is terminated in certain circumstances, including \$3.3 million if VIST terminates the merger agreement to accept a superior offer and \$1.5 million if VIST's shareholders fail to approve the merger at the special meeting;

the fact that pursuant to the merger agreement, VIST must generally conduct its business in the ordinary course and VIST is subject to a variety of other restrictions on the conduct of its business prior to the completion of the merger or termination of the merger agreement, which may delay or prevent VIST from undertaking business opportunities that may arise pending completion of the merger;

the risk that potential benefits and synergies sought in the merger may not be realized or may not be realized within the expected time period, and the risks associated with the integration of VIST and Tompkins;

the fact that because the consideration in the merger is a fixed exchange ratio of shares of Tompkins common stock to VIST common stock subject to adjustment within collars, VIST shareholders could be adversely affected by a significant change in the trading price of Tompkins common stock during the 20-day pricing period for determining the value of the Tompkins common stock for purposes of calculating the exchange ratio;

the potential for diversion of management and employee attention, and for employee attrition, during the period prior to the completion of the merger and the potential effect on VIST's business and relations with customers, service providers and other stakeholders, whether or not the merger is consummated; and



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the risks associated with ownership of shares of Tompkisn common stock, as described in the section entitled "*Risk Factors*" beginning on page .

VIST's board of directors realizes that there can be no assurance about future results, including results expected or considered in the factors listed above. The board of directors concluded, however, that the potential positive factors outweighed the potential risks of completing the merger.

During its consideration of the merger, VIST's board of directors was also aware that some of its directors and executive officers may have interests in the merger that are different from or in addition to those of shareholders generally, as described under the heading "*The Merger Interests of Certain Persons in the Merger*" beginning on page .

The foregoing discussion of the information and factors considered by VIST's board of directors is not exhaustive, but includes the material factors considered by VIST's board. In view of the wide variety of factors considered by the board of directors in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not consider it practical to, and did not attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. VIST's board of directors evaluated the factors described above, including asking questions of VIST's legal and financial advisors. In considering the factors described above, individual members of VIST's board of directors may have given different weights to different factors. The board of directors relied on the experience and expertise of its legal advisors regarding the structure of the merger and the terms of the merger agreement and on the experience and expertise of its financial advisors for quantitative analysis of the financial terms of the merger. It should also be noted that this explanation of the reasoning of VIST's board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "*Cautionary Statement Regarding Forward-Looking Statements*" on page .

#### **Recommendation of VIST's Board of Directors**

VIST's board of directors believes that the terms of the transaction are in the best interests of VIST and has unanimously approved the merger agreement. **Accordingly, VIST's board of directors unanimously recommends that VIST shareholders vote "FOR" approval and adoption of the merger agreement.**

#### **Opinion of VIST's Financial Advisor**

Stifel, Nicolaus & Company, Incorporated ("Stifel") acted as VIST's financial advisor in connection with the merger. Stifel is a nationally recognized investment banking and securities firm with membership on all the principal United States securities exchanges and substantial expertise in transactions similar to the merger. As part of its investment banking activities, Stifel is regularly engaged in the independent valuation of businesses and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

On January 24, 2012, Stifel rendered its oral opinion, which was confirmed in writing, to the board of directors of VIST that, as of the date of Stifel's written opinion, the per share consideration to be received by the holders of shares of VIST common stock pursuant to the merger agreement was fair to such holders, from a financial point of view.

**The full text of Stifel's written opinion dated January 24, 2012, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as Annex B to this joint proxy statement/prospectus and is incorporated herein by reference. Holders of VIST's common stock are urged to, and should, read this opinion carefully and in its entirety in connection with this**

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**joint proxy statement/prospectus. The summary of the opinion of Stifel set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion. The opinion of Stifel does not reflect any developments that may occur or may have occurred after the date of its opinion and prior to the completion of the merger. Stifel has no obligation to update, revise or reaffirm its opinion and VIST does not currently expect that it will request an updated opinion from Stifel.**

No limitations were imposed by VIST on the scope of Stifel's investigation or the procedures to be followed by Stifel in rendering its opinion. In arriving at its opinion, Stifel did not ascribe a specific range of values to VIST. Stifel's opinion is based on the financial and comparative analyses described below. Stifel's opinion is solely for the information of, and directed to, VIST's board of directors for its information and assistance in connection with VIST's board of directors' consideration of the financial terms of the merger and is not to be relied upon by any shareholder of VIST or Tompkins or any other person or entity. Stifel's opinion was not intended to be and did not constitute a recommendation to VIST's board of directors as to how it should vote on the merger or to any shareholder of VIST or Tompkins as to how any such shareholder should vote at any shareholders' meeting at which the merger is considered, or whether or not any shareholder of VIST should enter into a voting, shareholders' or affiliates' agreement with respect to the merger, or exercise any dissenter's or appraisal rights that may be available to such shareholder. In addition, Stifel's opinion does not compare the relative merits of the merger with any other alternative transaction or business strategy which may have been available to VIST and does not address the underlying business decision of VIST's board of directors or VIST to proceed with the merger or any aspect thereof.

In connection with its opinion, Stifel, among other things:

reviewed and analyzed a draft copy of the merger agreement dated January 23, 2012;

reviewed and analyzed the audited consolidated financial statements of VIST for the three years ended December 31, 2010 and the unaudited consolidated financial statements of VIST for the nine month period ended September 30, 2011;

reviewed and analyzed the audited consolidated financial statements of Tompkins for the three years ended December 31, 2010 and the unaudited consolidated financial statements of Tompkins for the nine month period ended September 30, 2011;

reviewed and analyzed certain other publicly available information concerning VIST and Tompkins;

held discussions with VIST's and Tompkins' senior management and advisors, including, without limitation, discussions regarding estimates of certain cost savings, operating synergies, merger charges and the pro forma financial impact of the merger on Tompkins;

reviewed certain non-publicly available information concerning VIST, including, without limitation, a review of its internal financial analyses and forecasts prepared by its management, and held discussions with VIST's senior management regarding recent developments and regulatory matters;

reviewed certain non-publicly available information concerning Tompkins, including, without limitation, a review of its internal financial analyses and forecasts prepared by its management, and held discussions with Tompkins' senior management regarding recent developments and regulatory matters;

participated in certain discussions and negotiations between representatives of VIST and Tompkins;

reviewed the reported prices and trading activity of the equity securities of VIST and Tompkins;

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analyzed certain publicly available information concerning the terms of selected merger and acquisition transactions considered relevant to its analysis;

reviewed and analyzed certain publicly available financial and stock market data relating to selected public companies deemed relevant to its analysis;

conducted such other financial studies, analyses and investigations and considered such other information as were deemed necessary or appropriate for purposes of its opinion; and

took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuations and its knowledge of the banking industry generally.

In connection with its review, Stifel relied upon and assumed, without independent verification, the accuracy and completeness of all of the financial and other information that was provided to it, by or on behalf of VIST or Tompkins, or that was otherwise reviewed by Stifel and did not assume any responsibility for independently verifying any of such information. Stifel further relied upon the assurances by VIST or Tompkins that they were not aware of any facts that would make their respective information incomplete or misleading. With respect to the financial forecasts supplied to it by VIST and Tompkins (including, without limitation, potential cost savings and operating synergies realized by a potential acquirer), Stifel assumed that the forecasts were reasonably prepared on the basis reflecting the best currently available estimates and judgments of the management of VIST and Tompkins, as applicable, as to the future operating and financial performance of VIST and Tompkins, as applicable, and that they provided a reasonable basis upon which Stifel could form its opinion. Such forecasts and projections were not prepared with the expectation of public disclosure. All such projected financial information was based on numerous variables and assumptions that were inherently uncertain, including, without limitation, factors related to general economic, market and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projected financial information. Stifel relied on this projected information without independent verification or analysis and did not in any respect assume any responsibility for the accuracy or completeness thereof.

Stifel assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either VIST or Tompkins since the date of the last financial statements of each company made available to Stifel. Stifel also assumed, without independent verification and with VIST's consent, that the aggregate allowances for loan losses set forth in the respective financial statements of VIST and Tompkins were in the aggregate adequate to cover all such losses. Stifel did not make or obtain any independent evaluation, appraisal or physical inspection of either VIST's or Tompkins' assets or liabilities, the collateral securing any of such assets or liabilities, or the collectibility of any such assets nor did it review loan or credit files of VIST or Tompkins. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets could actually be sold. Because such estimates are inherently subject to uncertainty, Stifel assumed no responsibility for their accuracy. Stifel relied on advice of VIST's counsel as to certain legal matters with respect to VIST, the merger agreement and the merger and other matters contained or contemplated therein. Stifel assumed, with VIST's consent, that there were no factors that would delay, or subject to any adverse conditions, any necessary regulatory or governmental approval and that all conditions to the merger would be satisfied and not waived. In addition, Stifel assumed that the definitive merger agreement would not differ materially from the draft it reviewed. Stifel also assumed that the merger would be consummated substantially on the terms and conditions described in the merger agreement, without any waiver of material terms or conditions by VIST or any other party, and that obtaining any necessary regulatory approvals or satisfying any other conditions for consummation of the merger would not have an adverse effect on VIST or Tompkins. Stifel assumed that the merger would be consummated in a manner that complies in all respects with the applicable

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provisions of the Securities Act, the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and all other applicable federal and state statutes, rules and regulations.

Stifel's opinion was necessarily based solely on economic, market, monetary, financial and other conditions as they existed on, and on the information made available to Stifel as of, the date of its opinion. It is understood that subsequent developments may affect the conclusions reached in Stifel's opinion and that Stifel does not have or assume any obligation to update, revise or reaffirm its opinion.

Stifel's opinion is limited to whether the per share merger consideration is fair to the holders of VIST common stock, from a financial point of view, solely as of the date of its opinion. Stifel's opinion did not consider, address or include: (i) any other strategic alternatives (which were or may have been) contemplated by VIST's board of directors or VIST; (ii) the legal, tax or accounting consequences of the merger on VIST or the holders of VIST's common stock including, without limitation, whether or not the merger would qualify as a tax-free reorganization pursuant to Section 368 of the Internal Revenue Code; (iii) the fairness of the amount or nature of any compensation to any of VIST's officers, directors or employees, or class of such persons, relative to the compensation to the holders of VIST's securities; (iv) the treatment of, or the effect on, VIST's Series A Preferred Stock and related warrants or the holders thereof; (v) the treatment of, or effect of the merger on, VIST's Stock Options (as defined in the merger agreement), or any other class of securities of VIST other than its common stock or the holders thereof; or (vi) any advice or opinions provided by any other advisor to VIST or Tompkins. Furthermore, Stifel did not express any opinion as to the prices, trading range or volume at which Tompkins' securities would trade following public announcement or consummation of the merger.

In connection with rendering its opinion, Stifel performed a variety of financial analyses that are summarized below. Such summary does not purport to be a complete description of such analyses. Stifel believes that its analyses and the summary set forth herein must be considered as a whole and that selecting portions of such analyses and the factors considered therein, without considering all factors and analyses, could be misleading. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. The range of valuations resulting from any particular analysis described below should not be taken to be Stifel's view of the actual value of VIST. In its analyses, Stifel made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of VIST or Tompkins. Any estimates contained in Stifel's analyses are not necessarily indicative of actual future values or results, which may be significantly more or less favorable than suggested by such estimates. No company or transaction utilized in Stifel's analyses was identical to VIST or Tompkins or the merger. Accordingly, an analysis of the results described below is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other facts that could affect the public trading value of the companies to which they are being compared. In arriving at its opinion, none of the analyses performed by Stifel were assigned a greater significance by Stifel than any other, nor does the order of analyses described represent relative importance or weight given to those analyses by Stifel. The analyses described below do not purport to be indicative of actual future results, or to reflect the prices at which VIST's or Tompkins's common stock may trade in the public markets, which may vary depending upon various factors, including changes in interest rates, dividend rates, market conditions, economic conditions and other factors that influence the price of securities.

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In accordance with customary investment banking practice, Stifel employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses that Stifel used in providing its opinion. Some of the summaries of financial analyses are presented in tabular format. In order to understand the financial analyses used by Stifel more fully, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of Stifel's financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Stifel. The summary data set forth below do not represent and should not be viewed by anyone as constituting conclusions reached by Stifel with respect to any of the analyses performed by it in connection with its opinion. Rather, Stifel made its determination as to the fairness to the shareholders of VIST of the per share merger consideration, from a financial point of view, on the basis of its experience and professional judgment after considering the results of all of the analyses performed. Accordingly, the data included in the summary tables and the corresponding imputed ranges of value for VIST should be considered as a whole and in the context of the full narrative description of all of the financial analyses set forth in the following pages, including the assumptions underlying these analyses.

In connection with rendering its opinion and based upon the terms of the draft merger agreement reviewed by it, Stifel assumed the aggregate consideration for the common stock to be \$86 million and the per share consideration to be \$12.50. Stifel noted this represented a premium of 81% over VIST's closing price of \$6.91 on January 23, 2012.

**Comparison of Selected Companies.** Stifel reviewed and compared certain multiples and ratios for the merger with a peer group of 13 selected public banking institutions of similar size, geography and asset quality. In order to calculate a range of imputed values for a share of VIST's common stock, Stifel utilized the following financial and valuation metrics in its analysis: price to tangible book value per share, price to latest 12 months earnings per share and premium over tangible book value to core deposits as of or for the quarter and twelve month period ended September 30, 2011. Market price information was as of January 23, 2012. Stifel then applied the resulting range of multiples and ratios for the peer group specified above to the appropriate financial results of VIST. This analysis resulted in a range of imputed values for VIST of between \$5.63 and \$11.69 based on the median multiples for the peer group.

Additionally, Stifel calculated the following ratios with respect to the merger and the 13 selected comparable companies:

Ratios	Tompkins / VIST Transaction	Trading Multiples for Selected Peer Group(3)(4)		
		25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile
Price Per Share/Tangible Book Value Per Share(1)	117%	63%	109%	160%
Price Per Share/Last 12 Months Earnings Per Share	28.4x	11.1x	12.8x	14.2x
Premium over Tangible Book Value/Core Deposits(2)	1.5%	(3.6)%	0.8%	6.0%

(1) For purposes of this analysis, VIST's tangible book value per share excludes the unaccreted portion of the original issue discount on its Series A Preferred Stock.

(2) Core deposits defined as total deposits less certificates of deposit with balances greater than \$100,000.

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(3) Market data as of January 23, 2012.

(4) Selected comparable banking institutions include ACNB Corporation, Bancorp, Inc., Bryn Mawr Bank Corporation, Center Bancorp, Inc., Citizens & Northern Corporation, CNB Financial Corporation, Codorus Valley Bancorp, Inc., Eagle Bancorp, Inc., First United Corporation, Metro Bancorp, Inc., Orrstown Financial Services, Inc., Peapack-Gladstone Financial Corporation and Uninvest Corporation of Pennsylvania.

**Analysis of Selected Bank Merger Transactions.** Stifel analyzed certain information related to two groups of recent transactions in the banking industry. The first group consisted of 17 U.S. bank holding company, bank, thrift holding company and thrift acquisitions announced between September 30, 2009 and January 23, 2012 which involved targets headquartered in New Jersey and Pennsylvania ("Regional" transaction group), excluding merger of equals and terminated transactions. The second group consisted of 11 U.S. bank holding company, bank, thrift holding company and thrift acquisitions announced between September 30, 2009 and January 23, 2012 with announced transaction values between \$50 million and \$125 million and where the target had nonperforming assets to total assets less than 4.0% at announcement ("Transaction Value and Asset Quality" transaction group), excluding merger of equals and terminated transactions.

The transactions included in the Regional transaction group were:

<b>Acquiror</b>	<b>Acquiree</b>
ESSA Bancorp, Inc.	First Star Bancorp, Inc.
Beneficial Mutual Bancorp, Inc.	SE Financial Corp.
S&T Bancorp, Inc.	Mainline Bancorp, Inc.
Susquehanna Bancshares, Inc.	Tower Bancorp, Inc.
F.N.B. Corporation	Parkvale Financial Corporation
BCB Bancorp, Inc.	Allegiance Community Bank
Ocean Shore Holding Co.	CBHC Financialcorp, Inc.
GNB Financial Services, Inc.	Herndon National Bank
Susquehanna Bancshares, Inc.	Abington Bancorp, Inc.
Norwood Financial Corp.	North Penn Bancorp, Inc.
Customers Bancorp Inc	Berkshire Bancorp, Inc.
F.N.B. Corporation	Comm Bancorp, Inc.
Kearny Financial Corp.	Central Jersey Bancorp
Bank of Princeton	MoreBank
Roma Financial Corporation	Sterling Banks, Inc.
Tower Bancorp, Inc.	First Chester County Corporation
Bryn Mawr Bank Corporation	First Keystone Financial, Inc.



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The transactions included in the Transaction Value and Asset Quality transaction group were:

<b>Acquiror</b>	<b>Acquiree</b>
ViewPoint Financial Group, Inc.	Highlands Bancshares, Inc.
BankUnited, Inc.	Herald National Bank
Berkshire Hills Bancorp, Inc.	Legacy Bancorp, Inc.
Community Bank System, Inc.	Wilber Corporation
Berkshire Hills Bancorp, Inc.	Rome Bancorp, Inc.
F.N.B. Corporation	Comm Bancorp, Inc.
People's United Financial, Inc.	LSB Corporation
Kearny Financial Corp.	Central Jersey Bancorp
National Australia Bank, Limited	F&M Bank-Iowa Central
Chemical Financial Corporation	O.A.K. Financial Corporation
Tower Bancorp, Inc.	First Chester County Corporation

Stifel then applied the resulting range of multiples and ratios for the comparable transaction groups specified above to the appropriate financial results of VIST. This analysis resulted in a range of imputed values for VIST common stock of between \$9.08 and \$12.79 for the Regional group and \$8.82 and \$14.39 for the Transaction Value and Asset Quality group based upon the median multiples for the selected transactions. Stifel calculated the following ratios with respect to the merger and the selected transactions:

<b>Ratios</b>	<b>Tompkins / VIST</b>	<b>Regional Group Transaction Multiples</b>		
	<b>Transaction</b>	<b>25<sup>th</sup> Percentile</b>	<b>Median</b>	<b>75<sup>th</sup> Percentile</b>
Price Per Share/Tangible Book Value Per Share(1)	117%	100%	119%	127%
Price Per Share/Last 12 Months Earnings Per Share	28.4x	17.9x	20.6x	33.4x
Premium over Tangible Book Value/Core Deposits(2)	1.5%	0.0%	1.8%	5.2%
Offer Price / One Month Prior Price(3)	91%	38%	69%	117%

- (1) For purposes of this analysis, VIST's tangible book value per share excludes the unaccreted portion of the original issue discount on its Series A Preferred Stock.
- (2) Core deposits defined as total deposits less certificates of deposit with balances greater than \$100,000.
- (3) Market data as of January 23, 2012.

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Ratios	Tompkins / VIST Transaction	Transaction Value and Asset Quality Group Transaction Multiples		
		25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile
Price Per Share/Tangible Book Value Per Share(1)	117%	111%	120%	136%
Price Per Share/Last 12 Months Earnings Per Share	28.4x	17.8x	20.1x	31.7x
Premium over Tangible Book Value/Core Deposits(2)	1.5%	1.7%	3.0%	6.6%
Offer Price / One Month Prior Price(3)	91%	55%	67%	88%

- (1) For purposes of this analysis, VIST's tangible book value per share excludes the unaccreted portion of the original issue discount on its Series A Preferred Stock.
- (2) Core deposits defined as total deposits less certificates of deposit with balances greater than \$100,000.
- (3) Market data as of January 23, 2012.

**Discounted Dividends Analysis.** Using a discounted dividend analysis, Stifel estimated the net present value of the future streams of after-tax cash flow that VIST could theoretically produce for dividends to common shareholders, referred to below as dividendable net income. In this analysis, Stifel assumed that VIST would perform in accordance with management's estimates and calculated assumed potential after-tax distributions to common shareholders such that VIST's tangible common equity ratio would remain 8.0% of tangible assets. Stifel calculated the range of implied values by taking the sum of (1) the assumed dividendable net income stream per share beginning in the year 2012 and continuing through 2016, and (2) the terminal value of VIST's common stock. These cash flows were then discounted to present values at assumed discount rates ranging from 15.0% to 20.0%. In calculating the terminal value of VIST's common stock, Stifel applied multiples ranging from 10.0 times to 14.0 times 2017 forecasted earnings, which assumed an 8.0% growth rate over management's 2016 earnings estimate. This discounted dividend analysis indicated an implied equity value reference range of \$5.97 to \$13.31 per share of VIST's common stock. This analysis does not purport to be indicative of actual future results and does not purport to reflect the prices at which shares of VIST's common stock may trade in the public markets. A discounted dividend analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings and balance sheet growth rates, dividend payout rates and discount rates.

**Pro Forma Effect of the Merger.** Stifel reviewed certain estimated future operating and financial information developed by VIST and Tompkins and certain estimated future operating and financial information for the pro forma combined entity resulting from the merger. In this analysis, Stifel compared certain of VIST's estimated future per share results with such estimated figures for the pro forma combined entity. Based on this analysis on a pro forma basis, the merger is forecast to be accretive to VIST's earnings per share for the 12-month period ended December 31, 2013 and to be dilutive to VIST's book value per share and tangible book value per share as of December 31, 2011. Stifel also noted that on a pro forma basis, the merger is forecast to be accretive to the annual cash dividends per share to be received by the holders of VIST's common stock. Stifel's pro forma analysis also indicated that Tompkins would remain well capitalized under current regulatory capital definitions following the transaction. For all of the pro forma analyses, the actual results achieved following the merger may vary from projected results, and the variations may be material.

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As described above, Stifel's opinion was among the many factors taken into consideration by VIST's board of directors in making its determination to approve the merger. Consequently, the analyses described above should not be viewed as determinative of the views of VIST's Board or VIST's management with respect to the fairness of the per share consideration to be received by the holders of shares of VIST common stock.

Stifel acted as financial advisor to VIST in connection with the merger and will receive a fee which is contingent upon the completion of the merger. Stifel also acted as financial advisor to VIST's board of directors and received a fee upon the delivery of its opinion that was not contingent upon consummation of the merger. Stifel will not receive any other significant payment or compensation contingent upon the successful consummation of the merger. In addition, VIST agreed to indemnify Stifel for certain liabilities arising out of Stifel's engagement. Stifel has historically provided investment banking services to VIST, including acting as buy-side financial advisor in 2010 and 2011 in connection with un consummated merger transactions for which it received customary fees. Additionally, Stifel was named as sole bookrunning manager on a potential publicly underwritten offering of common equity which was initially filed in July 2011, but which was never publicly marketed and for which it received no fees. Other than the foregoing, there were no other material relationships that existed during the two years prior to the date of Stifel's opinion or that were mutually understood to be contemplated in which any compensation was received or is intended to be received as a result of the relationship between Stifel and any party to the merger. Stifel may seek to provide investment banking services to Tompkins or its affiliates in the future, for which Stifel would seek customary compensation. In the ordinary course of business, Stifel may trade VIST's or Tompkins' securities for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

**Merger Consideration**

The merger agreement provides that at the effective time of the merger each share of VIST common stock issued and outstanding immediately prior to the effective time will be converted into the Exchange Ratio. The Exchange Ratio is subject to adjustment based on the average of the closing price of Tompkins common stock for the 20 consecutive business days ending three days prior to the date of the VIST special meeting of shareholders, which is to be held on \_\_\_\_\_, 2012. We refer to this average price as the "Tompkins Average Closing Price." If the Tompkins Average Closing Price is greater than \$43.98, the Exchange Ratio will be adjusted and fixed at 0.2842 shares of Tompkins common stock for each VIST share of common stock, and if the Tompkins Average Closing Price is less than \$35.98, the Exchange Ratio will be adjusted and fixed at 0.3475 shares of Tompkins common stock for each VIST share of common stock. We refer to the number of shares of Tompkins common stock to be received by each VIST common stock holder as the "merger consideration."

It is important to note that the value of the merger consideration may change based on the Tompkins Average Closing Price, and we cannot predict what the value will be at the closing of the merger. The following table illustrates the effective per share value that VIST shareholders would receive for each VIST share, over a range of potential Tompkins Average Closing Prices:

	SAMPLE TOMPKINS AVERAGE CLOSING PRICES (20-DAY AVERAGE, FROM _____, 2012 TO _____, 2012)						
	\$32.00	\$35.86	\$35.87	\$39.85	\$43.84	\$43.85	\$47.82
<b>Effective Purchase Price per VIST share:</b>	\$ 11.12	\$ 12.50	\$ 11.25	\$ 12.50	\$ 13.75	\$ 12.50	\$ 13.59

The board of directors of VIST has the right, but not the obligation, to terminate the merger agreement if the average closing price of Tompkins' common stock is less than \$32.00 (as adjusted for certain capital transactions), for the 10 consecutive trading days ending on the date on which certain

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closing conditions to the merger have been satisfied or waived by the party entitled to enforce such condition.

Tompkins currently anticipates issuing the merger consideration to VIST shareholders using American Stock Transfer's Direct Registration program, which means that each VIST shareholder's merger consideration will initially be recorded in book entry form only on the records of Tompkins' transfer agent, American Stock Transfer, as opposed to new certificates being issued. VIST shareholders who receive Tompkins shares through the Direct Registration program may request a physical Tompkins stock certificate at no charge.

If, between the date of the merger agreement and the effective time of the merger, the shares of Tompkins common stock are changed into a different number or class of shares by reason of reclassification, split-up, combination, exchange of shares or readjustment, or a stock dividend is declared with a record date within that period, appropriate adjustments will be made to the merger consideration.

No fractional shares of Tompkins common stock will be issued to any VIST shareholders upon completion of the merger. Fractional shares of Tompkins common stock resulting from the application of the exchange ratio to a VIST shareholder's holdings of VIST common stock will be converted to the right to receive a cash payment for each such fractional share. The cash payment will equal an amount, rounded to the nearest cent and without interest, equal to the product of (i) the fraction of a share to which such holder would otherwise have been entitled and (ii) the average of the daily closing sales prices of a share of Tompkins common stock as reported on NYSE-Amex for the five consecutive trading days immediately preceding the closing of the merger.

The terms of the merger were determined by Tompkins and VIST on the basis of arm's-length negotiations.

**Material Federal Income Tax Consequences**

The following discussion addresses the material United States federal income tax consequences of the merger to a VIST shareholder who holds shares of VIST common stock as a capital asset. This discussion is based upon the Internal Revenue Code, Treasury regulations promulgated under the Internal Revenue Code, judicial authorities, published positions of the Internal Revenue Service (the "IRS") and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion does not address all aspects of United States federal income taxation that may be relevant to VIST shareholders in light of their particular circumstances and does not address aspects of United States federal income taxation that may be applicable to VIST shareholders subject to special treatment under the Internal Revenue Code (including banks, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting, investors in pass-through entities, VIST shareholders who hold their shares of VIST common stock as part of a hedge, straddle or conversion transaction, VIST shareholders who acquired their shares of VIST common stock pursuant to the exercise of employee stock options or otherwise as compensation, and holders who are not United States persons, within the meaning of Section 7701(a)(30) of the Internal Revenue Code). In addition, the discussion does not address any aspect of state, local or foreign taxation. No assurance can be given that the IRS would not assert, or that a court would not sustain a position contrary to any of the tax aspects set forth below.

VIST shareholders are encouraged to consult their tax advisors with respect to the particular United States federal, state, local and foreign tax consequences of the merger.

The closing of the merger is conditioned upon the receipt by VIST of the opinion of Stevens & Lee P.C. and the receipt by Tompkins of the opinion of Harris Beach PLLC, each dated as of the

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effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in those opinions (including factual representations contained in certificates of officers of VIST and Tompkins) which are consistent with the state of facts existing as of the effective date of the merger, the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. The tax opinions to be delivered in connection with the merger are not binding on the IRS or the courts, and neither VIST nor Tompkins intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the facts, representations or assumptions upon which such opinions are based are inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

Assuming that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the discussion below sets forth the opinions of Stevens and Lee, P.C. and Harris Beach PLLC as to the material United States federal income tax consequences of the merger to VIST shareholders.

A VIST shareholder will not recognize gain or loss as a result of such shareholder's shares of VIST common stock being exchanged in the merger solely for shares of Tompkins common stock, except as described below with respect to the receipt of cash in lieu of a fractional share of Tompkins common stock. A VIST shareholder's aggregate tax basis in shares of Tompkins common stock received in the merger, including any fractional share deemed received and exchanged as described below, will equal the aggregate tax basis of the shareholder's VIST common shares surrendered in the merger. The holding period of the Tompkins common stock will include the holding period of the shares of VIST common stock surrendered in the merger.

Cash received by a VIST shareholder in lieu of a fractional share of Tompkins common stock generally will be treated as received in redemption of the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the shares of VIST common stock surrendered that is allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of VIST common stock is more than one year at the time of the merger. The deductibility of capital losses is subject to limitations.

**The foregoing discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the merger. In addition, the discussion does not address tax consequences that may vary with, or are contingent on, a VIST shareholder's individual circumstances. Moreover, the discussion does not address any non-income tax or any state, local or foreign tax consequences of the merger. Tax matters are very complicated and the tax consequences of the transaction to a VIST shareholder will depend upon the facts of his or her situation. Accordingly, VIST shareholders are strongly encouraged to consult with their tax advisors to determine the particular United States federal, state, local and foreign income and other tax consequences to them of the merger.**

**Employee Benefit Plans**

*Employee Benefit Plans.* Tompkins may maintain, terminate or continue any or all of VIST's benefit plans. Tompkins will generally provide VIST employees with compensation and benefits that are, in the aggregate, substantially similar to the compensation and benefits provided to similarly situated employees of Tompkins. VIST employees who become participants in any Tompkins benefit plan will, except as otherwise described below, be given credit for service as an employee of VIST for purposes of determining eligibility and for any applicable vesting periods of such employee benefits.

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However, credit for prior service shall not be given for any purpose under the Tompkins Defined Contribution Retirement Plan, the Tompkins Employee Stock Ownership Plan, and the profit-sharing component of the Tompkins Investment & Stock Ownership Plan. Service credit for benefit accrual purposes will be given only for purposes of Tompkins vacation policies or programs and for purposes of the calculation of severance benefits under any severance compensation plan of Tompkins. After the effective date of the merger, Tompkins may elect not to provide to employees of VIST and its subsidiaries any benefits that are not then provided by Tompkins or its subsidiaries to their own employees, notwithstanding that such benefits were provided to VIST employees immediately prior to the effective date of the merger.

*401(k) Plan.* Following the merger, eligible VIST employees will be able to participate in Tompkins' 401(k) plan and, at such time, Tompkins will amend VIST's 401(k) plan to freeze participation and contributions under the VIST plan. Tompkins will maintain the individual participant accounts under the VIST 401(k) plan until such time as the VIST 401(k) plan is merged with and into the applicable Tompkins 401(k) plan in accordance with the requirements of Internal Revenue Code Section 414(1).

*Employee Stock Purchase Plan.* Pursuant to the terms of the merger agreement, since the date of the merger agreement no participant in VIST's Employee Stock Purchase Plan ("ESPP") has been permitted to increase the rate of payroll deductions to the ESPP. Additionally, upon the closing of the merger, the ESPP will be terminated.

*Dividend Reinvestment Plan.* VIST has suspended the acceptance of dividends and other contributions of participants in its Dividend Reinvestment and Stock Purchase Plan ("DRIP"). In addition, prior to the effective time of the merger, VIST will terminate its DRIP and distribute all shares of VIST common stock and the value of all cash held in a participant's account in accordance with the terms of the DRIP.

*Employment Agreements, Incentive Plans and Deferred Compensation Agreements.* Tompkins has agreed to honor the terms of all employment, consulting and change in control agreements, including provisions relating to incentive payments, which were disclosed to Tompkins prior to the execution of the merger agreement. Pursuant to the terms of the merger agreement, any bonus or incentive plan adopted, continued or implemented by VIST for services performed on or after January 1, 2012 will be administered on terms mutually agreeable to VIST and Tompkins. Tompkins has agreed that, pending closing of the merger, VIST may continue to administer the incentive programs which were disclosed in the merger agreement, with appropriate adjustments to take into account the circumstances of the merger. However, the aggregate amount of payments and grants under VIST bonus and incentive payments cannot exceed an agreed-upon amount, and must be allocated reasonably among VIST employees in accordance with past practice. Tompkins is also entitled to prior notice of such incentive payments or equity grants.

*Retention Bonuses.* Pursuant to the terms of the merger agreement, Tompkins and VIST have agreed to pay out certain retention bonuses to selected employees of VIST and its subsidiaries who remain employed through certain dates following the effective time of the merger. Prior to closing, Tompkins and VIST will mutually determine the date through which each employee must remain employed to be eligible for a retention bonus. The aggregate amount of such retention bonuses will not exceed \$250,000.

*Treatment of VIST Stock Options.* The merger agreement distinguishes between "Surviving Options," and all other options, which will be cashed out as described below. The Surviving Options include all outstanding VIST stock options, whether or not vested or exercisable, except for (i) options held by employees who in the aggregate hold less than 1,000 options, (ii) options which have an exercise price of \$12.50 or more, and (iii) options held by VIST directors. Each Surviving Option that

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remains outstanding under a VIST option plan as of the effective time of the merger will be assumed by Tompkins and will continue to have, and be subject to, the same terms and conditions of such VIST option immediately prior to the effective date of the merger, except that (1) each VIST option will be exercisable (or will become exercisable in accordance with its terms) for that number of shares of Tompkins common stock equal to the product of the number of shares of VIST common stock that were issuable upon exercise of such VIST option immediately prior to the effective date of the merger multiplied by the Exchange Ratio, rounded down to the nearest whole number of shares of Tompkins common stock, and (2) the per share exercise price for the shares of Tompkins common stock issuable upon the exercise of such assumed VIST option will be equal to the quotient determined by dividing the exercise price per share of VIST common stock at which such VIST option was exercisable immediately prior to the effective date of the merger by the Exchange Ratio, rounded up to the nearest whole cent. Holders of VIST options, other than Surviving Options, will be paid cash reflecting the difference between the merger consideration and the option exercise price.

**Interests of Certain Persons in the Merger**

In considering the recommendation of the board of directors of VIST that you vote to approve and adopt the merger agreement, VIST shareholders should be aware that VIST directors and executive officers have financial interests in the merger that may be different from, or in addition to, those of VIST shareholders generally. The VIST board of directors was aware of and considered these potential interests, among other matters, in its decision to approve the merger agreement.

As described in more detail below, these interests include certain payments and benefits that may be provided to VIST's executive officers upon completion of the merger, including accelerated vesting of stock options and restricted stock awards, enhanced cash severance and continued health and welfare benefits. For the non-employee directors, these interests include the accelerated vesting of stock options and restricted stock awards.

The dates and share prices used below to quantify these interests have been selected for illustrative purposes only. They do not necessarily reflect the dates on which certain events will occur and do not represent a projection about the future value of VIST common stock.

*Share Ownership.* As of [ ], 2012, VIST's executive officers and directors and their affiliates held, or had the right to acquire within 60 days, [ ], representing 16.85% of outstanding shares, of VIST common stock and [ ] shares of Tompkins common stock.

*Treatment of VIST Equity Awards.* VIST's executive officers and directors participate in VIST's equity-based compensation plans and hold VIST stock options and restricted stock awards granted in accordance with the terms of such plans.

Subject to continued service by the executives and directors, outstanding unvested VIST stock options held by such individuals vest at the rate of 33<sup>1</sup>/<sub>3</sub>% per year beginning on the one year anniversary of the date of grant. Under the terms of VIST's equity-based compensation plan and award agreements, all Surviving Options that have not yet vested will immediately vest in full upon the affirmative vote of shareholders adopting the merger agreement. At the effective time of the merger, the Surviving Options that are not previously exercised shall be converted automatically into Tompkins stock options, which, subject to the terms of the applicable plan, shall remain exercisable for the remainder of the original ten-year term of the VIST stock option. All of the stock options held by VIST's executive officers are considered Surviving Options, and they will not be cashed-out in connection with the merger. As of [ ], 2012, the VIST record date, and, assuming that the special meeting occurs on [ ], 2012, the date of the VIST special meeting, VIST's executive officers and directors (as a group) will hold unvested options to acquire an aggregate of [ ] shares of VIST common stock on each of those dates.

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Subject to continued service by the executives and directors, VIST restricted stock awards held by executives vest at the rate of 33% per year beginning on the one year anniversary of the date of grant and restricted stock awards held by non-employee directors vest in full on the one year anniversary of the date of grant. Under the terms of the merger agreement and the respective equity-based compensation plan and award agreements, all unvested restricted stock awards will vest in full upon the affirmative vote of shareholders adopting the merger agreement. As of [ ], 2012, the record date for VIST's special meeting, and, assuming that the special meeting occurs on [ ], the date of the VIST special meeting, VIST's executive officers and directors (as a group) will hold [ ] shares of unvested restricted stock awards that will automatically vest upon the affirmative vote of VIST shareholders adopting the merger agreement.

The following table summarizes the number of unvested VIST stock options and restricted stock awards held by the executive officers and directors of VIST as of [ ], 2012, the VIST record date. For an estimation of the total value to be received by VIST executive officers as a result of the accelerated vesting of outstanding stock options and restricted stock awards in connection with the merger, please see "*Compensation to Executive Officers of VIST in Connection with the Merger*" below.

Executive Officer/Director	Number of Unvested Stock Options(1)	Number of Unvested Restricted Stock Awards
James H. Burton		
Patrick J. Callahan		
Robert D. Carl, III		
Robert D. Davis		
Charles J. Hopkins		
Philip E. Hughes, Jr.		
Andrew J. Kuzneski, III		
M. Domer Leibensperger		
Frank C. Milewski		
Michael J. O'Donoghue		
Harry J. O'Neill, III		
Karen A. Rightmire		
Alfred J. Weber		
Edward C. Barrett		
Louis J. DeCesare, Jr.		
Jenette L. Eck		
Marc Levensgood		
Michael C. Herr		
Christina S. McDonald		
Neena M. Miller		
All executive officers as a group (8 persons)		
All non-executive officer directors as a group (12 persons)		

(1) The weighted average exercise price of the unvested VIST stock options held by executive officers and non-executive officer directors is \$[ ] and \$[ ], respectively.

For a more detailed explanation of the treatment of VIST stock options, please see "*The Merger Treatment of VIST Stock Options*" on page [ ].

*Indemnification and Insurance.* Tompkins and VIST have agreed in the merger agreement that, from and after the effective time of the merger, and subject to limitations set forth therein, Tompkins will indemnify and hold harmless each present and former director and officer of VIST or any of its



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subsidiaries against any losses, claims, damages, liabilities, costs, expenses, judgments, fines and amounts paid in settlement in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, pertaining or relating to the merger agreement or such person's position as a former director or officer of VIST, to the extent permitted by law. Tompkins has also agreed in the merger agreement that, for a period of six years after the effective time of the merger, and subject to the limits described in the merger agreement, it will cause the former directors and officers of VIST to be covered by the directors' and officers' insurance policy maintained by VIST or by a policy of at least the same coverage and containing terms no less advantageous to its beneficiaries than VIST's policy.

*Tompkins Board of Directors.* Tompkins has agreed in the merger agreement that two (2) current members of VIST's board of directors will be appointed to serve on the board of directors of Tompkins upon consummation of the merger. Such directors will be mutually identified by Tompkins and VIST, and they must meet the minimum qualifications required for service on the Tompkins board of directors. In addition, two (2) members of the current VIST board of directors which persons may or may not be those selected to fill the vacancies described above will be nominated for election at the first annual meeting of Tompkins following the merger, and such nominees must also meet the minimum qualifications required for service on the Tompkins board of directors. Finally, Tompkins has agreed, following the merger, to initially nominate and elect to the board of directors of VIST Bank at least five (5) persons selected from the current board of directors of VIST; and such persons must meet the minimum qualifications required for service on the Tompkins board of directors.

*Existing Employment and Change in Control Agreements.* All of VIST's executive officers have agreements which provide them with rights to payment and other compensation upon a change in control of VIST, which includes the merger. The paragraphs below describe the potential payments to which VIST's executive officers could be entitled following the merger:

Robert D. Davis' existing employment agreement contains a severance provision applicable to a change in control. Generally, if Mr. Davis' employment is terminated involuntarily other than for cause or disability or if Mr. Davis voluntarily terminates his employment, for any reason, and at any time following VIST's change in control, Mr. Davis will be entitled to a cash payment equal to two times his highest annualized base salary paid or payable to him at any time during the three years preceding such termination. In addition, following VIST's change in control, for a period of 24 months following termination, Mr. Davis is entitled to continue participating in VIST's health and other welfare benefit plans; provided, however, that if Mr. Davis is not permitted to participate in any of such plans in accordance with the administrative provisions of those plans and applicable federal and state law, VIST must pay or cause to be paid to Mr. Davis in cash an amount equal to the after-tax cost to him to obtain substantially similar benefits.

In the event that the amounts and benefits payable under the agreement are such that Mr. Davis becomes subject to the excise tax provisions of Section 4999 of the Internal Revenue Code, VIST will pay Mr. Davis such additional amount or amounts as will result in his retention (after the payment of all federal, state, and local excise, employment, and income taxes on such payments and the value of such benefits) of a net amount equal to the net amount Mr. Davis would have retained had the initially calculated payments and benefits been subject only to income and employment taxation.

Michael C. Herr's existing employment agreement contains a severance provision applicable to a change in control. If, prior to December 31, 2014, Mr. Herr's employment is terminated involuntarily other than for cause or disability, or if Mr. Herr voluntarily terminates his employment for certain events of good reason in each case at any time following VIST's change in control, Mr. Herr is entitled to receive a cash payment equal to two times his then annual base salary. However, if such termination is on account of a change in control which was approved in advance by at least two-thirds of VIST's directors then in office, in lieu of the foregoing, Mr. Herr is entitled to receive an amount equal to the

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sum of his current base salary and the average of the amounts paid to him (or otherwise accrued) annually during the employment term as bonuses.

In the event any payment to Mr. Herr under the agreement would trigger a reduction in tax deductions under Internal Revenue Code Section 280G, the amount of such payment shall be reduced to the maximum amount that can be paid without triggering the reduction in tax deductions.

For purposes of Mr. Herr's employment agreement, the term "good reason" means any of the following events occurring after a change in control:

any reduction in responsibilities or authority;

the assignment to him of duties inconsistent with those in effect as of the change in control;

any reassignment to a location greater than 50 miles from the location of Mr. Herr's office on the date of the change in control;

any reduction in salary;

any failure to continue participation in any commission compensation or bonus plans or any material reduction in the potential benefits under any of such plans;

any failure to provide benefits at least as favorable as those enjoyed by him under any retirement or pension, life insurance, medical, health and accident, disability or other employee plans, or any material reduction in any of such benefits;

any requirement that Mr. Herr travel in performance of his duties for a significantly greater period of time than was required prior to a change in control; or

any sustained pattern of interruption or disruption of Mr. Herr for matters substantially unrelated to Mr. Herr's discharge of his duties.

Each of the existing change in control agreements with Messrs. Barrett, DeCesare and Levengood and Meses. Eck, McDonald and Miller provides the applicable officer with severance benefits in the event that VIST involuntarily terminates their employment without cause or the officer's employment terminates for certain specified events of good reason within eighteen months following VIST's change in control. The agreements generally provide for a benefit in each case equal to:

the officer's highest annualized base salary in the year of termination of employment or over the two prior years; and

the highest cash bonus paid to the officer in the year of termination of employment or over the prior two years.

Payments are made over a 12 month period or 24 month period commencing on the month following termination of employment. The officer is also entitled to a continuation of health and medical benefits for a one-year period. In the event any payment to the officer under the agreement would trigger a reduction in tax deductions under Internal Revenue Code Section 280G, the amount of such payment will be reduced to the maximum amount that can be paid without triggering the reduction in tax deductions.

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For purposes of the change in control agreements, the term "good reason" means any of the following events occurring after a change in control:

any material reduction in responsibilities or duties;

any reassignment to a location greater than 35 miles from the location of the officer's primary office on the date of the change in control;

any material reduction in salary;

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any failure to provide benefits at least as favorable as those enjoyed by the officer under any retirement or pension, life insurance, medical, health and accident, disability or other employee plans, or any material reduction in any of such benefits;  
or

any material breach of the agreements by VIST, coupled with a failure to cure.

*New Employment Agreements.* Tompkins' obligation to complete the merger is conditioned upon the execution and delivery of employment agreements by certain of VIST's key employees, on terms and conditions satisfactory to Tompkins. These employment agreements are currently being negotiated between Tompkins and these employees, and the agreements will contain customary confidentiality, non-solicitation and non-competition covenants. It is also expected that most of these agreements will provide for annual retention incentives, or "stay bonuses," of \$20,000 for each year of completed service following the merger, for a total of two (2) years, resulting in an aggregate potential retention bonus of \$40,000 for each of these VIST executives.

*Compensation Payable to Executive Officers of VIST in Connection with the Merger*

Each of VIST's executive officers is eligible to receive compensation that is based on or otherwise relates to the merger with Tompkins (the "Golden Parachute Compensation"), which is summarized in the table below. While the table below includes the Golden Parachute Compensation to be paid to all of VIST's executive officers, only the Golden Parachute Compensation payable to VIST's named executive officers is subject to an advisory (non-binding) vote of the VIST shareholders, as more fully described in the section entitled "*Proposal No. 2 Advisory (Non-binding) Vote on Certain Merger-Related Compensation for VIST Named Executive Officers*" beginning on page [ ]. VIST's named executive officers are Edward Barrett, Robert Davis, Louis J. DeCesare, Jr., Michael Herr and Neena Miller.

Louis J. DeCesare, Jr., Michael Herr, Christina McDonald, Neena Miller and James Turner will be entitled to receive compensation under their new employment agreements with Tompkins, described above under "*New Employment Agreements*," in lieu of compensation they would otherwise receive under their existing employment agreements or arrangements with VIST, and Jenette L. Eck and Marc Levengood will be entitled to receive compensation under their existing agreements with VIST, described above under "*Existing Employment and Change in Control Agreements*." Edward Barrett will be entitled to receive compensation under his existing Change in Control Agreement, and he will not be entering into a new employment agreement with Tompkins. Robert Davis and Tompkins are currently negotiating an amendment to Mr. Davis' current agreement with VIST, which amendment addresses the timing and calculation of payments to which Mr. Davis is currently entitled under his existing employment agreement with VIST; except for this amendment, there will be no new employment agreement between Tompkins and Mr. Davis.

In addition to the amounts payable under their employment agreements, each of the executive officers will be entitled to accelerated vesting of outstanding VIST stock options and restricted stock awards upon the affirmative vote of shareholders adopting the merger agreement.

Assuming that the merger is completed and the employment of each of the executive officers is terminated on June 30, 2012, the following table sets forth the estimated potential severance benefits to VIST's executive officers on termination of employment in connection with a change in control. The amounts reported below are estimates based on multiple assumptions that may or may not actually occur, including assumptions described in this joint proxy statement/prospectus, and do not reflect certain compensation actions which may occur before completion of the merger or the value of benefits that the executive officers are vested in without regard to the occurrence of a change in control. As a result, the actual amounts, if any, to be received by an executive officer may materially differ from the amounts set forth below.

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**Golden Parachute Compensation**

Name	Cash \$(1)	Equity \$(2)	Pension/ NQDC (\$)	Perquisites/ Benefits \$(3)	Tax Reimbursements (\$)	Other (\$)	Total (\$)
Robert D. Davis	\$ (4)	\$		\$			\$
Edward C. Barrett	\$ (5)	\$	\$	\$			\$
Louis J. DeCesare, Jr.	\$ (6)	\$		\$			\$
Jenette L. Eck	\$ (7)	\$		\$			\$
Marc Levengood	\$ (8)			\$			\$
Michael C. Herr	\$ (9)	\$		\$			\$
Christina S. McDonald	\$ (10)	\$		\$			\$
Neena M. Miller	\$ (11)	\$		\$			\$

(1) Reflects the total amount of cash severance which would be owed to each individual if he was terminated under circumstances that qualify as a "separation from service" under United States Department of the Treasury Regulation 1-409A-1(h), for reasons other than cause, or, except with respect to Mr. Davis, the executive officer resigns with good reason within 18 months following the closing of the merger (double trigger severance payments).

(2) These amounts represent equity vesting upon the affirmative vote of VIST shareholders approving the merger agreement as follows:

Name	Aggregate Value of "in-the-Money" Stock Options that will Vest (\$)	Aggregate Value of Shares of Restricted Stock that will Vest (\$)	Total (\$)
Robert D. Davis	\$	\$	\$
Edward C. Barrett	\$	\$	\$
Louis J. DeCesare, Jr.	\$	\$	\$
Jenette L. Eck	\$	\$	\$
Marc Levengood	\$	\$	\$
Michael C. Herr	\$	\$	\$
Christina S. McDonald	\$	\$	\$
Neena M. Miller	\$	\$	\$

(3) Represents the present value of the continuation of medical benefits for the severance period.

(4) Represents a lump sum cash payment equal to two times Mr. Davis's annual base salary of \$[            ].

(5) Represents the present value of one times Mr. Barrett's annual base salary of \$[            ] payable in 12 monthly installments.

(6) Represents the present value of one times Mr. DeCesare's annual base salary of \$[            ] payable in 12 monthly installments.

(7) Represents the present value of one times Ms. Eck's annual base salary of \$[            ] payable in 12 monthly installments.

(8) Represents the present value of one-half times Mr. Levengood's annual base salary of \$[            ] payable in 6 monthly installments.

(9)

Represents a lump sum cash payment equal to one times Mr. Herr's annual base salary of \$[        ].

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- (10) Represents the present value of one times Ms. McDonald's annual base salary of \$[ ] payable in 12 monthly installments.
- (11) Represents the present value of one times Ms. Miller's annual base salary of \$[ ] plus highest bonus over prior 3 years of \$[ ] payable in 12 monthly installments.

**Fractional Shares**

Tompkins will not issue fractional shares in the merger. Instead, fractional shares of Tompkins common stock resulting from the application of the Exchange Ratio to a VIST shareholder's holdings of VIST common stock will be converted into the right to receive a cash payment for such fractional share. The cash payment will equal an amount, rounded to the nearest cent and without interest, equal to the product of (i) the fraction of a share to which such holder would otherwise have been entitled and (ii) the average of the daily closing sales prices of a share of Tompkins common stock as reported on NYSE-Amex for the five consecutive trading days immediately preceding the Closing Date.

**Effective Time**

We anticipate that the merger will be completed during the third quarter of 2012. However, completion of the merger could be delayed if there is a delay in satisfying any conditions to the merger. There can be no assurances as to whether, or when, Tompkins and VIST will complete the merger. If the merger is not completed on or before December 31, 2012, either Tompkins or VIST may terminate the merger agreement, unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to perform its covenants in the merger agreement. Please see " *Conditions to the Completion of the Merger*" and " *Regulatory Approvals Required for the Merger*" for more information.

**Conditions to the Completion of the Merger**

Completion of the merger is subject to various conditions. While it is anticipated that all of the applicable conditions will be satisfied, there can be no assurance as to whether or when all of those conditions will be satisfied or, where permissible, waived. These conditions include:

the approval and adoption of the merger agreement by the affirmative vote of the holders of seventy percent (70%) of the outstanding shares of VIST common stock entitled to vote thereon;

the approval of the issuance of the shares of Tompkins common stock in the merger by the affirmative vote of the holders of a majority of the votes cast, in person or by proxy, at the Tompkins annual meeting;

the purchase or redemption of all VIST Series A Preferred Stock, and the warrant to purchase shares of VIST common stock, from the U.S. Treasury, with the result that any and all restrictions, limitations or conditions associated with VIST's participation in TARP will have terminated and no longer be of any force and effect;

the absence of any injunction that enjoins or prohibits the consummation of the merger, and the absence of any statute, rule or regulation which enjoins or prohibits the consummation of the merger;

the receipt of all required regulatory approvals, including the expiration of all waiting periods relating to such approvals, without the imposition of any condition or requirement that Tompkins' board of directors reasonably determines would materially and adversely affect the combined enterprise or materially impair the value of VIST (including its subsidiaries) to Tompkins;





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the effectiveness of the registration statement, together with all amendments, filed with the SEC under the Securities Act for the purpose of registering shares of Tompkins common stock to be offered to holders of VIST common stock in connection with the merger, and the absence of any stop order suspending the effectiveness of the registration statement, and the absence of any proceedings for that purpose having been initiated or threatened by the SEC;

the approval for listing on NYSE-Amex of the Tompkins common stock to be issued in the merger; and

receipt by Tompkins and VIST of an opinion of their respective legal counsel to the effect that, for federal income tax purposes, the merger will constitute a reorganization or be treated as part of a reorganization, within the meaning of Section 368(a) of the Internal Revenue Code.

Tompkins' obligation to complete the merger is also separately subject to the satisfaction or waiver of the following conditions, among others:

the execution and delivery of employment agreements by certain of VIST's key employees, on terms and conditions satisfactory to Tompkins, as described above under " *New Employment Agreement*" on page [ ];

the approval, on terms and conditions satisfactory to Tompkins, by the FDIC, of the assignment by merger of a certain Shared-Loss Agreement, dated November 19, 2010, by and among the FDIC as Receiver for Allegiance Bank of North America, and VIST and VIST Bank;

all trustees of the statutory trusts relating to trust preferred securities issued by VIST shall have consented to the succession of Tompkins to all of the indentures related to the debentures issued by VIST in connection with such trust-preferred securities;

the VIST common stock shall have its listing deregistered with Nasdaq;

the execution and delivery of resignations from each of the directors of VIST's subsidiaries;

VIST's representations and warranties in the merger agreement being true and correct, subject to the materiality standards contained in the merger agreement, and the performance by VIST, in all material respects, of all of its obligations under the merger agreement; and,

the receipt by VIST of any and all material permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the merger.

VIST's obligation to complete the merger is also separately subject to the satisfaction or waiver of the following conditions, among others:

Tompkins' representations and warranties in the merger agreement being true and correct, subject to the materiality standards contained in the merger agreement, and the performance by Tompkins, in all material respects, of all of its obligations under the merger agreement;

the receipt by Tompkins of any and all material permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the merger; and

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evidence that Tompkins has delivered to the exchange agent certificates representing the shares of Tompkins common stock, plus an aggregate amount of cash sufficient to cover fractional shares, to be issued to VIST common shareholders.

We cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party.

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**Representations and Warranties**

Each of VIST and Tompkins has made representations and warranties to the other in the merger agreement. VIST's representations and warranties to Tompkins include:

corporate existence, good standing and qualification to conduct business;

due authorization, execution, delivery and enforceability of the merger agreement;

capital structure;

governmental and third-party consents necessary to complete the merger;

financial statements;

taxes;

absence of material adverse effect;

material contracts and the absence of defaults;

employees and employee benefit matters;

ownership of property and insurance coverage;

absence of legal proceedings and regulatory actions;

compliance with laws;

fees payable to financial advisors in connection with the merger;

environmental matters;

loan portfolio, deposits and trust accounts;

SEC filings;

anti-takeover provisions and required vote;

registration obligations;

risk management instruments;

receipt of a fairness opinion from its financial advisor;

intellectual property; and,

labor matters.

Tompkins' representations and warranties to VIST include:

corporate existence, good standing and qualification to conduct business;

due authorization, execution, delivery and enforceability of the merger agreement;

capital structure;

governmental and third-party consents necessary to complete the merger;

financial statements;

taxes;

absence of material adverse effect;

absence of legal proceedings and regulatory actions;

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compliance with laws;

fees payable to financial advisors in connection with the merger;

SEC filings and required vote; and,

valid issuance of Tompkins common stock.

The term "Material Adverse Effect" as used in the merger agreement means, with respect to Tompkins or VIST, respectively, any effect that (i) is material and adverse to the financial condition, results of operations or business of such party and its subsidiaries, taken as a whole, or (ii) does or would materially impair the ability of such party to perform its obligations under the merger agreement or otherwise materially threaten or materially impede the consummation of the transactions contemplated by the merger agreement. In determining whether a material adverse effect has occurred or is likely, the parties will disregard any effects resulting from any of the following : (a) changes in laws and regulations (including interpretations) affecting banks or their holding companies generally, (b) changes in accounting rules which are generally applicable to financial institutions and their holding companies, (c) actions and omissions of a party which are taken with the prior written consent of the other party, (d) the announcement of the proposed merger, and compliance with the merger agreement on the business, financial condition or results of operations of the parties and their respective subsidiaries, (e) changes in national or international political or social conditions, unless it uniquely and disproportionately affects either party, (f) changes in VIST's stock price or trading volume, or any failure by VIST to meet internal or published projections, forecasts or revenue or earnings predictions for any period, or (g) changes relating to the securities markets in general.

**Conduct of Business Pending the Merger**

VIST has agreed, during the period from the date of the merger agreement to the completion of the merger (except as expressly provided in the merger agreement and except as otherwise consented to by Tompkins), to conduct its business in the ordinary course consistent with past practice. In addition, VIST has agreed that it will not, and will not permit any of its subsidiaries to, without the prior written consent of Tompkins:

amend VIST's articles of incorporation, VIST's bylaws or other similar governing documents;

undertake any capital transactions, except that VIST may pay its normal quarterly dividend on its preferred stock and its normal quarterly dividend of \$0.05 per share with respect to shares of outstanding VIST common stock, with record and payment dates consistent with past practice;

make any agreements which increase the compensation or fringe benefits of any of VIST's directors, officers or employees, except as disclosed in VIST's disclosure schedule to the merger agreement, and except for pay increases in the ordinary course of business consistent with past practice to non-officer employees;

make certain promotions, or hire any new employee at an annual rate of compensation in excess of \$50,000;

adopt or continue any incentive plan, except that VIST may continue to administer its incentive programs in accordance with past practice, with appropriate adjustments to take into account the merger and the restrictions imposed in the merger agreement, so long as (i) aggregate value of such incentive grants for the period beginning January 1, 2012 and ending on the effective date of the merger do not exceed mutually agreed amount, (ii) the grants are allocated reasonably among VIST employees and in accordance with past practices, and (iii) VIST notifies Tompkins 10 business days prior to making such grants;



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execute, amend, settle or waive any material contract, other than in the ordinary course of business;

close or open any branch or automated facility;

execute or modify any employee benefit plan, except as otherwise permitted by the merger agreement;

merge or consolidate VIST or any VIST subsidiary with any other entity, sell or lease all or any substantial portion of the assets or business of VIST or any VIST subsidiary, or make any acquisition of all or any substantial portion of another business or assets of any other business other than in connection with foreclosures;

take any action that would result in any of VIST's representations and warranties being or becoming untrue, or in any conditions to the merger not being satisfied, except as may be required by applicable law;

change its methods of accounting, except as required by GAAP or regulatory accounting principles;

purchase any equity securities, or purchase any securities other than certain highly-rated, fairly liquid debt securities;

change its underwriting and lending policies;

make any new loans in an amount in excess of (i) \$3.5 million for a commercial loan, or in excess of \$500,000 for a residential loan, (ii) \$1.5 million to any borrower whose existing debts to VIST exceed \$7.5 million, or (iii) \$100,000 to any person or property located outside of Pennsylvania;

execute or modify any transaction with an affiliate of VIST, including VIST's officers and directors;

enter into interest rate hedge contracts;

take any action that would give rise to an acceleration of the right to payment to any individual under any employment agreement or benefit plan;

make any capital expenditures in excess of \$100,000 individually or \$300,000 in the aggregate, other than for pre-existing commitments;

purchase or sell any assets or incur any liabilities other than in the ordinary course of business;

enter into any agreement involving a payment of more than \$25,000 annually, or containing any financial commitment extending beyond 24 months;

pay, discharge, settle or compromise any claim in an amount in excess of \$25,000 individually or \$50,000 in the aggregate;

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foreclose upon any commercial real estate without Tompkins' prior written consent, and without first conducting a Phase I environmental assessment of the property;

purchase or sell any mortgage loan servicing; or,

issue any broadly distributed communication of a general nature to employees or customers without prior consultation with Tompkins, except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the merger.

VIST has agreed to additional covenants which include, among other things, commitments to:

maintain insurance in reasonable amounts;



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take all actions which are necessary or advisable to complete the merger;

cause the purchase or redemption of VIST's Series A Preferred Stock (and warrants relating to such stock) from the U.S. Treasury;

facilitate the FDIC to consent to the assignment by merger of the Shared-Loss Agreement, on terms satisfactory to Tompkins;

facilitate all trustees of its statutory trusts to consent to the succession of Tompkins to all of the indentures related to the debentures issued by VIST in connection with the trust-preferred securities of such trusts;

facilitate certain key employees of VIST to enter into agreements of employment on terms and conditions satisfactory to Tompkins;

obtain as soon as practicable all consents and approvals necessary or desirable to close the merger;

prohibit additional payroll deductions or other contributions to VIST's ESPP; or,

suspend the acceptance of dividends and other contributions of participants in, and terminate, the DRIP.

Tompkins has agreed to certain covenants which include, among other things, commitments to:

provide certain financial and regulatory information relating to Tompkins to VIST upon request;

obtain as soon as practicable all consents and approvals necessary or desirable to close the merger;

take all actions which are necessary or advisable to complete the merger;

provide employees of VIST who become employees of Tompkins with compensation and benefits that are generally similar to the compensation and benefits provided to similarly situated employees of Tompkins, without limiting Tompkins' ability to terminate the employment of any employee or to change employee benefits programs from time to time;

for purposes of determining eligibility and vesting for certain Tompkins employee benefit plans (and not for benefit accrual purposes), provide credit for meeting eligibility and vesting requirements in such plans for service as an employee of VIST or any predecessor of VIST, except that credit for prior service will not be given for any purpose under the Tompkins Defined Contribution Retirement Plan, the Tompkins Employee Stock Ownership Plan, and the profit-sharing component of the Tompkins Investment & Stock Ownership Plan;

honor the terms of all employment, consulting and change in control agreements, as well as VIST's pre-existing severance policy, all as disclosed to Tompkins in the VIST disclosure schedules to the merger agreement;

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following the merger, to amend the VIST 401(k) plan to freeze participation and contributions under such plan contemporaneously with the participation of all eligible VIST employees in the applicable Tompkins 401(k) plan and, thereafter, to maintain the individual participant accounts under the VIST 401(k) plan until the VIST 401(k) plan is merged with and into the applicable Tompkins 401(k) plan;

for a period of six years after the merger, to indemnify, defend and hold harmless the officers, directors and employees of VIST against all claims which arise out of the fact that such person is or was a director, officer or employee of VIST and which relate to any matter of fact existing at or prior to the merger, to the fullest extent as would have been permitted by VIST under Pennsylvania law and under VIST's articles of incorporation and bylaws;

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maintain, for six years following the merger, VIST's current directors' and officers' liability insurance policies covering the officers and directors of VIST with respect to matters occurring at or prior to the merger, except that Tompkins may substitute similar policies, and that Tompkins is not required spend more than \$180,000 in order to obtain this insurance;

list on NYSE-Amex the shares of Tompkins common stock to be issued in the merger;

reserve a sufficient number of shares of its common stock and to maintain sufficient liquid accounts or borrowing capacity to fulfill its obligations in connection with the merger;

take such actions as may be required in connection with the purchase or redemption of the VIST Series A Preferred Stock (and the associated warrants);

create sufficient vacancies on the Tompkins board of directors to appoint two current VIST directors (to be mutually identified by Tompkins and VIST, subject to certain limitations) to the board of directors of Tompkins, and to nominate at the next Tompkins annual meeting two current VIST directors (who may or may not be those selected to fill the vacancies described above) for election to the Tompkins board of directors;

appoint to the board of directors of VIST Bank five current VIST directors (to be mutually identified by Tompkins and VIST, subject to certain limitations);

enter into retention incentive agreements with certain VIST employees; and,

for a period of two years following the merger, to continue to operate VIST Bank as a separate banking subsidiary of Tompkins.

### **Additional Agreements**

Under the merger agreement, Tompkins and VIST have also agreed:

to mail this document to their respective shareholders, and to hold a meeting for the purpose of considering the merger;

to promptly prepare and file with the SEC this document and the Registration Statement on Form S-4 of which this document is a part;

to use their reasonable best efforts to have the registration statement on Form S-4 declared effective under the Securities Act as promptly as practicable after such filing;

to cooperate with each other and use all reasonable efforts to promptly file regulatory applications and obtain required third-party approvals for the merger; and

to coordinate with the other party regarding the declaration of any dividends in respect of Tompkins common stock and VIST common stock and the record dates and payment dates relating to the same.

**No Solicitation by VIST**

VIST has agreed that it will not, and it will not permit any of its officers, directors, employees, investment bankers, financial advisors, attorneys, accountants, consultants, affiliates and other agents to, directly or indirectly:

initiate, solicit, induce or knowingly encourage any inquiries;

participate in any discussions or negotiations with, or furnish or otherwise afford access to information relating to VIST or any of its subsidiaries by, a third party;

release, waive, or fail to enforce any of its confidentiality or standstill agreements; or

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enter into any agreement or letter of intent,

in any case, relating to the following:

a merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving VIST or any of the VIST Subsidiaries; or

the acquisition of a 25% equity interest in, or 25% of the assets of, VIST or any of its subsidiaries.

In this discussion, any offer or proposal of the type described in any of the above points is referred to as an "acquisition proposal."

In addition, the VIST board of directors (including its committees) has agreed that it will not:

withdraw, qualify or modify in a manner adverse to Tompkins, its recommendation to its shareholders to approve the merger agreement, except to the extent otherwise permitted and described below;

approve or recommend any acquisition proposal; or

enter into (or cause VIST or any of the VIST Subsidiaries to enter into) any letter of intent or other agreement relating to an acquisition proposal (except to the extent otherwise permitted and described below), or requiring VIST to abandon, terminate or fail to close the merger.

The board of directors of VIST may participate in discussions with, and may furnish information to, a third party in connection with an acquisition proposal if, and only if:

VIST has received a bona fide unsolicited written acquisition proposal that did not result from a breach of the merger agreement;

the VIST Board determines in good faith, after consultation with its counsel and advisors, that the acquisition proposal is, or is reasonably likely to become, a superior proposal (as defined below);

VIST has provided Tompkins with at least one business day's prior notice of its determination that the acquisition proposal is, or is reasonably likely to become, a superior proposal.

VIST has also agreed to promptly provide to Tompkins any non-public information about VIST that it provides to the third-party, to the extent such information was not previously provided to Tompkins.

The term "superior proposal," as defined under the merger agreement, means any bona fide, unsolicited written acquisition proposal made by a person other than Tompkins, which the VIST board of directors in good faith concludes, after consultation with its financial advisors and outside counsel, taking into account, among other things, the type of consideration being offered, regulatory approvals, or other risks associated with the timing of the acquisition proposal, and all legal, financial, regulatory and other aspects of the acquisition:

is more favorable to VIST shareholders than the merger with Tompkins, and for which there is no financing contingency;  
and

is reasonably likely to be completed on the terms proposed.

In addition, prior to furnishing any information about VIST relating to an acquisition proposal, VIST must receive a confidentiality agreement with terms no less favorable to VIST than those contained in its confidentiality agreement with Tompkins, and must advise Tompkins of the requests for such information and the terms and conditions relating to that other party's superior proposal within 24 hours of providing such information or engaging in discussions or negotiations with the third party.

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VIST may accept a superior proposal, or withdraw or modify in a manner adverse to Tompkins its recommendation to its shareholders to approve the merger agreement, if and only if:

the failure to do so would be reasonably likely to be inconsistent with the board of director's fiduciary duties to VIST's shareholders under applicable law; and,

it has provided notice to Tompkins of its intention to accept a superior proposal, and Tompkins has had the opportunity modify its offer in connection with the merger; and,

after taking into account such modified offer from Tompkins (if any), the VIST Board has again in good faith determined that the third-party acquisition proposal constitutes a superior proposal.

Additionally, Tompkins and VIST acknowledged that, while VIST and the VIST Board must comply with the requirements of Rules 14d-9 and 14e-2(a) under the Exchange Act, and other disclosure requirements under applicable law or the rules and regulations of Nasdaq, any such disclosure will be considered an adverse change in the VIST board's recommendation to VIST shareholders unless the VIST Board reaffirms its recommendation for the merger in the required disclosure.

**Termination of the Merger Agreement**

The merger agreement contains customary termination provisions for a transaction of this type that may apply even if VIST's and Tompkins' shareholders approve the merger. Tompkins and VIST can agree by mutual consent to terminate the merger agreement, if the board of directors of each determines to do so.

In addition, either Tompkins or VIST may terminate the merger agreement if:

the merger is not completed by December 31, 2012;

the merger is not approved by both the Tompkins and VIST shareholders; or

either party receives an unappealable order from a banking regulator which fails to approve the merger, or if any court or other governmental authority has issued an unappealable order which prohibits the merger.

Either Tompkins or VIST may terminate the merger agreement, provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement, if:

the non-terminating party has materially breached any of its representations or warranties, which breach by its nature cannot be cured prior to December 31, 2012 or which has not been cured within 30 days after notice of the breach is provided, but neither party may terminate the merger agreement under this section unless the breach of representation or warranty, together with all other such breaches, is reasonably expected to have a material adverse effect; or

either party has failed to perform or comply with any of the covenants or agreements described in the merger agreement, which failure by its nature cannot be cured prior to December 31, 2012 or which has not been cured within 30 days, but neither party may terminate the merger agreement under this section unless the breach of covenant or agreement, together with all other such breaches, is reasonably expected to have a material adverse effect.

VIST may terminate the merger agreement, without the consent of Tompkins, if:

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VIST has received a superior proposal and the board of directors of VIST has made a determination to accept such superior proposal; or



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The average closing price of Tompkins' common stock is less than \$32.00 (as adjusted for certain capital transactions), for the 10 consecutive trading days ending on the date on which certain closing conditions to the merger have been satisfied or waived by the party entitled to enforce such condition.

Tompkins may terminate the merger agreement, without the consent of VIST, if:

VIST has received a superior proposal and has entered into an acquisition agreement with respect to that superior proposal, or terminated the merger agreement, or if VIST has withdrawn, modified, or qualified, in a manner adverse to Tompkins, its recommendation, or fails to make a recommendation, to its shareholders in order to accept a superior proposal; and

if the aggregate amount of VIST past-due loans and non-performing assets exceeds \$65,000,000 as of any month end prior to the closing date of the merger.

*Price-based Termination.* According to the terms of the merger agreement, VIST has the right to terminate the merger if the average closing price of Tompkins' common stock is less than \$32.00 (as adjusted for certain capital transactions), for the 10 consecutive trading days ending on the date on which certain closing conditions to the merger have been satisfied or waived by the party entitled to enforce such condition. In order to exercise this termination right, VIST would have to give prompt written notice to Tompkins at any time during the three-day period prior to the day that the merger would otherwise become effective.

It is not possible to know whether the price-based termination right will be triggered until after all of the closing conditions have been satisfied or waived. VIST's board of directors has made no decision as to whether it would exercise its right to terminate the merger agreement if the termination right were triggered. In considering whether to exercise its termination right, the VIST board of directors would, consistent with its fiduciary duties, take into account all relevant facts and circumstances that exist at that time and would consult with its financial advisors and legal counsel. If VIST's shareholders approve the merger agreement at VIST's Annual Meeting and afterward the price-based termination right is triggered, the VIST board of directors will have the authority, consistent with its fiduciary duties, to elect either to complete the merger, without any further action by or re-solicitation of the shareholders of VIST, or to terminate the merger agreement.

*Termination Fee.* VIST must pay Tompkins a termination fee of \$3.3 million if:

Tompkins has terminated the merger agreement because VIST has received a superior proposal, and VIST's board of directors has authorized VIST to enter into an acquisition agreement with respect to the superior proposal, terminated the merger agreement, or withdrawn its recommendation of the merger, or fails to make such recommendation or modifies or qualifies its recommendation in a manner adverse to Tompkins;

VIST has terminated the merger agreement in order to accept a superior proposal; or

an alternate acquisition proposal is announced prior to the VIST special meeting, and the VIST shareholders do not approve the merger, and VIST ultimately signs or completes an alternate acquisition proposal.

VIST must pay Tompkins a cost and expense reimbursement fee of \$1.5 million if VIST's shareholders do not approve the merger. If Tompkins terminates the merger agreement because the aggregate amount of VIST past-due loans and non-performing assets exceeds \$65,000,000 as of any month end prior to the Closing Date, VIST must reimburse Tompkins for its actual expenditures related to the merger, not to exceed \$1,000,000. If either Tompkins or VIST terminates the merger agreement because of the non-terminating party's breach of representations or warranties, or a failure

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to perform covenants or obligations, the non-terminating party must provide reimbursement to the terminating party for actual expenditures related to the merger, not to exceed \$1,000,000.

VIST agreed to this termination fee arrangement in order to induce Tompkins to enter into the merger agreement. This arrangement could have the effect of discouraging other companies from trying to acquire VIST.

*Effect of Termination.* If the merger agreement is terminated, it will become void and there will be no liability on the part of Tompkins or VIST or their respective officers or directors, except that:

any termination will be without prejudice to the rights of any party arising out of the willful breach by the other party of any provision of the merger agreement;

certain provisions of the merger agreement relating to the payment of fees and expenses and the confidential treatment of information will survive the termination; and

except as otherwise provided by the merger agreement, Tompkins and VIST each will bear its own expenses in connection with the merger agreement and the transactions contemplated by the merger agreement.

**Extension, Waiver and Amendment of the Merger Agreement**

*Extension and Waiver.* At any time prior to the completion of the merger, each of Tompkins and VIST may, to the extent legally allowed:

extend the time for the performance of the obligations under the merger agreement;

waive any inaccuracies in the other party's representations and warranties contained in the merger agreement; and

waive the other party's compliance with any of its agreements contained in the merger agreement, or waive compliance with any conditions to its obligations to complete the merger.

*Amendment.* Subject to compliance with applicable law, Tompkins and VIST may amend the merger agreement at any time before or after the adoption of the merger agreement by VIST shareholders. However, after adoption of the merger agreement by VIST shareholders, there may not be, without their further approval, any amendment of the merger agreement which reduces the amount, or value, or changes the form of consideration to be delivered to VIST's shareholders.

**Regulatory Approvals Required for the Merger**

Completion of the merger is subject to the prior receipt of all consents or approvals of, and the provision of, all notices to federal and state authorities required to complete the merger of Tompkins and VIST.

Tompkins and VIST have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the merger. These approvals include approval from the Federal Reserve and the Pennsylvania Department of Banking. The merger cannot proceed in the absence of these required regulatory approvals.

Tompkins and VIST are not aware of any material governmental approvals or actions that are required prior to the parties' completion of the merger other than those described below and compliance with the applicable corporation laws of New York and Pennsylvania. If any additional governmental approvals or actions are required, the parties presently intend to seek those approvals or actions.



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*Federal Reserve.* VIST is a financial holding company, and VIST Bank is a Pennsylvania state-chartered bank. VIST Bank owns several non-banking subsidiaries that are engaged in activities previously determined by the Federal Reserve to be closely related to banking and therefore permissible activities. The acquisition by Tompkins of VIST Bank by merging with its holding company requires the prior approval of the Federal Reserve under the Bank Holding Company Act (the "BHC Act"), and Tompkins will also request the Federal Reserve's approval to acquire indirectly the other non-banking subsidiaries of VIST Bank.

The BHC Act requires the Federal Reserve to determine that the proposed acquisition can reasonably be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. As part of its evaluation under these public interest factors, the Federal Reserve reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, the extent to which the proposed acquisition would result in a greater or more concentrated risk to the U.S. banking or financial system, and the public benefits of the proposal. In acting on a notice to acquire a bank, the Federal Reserve also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act. Applicable regulations require publication of a notice of the BHC Act proposal, affording interested persons an opportunity to submit comments and to request a hearing. Any transaction approved by the Federal Reserve generally may not be completed until 30 days after such approval, during which time the U.S. Department of Justice may challenge such transaction on antitrust grounds and seek divestiture of certain assets and liabilities. With the approval of the Federal Reserve and the U.S. Department of Justice, the waiting period may be reduced to 15 days.

*State Approval and Notices.* The merger is subject to the prior approval of the Pennsylvania Department of Banking under Section 115 of the Pennsylvania Banking Code. In determining whether to approve the merger, the Pennsylvania Department of Banking will consider, among other things, whether the purposes and probable effects of the merger would be consistent with the purposes of the Pennsylvania Banking Code, as set forth in Section 103 thereof, and whether the merger would be prejudicial to the interests of the depositors, creditors, beneficiaries of fiduciary accounts or shareholders of the institutions involved. In determining whether to approve the merger, the Pennsylvania Department of Banking will consider, among other things, whether the merger would be consistent with adequate and sound banking and in the public interest.

There can be no assurance that all requisite approvals will be obtained or that such approvals will be received on a timely basis.

**NYSE-Amex Listing**

Tompkins common stock is listed on the NYSE-Amex. Tompkins has agreed to use its reasonable best efforts to cause the shares of Tompkins common stock to be issued in the merger to be listed with the NYSE-Amex. It is a condition of the merger that those shares be listed with the NYSE-Amex.

**Alternative Structure**

The merger agreement provides that Tompkins may, with the consent of VIST, modify the structure of the merger, provided that, as a result of such modification (1) the merger consideration to be paid to VIST shareholders is not changed in kind or reduced in amount, (2) there are no adverse tax consequences to VIST shareholders, and (3) the receipt of any required regulatory approvals will not be jeopardized or materially delayed and the consummation of the merger will not otherwise be impeded or materially delayed.

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**Dissenters' Rights**

Dissenters' rights are statutory rights that enable shareholders who object to extraordinary transactions, such as mergers, to demand that the corporation pay such shareholders the fair value of their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction. Dissenters' rights are not available in all circumstances and exceptions to those rights are set forth in the New York Business Corporation Law ("NYBCL") and the Pennsylvania Business Corporation Law ("PBCL").

Neither Tompkins nor VIST shareholders are entitled to dissenters' rights in connection with the merger. VIST shareholders are not entitled to dissenters' rights because VIST stock is listed on the Nasdaq Global Market system. Pennsylvania law generally states that in connection with the consummation of a plan of merger, shareholders of a company whose stock is listed on a national securities exchange are not entitled to dissenters' rights. Tompkins shareholders are not entitled to dissenters' rights because they own shares of Tompkins, and not of Merger Sub, the Tompkins subsidiary which will be affected by the merger.

**Accounting Treatment**

For purposes of preparing Tompkins' consolidated financial statements, Tompkins will establish a new accounting basis for VIST's assets (including intangible assets) and liabilities based upon their fair values, recognize the merger consideration based upon stock value on the closing date of the transaction and expense the costs of the merger. A final determination of asset and liability values and required acquisition accounting adjustments has not yet been made. Tompkins will determine the fair value of VIST's assets and liabilities and will make appropriate acquisition accounting adjustments upon completion of that determination. However, for purposes of disclosing pro forma information in this document, Tompkins has made a preliminary determination of the purchase price allocation, based upon current estimates and assumptions, which is subject to revision upon consummation of the merger.

**Litigation Related to the Merger**

On February 2, 2012, Gary Veitch, a purported shareholder of VIST, filed a complaint in the Supreme Court of Pennsylvania, Court of Common Pleas, Berks County against VIST, its directors, Tompkins, and Merger Sub, in connection with merger agreement. The lawsuit is brought on behalf of a putative class of similarly situated shareholders, and alleges that VIST's board of directors breached its fiduciary duties regarding the merger, that Tompkins and Merger Sub aided and abetted the alleged breach of fiduciary duties, and that the merger represents a waste of corporate assets. The plaintiffs ask that, among other equitable remedies, the merger be enjoined and that plaintiffs be reimbursed for costs and reasonable legal fees. Additionally, on February 6, 2012, William K. Serp, a purported shareholder of VIST, made a separate demand under Pennsylvania law on VIST's board of directors, demanding that the VIST board of directors rectify alleged failures of fiduciary duty in connection with the merger. VIST intends to vigorously defend itself, and Tompkins intends to vigorously defend itself and Merger Sub, against these allegations.

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**INDEMNIFICATION OF TOMPKINS DIRECTORS, OFFICERS AND EMPLOYEES**

Section 722 of the NYBCL empowers a New York corporation to indemnify any person who is, or is threatened to be, made party to any action or proceeding (other than one by or in the right of the corporation to procure a judgment in its favor), whether civil or criminal, by reason of the fact that such person (or such person's testator or intestate), was an officer or director of such corporation, or served at the request of such corporation as a director, officer, employee, agent, or in any other capacity, of another corporation or enterprise. The indemnity may include judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys' fees actually and necessarily incurred by such person as a result of such action or proceeding, or any appeal therein, provided that such officer or director acted in good faith, for a purpose that he or she reasonably believed to be in or, in the case of service for another corporation or enterprise, not opposed to, the best interests of the corporation and, for criminal actions or proceedings, in addition, had no reasonable cause to believe his or her conduct was unlawful. A New York corporation may indemnify any officer or director against amounts paid in settlement and reasonable expenses, including attorneys' fees, under the same conditions, except that no indemnification is permitted in respect of (1) a threatened action, or a pending action which is settled or otherwise disposed of, or (2) any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation, unless and only to the extent judicially approved. Where an officer or director is successful on the merits or otherwise in the defense of an action referred to above, the corporation must indemnify him or her against the expenses which such officer actually and reasonably incurred.

In accordance with Section 402(b) of the NYBCL, the Certificate of Incorporation of Tompkins contains a provision to limit the personal liability of directors of Tompkins to the fullest extent permitted under the NYBCL; provided, however, that there shall be no limitation of a director's liability for acts or omissions committed in bad faith, or that involved intentional misconduct or a knowing violation of law, or from which a director personally gained a financial profit or other advantage to which he or she was not legally entitled. The effect of this provision is to eliminate personal liability of directors to Tompkins and its shareholders for monetary damages for actions involving a breach of their fiduciary duty of care, including any actions involving gross negligence.

Tompkins' second amended and restated bylaws provide, in effect, that it will indemnify each of its directors, officers and employees, and any director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise serving at its request who was or is a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact of such person's duties to or on our behalf, to the fullest extent permitted by the NYBCL.

As permitted by the NYBCL, Tompkins has purchased insurance policies which provide coverage for its directors and officers in certain situations where Tompkins cannot directly indemnify such directors or officers. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling Tompkins pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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**COMPARISON OF RIGHTS OF HOLDERS OF  
VIST COMMON STOCK AND TOMPKINS COMMON STOCK**

*The rights of Tompkins' shareholders are governed by the NYBCL and Tompkins' restated certificate of incorporation and second amended and restated bylaws. The rights of VIST's shareholders are governed by the PABCL and VIST's articles of incorporation, as amended, and amended and restated bylaws. After the merger, the rights of VIST's common shareholders that receive Tompkins common shares will be governed by the NYBCL and Tompkins' restated certificate of incorporation and second amended and restated bylaws. The following discussion summarizes the material differences between the rights of VIST's common shareholders and the rights of Tompkins' common shareholders. We urge you to read Tompkins' restated certificate of incorporation and second amended and restated bylaws, VIST's articles of incorporation, as amended, and bylaws, and the NYBCL, the PABCL and federal law governing bank holding companies carefully and in their entirety.*

**Authorized Capital Stock**

*Tompkins.* Tompkins' restated certificate of incorporation authorizes it to issue up to 25,000,000 shares of common stock, par value \$0.10 per share, and 3,000,000 shares of preferred stock, par value \$0.01 per share. As of the record date, there were [ ] shares of Tompkins common stock outstanding and no shares of Tompkins preferred stock outstanding.

*VIST.* VIST's articles of incorporation, as amended, authorize VIST to issue up to 20,000,000 shares of common stock, par value \$5.00 per share, and 1,000,000 shares of preferred stock, par value \$1.00 per share. As of the record date, there were [ ] shares of VIST common stock outstanding and [ ] shares of VIST preferred stock outstanding.

**Size of Board of Directors**

*Tompkins.* Tompkins' amended and restated bylaws provide that its board of directors shall consist of not less than seven nor more than 19 directors. The exact number of directors may be determined from time to time by resolution of a majority of the entire Tompkins board of directors. The Tompkins board of directors currently has 17 directors. The merger agreement provides that, upon consummation of the merger, Tompkins' board will create a sufficient number of vacancies on its board of directors to appoint two current members of VIST's board of directors to the Tompkins board. Such directors will be mutually identified by Tompkins and VIST, and they must meet the director qualifications of Tompkins. In addition, two members of the current VIST board of directors which persons may or may not be those selected to fill the vacancies described above will be nominated for election at the first annual meeting of Tompkins following the merger, and such nominees must also meet the director qualifications of Tompkins.

*VIST.* VIST's articles of incorporation, as amended, provide that its board of directors shall consist of not less than five nor more than 25 directors. The exact number of directors may be fixed from time to time by a resolution passed by a majority of the full board of directors or by resolution of the shareholders at any annual or special meeting. VIST's bylaws provide that every director must be a shareholder and must own the number of shares required by law in order to qualify as a director. VIST's board of directors currently has 15 directors.

**Classes of Directors**

*Tompkins.* Tompkins' board of directors is not classified. Tompkins' second amended and restated bylaws provide that each director is elected annually.

*VIST.* VIST's board of directors is classified. VIST's amended and restated bylaws provide that the directors (other than directors, if any, elected by the holders of any series of preferred stock) are

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divided into three classes, as nearly equal in number as possible, with each class of directors serving for successive three-year terms so that each year the term of only one class of directors expires.

**Removal of Directors**

*Tompkins.* Tompkins' second amended and restated bylaws provide that any Tompkins director may be removed for cause by a vote of shareholders at a meeting duly called, by a vote of a majority of shares entitled to vote in the election of directors.

*VIST.* VIST's amended and restated bylaws do not have any provision governing removal of directors. Under Section 1726 of the PABCL, directors of a corporation with a classified board may only be removed for cause. In order for shareholders of a corporation with a classified board to remove a director without cause, the articles of incorporation must include a specific and unambiguous statement that directors may be removed from office without assigning any cause. VIST's articles of incorporation do not include any such provision.

**Filling Vacancies on the Board of Directors**

*Tompkins.* Under Tompkins' second amended and restated bylaws, vacancies created by any reason other than removal of directors may be filled by a vote of two-thirds of the directors then in office. Each director elected to fill a vacancy shall remain in office until the next meeting of shareholders at which directors are to be elected, and until his or her successor is elected or appointed and qualified. Tompkins shareholders are not entitled to cumulative voting rights in the election of directors.

*VIST.* Under VIST's amended and restated bylaws, newly created directorships and vacancies may be filled by the affirmative vote of a majority of the remaining directors, whether or not a quorum exists. Any director elected to fill a new directorship or vacancy will hold office for the remainder of the full term of the class of directors in which the new directorship was created (as designated by the board of directors) or in which the vacancy occurred, and until such director's successor has been duly elected and qualified. VIST shareholders are not entitled to cumulative voting rights in the election of directors.

**Nomination of Director Candidates by Shareholders**

*Tompkins.* Pursuant to Tompkins' Nominating and Corporate Governance Committee charter, the Nominating and Corporate Governance Committee considers nominees recommended by shareholders that are properly submitted in writing to the Chairman of the Committee, which shareholder-recommended nominees are evaluated in the same manner as all other nominees for director.

*VIST.* VIST's bylaws provide that nominations for the election of directors may be made by any shareholder of record entitled to vote in the election of directors who is a shareholder at the record date for the meeting and also on the date of the meeting at which directors are to be elected. The shareholder must provide timely written notice of the nomination to VIST's president. To be timely, the notice must be delivered to or received at VIST's principal executive offices (a) in the case of an annual meeting that is called for a date that is within 30 days before or after the anniversary date of the prior annual meeting, between 60 and 90 days before or after that anniversary date, or (b) in the case of a special meeting of shareholders called for the purpose of electing directors, not later than the fifth day following the earlier of the day on which notice of the meeting was mailed or public disclosure of the meeting date was made. Each such written notice must set forth (i) the name and address of the nominating shareholder, (ii) the name and address of the beneficial owner (if different than the nominating shareholder) of any of the shares owned of record by the nominating shareholder, (iii) the number of shares of each class and series of VIST stock owned of record and beneficially by the



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nominating shareholder, and the number owned beneficially by any other beneficial holder as described above, (iv) a description of all arrangements and understandings between the nominating shareholder and any beneficial holder and any other person(s) (naming such person(s)) pursuant to which the nomination is being made, (v) the name and address of the person(s) being nominated, (vi) certain representations regarding the nominating shareholder's status as a holder of record of shares entitled to vote at the meeting and intention to appear in person or by proxy at the meeting to nominate the person(s) specified in the notice, (vii) such other information regarding the nominee as would be required to be disclosed under the proxy rules of the SEC in connection with a nominee nominated by the VIST board of directors, and (viii) the written consent of each nominee to serve as a director if elected.

**Calling Special Meetings of Shareholders**

*Tompkins.* Under Tompkins' second amended and restated bylaws, a special meeting of shareholders may be called by the Chairman of Tompkins' board of directors, the Vice Chairman, the President, or by request of a majority of the shareholders.

*VIST.* Under VIST's amended and restated bylaws, except as otherwise required by law, a special meeting of shareholders may be called only by the board of directors.

**Shareholder Proposals**

*Tompkins.* Tompkins' second amended and restated bylaws require that all business conducted at a meeting of shareholders be properly brought before the meeting. For business to be properly brought before an annual meeting by a shareholder, the shareholder must (i) be a shareholder of record at the time of giving the notice described below, (ii) be entitled to vote at the meeting, and (iii) have complied with the procedures described below.

In order for a shareholder proposal to be properly brought before the meeting, any Tompkins shareholder making such a proposal must give timely notice to Tompkins' corporate secretary, and the subject matter of the proposal must be a proper subject matter for shareholder action. To be timely, the notice must be delivered to Tompkins at its principal executive offices no later than the 120th day prior to the date on which Tompkins mailed its proxy materials for the preceding year's annual meeting, or, if the date of the annual meeting is changed by more than 30 days from that of the preceding year, no later than the later of (i) the 60<sup>th</sup> calendar day prior to such annual meeting, or (ii) the 10<sup>th</sup> calendar day following the date of the public announcement of the date of any other annual or special meeting. The proposal must also set forth, as to each matter proposed to be brought before the meeting, (a) a reasonably detailed description of the business proposed to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address of the proposing shareholder and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the number of shares of Tompkins stock that are owned beneficially and of record by the proposing shareholder and the beneficial owner, if any, on whose behalf the proposal is made, and (iv) any personal or other material interest of such proposing shareholder and the beneficial owner, if any, on whose behalf the proposal is made, in such business. The proposing shareholder must also provide any other information reasonably requested by Tompkins, and must comply with all applicable requirements of the Exchange Act, as amended, and the rules and regulations thereunder with respect to such proposal.

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*VIST.* VIST's amended and restated bylaws provide that business may be brought before an annual meeting of shareholders by or on behalf of any shareholder who was a shareholder of record on the record date for the meeting and continues to be entitled to vote at the meeting, and who delivers written notice of the proposal in accordance with the requirements set forth in VIST's amended and restated bylaws. The shareholder notice must be delivered to or received at VIST's principal executive offices, addressed to its president, (i) in the case of an annual meeting that is called for a date that is within 30 days before or after the anniversary date of the prior year's annual meeting of shareholders, between 60 and 90 days before such anniversary date, except that a proposal that qualifies for inclusion in VIST's proxy statement under Rule 14a-8 under the Exchange Act, as amended, shall be deemed timely submitted under VIST's amended and restated bylaws, and (ii) in the case of an annual meeting called for a date that is not within such 30-day period, not later than the fifth day following the earlier of the day on which notice of the date of the meeting was mailed or public disclosure of the meeting date was made. Each such shareholder notice must set forth (a) the name and address of the proposing shareholder, (b) the name and address of the beneficial owner, if different than the proposing shareholder, of any of the shares owned of record by the proposing shareholder, (c) the number of shares of each class and series of VIST stock which are owned of record and beneficially by the proposing shareholder and the number owned beneficially by any such other beneficial owner, (d) any interest (other than solely as a shareholder) which the proposing shareholder or other such beneficial owner has in the business being proposed, (e) a description of all arrangements and understandings between the proposing shareholder and any such other beneficial owner and any other person(s) (naming such person(s)) pursuant to which the proposal is being made, (f) a description of the business the proposing shareholder seeks to bring before the annual meeting, the reason for doing so and, if a specific action is being proposed, the text of the resolution(s) which the proposing shareholder proposes that VIST adopt, and (g) certain representations regarding the proposing shareholder's status as a holder of record of shares entitled to vote at the meeting and intention to appear in person or by proxy at the meeting to bring the business specified in the notice before the meeting.

**Notice of Shareholder Meetings**

*Tompkins.* Tompkins' second amended and restated bylaws provide that Tompkins must give written notice between 10 and 60 days before any shareholders meeting to each shareholder entitled to vote at such a meeting. The notice shall state the date, time and place of the meeting, and shall state the purposes of the meeting and indicate the person who called the meeting, if not an annual meeting. The notice shall also indicate if any proposed action to be taken at a meeting would trigger dissenters' appraisal rights. Notice of a meeting may be waived by a shareholder, in writing or electronically, or by attending a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting any lack of notice.

*VIST.* VIST's amended and restated bylaws do not contain any provision regarding notice of shareholder meetings. Section 1704 of the PABCL requires that shareholders of record entitled to vote at a meeting receive notice of the meeting (i) at least 10 days prior to any meeting that will consider a "fundamental change" as defined in Chapter 19 of the PABCL, and (ii) at least five days prior to any other meeting.

**Anti-Takeover Provisions and Other Shareholder Protections**

*Tompkins.* Section 912 of the NYBCL and Tompkins' restated certificate of incorporation place restrictions on certain business combinations with interested shareholders. These provisions do not apply to the transactions contemplated by the merger agreement.

In addition, NYBCL §910 provides that a shareholder of a New York corporation has the right, following compliance with certain procedures, to receive payment of the fair value of its shares if the shareholder has the right to vote and does not assent to, among other actions, a merger or

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consolidation to which the corporation is a party. The right to receive payment of the fair value of the shares is not available in certain circumstances, including if the shares of the corporation are listed on a national securities exchange (as is the case in the present context) or to shareholders of a parent corporation in the case of certain mergers between the parent corporation and a 90%-owned subsidiary corporation. Tompkins shareholders do not have the right to receive fair value described in the immediately preceding sentences in connection with the merger and consummation of the transactions contemplated by the merger agreement.

*VIST.* Under VIST's articles of incorporation, any merger, consolidation, liquidation or dissolution of VIST or any action that would result in the sale or other disposition of all or substantially all of VIST's assets must be approved by the affirmative vote of the holders of at least 70% of the outstanding shares of common stock.

In addition to any rights granted under Section 910 of the PABCL, Article 13 of VIST's articles of incorporation provides that if any corporation, person, entity or group becomes the owner, directly or indirectly, of 30% or more of the voting power of VIST stock, such corporation, person, entity or group shall within 30 days thereafter offer to purchase all shares of VIST capital stock issued, outstanding and entitled to vote, at a value determined in accordance with the articles of incorporation. This provision will not apply if 80% or more of the members of VIST's board of directors approve in advance such acquisition of beneficial ownership. If both PABCL §910 and Article 13 apply in any given instance, the price per share to be paid for shares of VIST capital stock shall be the higher of the price per share determined under PABCL § 910 or the price per share determined under Article 13 of VIST's articles of incorporation.

**Indemnification of Directors and Officers**

*Tompkins.* Under Tompkins' second amended and restated bylaws, all current and former officers and directors of Tompkins are indemnified against any threatened, pending or completed actions and appeals to the fullest extent permitted under the NYBCL. An officer or director shall be indemnified for any action initiated by such officer or director if such action was authorized by Tompkins' board of directors.

NYBCL §721 prohibits indemnification of officers and directors for acts finally adjudicated to be committed in bad faith, resulting from active or deliberate dishonesty, or resulting in a personal gain to which such an officer or director was not legally entitled.

*VIST.* Under VIST's amended and restated bylaws, to the fullest extent permitted by the Directors' Liability Act and the PABCL, a director of VIST will not be personally liable to VIST, its shareholders or others for monetary damages for any act or omission unless such director breached or failed to perform the duties of his or her office as set forth in the Directors' Liability Act, and such breach or failure constitutes self-dealing, willful misconduct, or recklessness. This provision does not affect a director's responsibility or liability under any criminal statute or liability for payment of taxes. VIST shall indemnify directors, officers, employees or agents except in cases of willful misconduct or recklessness, in connection with proceeding initiated by such person (not by way of defense), or for amounts paid in settlement of any action indemnified against by VIST, unless pursuant to the prior written consent of VIST.

**Amendments to Articles/Certificate of Incorporation and Bylaws**

*Tompkins.* Under the Tompkins second amended and restated bylaws, Tompkins' board of directors has the power to adopt, amend, rescind or repeal the bylaws. Any such action by the Board may be altered, amended or repealed amended or repealed by a vote of a majority of shares of Tompkins entitled to vote in the election of directors. If any bylaw regulating an impending election of directors is adopted, amended or repealed by the board of directors, the notice for the next

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shareholder meeting for the election of directors shall describe the changes made to such bylaw. Tompkins' amended and restated certificate of incorporation further provides that any bylaw pertaining to the number, classification or removal of directors, call of special meetings of shareholders and adoption, amendment or repeal of the bylaws may not be adopted, altered, rescinded or repealed except by a vote of the majority of shareholders entitled to vote thereon.

Under NYBCL §803(a), a corporation's certificate of incorporation may be amended or changed by a vote of the board and a vote of a majority of all outstanding shares entitled to vote. A corporation's certificate of incorporation may require a greater vote. Tompkins' amended and restated certificate of incorporation provides that the provisions of the amended and restated certificate of incorporation relating to the number, election, removal, and limitation of liability of Tompkins directors may not be altered, amended, rescinded or repealed unless approved by the affirmative vote of holders of not less than 75% of the outstanding shares of capital stock entitled to vote, and not less than 50% of the shares beneficially owned by shareholders other than interested shareholders and their affiliates and associates, as defined in Tompkins' amended and restated certificate of incorporation.

*VIST.* Under VIST's bylaws, subject to the rights of shareholders under §1504 of the PABCL, VIST's bylaws may be amended, in whole or in part, by a majority vote of the board of directors, except as described below.

In addition, (i) any amendment to Section 12 of VIST's articles of incorporation (shareholder approval of mergers and similar transactions) requires the affirmative vote of the holders of at least 70% of the outstanding common stock, and (ii) any amendment to Section 212 of VIST's amended and restated bylaws (Liability of Directors; Indemnification) requires the affirmative vote of 75% of the members of VIST's entire board of directors or the affirmative vote of VIST shareholders entitled to cast at least 75% of all votes which VIST shareholders are then entitled to cast (except that Section 212 of VIST's amended and restated bylaws shall be deemed amended automatically if the PABCL or the Directors' Liability Act is amended or otherwise modified to decrease the exposure of directors to liability or to increase their indemnification rights).

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**ADDITIONAL INFORMATION ABOUT VIST**

**VIST's Business**

VIST is a Pennsylvania business corporation headquartered at 1240 Broadcasting Road, Wyomissing, Pennsylvania 19610. VIST was organized as a bank holding company on January 1, 1986. VIST's election with the Board of Governors of the Federal Reserve System to become a financial holding company became effective on February 7, 2002. VIST offers a wide array of financial services through its various subsidiaries. VIST's executive offices are located at 1240 Broadcasting Road, Wyomissing, Pennsylvania 19610.

VIST's common stock is traded on the NASDAQ Global Market system under the symbol "VIST." At December 31, 2011, VIST had total assets of \$1.43 billion, total shareholders' equity of \$115.7 million, and total deposits of \$1.19 billion.

**Subsidiary Activities**

**VIST Bank.** VIST Bank is a Pennsylvania chartered commercial bank. VIST Bank operates in Berks, Chester, Delaware, Montgomery, Philadelphia and Schuylkill counties in Pennsylvania.

On October 1, 2004, VIST acquired 100% of the outstanding voting shares of Madison Bancshares Group, Ltd., the holding company for Madison Bank ("Madison"), a Pennsylvania state-chartered commercial bank and its mortgage banking division, Philadelphia Financial Mortgage Company, now known as VIST Mortgage. Madison and VIST Mortgage are both now divisions of VIST Bank. The transaction enhanced VIST Bank's strong presence in Pennsylvania, particularly in the high growth counties of Berks, Philadelphia, Montgomery and Delaware.

On November 19, 2010, VIST acquired certain assets and assumed certain liabilities of Allegiance Bank of North America ("Allegiance") of Bala Cynwyd, Pennsylvania, through an FDIC-assisted whole bank acquisition. The Allegiance acquisition added five full-service locations in Chester and Philadelphia counties, of which VIST closed one early in 2011 and plans on closing another one in the second quarter of 2012. As part of the Allegiance acquisition, VIST entered into a loss-sharing agreement with the FDIC that covers a portion of losses incurred after the acquisition date on loans and other real estate owned. As of the acquisition date, VIST recorded \$7.0 million as an indemnification asset, which represents the present value of the estimated loss share reimbursements expected to be received from the FDIC for future losses on covered assets. As part of the agreement, the FDIC will reimburse VIST for 70% of any losses incurred related to loans and other real estate owned covered under the loss-sharing agreement. Realized losses in excess of the acquisition date estimates will result in the FDIC increasing its reimbursement to VIST to 80%.

The acquisition has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the November 19, 2010 acquisition date. Prior to purchase accounting adjustments, VIST assumed approximately \$93.0 million in deposit liabilities and acquired certain assets of approximately \$106.0 million. The application of the acquisition method of accounting resulted in recorded goodwill of \$1.0 million. Fair value adjustments include a write-down of \$12.0 million related to the covered loan portfolio, and increased liabilities of \$534,000 related to time deposits and \$553,000 related to long-term debt.

**Commercial and Retail Banking.** VIST Bank provides services to its customers through twenty-one full service and two limited service financial centers, which operate under VIST Bank's name in Leesport, Blandon, Bern Township, Wyomissing, Breezy Corner, Hamburg, Birdsboro, Northeast Reading, Exeter Township, and Sinking Spring all of which are in Berks County, Pennsylvania. VIST Bank also operates a financial center in Schuylkill Haven, which is located in Schuylkill County, Pennsylvania. VIST Bank also operates financial centers in Blue Bell, Conshohocken, Oaks, Centre

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Square, and Worcester all of which are in Montgomery County, Pennsylvania. VIST Bank also operates financial centers in Fox Chase, Bala Cynwyd and Old City all of which are in Philadelphia County, Pennsylvania. VIST Bank also operates a financial center in Berwyn, which is in Chester County, Pennsylvania and another financial center in Strafford in Delaware County, Pennsylvania. VIST Bank closed a King of Prussia location in early 2011 and expects to close the Berwyn location in the second quarter of 2012. VIST Bank also operates limited service facilities in Wernersville and Flying Hills, both in Berks County, Pennsylvania. Most full service financial centers provide automated teller machine services, with the exception of the Bala Cynwyd location. Each financial center that provides an automated teller machine, with the exception of the Wernersville, Exeter, Old City, Worcester, Berwyn and Breezy Corner locations, provides drive-in facilities.

VIST Bank engages in full service commercial and consumer banking business, including such services as accepting deposits in the form of time, demand and savings accounts. Such time deposits include certificates of deposit, individual retirement accounts and Roth IRAs. VIST Bank' savings accounts include money market accounts, club accounts, NOW accounts and traditional regular savings accounts. In addition to accepting deposits, VIST Bank makes both secured and unsecured commercial and consumer loans, provides equipment lease and accounts receivable financing and makes construction and mortgage loans, including home equity loans. VIST Bank does not engage in sub-prime lending. VIST Bank also provides small business loans and other services including rents for safe deposit facilities.

At December 31, 2011, VIST and VIST Bank had the equivalent of 302 and 200 full-time employees, respectively.

**Mortgage Banking.** VIST Bank provides mortgage banking services to its customers through VIST Mortgage, a division of VIST Bank. VIST Mortgage operates offices in Reading, Schuylkill Haven and Blue Bell, which are located in Berks County, Pennsylvania, Schuylkill County, Pennsylvania and Montgomery County, Pennsylvania, respectively. VIST Mortgage had 11 full-time employees at December 31, 2011.

**Insurance.** VIST Insurance, LLC ("VIST Insurance"), a full service insurance agency, offers a full line of personal and commercial property and casualty insurance as well as group insurance for businesses, employee and group benefit plans, and life insurance. VIST Insurance is headquartered in Wyomissing, Pennsylvania with sales offices at 1240 Broadcasting Road, Wyomissing, Pennsylvania, Pennsylvania; 1767 Sentry Parkway West (Suite 210) Blue Bell, Pennsylvania; and 5 South Sunnybrook Road (Suite 100), Pottstown, Pennsylvania. VIST Insurance had 64 full-time employees at December 31, 2011.

**Wealth Management.** VIST Capital Management, LLC ("VIST Capital"), a full service investment advisory and brokerage services company, offers a full line of products and services for individual financial planning, retirement and estate planning, investments, corporate and small business pension and retirement planning. VIST Capital is headquartered at 1240 Broadcasting Road, Wyomissing, Pennsylvania and had 6 full-time employees at December 31, 2011.

**Equity Investments. Health Savings Accounts** In July 2005, VIST purchased a 25% equity position in First HSA, LLC a national health savings account ("HSA") administrator. The investment formalized a relationship that existed since 2001. This relationship allowed VIST to be a custodian for HSA customers throughout the country. During the second quarter of 2010, the 25% equity interest in First HSA, LLC was sold, resulting in the transfer of approximately \$89.0 million in HSA deposits and a recognized gain of \$1.9 million.

**Junior Subordinated Debt.** VIST owns First Leesport Capital Trust I, a Delaware statutory business trust formed on March 9, 2000, in which VIST owns all of the common equity. The trust has outstanding \$5.0 million of 10.875% fixed rate mandatory redeemable capital securities. These

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securities must be redeemed in March 2030, but became callable on March 9, 2010. In October, 2002 VIST entered into an interest rate swap agreement that effectively converts the securities to a floating interest rate of six month LIBOR plus 5.25%. In June, 2003 VIST purchased a six month LIBOR cap to create protection against rising interest rates for the interest rate swap. This interest rate cap matured in March 2010 and the payer exercised their call option to terminate the interest rate swap in September 2010.

On September 26, 2002, VIST established Leesport Capital Trust II, a Delaware statutory business trust, in which VIST owns all of the common equity. Leesport Capital Trust II issued \$10.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.45%. These securities must be redeemed in September 2032, but became callable on November 7, 2007. In September 2008, VIST entered into an interest rate swap agreement with a start date of February 2009 and a maturity date of November 2013 that effectively converts the \$10.0 million of adjustable-rate capital securities to a fixed interest rate of 7.25%.

On June 26, 2003, Madison established Madison Statutory Trust I, a Connecticut statutory business trust. Pursuant to the purchase of Madison on October 1, 2004, VIST assumed Madison Statutory Trust I in which VIST owns all of the common equity. Madison Statutory Trust I issued \$5.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.10%. These securities must be redeemed in June 2033, but became callable on June 26, 2008. In September 2008, VIST entered into an interest rate swap agreement with a start date of March 2009 and a maturity date of September 2013 that effectively converts the \$5.0 million of adjustable-rate capital securities to a fixed interest rate of 6.90%.

## **Competition**

VIST faces substantial competition in originating loans, attracting deposits, and generating fee-based income. This competition comes principally from other banks, savings institutions, credit unions, mortgage banking companies and, with respect to deposits, institutions offering investment alternatives, including money market funds. Competition also comes from other insurance agencies and direct writing insurance companies. As a result of consolidation in the banking industry, some of VIST's competitors and their respective affiliates may enjoy advantages such as greater financial resources, a wider geographic presence, a wider array of services, or more favorable pricing alternatives and lower origination and operating costs.

## **Supervision and Regulation**

### **General**

VIST is registered as a bank holding company, which has elected to be treated as a financial holding company, and is subject to supervision and regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended. As a bank holding company, VIST's activities and those of its bank subsidiary are limited to the business of banking and activities closely related or incidental to banking. Bank holding companies are required to file periodic reports with and are subject to examination by the Federal Reserve Board. The Federal Reserve has issued regulations under the Bank Holding Company Act that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve, pursuant to such regulations, may require VIST to stand ready to use its resources to provide adequate capital funds to its bank subsidiary during periods of financial stress or adversity.

The Bank Holding Company Act prohibits VIST from acquiring direct or indirect control of more than 5% of the outstanding shares of any class of voting stock, or substantially all of the assets of any bank, or from merging or consolidating with another bank holding company, without prior approval of the Federal Reserve Board. Additionally, the Bank Holding Company Act prohibits VIST from

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engaging in or from acquiring ownership or control of more than 5% of the outstanding shares of any class of voting stock of any company engaged in a non-banking business, unless such business is determined by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto. The types of businesses that are permissible for bank holding companies to own were expanded by the Gramm-Leach-Bliley Act in 1999.

As a Pennsylvania bank holding company for purposes of the Pennsylvania Banking Code, VIST is also subject to regulation and examination by the Pennsylvania Department of Banking.

VIST is under the jurisdiction of the SEC and of state securities commissions for matters relating to the offering and sale of its securities. In addition, VIST is subject to the SEC's rules and regulations relating to periodic reporting, proxy solicitation, and insider trading.

**Regulation of VIST Bank**

VIST Bank is a Pennsylvania chartered commercial bank, and its deposits are insured (up to applicable limits) by the FDIC. VIST Bank is subject to regulation and examination by the Pennsylvania Department of Banking and by the FDIC. The Community Reinvestment Act requires VIST Bank to help meet the credit needs of the entire community where VIST Bank operates, including low and moderate income neighborhoods. VIST Bank's rating under the Community Reinvestment Act, assigned by the FDIC pursuant to an examination of VIST Bank, is important in determining whether VIST Bank may receive approval for, or utilize certain streamlined procedures in, applications to engage in new activities.

VIST Bank is also subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of VIST Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

**Capital Adequacy Guidelines**

Bank regulatory authorities in the United States issue risk-based capital standards. These capital standards relate a bank's capital to the risk profile of its assets and provide the basis by which all banks are evaluated in terms of its capital adequacy. VIST and VIST Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, VIST and VIST Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require VIST and VIST Bank to maintain minimum amounts and ratios of Tier 1 capital to average assets and of total capital (as defined in the regulations) to risk-weighted assets.

As of December 31, 2011 and 2010, VIST and VIST Bank exceeded the current regulatory requirements to be considered a quantitatively "well capitalized" financial institution, i.e. a leverage ratio exceeding 5%, Tier 1 risk-based capital exceeding 6%, and total risk-based capital exceeding 10%.



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**Prompt Corrective Action Rules**

Immediately upon becoming undercapitalized, a depository institution becomes subject to the provisions of Section 38 of the FDIA, which: (a) restrict payment of capital distributions and management fees; (b) require that the appropriate federal banking agency monitor the condition of the institution on and its efforts to restore its capital; (c) require submission of a capital restoration plan; (d) restrict the growth of the institution's assets; and (e) require prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (a) requiring the institution to raise additional capital; (b) restricting transactions with affiliates; (c) requiring divestiture of the institution or the sale of the institution to a willing purchaser; and (d) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

**Regulatory Restrictions on Dividends**

Dividend payments made by VIST Bank to VIST are subject to the Pennsylvania Banking Code, the Federal Deposit Insurance Act, and the regulations of the FDIC. Under VIST Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). The Federal Reserve Bank ("FRB") and the FDIC have formal and informal policies which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. The Prompt Corrective Action Rules, described above, further limit the ability of banks to pay dividends if they are not classified as well capitalized or adequately capitalized. Under these policies and subject to the restrictions applicable to VIST Bank, VIST Bank had no funds available for payment of dividends to VIST at December 31, 2011, without requiring prior regulatory approval. The issuance of the Series A Preferred Stock also carries certain restrictions with regards to VIST's declaration and payment of cash dividends on common stock.

Dividends payable by VIST are subject to guidance published by the Board of Governors of the FRB. Consistent with the Federal Reserve guidance, companies are urged to strongly consider eliminating, deferring or significantly reducing dividends if (i) net income available to common shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividend, (ii) the prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) VIST will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. As a result of this guidance, management intends to consult with the FRB of Philadelphia, and provide the FRB with information on VIST's then current and prospective earnings and capital position, on a quarterly basis in advance of declaring any cash dividends for the foreseeable future.

**FDIC Insurance Assessments**

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased FDIC loss provisions, resulting in a decline in the designated reserve ratio to historical lows. The FDIC expects a higher rate of insured institution failures in the next few years compared to recent years; thus, the reserve ratio may continue to decline. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, that was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010, enacted a number of changes to

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the federal deposit insurance regime that will affect the deposit insurance assessments VIST Bank will be obligated to pay in the future. For example:

The law permanently raises the federal deposit insurance limit to \$250,000 per account ownership. This change may have the effect of increasing losses to the FDIC insurance fund on future failures of other insured depository institutions.

The new law makes deposit insurance coverage unlimited in amount for non-interest bearing transaction accounts until December 31, 2012. This change may also have the effect of increasing losses to the FDIC insurance fund on future failures of other insured depository institutions.

The FDIC is required under the Dodd-Frank Act to establish assessment rates that will allow the Deposit Insurance Fund to achieve a reserve ratio of 1.35% of Insurance Fund insured deposits by September 2020. In addition, the FDIC has established a "designated reserve ratio" of 2.0%, a target ratio that, until it is achieved, will not likely result in the FDIC reducing assessment rates. In attempting to achieve the mandated 1.35% ratio, the FDIC is required to implement assessment formulas that charge banks over \$10 billion in asset size more than banks under that size. Those new formulas began in the second quarter of 2011 and were beneficial to VIST Bank by calculating less FDIC insurance expense in the second half of 2011. Under the Dodd-Frank Act, the FDIC is authorized to make reimbursements from the insurance fund to banks if the reserve ratio exceeds 1.50%, but the FDIC has adopted the "designated reserve ratio" of 2.0% and has announced that any reimbursements from the fund are indefinitely suspended.

Each of these changes may increase the rate of FDIC insurance assessments to maintain or replenish the FDIC's deposit insurance fund. This could, in turn, raise VIST Bank's future deposit insurance assessment costs. On the other hand, the law changes the deposit insurance assessment base so that it will generally be equal to average consolidated assets less average tangible equity. As the asset base of the banking industry is larger than the deposit base, the range of assessment rates will change to a low of 2.5 basis points to a high of 45 basis points, per \$100 of assets. This change of the assessment base from an emphasis on deposits to an emphasis on assets is generally considered likely to cause larger banking organizations to pay a disproportionately higher portion of future deposit insurance assessments, which may, correspondingly, lower the level of deposit insurance assessments that smaller community banks such as VIST Bank may otherwise have to pay in the future.

On November 12, 2009, the FDIC approved a rule to require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. An insured institution's risk-based deposit insurance assessments will continue to be calculated on a quarterly basis, but will be paid from the amount the institution prepaid until the later of the date that amount is exhausted or June 30, 2013, at which point any remaining funds would be returned to the insured institution. Consequently, VIST's prepayment of DIF premiums made in December 2009 resulted in a prepaid asset of \$5.7 million. As of December 31, 2011, the amount of the prepaid asset was \$2.6 million.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution did not exceed 10 basis points times the institution's assessment base for the second quarter 2009. The assessment, in the amount of \$574,000, was collected from VIST Bank on September 30, 2009.

**Federal Home Loan Bank System**

VIST Bank is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"), which is one of 12 regional FHLB's. Each FHLB serves as a reserve or central bank for its members within its assigned

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region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. At December 31, 2011, VIST Bank had no FHLB advances outstanding (see Note 11 of the consolidated financial statements).

As a member, VIST Bank is required to maintain a minimum stock investment, both as a condition to becoming and remaining a member and as a condition to obtaining advances and Letters of Credit. VIST is required to purchase and hold FHLB stock in an amount equal to the sum of: (a) 4.60% of its current total outstanding advances, (b) 1.60% of its current total issued and outstanding letters of credit, and (c) 0.35% of its total membership asset value, calculated annually, and based on financial data for the most recent calendar year-end. On November 19, 2010, VIST acquired \$1.7 million in FHLB stock as a result of the FDIC-assisted whole bank acquisition of Allegiance. At December 31, 2011, VIST Bank had \$5.8 million in FHLB stock, which was in compliance with this requirement.

**Emergency Economic Stabilization Act of 2008 and Related Programs**

The Emergency Economic Stabilization Act of 2008 ("EESA") was enacted to enable the federal government, under terms and conditions developed primarily by the Secretary of the United States Department of Treasury ("Treasury"), to restore liquidity and stabilize the U.S. economy, including through implementation of TARP. Under the TARP, Treasury authorized a voluntary Capital Purchase Program ("CPP") to purchase up to \$250.0 billion of senior preferred shares of qualifying financial institutions that elected to participate by November 14, 2008. As previously disclosed, on December 19, 2008, VIST issued to Treasury, 25,000 shares of Series A Preferred Stock and a warrant to purchase 367,982 shares of VIST's common stock for an aggregate purchase price of \$25.0 million under the TARP CPP (see Note 13 of the consolidated financial statements in Exhibit 99.1 attached hereto). Companies participating in the TARP CPP were required to adopt certain standards relating to executive compensation. The terms of the TARP CPP also limit certain uses of capital by the issuer, including with respect to repurchases of securities and increases in dividends.

The American Recovery and Reinvestment Act of 2009 ("ARRA") was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn brought about by the subprime mortgage crisis and the resulting credit crunch. The bill includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, healthcare, and infrastructure, including the energy structure. The new law also includes certain noneconomic recovery related items, including a limitation on executive compensation in federally aided financial institutions, including institutions, such as VIST, that had previously received an investment by Treasury under the TARP CPP. Under ARRA, an institution that either will receive funds or which had previously received funds under TARP, will be subject to certain restrictions and standards throughout the period in which any obligation arising under TARP remains outstanding (except for the time during which the federal government holds only warrants to purchase common stock of the issuer).

The following summarizes the significant requirements of ARRA, which are included in standards established by the Treasury:

limits on compensation incentives for risks by senior executive officers;

a requirement for recovery of any compensation paid based on inaccurate financial information;

a prohibition on "golden parachute payments" to specified officers or employees, which term is generally defined as any payment for departure from a company for any reason;

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a prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees;

a prohibition on bonus, retention award, or incentive compensation to designated employees, except in the form of long-term restricted stock;

a requirement that the board of directors adopt a luxury expenditures policy;

a requirement that shareholders be permitted a separate nonbinding vote on executive compensation;

a requirement that the chief executive officer and the chief financial officer provide a written certification of compliance with the standards, when established, to the SEC.

Under ARRA, subject to consultation with the appropriate federal banking agency, Treasury is required to permit a recipient of TARP funds to repay any amounts previously provided to or invested in the recipient by Treasury without regard to whether the institution has replaced the funds from any other source or to any waiting period.

**Recent Legislation**

The Dodd-Frank Act was enacted on July 21, 2010. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are still not known.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on VIST. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Under the Act, the assessment base will no longer be an institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period.

The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. Both of these changes had no impact to VIST Bank's operating results.

Bank and thrift holding companies with assets of less than \$15 billion as of December 31, 2009, such as VIST, will be permitted to include trust preferred securities that were issued before May 19, 2010, as Tier 1 capital; however, trust preferred securities issued by a bank or thrift holding company (other than those with assets of less than \$500 million) after May 19, 2010, will no longer count as Tier 1 capital. Trust preferred securities still will be entitled to be treated as Tier 2 capital.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" arrangements, and may allow greater access by shareholders to the company's proxy material by authorizing the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.



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The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau 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 Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10.0 billion in assets. Banks and savings institutions with \$10.0 billion or less in assets such as VIST Bank will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time the specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions' operations is presently unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

**Other Legislation**

VIST Insurance and VIST Capital are subject to additional regulatory requirements. VIST Insurance is subject to Pennsylvania insurance laws and the regulations of the Pennsylvania Department of Insurance. Our securities brokerage activities are conducted exclusively through LPL Financial LLC, an SEC and FINRA registered broker/dealer and SIPC member that is subject to regulation by SEC and the FINRA. Effective August 1, 2011, VIST Capital ceased registered investment advisor operations, with formal notification sent to the SEC in October 2011.

Congress is often considering some financial industry legislation, and the federal banking agencies routinely propose new regulations. VIST cannot predict how any new legislation, or new rules adopted by federal or state banking agencies, may affect the business of VIST and its subsidiaries in the future. Given that the financial industry remains under stress and severe scrutiny, and given that the U.S. economy has not yet fully recovered to pre-crisis levels of activity, VIST expects that there will be significant legislation and regulatory actions that may materially affect the banking industry for the foreseeable future.

**Properties**

VIST's executive office is located in the administration building at 1240 Broadcasting Road, Wyomissing, Pennsylvania. Listed below are the locations of properties owned or leased by VIST and its subsidiaries. Owned properties are not subject to any mortgage, lien or encumbrance.

<b>Property Location</b>	<b>Leased or Owned</b>
Corporate Office, 1240 Broadcasting Road, Wyomissing, PA	Leased
Operations Center, 1044 MacArthur Road, Reading, PA	Leased
North Pointe Financial Center, 241 South Centre Avenue, Leesport, PA	Leased
Northeast Reading Financial Center, 1210 Rockland Street, Reading, PA	Leased
Hamburg Financial Center, 801 South Fourth Street, Hamburg, PA	Leased

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<b>Property Location</b>	<b>Leased or Owned</b>
Bern Township Financial Center, 909 West Leesport Road, Leesport, PA	Leased
Wernersville Financial Center, 1 Reading Drive, Wernersville, PA	Leased
Breezy Corner Financial Center, 3401-3 Pricetown Road, Fleetwood, PA	Leased
Blandon Financial Center, 108 Plaza Drive, Blandon, PA	Leased
Wyomissing Financial Center, 1199 Berkshire Boulevard, Wyomissing, PA	Leased
Schuylkill Haven Financial Center, 237 Route 61 South, Schuylkill Haven, PA	Leased
Birdsboro Financial Center, 350 West Main Street, Birdsboro, PA	Leased
Exeter Financial Center, 4361 Perkiomen Avenue, Reading, PA	Leased
Sinking Spring Financial Center, 4708 Penn Ave, Sinking Spring, PA	Leased
Heritage Financial Center, 200 Tranquility Lane, Reading, PA	Leased
Blue Bell Financial Center, 1767 Sentry Parkway West, Blue Bell, PA	Leased
Centre Square Financial Center, 1380 Skippack Pike, Blue Bell, PA	Leased
Conshohocken Financial Center, Plymouth Corporate Center, Suite 600 625 Ridge Pike, Conshohocken, PA	Leased
Fox Chase Financial Center, 8000 Verree Road, Philadelphia, PA	Owned
Oaks Financial Center, 1232 Egypt Road, Oaks, PA	Leased
Strafford Financial Center, 600 West Lancaster Avenue, Strafford, PA	Leased
Bala Cynwyd Financial Center, Suite 105, One Belmont Avenue, Bala Cynwyd, PA	Leased
Old City Financial Center, 36 North Third Street, Philadelphia, PA	Leased
Worcester Financial Center, 2946 Skippack Pike, Worcester, PA	Leased
Berwyn Financial Center(1), 564 Lancaster Avenue, Berwyn, PA	Leased
VIST Insurance, 1767 Sentry Parkway, Suite 210, Blue Bell, PA	Leased
VIST Insurance, 5 South Sunnybrook Road, Pottstown, PA	Leased
VIST Bank (Mortgage Banking Office), 2213 Quarry Drive, West Lawn, PA	Leased

(1) VIST expects to close its Berwyn Financial Center acquired in the Allegiance acquisition by April 15, 2012.

VIST Insurance shares offices in VIST's administration building located at 1240 Broadcasting Road, Wyomissing, Pennsylvania. VIST Insurance is charged a pro rata amount of the total lease expense.

VIST Capital also shares office space in VIST's administration building in Wyomissing, Pennsylvania, as well as in VIST Insurance's office located in Blue Bell, Pennsylvania and are charged accordingly a pro rata amount of the total lease expense.

**Legal Proceedings**

A certain amount of litigation arises in the ordinary course of the business of VIST, and VIST's subsidiaries. In the opinion of the management of VIST, there are no proceedings pending to which

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VIST, or VIST's subsidiaries are a party or to which their property is subject, that, if determined adversely to VIST or its subsidiaries, would be material in relation to VIST's shareholders' equity or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of VIST and its subsidiaries. In addition, no material proceedings are pending or are known to be threatened or contemplated against VIST or its subsidiaries by governmental authorities.

*Veitch v. Robert D. Davis, et al.*, Court of Common Pleas of Berks County, Pennsylvania, No. 12-1918

A putative shareholder derivative and class action lawsuit relating to VIST's merger with Tompkins Corporation ("Tompkins") was filed in the Court of Common Pleas of Berks County, Pennsylvania, on February 2, 2012, against 11 of VIST's directors ("Director Defendants"), Tompkins, TMP Mergeco, Inc., and VIST (as a nominal defendant). The complaint alleges that the consideration VIST's shareholders will receive in connection with the merger is inadequate and that the Director Defendants breached their fiduciary duties to shareholders and to VIST in negotiating and approving the merger agreement, including agreeing to allegedly "preclusive" merger terms, and engaging in self-dealing. Plaintiff also contends that by entering into the merger agreement with Tompkins, the Director Defendants committed corporate waste. Last, the complaint alleges that Tompkins and TMP Mergeco, Inc. aided and abetted the alleged breaches by the Director Defendants. The complaint seeks various forms of relief, including injunctive relief that would, if granted, prevent the merger from being consummated in accordance with the agreed-upon terms.

VIST has not yet responded to the complaint. The defendants believe that the allegations are without merit and intend to defend the action vigorously. Because no discovery has been taken, it is too early to assess the likelihood of any liability against VIST and the Director Defendants.



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**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview.** Management's discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for VIST, VIST Bank, VIST Insurance and VIST Capital Management.

On January 25, 2012, VIST entered into a definitive merger agreement under which Tompkins will acquire VIST. VIST Bank will operate as a subsidiary of Tompkins with a separate banking charter, local management team, and local Board of Directors. The transaction is expected to close early in the third quarter of 2012, subject to required regulatory approvals and other customary conditions, including required shareholder approval.

**Critical Accounting Policies** The following discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). US GAAP is complex and require management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. Actual results may differ from these estimates under different assumptions or conditions.

In management's opinion, the most critical accounting policies and estimates impacting VIST's consolidated financial statements are listed below. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. For a complete discussion of VIST's significant accounting policies, see the footnotes to the Consolidated Financial Statements and discussion throughout this Form 10-K.

**Goodwill and Other Intangible Assets.** VIST had goodwill and other intangible assets of \$19.8 million at December 31, 2011, related to the acquisition of its banking, insurance and wealth management companies. VIST utilizes a third party valuation service to perform its goodwill impairment test both on an interim and annual basis. A fair value is determined for the banking and financial services, insurance services and investment services reporting units. If the fair value of the reporting business unit exceeds the book value, then no impairment write down of goodwill is necessary (a Step One evaluation). If the fair value is less than the book value, then an additional test (a Step Two evaluation) is necessary to assess goodwill for potential impairment. As a result of the goodwill impairment valuation analysis, VIST determined that a \$25.1 million goodwill impairment write-off for all of its reporting units was necessary for the year ended December 31, 2011. For additional information, refer to *Note 8 Goodwill and Other Intangible Assets* of the consolidated financial statements.

Reporting unit valuation is inherently subjective, with a number of factors based on assumption and management judgments. Among these are future growth rates, discount rates and earnings capitalization rates. Changes in assumptions and results due to economic conditions, industry factors and reporting business unit performance could result in different assessments of the fair value and could result in impairment charges in the future.

**Framework for Interim Impairment Analysis.** VIST utilizes the following framework from FASB ASC 350 "Intangibles Goodwill & Other" to evaluate whether an interim goodwill impairment test is required, given the occurrence of events or if circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include:

a significant adverse change in legal factors or in the business climate;

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an adverse action or assessment by a regulator;

unanticipated competition;

a loss of key personnel;

a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of;

Financing Transactions," of a significant asset group within a reporting unit; and

recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

When applying the framework above, management additionally considers that a decline in VIST's market capitalization could reflect an event or change in circumstances that would more likely than not reduce the fair value of reporting business unit below its carrying value. However, in considering potential impairment of goodwill, management does not consider the fact that our market capitalization is less than the carrying value of our Company to be determinative that impairment exists. This is because there are factors, such as our small size and small market capitalization, which do not take into account important factors in evaluating the value of our Company and each reporting business unit, such as the benefits of control or synergies. Consequently, management's annual process for evaluating potential impairment of our goodwill (and evaluating subsequent interim period indicators of impairment) involves a detailed level analysis and incorporates a more granular view of each reporting business unit than aggregate market capitalization, as well as significant valuation inputs.

*Annual and Interim Impairment Tests and Results.* Management estimates fair value annually utilizing multiple methodologies which include discounted cash flows, comparable companies and comparable transactions. Each valuation technique requires management to make judgments about inputs and assumptions which form the basis for financial projections of future operating performance and the corresponding estimated cash flows. The analyses performed require the use of objective and subjective inputs which include market-price of non-distressed financial institutions, similar transaction multiples, and required rates of return. Management works closely in this process with third party valuation professionals, who assist in obtaining comparable market data and performing certain of the calculations, based on information provided and assumptions made by management.

FASB ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell or transfer the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. FASB ASC 820 further defines market participants as buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

FASB ASC 820 establishes a fair value hierarchy to prioritize the inputs used in valuation techniques:

1. Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
2. Level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability through corroboration with observable market data
3. Level 3 inputs are unobservable inputs, such as a company's own data

VIST will continue to monitor the interim indicators noted in FASB ASC 350 to evaluate whether an interim goodwill impairment test is required, given the occurrence of events or if circumstances

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change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, absent those events, VIST will perform its annual goodwill impairment evaluation during the fourth quarter of each calendar year.

***Consideration of Market Capitalization in Light of the Results of Our Annual and Interim Goodwill Assessments.*** VIST's stock price, like the stock prices of many other financial services companies, is trading below both book value as well as tangible book value. We believe that VIST's current market value does not represent the fair value of VIST when taken as a whole and in consideration of other relevant factors. Because VIST is viewed by investors predominantly as a community bank, we believe our market capitalization is based on net tangible book value, reduced by nonperforming assets in excess of the allowance for loan losses. We believe that the market place ascribes effectively no value to VIST's fee-based reporting units, the assets of which are composed principally of goodwill and intangibles. Management believes that as a stand-alone business each of these reporting units has value which is not being incorporated in the market's valuation of VIST reflected in the share price. Management also believes that if these reporting units were carved out of VIST and sold, they would command a sales price reflective of their current performance. Management further believes that if these reporting units were sold, the results of the sale would increase both the tangible book value (resulting from, among other things, the reduction in associated goodwill) and therefore market capitalization, given the market's current valuation approach described above.

***Determination of the Allowance for Loan Losses.*** The level of the allowance for credit losses and the provision for credit losses involve significant estimates by management. In evaluating the adequacy of the allowance for loan losses, management considers the specific collectability of impaired and nonperforming loans, past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect borrowers ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant qualitative factors. While management uses available information to make such evaluations, future adjustments to the allowance for credit losses and the provision for credit losses may be necessary if economic conditions, loan credit quality, or collateral issues differ substantially from the factors and assumptions used in making the evaluation.

The allowance for loan losses is evaluated on a regular basis by management and consists of specific and general components. The specific component relates to loans that are classified as either loss, doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical industry loss experience adjusted for qualitative factors. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

**Revenue Recognition for Insurance Activities.** Insurance revenues are derived from commissions and fees. Commission revenues, as well as the related premiums receivable and payable to insurance companies, are recognized the later of the effective date of the insurance policy or the date the client is billed, net of an allowance for estimated policy cancellations. The reserve for policy cancellations is periodically evaluated and adjusted as necessary. Commission revenues related to installment premiums are recognized as billed. Commissions on premiums billed directly by insurance companies are generally recognized as income when received. Contingent commissions from insurance companies are generally recognized as revenue when the data necessary to reasonably estimate such amounts is obtained. A contingent commission is a commission paid by an insurance company that is based on the overall profit and/or volume of the business placed with the insurance company. Fee income is recognized as services are rendered.

**Stock-Based Compensation.** FASB Accounting Standards Codification ("ASC") 718, "Share-Based Payment" addresses the accounting for share-based payment transactions subsequent to 2006 in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. FASB ASC 718 requires an entity to recognize the grant-date fair-value of stock options and its other equity-based compensation issued to the employees in the consolidated statements of operations. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25. "Accounting for Stock Issued to Employees," which was permitted under FASB ASC 718, as originally issued. Effective January 1, 2006, VIST adopted FASB ASC 718 using the modified prospective method. Any additional impact the adoption of this statement will have on our results of operations will be determined by share-based payments granted in future periods.

**Derivative Financial Instruments.** VIST maintains an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. VIST's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. VIST views this strategy as a prudent management of interest rate sensitivity, such that earnings are not exposed to undue risk presented by changes in interest rates.

By using derivative instruments, VIST is exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes VIST, and, therefore, creates a repayment risk for VIST. When the fair value of a derivative contract is negative, VIST owes the counterparty and, therefore, it has no repayment risk. VIST minimizes the credit (or repayment) risk in the derivative instruments by entering into transactions with high quality counterparties.

Market risk is the adverse effect that a change in interest rates, currency, or implied volatility rates has on the value of a financial instrument. VIST manages the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be

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undertaken. VIST periodically measures this risk by using value-at-risk methodology (refer to Note 14 of the consolidated financial statements for information on interest rate swap and interest rate cap agreements VIST has used to manage its exposure to interest rate risk).

**Investment Securities Impairment Evaluation.** Management evaluates investment securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Factors that may be indicative of impairment include, but are not limited to, the following:

Fair value below cost and the length of time

Adverse condition specific to a particular investment

Rating agency activities (e.g., downgrade)

Financial condition of an issuer

Dividend activities

Suspension of trading

Management intent

Changes in tax laws or other policies

Subsequent market value changes

Economic or industry forecasts

Other-than-temporary impairment means management believes the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, management has to first consider (a) whether VIST intends to sell the security, and (b) whether it is more likely than not that VIST will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but VIST does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows), while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

If a decline in market value of a security is determined to be other than temporary, under generally accepted accounting principles, we are required to write these securities down to their estimated fair value. As of December 31, 2011, we owned single issuer and pooled trust preferred securities of other financial institutions, private label collateralized mortgage obligations and equity securities whose aggregate historical cost basis is greater than their estimated fair value (see Note 5 of the consolidated financial statements). We reviewed all investment securities and have identified those securities that are other-than-temporarily impaired. The losses associated with these other-than-temporarily impaired

securities have been bifurcated into the portion of non-credit impairment losses

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recognized in other comprehensive loss and into the portion of credit impairment losses recorded in earnings (see consolidated statements of comprehensive income). We perform an ongoing analysis of all investment securities utilizing both readily available market data and third party analytical models. Future changes in interest rates or the credit quality and strength of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, we will write them down through a charge to earnings to their then current fair value.

***Federal Home Loan Bank Stock Impairment Evaluation.*** VIST Bank is required to maintain certain amounts of FHLB Stock as a member of the FHLB. These equity securities are "restricted" in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other tradable equity securities, their fair value is equal to amortized cost, and no impairment write-downs have been recorded on these securities during 2011, 2010, or 2009. As a result of the FDIC-assisted whole bank acquisition of Allegiance on November 19, 2010, the bank acquired \$1.7 million in FHLB stock.

In December 2008, the FHLB of Pittsburgh suspended the payment of dividends and the repurchase of excess capital stock from member banks. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of maintaining liquidity and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase excess capital stock. As of December 31, 2011, the FHLB last paid a dividend in the third quarter of 2008. As a result of improved core earnings and a decrease in OTTI charges on non-agency investment securities, the FHLB repurchased stock totaling \$283,000 and \$1.3 million in 2010 and 2011, respectively. Subsequent to December 31, 2011, in February 2012 the FHLB continued its policy of repurchasing 5% of VIST Bank's excess outstanding FHLB Stock investment and reinstated paying a .10% cash dividend on VIST Bank's average outstanding FHLB Stock balance. Accounting guidance indicates that an investor in FHLB Pittsburgh capital stock should recognize impairment if it concludes that it is not probable that it will ultimately recover the par value of its shares. The decision of whether impairment exists is a matter of judgment that should reflect the investor's view of FHLB Pittsburgh's long-term performance, which includes factors such as its operating performance, the severity and duration of declines in the market value of its net assets related to its capital stock amount, its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance, the impact of legislation and regulatory changes on FHLB Pittsburgh, and accordingly, on the members of FHLB Pittsburgh and its liquidity and funding position. After evaluating all of these considerations, VIST believes the par value of its shares will be recovered. Future evaluations of the above mentioned factors could result in VIST recognizing an impairment charge.

Table of Contents**FINANCIAL CONDITION**

Total assets were \$1.43 billion at both December 31, 2011 and 2010. Overall, assets increased slightly throughout 2011. VIST used the proceeds from \$38.2 million of deposit growth and \$63.3 million of total loan run-off to fund \$95.5 million of additional investment securities.

**Investment Securities Portfolio**

The securities portfolio increased to \$377.2 million at December 31, 2011, from \$281.8 million at December 31, 2010 primarily due to the purchase of available for sale investments in U.S. Government agency securities and agency mortgage-backed debt securities (for additional information, refer to *Note 5 Securities Available for Sale and Securities Held to Maturity* of the consolidated financial statements). Securities are used to supplement loan growth as necessary, to generate interest and dividend income, to manage interest rate risk, and to provide pledging and liquidity. To accomplish these ends, most of the purchases in the portfolio during 2011 and 2010 were residential agency mortgage-backed securities.

*The following table sets forth the amortized cost of the investment securities at its last three fiscal year ends:*

	As of December 31,		
	2011	2010	2009
	(Dollar amounts in thousands)		
<b>Securities Available For Sale</b>			
U.S. Government agency securities	\$ 11,298	\$ 11,648	\$ 23,087
Agency residential mortgage-backed debt securities	318,620	216,956	183,104
Non-Agency collateralized mortgage obligations	8,166	13,663	22,970
Obligations of states and political subdivisions	24,647	33,141	33,436
Trust preferred securities single issuer	500	500	500
Trust preferred securities pooled	4,564	5,396	5,957
Corporate and other debt securities	2,570	1,117	2,444
Equity securities	3,224	3,345	3,368
Total	\$ 373,589	\$ 285,766	\$ 274,866

	As of December 31,		
	2011	2010	2009
	(Dollar amounts in thousands)		
<b>Securities Held to Maturity</b>			
Trust preferred securities single issuer	\$ 978	\$ 2,007	\$ 2,012
Trust preferred securities pooled	617	650	1,023
Total	\$ 1,595	\$ 2,657	\$ 3,035

For financial reporting purposes, available for sale securities are carried at fair value.



Table of Contents**Investment Securities Portfolio Maturities and Yields**

The following table sets forth information about the maturities and weighted average yield on VIST's securities portfolio. Floating rate securities are included in the "Due in 1 Year or Less" bucket. Yields are not reported on a tax equivalent basis.

	Amortized Cost at December 31, 2011						
	Due in 1 Year or Less	After 1 Year to 5 Years	After 5 Years to 10 Years	After 10 Years	No Stated Maturity	Total	Fair Value
(Dollars in thousands except percentage data)							
<b>Securities Available For Sale</b>							
U.S. Government agency securities	\$	\$ 20	\$ 7,366	\$ 3,912	\$	\$ 11,298	\$ 12,087
		% 7.08%	4.15%	6.24%		% 4.88%	
Obligations of states and political subdivisions	\$	\$	\$	\$ 24,647	\$	\$ 24,647	\$ 25,437
		%	%	4.51%		% 4.51%	
Trust preferred securities single issuer	\$	\$	\$	\$ 500	\$	\$ 500	\$ 125
Trust preferred securities pooled				4,564		4,564	1,828
Corporate and other debt securities			1,570	1,000		2,570	2,455
Equity securities				225	2,999	3,224	2,545
Total	\$	\$	\$ 1,570	\$ 6,289	\$ 2,999	\$ 10,858	\$ 6,953
		%	% 5.01%	4.25%	2.30%	3.82%	
Agency residential mortgage-backed debt securities	\$	\$	\$	\$ 318,620	\$	\$ 318,620	324,971
Non-Agency collateralized mortgage obligations				8,166		8,166	6,243
Total	\$	\$	\$	\$ 326,786	\$	\$ 326,786	\$ 331,214
		%	%	4.57%		% 4.57%	

	Amortized Cost at December 31, 2011						
	Due in 1 Year or Less	After 1 Year to 5 Years	After 5 Years to 10 Years	After 10 Years	No Stated Maturity	Total	Fair Value
(Dollars in thousands except percentage data)							
<b>Securities Held to Maturity</b>							
Trust preferred securities single issuer	\$	\$	\$	\$ 978	\$	\$ 978	\$ 1,036
Trust preferred securities pooled				617		617	577
Total	\$	\$	\$	\$ 1,595	\$	\$ 1,595	\$ 1,613
		%	%	6.16%		% 6.16%	

The securities portfolio included a net unrealized gain on available for sale securities of \$2.1 million and a net unrealized loss on available for sale securities of \$6.0 million at December 31, 2011 and 2010, respectively. In addition, net unrealized gains of \$18,000 and net unrealized losses of \$769,000 were present in the held to maturity securities at December 31, 2011 and 2010, respectively. Changes in longer-term treasury interest rates, government monetary policy, the easing of underlying collateral and credit concerns, and dislocation in the current market were primarily responsible for the change in the fair market value of the securities.

Debt securities that management has the positive ability and intent to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities classified as available for sale

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are those securities that VIST intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of VIST's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income or loss, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Purchased premiums and discounts are recognized in interest income using a method which approximates the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

Management evaluates investment securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Factors that may be indicative of impairment include, but are not limited to, the following:

Fair value below cost and the length of time

Adverse condition specific to a particular investment

Rating agency activities (e.g., downgrade)

Financial condition of an issuer

Dividend activities

Suspension of trading

Management intent

Changes in tax laws or other policies

Subsequent market value changes

Economic or industry forecasts

Other-than-temporary impairment means management believes the security's impairment is due to factors that could include the issuer's inability to pay interest or dividends, the issuer's potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, management has to first consider (a) whether VIST intends to sell the security, and (b) whether it is more likely than not that VIST will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but VIST does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows), while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.



Table of Contents**Federal Home Loan Bank Stock**

VIST had \$5.8 million and \$7.1 million of FHLB stock at December 31, 2011 and 2010, respectively. The decrease in FHLB stock was the result of stock repurchases by the FHLB throughout 2011, totaling \$1.3 million. As a result of improved core earnings and a decrease in other-than-temporary impairment charges on non-agency investment securities, the FHLB repurchased stock from VIST Bank. VIST Bank is a voluntary member of the FHLB, which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. Investment in FHLB Stock is "restricted" as it is required to participate in FHLB programs.

**Loans, Credit Quality and Credit Risk**

Gross loans decreased by \$63.3 million to \$957.9 million at December 31, 2011 from \$1.0 billion at December 31, 2010. The overall decrease in loans was mainly due to decreases in the one-to-four family portion of our residential real estate loan portfolio, our construction portfolio and our commercial real estate portfolio, partially offset by an increase in our commercial, industrial and agricultural portfolio.

*The various components of loans at December 31 were as follows:*

	December 31,				
	2011	2010	2009	2008	2007
	(Dollar amounts in thousands)				
Residential real estate one to four family	\$ 129,335	\$ 153,499	\$ 168,862	\$ 185,201	\$ 197,540
Residential real estate multi family	57,776	53,497	38,994	34,869	33,457
Commercial, industrial and agricultural	158,018	150,097	153,404	177,266	167,370
Commercial real estate	418,589	427,546	358,834	322,581	282,983
Construction	56,824	78,202	100,713	89,556	79,414
Consumer	2,148	2,713	3,241	4,196	5,902
Home equity lines of credit	84,487	88,809	86,916	72,137	53,405
Gross loans, excluding covered loans	907,177	954,363	910,964	885,806	820,071
Covered loans	50,706	66,770			
Total loans	957,883	1,021,133	910,964	885,806	820,071
Allowance for loan losses	(14,049)	(14,790)	(11,449)	(8,124)	(7,264)
Loans, net of allowance for loan losses	\$ 943,834	\$ 1,006,343	\$ 899,515	\$ 877,682	\$ 812,807

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The table below presents maturities the various components of loans, outstanding at December 31, 2011:

	Maturities of Outstanding Loans			Total
	Within One Year	After One But Within Five Years	After Five Years	
	(Dollar amounts in thousands)			
Residential real estate one to four family	\$ 22,375	\$ 37,244	\$ 69,716	\$ 129,335
Residential real estate multi family	3,760	40,573	13,443	57,776
Commercial, industrial and agricultural	72,837	45,504	39,677	158,018
Commercial real estate	47,102	232,003	139,484	418,589
Construction	37,113	14,041	5,670	56,824
Consumer	1,110	544	494	2,148
Home equity lines of credit	56,810	2,065	25,612	84,487
Gross loans, excluding covered loans	241,107	371,974	294,096	907,177
Covered loans	14,936	21,656	14,114	50,706
Total loans	\$ 256,043	\$ 393,630	\$ 308,210	\$ 957,883

At December 31, 2011 and 2010, VIST Bank had \$530.7 million and \$537.2 million in variable rate loans, respectively.

VIST Bank is required to pledge residential and commercial real estate secured loans to collateralize its potential borrowing capacity with the FHLB. At December 31, 2011, VIST Bank had pledged approximately \$503.9 million in loans to the FHLB to secure its maximum borrowing capacity, as compared to \$713.5 million at December 31, 2010.

VIST Bank occasionally buys or sells portions of commercial loans through participations with other financial institutions. During 2011, VIST Bank participated in a shared national credit with VIST Bank taking \$15.0 million of the overall loan request. VIST Bank was comfortable in this request based upon the high credit quality of the borrowing entity, the fact that the business was within our lending area, and VIST Bank's commercial loan officer has had a long standing lending relationship with the client for a number of years. VIST Bank transacts sales of residential mortgages on a regular basis through VIST Mortgage. During 2011, VIST Bank sold \$35.0 million of residential mortgage loans generating \$702,000 of gains recognized on the sale, which were recorded as non-interest income. During 2010, VIST Bank sold \$43.5 million of residential mortgage loans generating \$963,000 of gains recognized on the sale.

**Loan Policy and Procedure.** VIST Bank's loan policies and procedures have been approved by the Board of Directors, based on the recommendation of VIST Bank's President, Chief Lending Officer, Chief Credit Officer, and the Risk Management Officer, who collectively establish and monitor credit policy issues. Application of the loan policy is the direct responsibility of those who participate either directly or administratively in the lending function.

VIST Bank's Relationship Managers originate loan requests through a variety of sources which include VIST Bank's existing customer base, referrals from directors and various networking sources (accountants, attorneys, and realtors), and market presence. Over the past several years, the effectiveness of VIST Bank's Relationship Managers have been significantly increased through (1) the hiring of experienced commercial lenders in VIST Bank's geographic markets, (2) VIST Bank's continued participation in community and civic events, (3) strong networking efforts, (4) local decision making, and (5) consolidation and other changes which are occurring with respect to other local financial institutions.

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A credit loan committee comprised of senior management approves commercial and consumer loans with total loan exposures in excess of \$2.0 million. The executive loan committee comprised of senior management and 5 independent members from the Board of Directors approves commercial and consumer loans with total exposures in excess of \$4.5 million up to VIST Bank's legal lending limit. One of the affirmative votes on both the credit and/or executive loan committee must be either the Chief Credit Officer or the Chief Lending Officer in order to ensure that proper standards are maintained.

Lending authorities are granted to individuals based on position and experience. All commercial loan approvals require dual signatures. Loans over \$1,000,000 and up to \$2,000,000 require the additional approval of the Chief Lending Officer, Chief Credit Officer, Senior Credit Officer and/or VIST Bank's Chief Executive Officer. Loans in excess of \$2,000,000 are presented to VIST Bank's Credit Committee, comprised of the Chief Lending Officer, Chief Credit Officer, Senior Credit Officer, Chief Risk Officer (non-voting), and selected market Executives. The Credit Committee can approve loans up to \$4,500,000 and recommend loans to the Executive Loan Committee for approval up to VIST Bank's legal lending limit of approximately \$18.1 million at December 31, 2011. The Executive Loan Committee is comprised of VIST Bank CEO, the Chief Lending Officer, the Chief Credit Officer, the Chief Financial Officer, Senior Credit Officer, the Chief Risk Officer (non-voting member) and selected Board members. At least one affirmative vote in both the Credit Committee and the Executive Loan Committee must come from the CCO or the CLO. Individual joint lending authority is granted based on the level of experience of the individual for commercial loan exposures under \$2 million. Higher risk credits (as determined by internal loan ratings) and unsecured facilities (in excess of \$100,000) require the signature of an officer with more credit experience.

VIST Bank has established an "in-house" lending limit of 80% of its legal lending limit and, at December 31, 2011, VIST Bank had no loan relationships in excess of its in-house limit. Although Bank policy does not prohibit going over the 80% limit, these credits need to be generally considered of "high quality".

VIST Bank does occasionally purchase or sell portions of large dollar amount commercial loans through participations with other financial institutions. VIST Bank also transacts loans sales of retail mortgage loans on a regular basis. Typically, VIST Bank does not buy or sell any retail consumer loans.

Through the Chief Credit Officer and the Credit Committee, VIST Bank has successfully implemented individual, joint, and committee level approval procedures which have monitored and solidified credit quality as well as provided lenders with a process that is responsive to customer needs.

VIST Bank manages credit risk in the loan portfolio through adherence to consistent standards, guidelines, and limitations established by the credit policy. VIST Bank's credit department, along with the Relationship Managers, analyzes the financial statements of the borrower, collateral values, loan structure, and economic conditions, to then make a recommendation to the appropriate approval authority. Commercial loans generally consist of real estate secured loans, lines of credit, term, and equipment loans. VIST Bank's underwriting policies impose strict collateral requirements and normally will require the guaranty of the principals. For requests that qualify, VIST Bank will use Small Business Administration guarantees to improve the credit quality and support local small business.

VIST Bank's written loan policies are continually evaluated and updated as necessary to reflect changes in the marketplace. Annually, credit loan policies are approved by VIST Bank's Board of Directors thus providing Board oversight. These policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding.

One of the key components of VIST Bank's commercial loan policy is loan to value. The following guidelines serve as the maximum loan to value ratios which VIST Bank would normally consider for new loan requests. Generally, VIST Bank will use the lower of cost or market when determining a loan

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to value ratio (except for investment securities). The values are not appropriate in all cases, and Bank lending personnel, pursuant to their responsibility to protect VIST Bank's interest, seek as much collateral as practical.

<i>Commercial Real Estate</i>		
a)	Unapproved land (raw land)	50%
b)	Approved but Unimproved land	65%
c)	Approved and Improved land	75%
d)	Improved Real Estate	80%
<i>Investments</i>		
a)	Stocks listed on a nationally recognized exchange Stock value should be greater than \$10	75%
b)	Bonds, Bills, Notes	
c)	US Gov't obligations (fully guaranteed)	95%
d)	State, county, & municipal general obligations rated BBB or higher	varies: 65 - 80%
	Corporate obligations rated BBB or higher	varies: 65 - 80%
<i>Other Assets</i>		
a)	Accounts Receivable (eligible)	80%
b)	Inventory (raw material and finished goods)	50%
c)	Equipment (new)	80%
d)	Equipment (purchase money used)	70%
e)	Cash or cash equivalents	100%

Exception reporting is presented to the audit committee on a quarterly basis to ensure that VIST Bank remains in compliance with the FDIC limits on exceeding supervisory loan of VIST Bank's board of directors to value guidelines established for real estate secured transactions.

Generally, when evaluating a commercial loan request, VIST Bank will require 3 years of financial information on the borrower and any guarantor. VIST Bank has established underwriting standards that are expected to be maintained by all lending personnel. These requirements include loans being evaluated and underwritten at fully indexed rates. Larger loan exposures are typically analyzed by credit personnel that are independent from the sales personnel.

VIST Bank has not underwritten any hybrid loans or sub-prime loans. Loans that are generally considered to be sub-prime are loans where the borrower has a FICO score below 640 and shows data on their credit reports associated with higher default rates, limited debt experience, excessive debt, a history of missed payments, failures to pay debts, and recorded bankruptcies.

All loan closings, loan funding and appraisal ordering and review involve personnel that are independent from the sales function to ensure that bank standards and requirements are met prior to disbursement.

**Impaired Loans.** VIST generally values impaired loans that are accounted for under FASB ASC 310, Accounting by Creditors for Impairment of a Loan, based on the fair value of a loan's collateral. Loans are determined to be impaired when management has utilized current information and economic events and judged that it is probable that not all of the principal and interest due under the contractual terms of the loan agreement will be collected. Other than as described herein, management does not believe there are any significant trends, events or uncertainties that are reasonably expected to have a material impact on the loan portfolio to affect future results of operations, liquidity or capital resources. However, based on known information, management believes that the effects of current and past economic conditions and other unfavorable business conditions may



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impact certain borrowers' abilities to comply with their repayment terms and therefore may have an adverse effect on future results of operations, liquidity, or capital resources. Management closely monitors economic and business conditions and their impact on borrowers' financial strength. At December 31, 2011, the recorded investment in loans that were considered to be impaired under U.S. GAAP totaled \$74.9 million, compared to \$49.1 million at December 31, 2010. Management continues to diligently monitor and evaluate the existing portfolio, and identify credit concerns and risks, including those resulting from the current economy.

For the twelve months ended December 31, 2011, the average recorded investment in impaired loans was \$75.8 million and interest income recognized on impaired loans was \$5.3 million for the twelve months ended December 31, 2011.

**Impaired Loans With a Related Allowance.** At December 31, 2011, VIST had a recorded investment of \$45.8 million in impaired loans with a related allowance, as compared to \$40.7 million at December 31, 2010. This group of impaired loans and leases has a related allowance due to the probability that the borrower is not able to continue to make principal and interest payments due under the contractual terms of the loan or lease. Additionally, these loans appear to have insufficient collateral and VIST's principal may be at risk; as a result, a related allowance is established to estimate future potential principal losses.

**Impaired Loans Without a Related Allowance.** At December 31, 2011, VIST had a recorded investment of \$29.1 million in impaired loans without a related allowance, as compared to \$8.4 million at December 31, 2010. This group of impaired loans is considered impaired due to the likelihood of the borrower not being able to continue to make principal and interest payments due under the contractual terms of the loan. However, these loans appear to have sufficient collateral and VIST's principal does not appear to be at risk of probable principal losses; as a result, management believes a related allowance is not necessary.

**Non-Performing Assets.** Nonperforming assets consist of nonperforming loans and other real estate owned ("OREO"). Nonperforming loans consist of loans where the accrual of interest has been discontinued (i.e. non-accrual loans), and those loans that are 90 days or more past due and still accruing interest. Nonaccruing loans are no longer accruing interest income because of apparent financial difficulties of the borrower. Interest received on nonaccruing loans is recorded as income only after the past due principal is brought current and deemed collectible in full. Non-accrual loans that maintained a current payment status for six consecutive months are placed back on accrual status under VIST Bank's loan policy. Loans (excluding covered loans) on which the accrual of interest has been discontinued amounted to \$36.3 million and \$26.5 million at December 31, 2011 and December 31, 2010, respectively. A total of \$19.5 million (represented by 82 loans) was added to non-accrual during 2011, and a total of \$7.5 million (represented by 59 loans) was removed from non-accrual. For the twelve months ended December 31, 2011, there was also \$2.2 million of principal pay-downs on non-accrual loans. Of the \$19.5 million increase in non-accruals during 2011, \$7.9 million or 40% of the increase was related to four loans.

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OREO includes assets acquired through foreclosure, deed in-lieu of foreclosure, and loans identified as in-substance foreclosures. A loan is classified as an in-substance foreclosure when effective control of the collateral has been taken prior to completion of formal foreclosure proceedings. OREO is held for sale and is recorded at fair value less estimated costs to sell. Costs to maintain OREO and subsequent gains and losses attributable to OREO liquidation are included in the Consolidated Statements of Operations in other income and other expense as realized. No depreciation or amortization expense is recognized. OREO was \$3.7 million and \$5.3 million at December 31, 2011 and 2010, respectively. The decrease in OREO during 2011 was mostly attributable to the sale of one commercial property. VIST decided to sell this property and incur a significant loss because management did not anticipate market conditions for the property to improve significantly over the next 18 to 24 months. Management estimated that selling the property at a significant loss would be preferable to incurring the significant expenses to maintain the property during the time it would likely take to sell. At December 31, 2011, three OREO properties amounted to \$2.7 million or 72% of VIST's total OREO. At December 31, 2011, VIST had thirteen OREO properties, as compared to twenty-three at December 31, 2010.

*The table below presents the various components of VIST's non-performing assets (excluding covered loans) at December 31, 2011 as compared to December 31, 2010:*

**Non-performing Loans**

	As of December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
<b>Non-accrual loans:</b>					
Real estate	\$ 34,028	\$ 24,482	\$ 24,420	\$ 2,947	\$ 1,160
Consumer	2	15	4	459	259
Commercial	2,314	2,016	716	7,298	2,133
<b>Total</b>	<b>36,344</b>	<b>26,513</b>	<b>25,140</b>	<b>10,704</b>	<b>3,552</b>
<b>Loans past due 90 days or more and still accruing interest:</b>					
Real estate	239	594	1,664	28	331
Consumer					408
Commercial			147	112	2,266
<b>Total loans past due 90 days or more</b>	<b>239</b>	<b>594</b>	<b>1,811</b>	<b>140</b>	<b>3,005</b>
<b>Troubled debt restructurings:</b>					
Real estate	3,279	10,403	5,938		
Consumer					
Commercial	126	369	307	285	267
<b>Total troubled debt restructurings</b>	<b>3,405</b>	<b>10,772</b>	<b>6,245</b>	<b>285</b>	<b>267</b>
<b>Total non-performing loans</b>	<b>\$ 39,988</b>	<b>\$ 37,879</b>	<b>\$ 33,196</b>	<b>\$ 11,129</b>	<b>\$ 6,824</b>

**Troubled Debt Restructurings ("TDRs")** As a result of adopting the amendments in ASU No. 2011-02 in the third quarter of 2011, VIST reassessed all restructurings that occurred on or after January 1, 2011, for which the borrower was determined to be troubled, for identification as TDRs. Upon identifying those receivables as TDRs, VIST identified them as impaired under the guidance in Section 310-10-35 of the Accounting Standards Codification. The amendments in ASU No. 2011-02 require prospective application of the impairment measurement guidance in Section 450-20 for those receivables newly identified as impaired.

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TDRs may be modified by means of extended maturity at below market adjusted interest rates, a combination of rate and maturity, or by other means including covenant modifications, forbearance and other concessions. However, VIST generally only restructures loans by modifying the payment structure to interest only or by reducing the actual interest rate. Once a loan becomes a TDR, it will continue to be reported as a TDR until it is ultimately repaid in full, reclassified to loans held for sale, or foreclosed and sold.

The recorded investment in TDRs was \$3.4 million and \$10.8 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, VIST had \$2.7 million and \$9.9 million, respectively, of accruing TDRs while TDRs on nonaccrual status totaled \$655,000 and \$849,000 at December 31, 2011 and December 31, 2010, respectively. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any re-defaults will likely be affected by future economic conditions. At December 31, 2011 and 2010, related to TDRs, the allowance for loan losses included specific reserves of \$245,000 and \$423,000, respectively.

*The following table presents information on the troubled and restructured debt by loan portfolio (excluding covered loans) for the year-ended December 31, 2011:*

	Twelve Months Ended December 31, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollars in thousands)			
<b>Troubled Debt Restructurings:</b>			
Residential real estate one to four family	3	\$ 156	\$ 156
Commercial real estate	3	909	909
Home equity lines of credit	1	210	210
<b>Total Troubled Debt Restructurings</b>	<b>7</b>	<b>\$ 1,275</b>	<b>\$ 1,275</b>

For the twelve months ended December 31, 2011, VIST added an additional \$1.3 million in TDRS respectively. VIST had reserves allocated for loan loss of \$32,000 for the additions in troubled debt restructurings made during the twelve months ending December 31, 2011. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred. As of December 31, 2011, no defaults occurred on loans modified as a TDR within the previous 12 months.

**Allowance for Loan Losses.** Including covered loans, the allowance for loan losses at December 31, 2011 was \$14.0 million, or 1.47% of outstanding loans, as compared to \$14.8 million or 1.45% at December 31, 2010. In accordance with U.S. GAAP, the allowance for loan losses represents management's estimate of losses inherent in the loan and lease portfolio as of the balance sheet date and is recorded as a reduction to loans and leases. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 90 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance, which is based on VIST's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan and lease portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans and leases that are classified as impaired. For such loans and leases, an allowance is established when the (i) discounted cash flows, or (ii) collateral value, or (iii) observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity loans, home equity lines of credit and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for relevant qualitative factors. Separate qualitative adjustments are made for higher-risk criticized loans that are not impaired. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and historical-based loss/collection, charge off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as trends and other loan modifications.
6. Quality of VIST's loan review system, and the degree of oversight by VIST's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that VIST will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the

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borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for all criticized and classified loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of VIST's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals or evaluations. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

For loans that are not rated as criticized or classified, VIST collectively evaluates the loans for impairment based upon homogeneous loan groups.

Loans whose terms are modified are classified as troubled debt restructurings if VIST grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, an extension of a loan's stated maturity date or a change in the loan payment to interest-only. For troubled debt restructurings on loans that are accruing interest, VIST will continue to accrue interest based upon the modified terms. Troubled debt restructurings on loans not accruing interest are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are tested for impairment.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review VIST's allowance for loan losses and may require VIST to recognize additions to the allowance based on their judgments about information available to them at the time of their

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examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Amounts were allocated to specific loan categories based upon management's classification of loans under VIST's internal loan grading system and assessment of near-term charge-offs and losses existing in specific larger balance loans that are reviewed in detail by VIST's internal loan review department and pools of other loans that are not individually analyzed. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future credit losses may occur.

*The following table presents a comparative allocation of the allowance for loan losses for each of the past five year-ends.*

**Allocation of Allowance for Loan Losses**

	As of December 31,									
	2011		2010		2009		2008		2007	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
(Dollar amounts in thousands, except percentage data)										
Commercial	\$ 8,515	60.6%	\$ 8,960	61.2%	\$ 4,745	56.2%	\$ 6,851	56.4%	\$ 6,125	54.9%
Residential Real Estate	5,418	38.6	5,366	36.7	6,170	43.4	263	43.1	233	44.4
Consumer	116	0.8	310	2.1	527	0.4	738	0.5	622	0.7
Total Allocated	14,049	100.0	14,636	100.0	11,442	100.0	7,852	100.0	6,980	100.0
Unallocated			154		7		272		284	
Total	\$ 14,049	100.0%	\$ 14,790	100.0%	\$ 11,449	100.0%	\$ 8,124	100.0%	\$ 7,264	100.0%

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The following table presents the activity related to VIST's allowance for loan losses for the years ended December 31, 2011, 2010, 2009, 2008 and 2007:

**Analysis of the Allowance for Loan Losses**

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Balance, beginning of year	\$ 14,790	\$ 11,449	\$ 8,124	\$ 7,264	\$ 7,611
Charge-offs:					
Commercial	1,375	500	1,226	3,613	1,087
Real estate	8,212	6,838	4,078	30	56
Consumer	352	45	173	430	405
Total	9,939	7,383	5,477	4,073	1,548
Recoveries:					
Commercial	59	150	148	79	112
Real estate	99	347	52		53
Consumer	4	17	30	19	38
Total	162	514	230	98	203
Net charge-offs	9,777	6,869	5,247	3,975	1,345
Provision	9,036	10,210	8,572	4,835	998
Balance, end of Year	\$ 14,049	\$ 14,790	\$ 11,449	\$ 8,124	\$ 7,264
Average loans(1)	\$ 930,467	\$ 915,009	\$ 895,598	\$ 857,835	\$ 791,440
Ratio of net charge-offs to average loans	1.04%	0.74%	0.58%	0.46%	0.17%
Ratio of allowance for loan losses to total loans	1.47%	1.45%	1.26%	0.92%	0.88%

(1) Excludes covered loans and mortgage loans held for sale

**Covered Loans**

Loans for which VIST Bank will share losses with the FDIC are referred to as "covered loans", and consist of loans acquired from Allegiance Bank as part of an FDIC-assisted transaction during the fourth quarter of 2010. Our covered loans totaled \$50.7 million at December 31, 2011 as compared to \$66.8 million at December 31, 2010. 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. Of the loans acquired with evidence of credit deterioration, some of the loans were aggregated into ten pools of loans based on common risk characteristics such as credit risk and loan type. A pool is accounted for as one asset with a single composite interest rate, an aggregate fair value and expected cash flows. The carrying value of covered loans acquired and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was \$25.9 million at December 31, 2011, as compared to \$29.7 million at December 31, 2010.

The carrying value of covered 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 \$24.8 million at December 31, 2011, as compared to \$37.1 million at December 31, 2010. 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.





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For those covered loans and pools of covered loans accounted for under ASC Subtopic 310-30, the difference between the contractually required payments due and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the non-accretable difference. The contractually required payments due represents the total undiscounted amount of all uncollected principal and interest payments. Contractually required payments due may increase or decrease for a variety of reasons, e.g. when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. VIST Bank estimates the undiscounted cash flows expected to be collected by incorporating several key assumptions including probability of default, loss given default, and the amount of actual prepayments after the acquisition dates. The non-accretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses and uncollectable contractual interest expected to be incurred over the life of the loans. The excess of cash flows expected to be collected over the carrying value of the covered loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the loans, or pool of loans, using the level yield method. The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment assumptions, and changes in expected principal and interest payments over the estimated lives of the loans. Prepayments affect the estimated life of covered loans and could change the amount of interest income, and possibly principal, expected to be collected.

At both acquisition and subsequent reporting dates, VIST uses a third party service provider to assist with determining the contractual and estimated cash flows. VIST provides the third party with updated loan-level information derived from VIST's main operating system, contractually required loan payments and expected cash flows for each loan and loan pool are individually reviewed by VIST. Using this information, the third party provider determines both the contractual cash flows and cash flows expected to be collected. The loan-level information used to reforecast the cash flows is subsequently aggregated for those loans accounted for on a pool basis. The expected payment data, discount rates, impairment data and changes to the accretable yield received back from the third party are reviewed by VIST to determine whether this information is accurate and the resulting financial statement effects are reasonable.

Unlike contractual cash flows which are determined based on known factors, significant management assumptions are necessary in forecasting the estimated cash flows. We attempt to ensure the forecasted expectations are reasonable based on the information currently available; however, due to the uncertainties inherent in the use of estimates, actual cash flow results may differ from our forecast and the differences may be significant. To mitigate such differences, we carefully prepare and review the assumptions utilized in forecasting estimated cash flows.

In reforecasting future estimated cash flow, VIST will adjust the credit loss expectations for loan pools, as necessary. These adjustments are based, in part, on actual loss severities recognized for each loan type, as well as changes in the probability of default.

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The following table summarizes the changes in the carrying amount of those covered loans and pools of covered loans accounted for under ASC Subtopic 310-30, at December 31, 2011 and 2010.

	Carrying Amount, Net	Accretible Yield
	(in thousands)	
Balance at November 19, 2010	\$ 30,330	\$ 6,104
Accretion	293	(293)
Payments Received	(904)	
Net increase in cash flows		
Transfer to OREO		
Provision for losses on covered loans		
Balance at December 31, 2010	29,719	5,811
Accretion	2,978	(2,978)
Payments Received	(6,272)	
Net increase in cash flows		4,000
Transfer to OREO	(550)	
Provision for losses on covered loans	(135)	
Balance at December 31, 2011	\$ 25,740	\$ 6,833

During the twelve months ended December 31, 2011, certain pools of covered loans experienced decreases in their expected cash flows based on higher levels of credit impairment than originally forecasted by us at the acquisition dates. Accordingly, we recorded a \$135,000 provision for losses on covered loans as a component of our provision of loan losses in the consolidated statement of operations. The provision for losses on covered loans was partially offset by a \$95,000 increase in our FDIC indemnification asset for the FDIC's portion of the additional estimated credit losses under the loss sharing agreements (see table in the next section below). This increase in FDIC loss-share receivable was recorded with an offsetting increase to non-interest income for the twelve months ended December 31, 2011.

Although we recognized credit impairment for loans and certain pools, on an aggregate basis the acquired portfolio of covered loans are performing better than originally expected. Based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For the loans and pools with better than expected cash flows, the forecasted increase is recorded as a prospective adjustment to our interest income on these loans and loan pools over future periods. A corresponding decrease in the FDIC indemnification asset due to the increase in expected cash flows for these loan pools is recognized on a prospective basis over the shorter period of the lives of the loan pools and the loss-share agreements accordingly. The offsetting expense is recorded as an impairment to the FDIC indemnification asset to other expense in the consolidated statement of operations.

***FDIC Indemnification Asset Related to Covered Loans and Foreclosed Assets***

The receivable arising from the loss sharing agreements (referred to as the "FDIC indemnification asset" on our statements of financial condition) is measured separately from the covered loans and loan pools because the agreements are not contractually part of the covered loans and are not transferable should VIST Bank choose to dispose of the covered loans. As of the acquisition date of the FDIC-assisted transaction, we recorded an aggregate FDIC indemnification asset \$7.0 million, consisting of the present value of the expected future cash flows VIST Bank expected to receive from the FDIC under the loss sharing agreements. The FDIC indemnification asset is reduced as the loss sharing payments are received from the FDIC for losses realized on covered loans and other real estate owned

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acquired in the FDIC-assisted transactions. Actual or expected losses in excess of the acquisition date estimates and accretion of the acquisition date present value discount will result in an increase in the FDIC indemnification asset and the immediate recognition of non-interest income in our financial statements.

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

The following table presents changes in the FDIC indemnification asset for the twelve months ended December 31, 2011:

	<b>Twelve Months Ended December 31, 2011</b>	
	<b>(in thousands)</b>	
Balance, beginning of the period	\$	7,003
Discount accretion of the present value at the acquisition dates		54
Prospective adjustment for additional cash flows		(226)
Increase due to impairment on covered loans		95
Reimbursements from the FDIC		(545)
Balance, end of period	\$	6,381

**Deposits**

Total deposits were \$1.19 billion and \$1.15 billion at December 31, 2011 and 2010, respectively. Non-interest bearing deposits increased to \$129.4 million at December 31, 2011, from \$122.5 million at December 31, 2010, an increase of \$6.9 million or 5.7%. The increase in non-interest bearing deposits was primarily due to an increase in non-interest bearing personal accounts. Management continues its efforts to promote growth in these types of deposits, such as offering a free checking product, as a method to help reduce the overall cost of funds. Interest bearing deposits increased by \$31.2 million or 3.0%, from \$1.0 billion at December 31, 2010 to \$1.1 billion at December 31, 2011. The increase in interest bearing deposits was primarily due to an increase in interest bearing core deposits.

Management continues to promote interest-bearing deposits through a disciplined pricing strategy with a continuing emphasis on commercial and retail marketing programs.

*The components of VIST's deposits at December 31, 2011 as compared to December 31, 2010 were as follows:*

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Demand, non-interest bearing	\$ 129,394	\$ 122,450
Demand, interest bearing	469,578	399,286
Savings deposits	168,530	129,728
Time, \$100,000 and over	238,749	293,703
Time, other	181,198	204,113
Total deposits	\$ 1,187,449	\$ 1,149,280

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The following table sets forth VIST Bank's certificates of deposit of \$100,000 or more by maturity:

At December 31, 2011	
(in thousands)	
Three Months or Less	\$ 37,227
Over Three Through Six Months	27,190
Over Six Through Twelve Months	99,513
Over Twelve Months	74,819
<b>Total</b>	<b>\$ 238,749</b>

The following table sets forth the average balances of deposits and the average rates paid for the years presented:

	Year Ended December 31,					
	2011		2010		2009	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Demand, non-interest bearing	\$ 123,479		\$ 111,791		\$ 107,629	
Demand, interest bearing	442,129	1.00%	396,383	1.22%	301,403	1.48%
Savings deposits	147,469	0.59%	110,075	0.70%	77,823	0.97%
Time deposits	466,098	2.10%	452,587	2.44%	460,374	3.20%
<b>Total deposits</b>	<b>\$ 1,179,175</b>		<b>\$ 1,070,836</b>		<b>\$ 947,229</b>	

**Borrowings**

Borrowed funds from various sources are generally used to supplement deposit growth. There were no Federal funds purchased at either December 31, 2011 or December 31, 2010. Federal funds purchased typically mature in one day. An increase in core deposit levels has reduced the need for VIST to borrow overnight funds. Short-term securities sold under agreements to repurchase were \$3.4 million and \$6.8 million at December 31, 2011 and 2010, respectively. Borrowings, representing advances from the FHLB, was \$0 and \$10.0 million at December 31, 2011 and 2010, respectively. Long-term securities sold under agreements to repurchase were at \$100.0 million at both December 31, 2011 and 2010.

Information concerning short-term borrowings is summarized as follows:

	As of December 31,		
	2011	2010	2009
	(Dollar amounts in thousands, except percentage data)		
<b>Federal funds purchased:</b>			
Average balance during the year	\$ 233	\$ 3,650	\$ 2,694
Average rate during the year	0.37%	0.50%	0.66%
<b>Securities sold under agreements to repurchase:</b>			
Average balance during the year	5,224	11,265	21,046
Average rate during the year	0.27%	0.54%	0.99%
<b>Maximum month end balance of short-term borrowings during the year</b>	<b>\$</b>	<b>\$ 26,313</b>	<b>\$ 29,444</b>

Table of Contents**Shareholders' Equity**

Shareholders' equity decreased by \$16.7 million to \$115.7 million at December 31, 2011, as compared to \$132.4 million at December 31, 2010. The decrease in stockholders' equity was primarily related to a net loss for the twelve months ended December 31, 2011 (largely attributable to a \$25.1 million pretax goodwill impairment charge) and dividends paid on common and preferred stock (for additional information related to the changes in shareholder's equity, refer to the Consolidated Statement of Changes in Shareholder's Equity in VIST's Consolidated Financial Statements) offset by unrealized gains on available-for-sale securities.

On April 21, 2010, VIST entered into separate stock purchase agreements with two institutional investors relating to the sale of an aggregate of 644,000 shares of VIST's authorized but unissued common stock, par value \$5.00 per share, at a purchase price of \$8.00 per share. VIST completed the issuance of \$4.8 million of common stock, net of related offering costs of \$321,000, on May 12, 2010.

VIST declared common stock cash dividends in 2011 of \$0.20 per share and \$0.20 per share in 2010. *The following table presents a few ratios that are used to measure VIST's performance.*

	Year Ended December 31,		
	2011	2010	2009
Return on average assets	(1.42)%	0.29%	0.05%
Return on average equity	(14.90)%	3.02%	0.51%
Dividend payout ratio	(5.90)%	53.69%	166.22%
Average equity to average assets	9.41%	9.73%	9.38%

**Regulatory Capital**

Federal bank regulatory agencies have established certain capital-related criteria that must be met by banks and bank holding companies. The measurements which incorporate the varying degrees of risk contained within the balance sheet and exposure to off-balance sheet commitments were established to provide a framework for comparing different institutions.

Other than Tier 1 capital restrictions on VIST's junior subordinated debt discussed later, VIST is not aware of any pending recommendations by regulatory authorities that would have a material impact on VIST's capital, resources, or liquidity if they were implemented.

The adequacy of VIST's regulatory capital is reviewed on an ongoing basis with regard to size, composition and quality of VIST's resources. An adequate capital base is important for continued growth and expansion in addition to providing an added protection against unexpected losses.

An important indicator in the banking industry is the leverage ratio, defined as the ratio of common shareholders' equity less intangible assets, to average quarterly assets less intangible assets. The leverage ratio was 7.68% and 8.01% at December 31, 2011 and 2010, respectively. The decrease was primarily the result of an increase in average assets in the fourth quarter of 2011.

As required by the federal banking regulatory authorities, guidelines have been adopted to measure capital adequacy. Under the guidelines, certain minimum ratios are required for core capital and total capital as a percentage of risk-weighted assets and other off-balance sheet instruments. For VIST, Tier 1 risk-based capital generally consists of common shareholders' equity less intangible assets plus the junior subordinated debt, and Tier 2 risk-based capital includes the allowable portion of the allowance for loan losses, currently limited to 1.25% of risk-weighted assets. Any portion of the allowance for loan losses that exceeds the 1.25% limit of risk-weighted assets is disallowed for Tier 2 risk-based capital but is used to adjust the overall risk weighted asset calculation. At December 31, 2011, \$2.1 million of the allowance for loan losses was disallowed for Tier 2 risk-based capital, but was used to adjust the overall risk weighted assets used in the regulatory ratio calculations. Under Tier 1

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risk-based capital guidelines, any amount of net deferred tax assets that exceeds either forecasted net income for the period or 10% of Tier 1 risk-based capital is disallowed. At December 31, 2011, none of VIST's net deferred tax assets was disallowed in the Tier 1 risk-based capital calculation. By regulatory guidelines, the separate component of equity for unrealized appreciation or depreciation on available for sale securities is excluded from Tier 1 risk-based capital. In addition, federal banking regulatory authorities have issued a final rule restricting VIST's junior subordinated debt to 25% of Tier 1 risk-based capital. Amounts of junior subordinated debt in excess of the 25% limit generally may be included in Tier 2 risk-based capital. At December 31, 2011, the entire amount of these securities was allowable to be included as Tier 1 risk-based capital for VIST. For the periods ended December 31, 2011 and 2010, VIST's regulatory capital ratios were above minimum regulatory guidelines.

On December 19, 2008, VIST issued to the Treasury 25,000 shares of Series A Preferred Stock, with a par value of \$0.01 per share and a liquidation preference of \$1,000 per share, and a warrant to purchase 367,982 shares of VIST's common stock, par value \$5.00 per share, for an aggregate purchase price of \$25.0 million in cash.

The Series A Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. Under ARRA, the Series A Preferred Stock may be redeemed at any time following consultation by VIST's primary bank regulator and Treasury, notwithstanding the terms of the original transaction documents. Under FAQ's issued recently by Treasury, participants in the Capital Purchase Program desiring to repay part of an investment by Treasury must repay a minimum of 25% of the issue price of the preferred stock.

In December 2008, VIST infused \$10.0 million of capital into VIST Bank. In December 2011, VIST infused an additional \$5.0 million of capital into VIST Bank.

*The following table sets forth VIST's capital ratios at December 31, 2011 and 2010:*

	<b>At December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Dollars amounts</b>	
	<b>in thousands)</b>	
<b>Tier 1 Capital</b>		
Shareholders' equity	\$ 115,683	\$ 132,447
Disallowed goodwill, intangible assets and deferred tax assets	(19,832)	(45,787)
Junior subordinated debt	18,384	18,287
Unrealized (gains) losses on available for sale debt securities	(1,809)	3,925
<b>Total Tier 1 Capital</b>	<b>112,426</b>	<b>108,872</b>
<b>Tier 2 Capital</b>		
Allowable portion of allowance for loan losses	12,117	12,544
<b>Total Tier 2 Capital</b>	<b>12,117</b>	<b>12,544</b>
<b>Total risk-based capital</b>	<b>\$ 124,543</b>	<b>\$ 121,416</b>
<b>Risk adjusted assets (including off-balance sheet exposures)</b>	<b>\$ 967,298</b>	<b>\$ 1,001,299</b>
<b>Leverage ratio</b>	<b>7.68%</b>	<b>8.01%</b>
<b>Tier I risk-based capital ratio</b>	<b>11.62%</b>	<b>10.87%</b>
<b>Total risk-based capital ratio</b>	<b>12.88%</b>	<b>12.13%</b>

Regulatory guidelines require VIST's Tier 1 capital ratios and the total risk-based capital ratios to be at least 4.0% and 8.0%, respectively.

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On August 5, 2011, Standard & Poor's rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+. With regard to this action, the federal banking agencies, which include the Federal Reserve, the FDIC, the National Credit Union Administration, and the Office of the Comptroller of the Currency, issued a press release which provided the following guidance to banks and bank holding companies:

For risk-based capital purposes, the risk weights for Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities will not change. The treatment of Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities under other federal banking agency regulations, including, for example, the Federal Reserve's Regulation W, will also be unaffected.

**RESULTS OF OPERATIONS 2011 Compared to 2010**

**Overview.** Net loss for the twelve months ended December 31, 2011 was \$20.6 million, as compared to net income of \$4.0 million for the same period in 2010. Return on average assets was -1.42% for 2011, as compared to 0.29% for 2010. Return on average shareholder's equity was -14.9% for 2011, as compared to 3.02% for 2010. The discussion that follows explains the changes in the components of our operating results when comparing the twelve months ended December 31, 2011, to the same period in 2010.

**Net Interest Income**

Net interest income, our primary source of revenue, is the amount by which interest income on loans, investments and interest-earning cash balances exceeds interest incurred on deposits and other non-deposit sources of funds, such as repurchase agreements and borrowings from the FHLB and other correspondent banks. The amount of net interest income is affected by changes in interest rates and by changes in the volume and mix of interest-sensitive assets and liabilities. Net interest income and corresponding yields are presented in the discussion and analysis below on a fully taxable-equivalent basis. Income from tax-exempt assets, primarily loans to or securities issued by state and local governments, is adjusted by an amount equivalent to the federal income taxes which would have been paid if the income received on these assets was taxable at the statutory rate of 34%. Net interest margin is the difference between the gross (tax-effected) yield on earning assets and the cost of interest bearing funds as a percentage of earning assets.

Table of Contents**Average Balances, Rates and Net Yield**

The table below provides average asset and liability balances and the corresponding interest income and expense along with the average interest yields (assets) and interest rates (liabilities) for the twelve months ended December 31, 2011 and 2010.

	Year Ended December 31,					
	2011			2010		
	Average Balances	Interest Income/ Expense	% Rate	Average Balances	Interest Income/ Expense	% Rate
(Dollars in thousands, except percentage data)						
<b>Interest Earning Assets:</b>						
Interest bearing deposits in other banks and federal funds sold	\$ 19,068	\$ 63	0.33%	\$ 46,361	\$ 304	0.66%
Securities (taxable)	296,292	11,891	4.01	234,786	11,006	4.69
Securities (tax-exempt)(1)	27,900	1,914	6.86	36,748	2,489	6.77
Loans(1)(2)(3)	990,090	55,530	5.54	923,531	52,195	5.65
<b>Total interest earning assets</b>	<b>1,333,350</b>	<b>69,398</b>	<b>5.16</b>	<b>1,241,426</b>	<b>65,994</b>	<b>5.32</b>
<b>Interest Bearing Liabilities:</b>						
Interest bearing transaction accounts	442,129	4,436	1.00	396,383	4,851	1.22
Savings deposits	147,469	870	0.59	110,075	767	0.70
Time deposits	466,098	9,797	2.10	452,587	11,046	2.44
<b>Total interest bearing deposits</b>	<b>1,055,696</b>	<b>15,103</b>	<b>1.43</b>	<b>959,045</b>	<b>16,664</b>	<b>1.74</b>
Short-term borrowings	233	1	0.43	3,650	18	0.49
Repurchase agreements	105,224	4,761	4.52	111,265	4,789	4.30
Borrowings	247	7	2.83	11,041	408	3.70
Junior subordinated debt	18,523	1,636	8.83	19,166	1,464	7.64
<b>Total interest bearing liabilities</b>	<b>1,179,923</b>	<b>21,508</b>	<b>1.82</b>	<b>1,104,167</b>	<b>23,343</b>	<b>2.11</b>
Noninterest bearing deposits	\$ 123,479			\$ 111,791		
Net interest income		\$ 47,890			\$ 42,651	
<b>Net interest margin</b>			<b>3.59%</b>			<b>3.44%</b>

(1) Interest income and rates on loans and investment securities are reported on a tax-equivalent basis using a tax rate of 34%.

(2) Held for sale and non-accrual loans have been included in average loan balances.

(3) For 2010, covered loans acquired in the Allegiance acquisition on November 19, 2010 were included in the average balance of loans. As a result of being included for only the 42 day period, the impact on average balance, interest income and yield was minimal for 2010. For 2011, the full year impact of covered loans were reflected in average balance, interest income and yield.

Net interest income as adjusted for tax-exempt financial instruments was \$47.9 million for the twelve months ended December 31, 2011, as compared to \$42.7 million for the same period in 2010. A benefit of a lower cost of funds resulted in less interest paid on average interest-bearing liabilities, which more than offset the decrease in the yield on interest-earning assets, resulted in a higher net interest margin for 2011, as compared to 2010. The taxable-equivalent net interest margin percentage for 2011 was 3.59%, as compared to 3.44% for 2010. The interest rate paid on average interest-bearing liabilities decreased by 29 basis points to 1.82% for 2011, as compared to 2.11% for 2010. The



yield on interest-earning assets decreased by 18 basis points to 5.14% for 2011, as compared to 5.32% for 2010.

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Interest and fees on loans on a taxable equivalent basis increased by \$3.3 million, or 6.4% to \$55.5 million for the year ended December 31, 2011, as compared to \$52.2 million for the same period in 2010. The increase in interest and fees on loans was primarily the result of a \$66.6 million increase in the average balance of loans as compared to 2010, due primarily to the loan volume acquired with the purchase of Allegiance.

Interest on securities on a taxable-equivalent basis was \$13.8 million for the twelve months ended December 31, 2011 and \$13.5 million for the same period in 2010. The average balance of securities increased \$52.7 million to \$324.2 million for 2011, as compared to \$271.5 million for 2010. The taxable-equivalent yield decreased by 71 basis points to 4.26% for 2011, as compared 4.97% for 2010. The additional interest income generated in 2011 from a higher average balance of securities was mostly offset by the decrease in yield for 2011, as compared to 2010.

Interest expense on deposits decreased by \$1.6 million, or 9.4%, to \$15.1 million for the twelve months ended December 31, 2011, as compared to \$16.7 million for the same period in 2010. A benefit of a lower cost of deposits resulted in less interest paid on deposits, which more than offset the increase in the average balance of interest bearing deposits. The average rate paid on interest bearing deposits decreased by 31 basis points to 1.43% for 2011, as compared to 1.74% for 2010. The average balances of interest bearing deposits increased by \$96.7 million to \$1.1 billion for 2011, as compared to \$959.0 million for 2010. The growth in interest-bearing deposits provided the funding needed for the growth in interest-earning assets.

Interest expense on borrowings decreased by \$401,000, or 98.3%, to \$7,000 for the twelve months ended December 31, 2011, as compared to \$408,000 for the same period in 2010. VIST reduced long-term borrowings by \$10.0 million during 2011 to zero, which created a \$10.8 million decrease in the average balance of borrowings for 2011, as compared to 2010.

The average interest rate paid on repurchase agreements increased to 4.52% for the twelve months ended December 31, 2011 as compared to 4.30% for the same period in 2010. The increase in the average interest rate paid on repurchase agreements was the result of increases in average interest rates paid on longer-term, wholesale repurchase agreements. Average repurchase agreement balances decreased \$6.0 million or 5.4% for 2011 as compared to the same period in 2010. The increase in the average rate paid on repurchase agreements for 2011, was offset by the benefit received from the reduction in average balance for 2011, as compared to the same period in 2010. The reduction in borrowings was the result of scheduled maturities.

**Changes in Interest Income and Interest Expense**

The following table sets forth certain information regarding changes in interest income and interest expense of VIST for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (period to period changes in average balance multiplied by beginning rate), and (2) changes in rate (period to period changes in rate multiplied by beginning average balance).

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The following table shows an analysis of changes in interest income and expense(1)(2)(3):

	2011/2010 Increase (Decrease)		
	Due to Change in		
	Volume	Rate	Net
	(Dollars in thousands, except percentage data)		
Interest-bearing deposits in other banks and federal funds sold	\$ (22)	\$ (219)	\$ (241)
Securities (taxable)	2,248	(1,323)	925
Securities (tax-exempt)	(568)	(8)	(576)
Loans	3,349	(15)	3,334
<b>Total Interest Income</b>	<b>5,007</b>	<b>(1,565)</b>	<b>3,442</b>
Interest-bearing transaction accounts	449	(864)	(415)
Savings deposits	224	(121)	103
Time deposits	208	(1,457)	(1,249)
Short-term borrowed funds	(12)	(5)	(17)
Repurchase agreements	(18)	(10)	(28)
Borrowings	(303)	(98)	(401)
Junior subordinated debt	(56)	228	172
<b>Total Interest Expense</b>	<b>492</b>	<b>(2,327)</b>	<b>(1,835)</b>
Increase in net interest income	\$ 4,515	\$ 762	\$ 5,277

- 
- (1) Loan fees have been included in the change in interest income totals presented. Non-accrual loans have been included in average loan balances.
- (2) Changes due to both volume and rates have been allocated in proportion to the relationship of the dollar amount change in each.
- (3) Interest income on loans and securities is presented on a taxable-equivalent basis.

**Provision for Loan Losses**

Management closely monitors the loan portfolio and the adequacy of the allowance for loan losses considering underlying borrower financial performance and collateral values, and increasing credit risks. Future material adjustments may be necessary to the provision for loan losses, and consequently the allowance for loan losses, if economic conditions or loan credit quality differ substantially from the assumptions management used in making our evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans. The provision for loan losses is an expense charged against net interest income to provide for estimated losses attributable to uncollectible loans. The provision is based on management's analysis of the adequacy of the allowance for loan losses. The provision for loan losses was \$9.0 million for the twelve months ended December 31, 2011, as compared to \$10.2 million for the same period in 2010. The provision for both periods reflects the elevated level of charge-offs for the respective period, an increase in the specific allowance required on impaired loans due to underlying collateral values being more depressed in 2010 and the increased credit risk related to the loan portfolio resulting from the prolonged economic downturn. (refer to the related discussions on the "Allowance for Loan Losses" on page 33).

**Non-Interest Income**

Non-interest income decreased by \$2.5 million, or 13.1%, to \$16.4 million for the twelve months ended December 31, 2011, as compared to \$18.9 million for the same period in 2010.



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*Increases (decreases) in the components of non-interest income when comparing the year ended December 31, 2011 to the same period in 2010 are as follows:*

	2011 versus 2010			
	2011	2010	Increase/ (Decrease)	%
(Dollars in thousands)				
Commissions and fees from insurance sales	\$ 12,201	\$ 11,915	\$ 286	2.4
Customer service fees	1,673	2,046	(373)	(18.2)
Mortgage banking activities	832	1,082	(250)	(23.1)
Brokerage and investment advisory commissions and fees	610	737	(127)	(17.2)
Earnings on bank owned life insurance	457	423	34	8.0
Other commissions and fees	1,808	1,901	(93)	(4.9)
Gain on sale of equity interest		1,875	(1,875)	(100.0)
Loss on sale of and write downs on other real estate owned	(1,245)	(1,640)	395	(24.1)
Other income	156	750	(594)	(79.2)
Net realized gains on sales of securities	1,473	691	782	113.2
Total other-than-temporary impairment losses:				
Total other-than-temporary impairment losses on investments	(1,210)	(869)	(341)	39.2
Portion of loss recognized in other comprehensive income	(309)	19	(328)	(1,726.3)
Net credit impairment loss recognized in earnings	(1,519)	(850)	(669)	78.7
<b>Total non-interest income</b>	<b>\$ 16,446</b>	<b>\$ 18,930</b>	<b>\$ (2,484)</b>	<b>(13.1)</b>

A significant portion of the \$2.5 million decrease in non-interest income for the twelve months ended December 31, 2011 compared to the same period in 2010 was related to a \$1.9 million gain recognized on the sale of a 25% equity interest in First HSA, LLC related to the transfer of approximately \$89.0 million of health savings account deposits in the second quarter of 2010.

Other income decreased to \$156,000 for the twelve months ended December 31, 2011 from \$750,000 for the same period in 2010. Changes in other income reflect fair market value adjustments on junior subordinated debt, interest rate caps, swaps and the cash surrender value of a deferred benefit. In 2010, other income also included a premium of \$272,000 that was paid to VIST resulting from a counterparty exercising a call option to terminate an interest rate swap.

Net realized losses on the sale and write-down of other real estate owned were \$1.2 million for the twelve months ended December 31, 2011 compared to \$1.6 million for the same period in 2010. The losses incurred during 2011 and 2010 were attributable to 34 and 48 properties, respectively. However, the losses incurred on one commercial property accounted for 53% of the losses incurred during 2011. Three commercial properties accounted for 64% of the losses incurred during 2010. VIST decided to sell these properties and incur the loss because management did not anticipate market conditions for these properties to improve significantly over the next 18 to 24 months. Management estimated that selling these properties at a loss would be preferable to incurring the significant expenses to maintain these properties during the time it would likely take to sell at or above the respective appraised value.

Customer service fees decreased 18.2% to \$1.7 million for the twelve months ended December 31, 2011 as compared to \$2.0 million for the same period in 2010. The decrease in customer service fees for the comparative twelve month period was primarily due to new regulations that took effect during the third quarter of 2010, which require VIST to receive the customer's permission before covering overdrafts for debit card transactions made with ATM or debit cards. The implementation of this legislation significantly reduced income related to service charges on deposit accounts.

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VIST's primary source of non-interest income is from commissions and other revenue generated through sales of insurance products through its insurance subsidiary, VIST Insurance. Revenues from insurance operations totaled \$12.2 million in 2011 compared to \$11.9 million for 2010. The increase in revenue in 2011 from insurance operations was due mainly to an increase in contingency income on insurance products.

VIST generates income from the sale of newly originated mortgage loans, which is recorded in non-interest income as mortgage banking activities. The income recognized from mortgage banking activities was \$832,000 for the twelve months ended December 31, 2011, as compared to \$1.1 million in 2010. The decrease in mortgage banking revenue in 2011 was mainly attributable to a decrease in the volume of mortgage loan originations sold into the secondary mortgage market through VIST's mortgage banking division, VIST Mortgage.

VIST also recognizes non-interest income from broker and investment advisory commissions generated through VIST Capital, VIST's investment subsidiary, which totaled \$610,000 for the twelve months ended December 31, 2011, as compared to \$737,000 for the same period in 2010.

Investment securities activities accounted for \$113,000 of the increase in non-interest income. Net realized gains on the sale of available for sale securities were \$1.5 million for 2011, as compared to \$691,000 for 2010. Sales of available for sale securities during 2011 were the result of liquidity and asset/liability management strategies. The 2010 net realized gain on sales of available for sale securities included \$122,000 of net realized losses on the sale of available for sale investment securities related to the Allegiance acquisition. Net credit impairment losses recognized in earnings were \$1.5 million during 2011, as compared to \$850,000 in 2010. During 2011, the net credit impairment losses recognized in earnings include other-than-temporary impairment ("OTTI") charges for estimated credit losses on available for sale and held to maturity pooled trust preferred securities, available for sale non-agency securities and available for sale equity securities that resulted primarily from changes in the underlying cash flow assumptions and credit downgrades used in determining credit losses (see Note 5 of the consolidated financial statements).

**Non-Interest Expense**

Non-interest expense was \$74.5 million for the year ended December 31, 2011, as compared to \$45.9 million for the same period in 2010.

*Increases (decreases) in the components of non-interest expense when comparing the year ended December 31, 2011, to the same period in 2010, are as follows:*

	2011 versus 2010			
	2011	2010	Increase/ (Decrease)	%
	(Dollars in thousands)			
Salaries and employee benefits	\$ 24,115	\$ 21,979	\$ 2,136	9.7
Occupancy expense	4,977	4,415	562	12.7
Furniture and equipment expense	2,760	2,559	201	7.9
Outside processing services	3,778	3,908	(130)	(3.3)
Professional services	3,528	3,093	435	14.1
Marketing and advertising expense	1,575	1,022	553	54.1
FDIC deposit and other insurance expense	1,827	2,128	(301)	(14.1)
Amortization of identifiable intangible assets	476	543	(67)	(12.3)
Other real estate owned expense	1,704	2,558	(854)	(33.4)
Goodwill impairment	25,069		25,069	
Other expense	4,648	3,740	908	24.3
<b>Total non-interest expense</b>	<b>\$ 74,457</b>	<b>\$ 45,945</b>	<b>\$ 28,512</b>	<b>62.1</b>

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A significant portion of the increase in non interest expense for the twelve months ended December 31, 2011 to the same period in 2010 was due to the \$25.1 million goodwill impairment charge. During the fourth quarter of 2011, VIST recorded a goodwill impairment charge of \$25.1 million, resulting from the decrease in market value caused by underlying capital and credit concerns which was valued through the Agreement and Plan of Merger dated January 25, 2012 between Tompkins Corp and VIST, which will be merged into Tompkins. This impairment was determined based upon the announced sale price of VIST to Tompkins for \$12.50 per share. For further information related to the merger, see Note 2 Merger with Tompkins Corp.

Salaries and employee benefits, the largest component of non-interest expense, increased by \$2.1 million to \$24.1 million for the twelve months ended December 31, 2011, as compared to \$22.0 million for the same period in 2010. The increase in 2011 was primarily the result of a full year's expense of additional staffing for the branches acquired from Allegiance. VIST's total number of full-time equivalent employees increased to 302 at December 31, 2011, as compared to 295 at December 31, 2010. Included in salaries and benefits were stock-based compensation costs of \$359,000 and \$148,000 for the twelve months ended December 31, 2011 and 2010, respectively.

Other expense was \$4.6 million for the twelve months ended December 31, 2011 as compared to \$3.7 million for the same period in 2010. The \$908,000 increase in other expense was primarily due to \$520,000 of expenses incurred in conjunction with VIST's planned capital raise, \$227,000 in impairment charges related to the FDIC indemnification asset and a \$138,000 provision for unfunded commitments.

Other real estate owned expense ("OREO"), decreased \$854,000, or 33.4%, to \$1.7 million for the twelve months ended December 31, 2011, as compared to \$2.6 million for the same period in 2010. OREO expense for 2011 reflects fewer properties that have been acquired and sold by VIST, which has reduced the overall costs to foreclose, operate and maintain OREO properties. VIST sold a total of 34 and 48 properties during 2011 and 2010, respectively. Additionally, VIST had a total of 15 and 26 properties in OREO at December 31, 2011 and 2010, respectively. OREO expenses for the twelve months ended December 31, 2010 also included \$246,000 of past due real estate taxes related to two commercial properties.

Occupancy and furniture and equipment expense increased to \$7.7 million for the twelve months ended December 31, 2011 as compared to \$7.0 million for the same period in 2010. The increase in occupancy and furniture and equipment expense for the comparative twelve month periods was primarily due to an increase in building lease expense resulting from the additional retail branch locations from the Allegiance acquisition.

Marketing and advertising expense increased \$553,000 to \$1.6 million for the twelve months ended December 31, 2011 as compared to \$1.0 million for the same period in 2010. The increase for the comparative period was primarily due to increased media space expense in the Philadelphia market area promoting the Allegiance branches.

Total professional services increased by \$435,000, or 14.1%, to \$3.5 million for the twelve months ended December 31, 2011, as compared to \$3.1 million for the same period in 2010. The increase for the comparative period was primarily due to integration expenses associated with the Allegiance acquisition.

FDIC and other insurance expense decreased by \$301,000 to \$1.8 million for the twelve months ended December 31, 2011, as compared to \$2.1 million for the same period in 2010. The decrease in expense for the comparative period was related to a decrease in FDIC insurance assessments resulting from a decrease in base assessment rates, as determined by the FDIC, partially offset by an increase in VIST's overall deposit balances.

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**Income Taxes**

Generally, VIST's effective tax rate is below the statutory rate due to tax-exempt earnings on loans, investments, and bank-owned life insurance, and the impact of tax credits. Included in the income tax provision is a federal tax benefit related to our \$5.0 million investment in an affordable housing, corporate tax credit limited partnership of \$195,000 and \$495,000 for the twelve months ended December 31, 2011 and 2010, respectively. VIST recorded a \$25.1 million goodwill impairment charge in 2011 with an associated tax benefit of \$665,000.

**RESULTS OF OPERATIONS 2010 Compared to 2009**

**Overview.** Net income for the twelve months ended December 31, 2010 was \$3,984,000, as compared to \$607,000 for the same period in 2009. Return on average assets was 0.29% for 2010, as compared to 0.05% for 2009. Return on average shareholder's equity was 3.02% for 2010, as compared to 0.51% for 2009. The discussion that follows explains the changes in the components of net income when comparing the twelve months ended December 31, 2010, to the same period in 2009.

**Net Interest Income**

Net interest income, our primary source of revenue, is the amount by which interest income on loans, investments and interest-earning cash balances exceeds interest incurred on deposits and other non-deposit sources of funds, such as repurchase agreements and borrowings from the FHLB and other correspondent banks. The amount of net interest income is affected by changes in interest rates and by changes in the volume and mix of interest-sensitive assets and liabilities. Net interest income and corresponding yields are presented in the discussion and analysis below on a fully taxable-equivalent basis. Income from tax-exempt assets, primarily loans to or securities issued by state and local governments, is adjusted by an amount equivalent to the federal income taxes which would have been paid if the income received on these assets was taxable at the statutory rate of 34%. Net interest margin is the difference between the gross (tax-effected) yield on earning assets and the cost of interest bearing funds as a percentage of earning assets.



Table of Contents**Average Balances, Rates and Net Yield**

The table below provides average asset and liability balances and the corresponding interest income and expense along with the average interest yields (assets) and interest rates (liabilities) for 2010 and 2009.

	Year Ended December 31,					
	2010			2009		
	Average Balances	Interest Income/ Expense	% Rate	Average Balances	Interest Income/ Expense	% Rate
(Dollars in thousands, except percentage data)						
<b>Interest Earning Assets:</b>						
Interest bearing deposits in other banks and federal funds sold	\$ 46,361	\$ 304	0.66%	\$ 12,137	\$ 19	0.15%
Securities (taxable)	234,786	11,006	4.69	213,906	11,620	5.43
Securities (tax-exempt)(1)	36,748	2,489	6.77	28,492	1,895	6.65
Loans(1)(2)(3)	923,531	52,195	5.65	899,105	50,934	5.59
<b>Total interest earning assets</b>	<b>1,241,426</b>	<b>65,994</b>	<b>5.32</b>	<b>1,153,640</b>	<b>64,468</b>	<b>5.51</b>
<b>Interest Bearing Liabilities:</b>						
Interest bearing transaction accounts	396,383	4,851	1.22	301,403	4,481	1.48
Savings deposits	110,075	767	0.70	77,823	751	0.97
Time deposits	452,587	11,046	2.44	460,374	14,757	3.20
<b>Total interest bearing deposits</b>	<b>959,045</b>	<b>16,664</b>	<b>1.74</b>	<b>839,600</b>	<b>19,989</b>	<b>2.38</b>
Short-term borrowings	3,650	18	0.49	2,694	18	0.66
Repurchase agreements	111,265	4,789	4.30	121,046	4,421	3.60
Borrowings	11,041	408	3.70	40,672	1,509	3.66
Junior subordinated debt	19,166	1,464	7.64	19,756	1,381	6.99
<b>Total interest bearing liabilities</b>	<b>1,104,167</b>	<b>23,343</b>	<b>2.11</b>	<b>1,023,768</b>	<b>27,318</b>	<b>2.67</b>
<b>Noninterest bearing deposits</b>	<b>\$ 111,791</b>			<b>\$ 107,629</b>		
<b>Net interest income</b>		<b>\$ 42,651</b>			<b>\$ 37,150</b>	
<b>Net interest margin</b>			<b>3.44%</b>			<b>3.22%</b>

(1) Interest income and rates on loans and investment securities are reported on a tax-equivalent basis using a tax rate of 34%.

(2) Held for sale and non-accrual loans have been included in average loan balances.

(3) For 2010, covered loans acquired in the Allegiance acquisition on November 19, 2010 are included in loans. The impact on average balance, interest income and yield was not significant for 2010.

Net interest income as adjusted for tax-exempt financial instruments was \$42.7 million for the twelve months ended December 31, 2010, as compared to \$37.2 million for the same period in 2009. A benefit of a lower cost of funds resulted in less interest paid on average interest-bearing liabilities, which more than offset the decrease in the yield on interest-earning assets, which resulted in a higher net interest margin for 2010, as compared to 2009. The taxable-equivalent net interest margin percentage for 2010 was 3.44%, as compared to 3.22% for 2009. The interest rate paid on average interest-bearing liabilities decreased by 56 basis points to 2.11% for 2010, as compared to 2.67% for

2009. The yield on interest-earning assets decreased by 19 basis points to 5.32% for 2010, as compared to 5.51% for 2009.

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Interest and fees on loans on a taxable equivalent basis increased by \$1.3 million, or 2.4% to \$52.2 million for the year ended December 31, 2010, as compared to \$50.9 million for the same period in 2009. The increase in interest and fees on loans was primarily the result of an increase in the average balance of loans resulting from strong commercial loan growth, which increased by \$24.4 million in 2010, as compared to 2009. Management attributes this increase in organic commercial loan growth to a well established market in the Reading, Pennsylvania area as well as continued penetration into the Philadelphia, Pennsylvania market through successful marketing initiatives. The Allegiance acquisition which occurred on November 19, 2010 did not have a significant impact on the year-over-year increase related to interest and fees on loans.

Interest on securities on a taxable-equivalent basis was \$13.5 million for both the twelve months ended December 31, 2010 and 2009. The average balance of securities increased \$29.1 million to \$271.5 million for 2010, as compared to \$242.4 million for 2009. The taxable-equivalent yield decreased by 60 basis points to 4.97% for 2010, as compared 5.57% for 2009. The additional interest income generated in 2010 resulting from a higher average balance of securities was mostly offset by the decrease in yield for 2010, as compared to 2009.

Interest expense on deposits decreased by \$3.3 million, or 16.5%, to \$16.7 million for the twelve months ended December 31, 2010, as compared to \$20.0 million for the same period in 2009. A benefit of a lower cost of deposits resulted in less interest paid on deposits, which more than offset the increase in the average balance of deposits. The average rate paid on deposits decreased by 64 basis points to 1.74% for 2010, as compared to 2.38% for 2009. The average balance of deposits increased by \$119.4 million to \$959.0 million for 2010, as compared to \$839.6 million for 2009. The growth in interest-bearing deposits provided the funding needed for the growth in interest-earning assets.

Interest expense on borrowings decreased by \$1.1 million, or 73%, to \$408,000 for the twelve months ended December 31, 2010, as compared to \$1.5 million for the same period in 2009. VIST reduced long-term borrowings by \$10.0 million and \$30.0 million during 2010 and 2009, respectively, which contributed to a \$29.7 million decrease in the average balance of borrowings for 2010, as compared to 2009.

The average interest rate paid on repurchase agreements increased to 4.30% for the twelve months ended December 31, 2010 as compared to 3.60% for the same period in 2009. The increase in the average interest rate paid on repurchase agreements was the result of increases in average interest rates paid on longer-term, wholesale repurchase agreements. Average repurchase agreement balances decreased \$9.8 million or 8.1% for 2010 as compared to the same period in 2009. The increase in the average rate paid on repurchase agreements for 2011, was partially offset by the benefit received from the reduction in average balance for 2010, as compared to the same period in 2009.

**Changes in Interest Income and Interest Expense**

The following table sets forth certain information regarding changes in interest income and interest expense of VIST for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (period to period changes in average balance multiplied by beginning rate), and (2) changes in rate (period to period changes in rate multiplied by beginning average balance).

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The following table shows an analysis of changes in interest Income and expense(1)(2)(3):

	2010/2009 Increase (Decrease)		
	Due to Change in		
	Volume	Rate	Net
	(Dollars in thousands, except percentage data)		
Interest-bearing deposits in other banks and federal funds sold	\$ 281	\$ 4	\$ 285
Securities (taxable)	714	(1,328)	(614)
Securities (tax-exempt)	560	34	594
Loans	1,011	250	1,261
<b>Total Interest Income</b>	<b>2,566</b>	<b>(1,040)</b>	<b>1,526</b>
Interest-bearing transaction accounts	1,155	(785)	370
Savings deposits	226	(210)	16
Time deposits	(511)	(3,200)	(3,711)
Short-term borrowed funds	4	(4)	
Repurchase agreements	(47)	415	368
Borrowings	(1,093)	(8)	(1,101)
Junior subordinated debt	(45)	128	83
<b>Total Interest Expense</b>	<b>(311)</b>	<b>(3,664)</b>	<b>(3,975)</b>
Increase in net interest income	\$ 2,877	\$ 2,624	\$ 5,501

- (1) Loan fees have been included in the change in interest income totals presented. Non-accrual loans have been included in average loan balances.
- (2) Changes due to both volume and rates have been allocated in proportion to the relationship of the dollar amount change in each.
- (3) Interest income on loans and securities is presented on a taxable-equivalent basis.

**Provision for Loan Losses**

Management closely monitors the loan portfolio and the adequacy of the allowance for loan losses considering underlying borrower financial performance and collateral values, and increasing credit risks. Future material adjustments may be necessary to the provision for loan losses, and consequently the allowance for loan losses, if economic conditions or loan credit quality differ substantially from the assumptions management used in making our evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans. The provision for loan losses is an expense charged against net interest income to provide for estimated losses attributable to uncollectible loans. The provision is based on management's analysis of the adequacy of the allowance for loan losses. The provision for loan losses was \$10.2 million for the twelve months ended December 31, 2010, as compared to \$8.6 million for the same period in 2009. The provision for both periods reflects both the level of charge-offs for the respective period, the depression of the underlying collateral values and the increased credit risk related to the loan portfolio at December 31, 2010, as compared to December 31, 2009 (refer to the related discussions on the "Allowance for Loan Losses" on page 33).

**Non-Interest Income**

Non-interest income increased by \$2.6 million, or 16.0%, to \$18.9 million for the twelve months ended December 31, 2010, as compared to \$16.3 million for the same period in 2009.



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*Increases (decreases) in the components of non-interest income when comparing the twelve months ended December 31, 2010 to the same period in 2009 are as follows:*

	2010 versus 2009			
	2010	2009	Increase/ (Decrease)	%
	(Dollars in thousands, except percentage data)			
Commissions and fees from insurance sales	\$ 11,915	\$ 12,254	\$ (339)	(2.8)
Customer service fees	2,046	2,443	(397)	(16.3)
Mortgage banking activities	1,082	1,255	(173)	(13.8)
Brokerage and investment advisory commissions and fees	737	714	23	3.2
Earnings on bank owned life insurance	423	391	32	8.2
Other commissions and fees	1,901	1,933	(32)	(1.7)
Gain on sale of equity interest	1,875		1,875	
Loss on sale of and write downs on other real estate owned	(1,640)	(1,117)	(523)	46.8
Other income	750	565	185	32.7
Net realized gains on sales of securities	691	344	347	100.9
Total other-than-temporary impairment losses:				
Total other-than-temporary impairment losses on investments	(869)	(5,569)	4,700	(84.4)
Portion of loss recognized in other comprehensive income	19	3,101	(3,082)	(99.4)
Net credit impairment loss recognized in earnings	(850)	(2,468)	1,618	(65.6)
<b>Total non-interest income</b>	<b>\$ 18,930</b>	<b>\$ 16,314</b>	<b>\$ 2,616</b>	<b>16.0</b>

A significant portion of the \$2.6 million increase in non-interest income was related to a \$1.9 million gain recognized on the sale of a 25% equity interest in First HSA, LLC related to the transfer of approximately \$89.0 million of health savings account deposits in the second quarter of 2010.

Investment securities activities accounted for \$2.0 million of the increase in non-interest income. Net realized gains on the sale of available for sale securities were \$691,000 for 2010, as compared to \$344,000 for 2009. Sales of available for sale securities during 2010 were the result of liquidity and asset/liability management strategies. The 2010 gain on sales of available for sale securities included \$122,000 of net losses on the sale of available for sale investment securities related to the Allegiance acquisition. Net credit impairment losses recognized in earnings were \$850,000 during 2010, as compared to \$2.5 million in 2009. During 2010, the net credit impairment losses recognized in earnings include other-than-temporary impairment ("OTTI") charges for estimated credit losses on both available for sale and held to maturity pooled trust preferred securities that resulted primarily from changes in the underlying cash flow assumptions used in determining credit losses due to provisions related to such securities included in the Dodd-Frank Wall Street Reform and Consumer Protection Act (see Note 5 of the consolidated financial statements).

In 2010, a premium of \$272,000 was paid to VIST resulting from a counterparty exercising a call option to terminate an interest rate swap, which was recognized in other income. Other income also primarily includes service fee income on SBA commercial loans and market value adjustments on junior subordinated debt and interest rate swaps. The portion of other income associated with fair market value adjustments was \$193,000 for the twelve months ended December 31, 2010 as compared to (\$184,000) for the same period in 2009. Income related to a settlement of a previously accrued contingent payment of \$575,000 was recognized in 2009 and included in other income. Fees generated on servicing health savings account deposits were \$21,000 and \$84,000 for 2010 and 2009, respectively. The decrease in HSA servicing fees was attributable to the sale and transfer of the HSA deposits to a third party.

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VIST's primary source of non-interest income is from commissions and other revenue generated through sales of insurance products through its insurance subsidiary, VIST Insurance. Revenues from insurance operations totaled \$11.9 million in 2010 compared to \$12.3 million for 2009. The decrease in revenue in 2010 from insurance operations was due mainly to a decrease in contingency income on insurance products.

The income recognized from customer service fees was approximately \$2.0 million for the twelve months ended December 31, 2010, as compared to \$2.4 million for the same period in 2009. During the third quarter of 2010, new regulations took effect, which requires VIST to receive the customer's permission before covering overdrafts for debit card transactions made with ATM or debit cards. The implementation of this new legislation significantly reduced income related to non-sufficient funds charges.

VIST generates income from the sale of newly originated mortgage loans, which is recorded in non-interest income as mortgage banking activities. The income recognized from mortgage banking activities was \$1.1 million for the twelve months ended December 31, 2010, as compared to \$1.3 million in 2009. The decrease in mortgage banking revenue from 2009 to 2010 was mainly attributable to a decrease in the volume of mortgage loan originations sold into the secondary mortgage market through VIST's mortgage banking division, VIST Mortgage.

Other commissions and fees were \$1.9 million for both the twelve months ended December 31, 2010 and 2009. Most of these fees are generated through ATM surcharges and interchange income generated from debit card transactions.

VIST also recognizes non-interest income from broker and investment advisory commissions generated through VIST Capital, VIST's investment subsidiary, which totaled \$737,000 for the twelve months ended December 31, 2010, as compared to \$714,000 for the same period in 2009.

Earnings on investment in life insurance represent the change in cash value of Bank Owned Life Insurance ("BOLI") policies. The BOLI policies of VIST are designed to offset the costs of employee benefit plans and to enhance tax-free earnings. The income recognized from earnings on investment in life insurance was \$423,000 for the twelve months ended December 31, 2010, as compared to \$391,000 for the same period in 2009.

**Non-Interest Expense**

Non-interest expense was \$45.9 million for the year ended December 31, 2010, as compared to \$44.6 million for the same period in 2009.

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*Increases (decreases) in the components of non-interest expense when comparing the year ended December 31, 2010, to the same period in 2009, are as follows:*

	<b>2010 versus 2009</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>%</b>
	<b>(Dollars in thousands, except percentage data)</b>			
Salaries and employee benefits	\$ 21,979	\$ 22,134	\$ (155)	(0.7)
Occupancy expense	4,415	4,160	255	6.1
Furniture and equipment expense	2,559	2,495	64	2.6
Outside processing services	3,908	3,983	(75)	(1.9)
Professional services	3,093	2,480	613	24.7
Marketing and advertising expense	1,022	1,011	11	1.1
FDIC deposit and other insurance expense	2,128	2,479	(351)	(14.2)
Amortization of identifiable intangible assets	543	647	(104)	(16.1)
Other real estate owned expense	2,558	1,445	1,113	77.0
Other expense	3,740	3,752	(12)	(0.3)
<b>Total non-interest expense</b>	<b>\$ 45,945</b>	<b>\$ 44,586</b>	<b>\$ 1,359</b>	<b>3.0</b>

A significant portion of the increase in non-interest expense for 2010 was related to other real estate owned expense ("OREO"), which increased \$1.1 million, or 77.0%, to \$2.6 million for the twelve months ended December 31, 2010, as compared to \$1.4 million for the same period in 2009. The increase in OREO expense for 2010 reflects a higher volume of properties that have been acquired and sold by VIST, which has increased the overall costs to foreclose, operate and maintain OREO properties.

Total professional services increased by \$613,000, or 24.7%, to \$3.1 million for the twelve months ended December 31, 2010, as compared to \$2.5 million for the same period in 2009. The increase in professional services was primarily due to accounting related services and consulting fees associated with various corporate projects. Professional service fees for 2010 included \$150,000 of investment banking fees related to the Allegiance acquisition.

Total occupancy expense and equipment expense increased by \$319,000, or 4.8%, in 2010 compared to 2009 primarily due to increases in building lease expense and equipment and software maintenance expenses.

FDIC and other insurance expense decreased by \$351,000 to \$2.1 million for the twelve months ended December 31, 2010, as compared to \$2.5 million for the same period in 2009. The twelve months ended December 31, 2009 included an expense of \$574,000 related to an FDIC special assessment on deposit-insured institutions, which resulted in a decrease of expense for 2010 as there was no such special assessment during 2010. As noted in the table below (in thousands), the total expense associated with FDIC insurance assessments decreased when comparing the twelve months ended December 31, 2010, to the same period in 2009. However, the expense associated with FDIC base insurance assessments increased by \$266,000, or 16.8% , to \$1.8 million for the twelve months ended December 31, 2010, as compared to \$1.6 million for the same period in 2009. The increase in expense associated with FDIC base insurance assessments was the result of increased base assessment rates, as determined by the FDIC, and an increase in VIST's overall deposit balances.



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The following table shows the breakdown of the FDIC insurance expense by assessment type:

**FDIC Insurance Expense**

	Twelve Months Ended December 31,		Increase (Decrease)
	2010	2009	
	(in thousands)		
Base insurance assessments	\$ 1,848	\$ 1,582	\$ 266
Special insurance assessments		574	(574)
<b>Total FDIC insurance expense</b>	<b>\$ 1,848</b>	<b>\$ 2,156</b>	<b>\$ (308)</b>

Salaries and employee benefits, the largest component of non-interest expense, decreased by \$155,000 to \$22.0 million for the twelve months ended December 31, 2010, as compared to \$22.1 million for the same period in 2009. The decrease was primarily the result of a decrease in commissions paid resulting from less fees generated from insurance sales, which decreased by \$300,000 to \$1.1 million for the twelve months ended December 31, 2010, as compared to \$1.4 million for the same period in 2009. VIST's total number of full-time equivalent employees increased to 295 at December 31, 2010, as compared to 283 at December 31, 2009. The increase in full-time equivalent employees during 2010 was primarily attributable to additions in staff related to the Allegiance acquisition. Included in salaries and benefits were stock-based compensation costs of \$148,000 and \$198,000 for the twelve months ended December 31, 2010 and 2009, respectively.

Marketing and advertising expense includes costs associated with market research, corporate donations, direct mail production and business development. Expenses associated with outside processing services includes charges related to VIST's core operating software system, computer network and system upgrades, and data line charges. Other expense includes utility expense, postage expense, stationary and supplies expense, as well as, other miscellaneous expense items.

**Income Taxes**

The effective income tax rate for VIST for the twelve months ended December 31, 2010 and 2009 was (13.2%) and 142.7%, respectively. The decrease in effective tax rate for 2010 was primarily due to the increase in the income tax benefit resulting from an increase in tax exempt investment securities and loans. Generally, VIST's effective tax rate is below the statutory rate due to tax-exempt earnings on loans, investments, and bank-owned life insurance, and the impact of tax credits. Included in the income tax provision is a federal tax benefit related to our \$5.0 million investment in an affordable housing, corporate tax credit limited partnership of \$495,000 and \$550,000 for the twelve months ended December 31, 2010 and 2009, respectively.

**Interest Rate Sensitivity**

Through the years, the banking industry has adapted to an environment in which interest rates have fluctuated dramatically and in which depositors have been provided with liquid, rate sensitive investment options. The industry utilizes a process known as asset/liability management as a means of managing this adaptation.

Asset/liability management is intended to provide for adequate liquidity and interest rate sensitivity by analyzing and understanding the underlying cash flow structures of interest rate sensitive assets and liabilities and coordinating maturities and repricing characteristics on those assets and liabilities.

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. Interest rate sensitivity is the relationship between market

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interest rates and earnings volatility due to the repricing characteristics of assets and liabilities. VIST's net interest income is affected by changes in the level of market interest rates. In order to maintain consistent earnings performance, VIST seeks to manage, to the extent possible, the repricing characteristics of its assets and liabilities.

One major objective of VIST when managing the rate sensitivity of its assets and liabilities is to stabilize net interest income. The management of and authority to assume interest rate risk is the responsibility of VIST's Asset/Liability Committee ("ALCO"), which is comprised of senior management and Board members. The ALCO meets quarterly to monitor the ratio of interest sensitive assets to interest sensitive liabilities. The process to review interest rate risk management is a regular part of management of VIST. In addition, there is an annual process to review the interest rate risk policy and the assumptions used to determine VIST's interest rate risk with the Board of Directors which includes limits on the impact to earnings and value from shifts in interest rates.

To manage the interest rate sensitivity position, an asset/liability model called "gap analysis" is used to monitor the difference in the volume of VIST's interest sensitive assets and liabilities that mature or reprice within given periods. A positive gap (asset sensitive) indicates that more assets reprice during a given period compared to liabilities, while a negative gap (liability sensitive) has the opposite effect.

VIST remains slightly asset sensitive and will continue its strategy to originate fixed rate and adjustable rate commercial loans and use excess federal funds sold to purchase investment securities to maintain a more neutral gap position.

Asset Liability management is intended to provide for adequate liquidity and interest rate sensitivity by matching interest rate-sensitive assets and liabilities and coordinating maturities on assets and liabilities. With the exception of the majority of residential mortgage loans, loans generally are written having terms that provide for a readjustment of the interest rate at specified times during the term of the loan. In addition, interest rates offered for all types of deposit instruments are reviewed weekly and are established on a basis consistent with funding needs and maintaining a desirable spread between cost and return.

During 2002, VIST entered into an interest rate swap agreement with a notional amount of \$5 million. This derivative financial instrument effectively converted fixed interest rate obligations of outstanding junior subordinated debt to variable interest rate obligations, decreasing the asset sensitivity of its balance sheet by more closely matching VIST's variable rate assets with variable rate liabilities. In September 2010, the fixed rate payer exercised a call option to terminate this interest rate swap.

During 2008, VIST entered into two interest rate swap agreements with an aggregate notional amount of \$15 million. These interest rate swap transactions involved the exchange of VIST's floating rate interest rate payment on \$15.0 million in floating rate junior subordinated debt for a fixed rate interest payment without the exchange of the underlying principal amount.

Interest rate caps are generally used to limit the exposure from the repricing and maturity of liabilities and to limit the exposure created by interest rate swaps. In June of 2003, VIST purchased a six month LIBOR cap to create protection against rising interest rates for the above mentioned \$5 million interest rate swap. This interest rate cap matured in March 2010.

In October of 2010, VIST purchased a three month LIBOR interest rate cap to create protection against rising interest rates. The notional amount of this interest rate cap was \$5 million and the initial premium paid for the interest rate cap was \$206,000. At December 31, 2011, the recorded value of the interest rate cap was \$54,000.

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Also, VIST Bank can sell fixed and adjustable rate residential mortgage loans to limit the interest rate risk of holding longer-term assets on its balance sheet. VIST did not sell any fixed and adjustable rate loans in 2011, 2010 or 2009.

At December 31, 2011, VIST was in a positive one-year cumulative gap position. Commercial and construction loans decreased \$22.4 million or 3.4% from \$655.8 million at December 31, 2010 to \$633.4 million at December 31, 2011. Consumer and home equity lines of credit loans decreased \$4.9 million or 5.3% from \$91.5 million at December 31, 2010 to \$86.6 million at December 31, 2011. During 2011, targeted short-term interest rates continued to remain low. Both the national prime rate and the overnight federal funds rates remained unchanged throughout 2011. Throughout 2011, the low interest rate environment contributed to lower yields on VIST Bank's adjustable and variable rate commercial and consumer loan portfolios as well as contributing to lower yields on federal funds sold and taxable investment securities. Also, decreases in interest-bearing core deposit and time deposit interest rates contributed to the reduction of VIST Bank's overall cost of funds. As a result of the prolonged economic downturn fueled in part by a continued depressed housing market, the mortgage refinance market remained somewhat flat in 2011 but did produce an increase in prepayments on loans and investment securities throughout the year. The increase in loan and investment securities prepayments helped limit extension risk within the fixed rate loan and investment securities portfolios. In order to augment the funding needs for new commercial and consumer loan originations and investment security purchases during 2011, non interest-bearing core deposits, interest-bearing core deposits and time deposits increased \$38.2 million or 3.3% from \$1.1 billion at December 31, 2010 to \$1.2 billion at December 31, 2011. These factors contributed to VIST's positive one-year cumulative gap position. In 2012, VIST will continue its strategy to originate fixed and adjustable rate commercial and consumer loans and use investment security cash flows and interest-bearing and non-interest bearing deposits to rebalance wholesale borrowings to maintain a more neutral gap position.

**Interest Sensitivity Gap at December 31, 2011**

	0 - 3 months	3 to 12 months	1 - 3 years	over 3 years
	(Dollars in thousands)			
Interest bearing deposits and federal funds sold	\$ 6,314	\$	\$	\$
Securities(1)(2)	54,096	71,853	122,154	134,943
Mortgage loans held for sale	3,365			
Loans(2)	328,162	105,069	208,333	302,271
<b>Total rate sensitive assets (RSA)</b>	<b>391,937</b>	<b>176,922</b>	<b>330,487</b>	<b>437,214</b>
Interest bearing deposits(3)	31,905	95,716	255,242	255,244
Time deposits	71,009	203,444	125,984	19,510
Securities sold under agreements to repurchase	103,362			
<b>Borrowings</b>				
Junior subordinated debt	10,150			8,384
<b>Total rate sensitive liabilities</b>	<b>216,426</b>	<b>299,160</b>	<b>381,226</b>	<b>283,138</b>
Interest rate swap (notional)	(15,000)			
<i>As of December 31, 2011</i>				
Interest sensitivity gap	\$ 190,511	\$ (122,238)	\$ (50,739)	\$ 154,076
Cumulative gap	\$ 190,511	\$ 68,273	\$ 17,534	\$ 171,610
RSA/RSL	1.8%	0.6%	0.9%	1.5%

(1) Includes gross unrealized gains/losses on available for sale securities.

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- (2) Securities and loans are included in the earlier of the period in which interest rates were next scheduled to adjust or the period in which they are due.
- (3) Demand and savings accounts are generally subject to immediate withdrawal. However, management considers a certain amount of such accounts to be core accounts having significantly longer effective maturities based on the retention experiences of such deposits in changing interest rate environments.

Certain shortcomings are inherent in the method of analysis presented in the above table. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

VIST also measures its near-term sensitivity to interest rate movements through simulations of the effects of rate changes upon its net interest income. Net interest income simulations evaluate the effect that interest rate changes have on the prepayment, repricing and maturity attributes of VIST's interest earning assets and interest bearing liabilities over the next twelve months. Interest rate movements of up 100, 200, 300 and 400 basis points and down 100, 200 and 300 basis points, adjusted for activity in the current and forecasted interest rate environment, were applied to VIST's interest earning assets and interest bearing liabilities as of December 31, 2011.

*The results of these simulations on net interest income for 2011 are as follows:*

<b>Simulated % change in 2011 Net Interest Income</b>	
<b>Assumed Changes in Interest Rates</b>	<b>% Change</b>
-300	(1.0)%
-200	1.0%
-100	1.0%
0	0.0%
+100	0.0%
+200	(1.0)%
+300	(1.0)%
+400	(2.0)%

VIST also measures its longer-term sensitivity to interest rate movements through simulations of the effects of rate changes upon its economic value of shareholders' equity. Economic value of shareholders' equity simulations evaluate the effect that interest rate changes have on the prepayment, repricing and maturity attributes of VIST's interest earning assets and interest bearing liabilities over the life of each financial instrument. Interest rate movements of up 100, 200, 300 and 400 basis points and down 100, 200 and 300 basis points, adjusted for activity in the current and forecasted interest rate environment, were applied to VIST's interest earning assets and interest bearing liabilities as of December 31, 2011.

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*The results of these simulations on economic value of shareholders' equity for 2011 are as follows:*

Simulated % change in Economic Value of Shareholders' equity	
Assumed Changes in Basis Points	% Change
-300	(14.0)%
-200	(7.0)%
-100	0.0%
0	0.0%
+100	(7.0)%
+200	(16.0)%
+300	(25.0)%
+400	(34.0)%

**Liquidity and Funds Management**

Liquidity management ensures that adequate funds will be available to meet anticipated and unanticipated deposit withdrawals, debt servicing payments, investment commitments, commercial and consumer loan demand and ongoing operating expenses. Funding sources include principal repayments on loans and investment securities, sales of loans, growth in core deposits, short and long-term borrowings and repurchase agreements. Regular loan payments are typically a dependable source of funds, while the sale of loans and investment securities, deposit flows, and loan prepayments are significantly influenced by general economic conditions and level of interest rates. In 2011, the increase in impaired loans continued to lessen the dependability of regular loan payments.

VIST Bank's objective is to maintain adequate liquidity to meet funding needs at a reasonable cost and to provide contingency plans to meet unanticipated funding needs or a loss of funding sources, while minimizing interest rate risk. Adequate liquidity provides resources for credit needs of borrowers, for depositor withdrawals and for funding corporate operations. Sources of liquidity are as follows:

Deposit generation;

Investment securities portfolio scheduled cash flows, prepayments, maturities and sales;

Payments received on loans; and,

Overnight correspondent bank borrowings credit lines, and borrowing capacity available from the Federal Reserve Bank and the Federal Home Loan Bank of Pittsburgh.

VIST considers its primary source of liquidity to be its core deposit base, which includes non-interest-bearing and interest-bearing demand deposits, savings, and time deposits under \$100,000. This funding source has grown steadily over the years through organic growth and acquisitions and consists of deposits from customers throughout VIST's financial center network. VIST will continue to promote the growth of deposits through its financial center offices. At December 31, 2011, a portion of VIST's assets were funded by core deposits acquired within its market area and by VIST's equity. These two components provide a substantial and stable source of funds.

Management believes that VIST Bank's core deposits remain fairly stable. Liquidity and funds management is governed by policies and measured on a daily basis, with supplementary weekly and monthly analyses. These measurements indicate that liquidity generally remains stable and exceeds our minimum defined levels of adequacy. Other than the trends of continued competitive pressures and volatile interest rates, there are no known demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, liquidity increasing or decreasing in any material

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way. Considering all factors involved, management believes that liquidity is being maintained at an adequate level.

At December 31, 2011, VIST had a maximum borrowing capacity with the Federal Home Loan Bank of approximately \$260.0 million. In the event that additional short-term liquidity is needed, VIST Bank has established relationships with several correspondent banks to provide short-term borrowings in the form of federal funds purchased.

VIST Bank is required to pledge residential and commercial real estate secured loans to collateralize its potential borrowing capacity with the FHLB. As of December 31, 2011, VIST Bank has pledged approximately \$503.9 million in loans to the FHLB to secure its maximum borrowing capacity of \$260.0 million.

At December 31, 2011, VIST maintained \$22.7 million in cash and cash equivalents primarily consisting of cash and due from banks. In addition, VIST had \$375.7 million in available for sale securities and \$1.6 million in held to maturity securities. Cash and investment securities totaled \$400.0 million which represented 27.9% of total assets at December 31, 2011 compared to 21.0% at December 31, 2010.

**Off-Balance Sheet Arrangements**

VIST Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

VIST Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. VIST Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. VIST Bank reviews all outstanding commitments for risk and maintains an allowance for potential credit losses related to these obligations.

*A summary of the contractual amount of VIST's financial instrument commitments is as follows:*

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>	
<b>Commitments to extend credit:</b>		
Unfunded loan origination commitments	\$ 51,640	\$ 41,803
Unused home equity lines of credit	46,841	38,089
Unused business lines of credit	110,222	132,486
<b>Total commitments to extend credit</b>	<b>\$ 208,703</b>	<b>\$ 212,378</b>
Standby letters of credit	\$ 9,416	\$ 9,235

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. VIST Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by VIST Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment. At December 31, 2011 the

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amount of commitments to extend credit was \$208.7 million as compared to \$212.4 million at December 31, 2010.

Standby letters of credit written are conditional commitments issued by VIST Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twenty-four months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. VIST Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2011 for guarantees under standby letters of credit issued was \$9.4 million, as compared to \$9.2 million at December 31, 2010.

VIST's financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk. These commitments consist mainly of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. Unused commitments, at December 31, 2011 totaled \$208.7 million. This consisted of \$34.3 million in commercial real estate and construction loans, \$51.6 million in home equity lines of credit, \$122.7 million in unused business lines of credit and \$9.4 million in standby letters of credit. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to VIST. Any amounts actually drawn upon, management believes, can be funded in the normal course of operations. VIST has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

**Contractual Obligations**

*The following table represents VIST's aggregate contractual obligations to make future payments.*

	December 31, 2011				Total
	Less than 1 year	1 - 3 Years	4 - 5 Years	Over 5 Years	
	(Dollar amounts in thousands)				
Time deposits	\$ 274,453	\$ 125,984	\$ 19,030	\$ 480	\$ 419,947
Repurchase agreements	100,000				100,000
Junior subordinated debt(1)	20,150				20,150
Operating leases	3,034	5,255	4,595	11,285	24,169
Unconditional purchase obligations	2,168	4,349	2,718		9,235
<b>Total</b>	<b>\$ 399,805</b>	<b>\$ 135,588</b>	<b>\$ 26,343</b>	<b>\$ 11,765</b>	<b>\$ 573,501</b>

- (1) Junior subordinated debt is classified based on the earliest date on which it may be redeemed and not contractual maturity.

**Quantitative and Qualitative Disclosures about Market Risk.**

The discussion concerning the effects of interest rate changes on VIST's estimated net interest income for the year ended December 31, 2011 set forth under the heading "*Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity*" above, is incorporated herein by reference.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders  
VIST Financial Corp.

We have audited the accompanying consolidated balance sheet of VIST Financial Corp. (a Pennsylvania corporation) and subsidiaries (the "Company") as of December 31, 2011, and the related consolidated statements of operations, comprehensive income (loss) changes in stockholders' equity, and cash flows for the year then ended. These 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VIST Financial Corp. and subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VIST Financial Corp. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 28, 2012 expressed an unqualified opinion.

/s/ Grant Thornton, LLP  
Philadelphia, Pennsylvania  
March 28, 2012



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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders  
VIST Financial Corp.  
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of VIST Financial Corp. and its subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of VIST Financial Corp. and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC  
Reading, Pennsylvania

March 21, 2011, except for the Troubled Debt Restructurings disclosure in Note 6, as to which the date is July 20, 2011

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## VIST FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except share data)

	December 31,	
	2011	2010
<b>ASSETS</b>		
Cash and due from banks	\$ 16,361	\$ 15,443
Federal funds sold		1,500
Interest-bearing deposits in banks	6,314	872
<b>Total cash and cash equivalents</b>	<b>22,675</b>	<b>17,815</b>
Securities available for sale	375,691	279,755
Securities held to maturity, fair value of \$1,613 and \$1,888 at December 31, 2011 and 2010, respectively	1,555	2,022
Federal Home Loan Bank stock	5,800	7,099
Mortgage loans held for sale	3,365	3,695
Loans, excluding covered loans	907,177	954,363
Covered loans	50,706	66,770
<b>Total loans</b>	<b>957,883</b>	<b>1,021,133</b>
Allowance for loan losses	(14,049)	(14,790)
<b>Net loans</b>	<b>943,834</b>	<b>1,006,343</b>
Premises and equipment, net	6,587	5,639
Other real estate owned	3,724	5,303
Covered other real estate owned	596	247
Goodwill	16,513	41,858
Identifiable intangible assets, net	3,319	3,795
Bank owned life insurance	19,830	19,373
FDIC prepaid deposit insurance	2,604	3,985
FDIC indemnification asset	6,381	7,003
Other assets	19,241	21,080
<b>Total assets</b>	<b>\$ 1,431,715</b>	<b>\$ 1,425,012</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 129,394	\$ 122,450
Interest bearing	1,058,055	1,026,830
<b>Total deposits</b>	<b>1,187,449</b>	<b>1,149,280</b>
Repurchase agreements	103,362	106,843
Borrowings		10,000
Junior subordinated debt, at fair value	18,534	18,437
Other liabilities	6,687	8,005
<b>Total liabilities</b>	<b>1,316,032</b>	<b>1,292,565</b>
Shareholders' equity:		
Preferred stock: \$0.01 par value; authorized 1,000,000 shares; \$1,000 liquidation preference per share; 25,000 shares of Series A 5% (increasing to 9% in 2014) cumulative preferred stock issued and	23,979	23,520

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outstanding; Less: discount of \$1,021 at December 31, 2011 and \$1,480 at December 31, 2010

Common stock, \$5.00 par value; authorized 20,000,000 shares; issued: 6,649,087 shares at December 31, 2011 and 6,546,273 shares at December 31, 2010	33,245	32,732
Stock warrant	2,307	2,307
Surplus	65,626	65,506
Retained (deficit) earnings	(10,644)	12,960
Accumulated other comprehensive income (loss)	1,361	(4,387)
Treasury stock: 10,484 shares at cost	(191)	(191)
<b>Total shareholders' equity</b>	<b>115,683</b>	<b>132,447</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,431,715</b>	<b>\$ 1,425,012</b>

See Notes to Consolidated Financial Statements.

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**VIST FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited; Dollar amounts in thousands)

	Years Ended December 31,		
	2011	2010	2009
<b>Interest and dividend income:</b>			
Interest and fees on loans	\$ 54,592	\$ 51,158	\$ 49,900
Interest on securities:			
Taxable	11,804	10,920	11,453
Tax-exempt	1,263	1,646	1,253
Dividend income	87	59	115
Other interest income	63	304	19
<b>Total interest and dividend income</b>	<b>67,809</b>	<b>64,087</b>	<b>62,740</b>
<b>Interest expense:</b>			
Interest on deposits	15,103	16,664	19,989
Interest on short-term borrowings	1	18	18
Interest on repurchase agreements	4,761	4,789	4,421
Interest on borrowings	7	408	1,509
Interest on junior subordinated debt	1,636	1,464	1,381
<b>Total interest expense</b>	<b>21,508</b>	<b>23,343</b>	<b>27,318</b>
<b>Net interest income</b>	<b>46,301</b>	<b>40,744</b>	<b>35,422</b>
Provision for loan losses	9,036	10,210	8,572
<b>Net interest income after provision for loan losses</b>	<b>37,265</b>	<b>30,534</b>	<b>26,850</b>
<b>Non-interest income:</b>			
Commissions and fees from insurance sales	12,201	11,915	12,254
Customer service fees	1,673	2,046	2,443
Mortgage banking activities	832	1,082	1,255
Brokerage and investment advisory commissions and fees	610	737	714
Earnings on bank owned life insurance	457	423	391
Other commissions and fees	1,808	1,901	1,933
Gain on sale of equity interest		1,875	
Loss on sale of other real estate owned	(1,245)	(1,640)	(1,117)
Other income	156	750	565
Net realized gains on sales of securities	1,473	691	344
Total other-than-temporary impairment losses:			
Total other-than-temporary impairment losses on investments	(1,210)	(869)	(5,569)
Portion of (gain) loss recognized in other comprehensive loss	(309)	19	3,101
<b>Net credit impairment loss recognized in earnings</b>	<b>(1,519)</b>	<b>(850)</b>	<b>(2,468)</b>
<b>Total non-interest income</b>	<b>16,446</b>	<b>18,930</b>	<b>16,314</b>
<b>Non-interest expense:</b>			
Salaries and employee benefits	24,115	21,979	22,134
Occupancy expense	4,977	4,415	4,160
Furniture and equipment expense	2,760	2,559	2,495
Outside processing services	3,778	3,908	3,983
Professional services	3,528	3,093	2,480
Marketing and advertising expense	1,575	1,022	1,011
FDIC deposit and other insurance expense	1,827	2,128	2,479
Amortization of identifiable intangible assets	476	543	647

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Other real estate owned expense	1,704	2,558	1,445
Goodwill impairment	25,069		
Other expense	4,648	3,740	3,752
<b>Total non-interest expense</b>	<b>74,457</b>	<b>45,945</b>	<b>44,586</b>
<b>(Loss) income before income taxes</b>	<b>(20,746)</b>	<b>3,519</b>	<b>(1,422)</b>
Income tax benefit	(165)	(465)	(2,029)
<b>Net (loss) income</b>	<b>(20,581)</b>	<b>3,984</b>	<b>607</b>
<b>Preferred stock dividends and discount accretion</b>	<b>1,709</b>	<b>1,678</b>	<b>1,649</b>
<b>Net (loss) income available to common shareholders</b>	<b>\$ (22,290)</b>	<b>\$ 2,306</b>	<b>\$ (1,042)</b>
<b>EARNINGS PER SHARE DATA</b>			
Basic (loss) earnings per common share	\$ (3.39)	\$ 0.37	\$ (0.18)
Diluted (loss) earnings per common share	\$ (3.39)	\$ 0.37	\$ (0.18)

See Notes to Consolidated Financial Statements.

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## VIST FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2011, 2010 and 2009

(Dollars in thousands, except share data)

	Preferred Stock		Common Stock			Accumulated			Treasury	Total
	Number of Shares Issued	Liquidation Value	Number of Shares Issued	Par Value	Stock Warrant Surplus	Retained Earnings (Deficit)	Other Comprehensive (Loss)/Income			
<b>Balance, January 1, 2009</b>	25,000	22,693	5,768,429	28,842	2,307	64,349	14,757	(7,834)	(1,485)	123,629
Comprehensive income:										
Net income							607			607
Change in net unrealized gains (losses) on securities available for sale, net of tax effect and reclassification adjustments for restated losses and impairment charges								3,322		3,322
<b>Total comprehensive income</b>										<b>3,929</b>
Preferred stock discount accretion		399					(399)			
Reissuance of 57,870 shares of treasury stock						(870)			1,294	424
Restricted stock issued in connection with employee compensation			7,000	35		(35)				
Common stock issued in connection with directors' compensation			28,243	141		77				218
Common stock issued in connection with director and employee stock purchase plans			15,502	78		25				103
Compensation expense related to stock options and restricted stock						198				198
Common stock cash dividends paid (\$0.30 per share)							(1,732)			(1,732)
Preferred stock cash dividends paid or declared							(1,341)			(1,341)
<b>Balance, December 31, 2009</b>	25,000	23,092	5,819,174	29,096	2,307	63,744	11,892	(4,512)	(191)	125,428
Comprehensive income:										
Net income							3,984			3,984
Change in net unrealized gains on securities available for sale, net of tax effect and reclassification adjustments for losses and impairment charges								544		544
Change in net unrealized losses on securities held to maturity, net of tax effect and reclassification adjustments for losses and impairment charges								(419)		(419)
<b>Total comprehensive income</b>										<b>4,109</b>
Issuance of common stock, net of costs of \$321			644,000	3,220		1,611				4,831
Preferred stock discount accretion		428					(428)			
Restricted stock issued in connection with employee compensation			14,500	73		(73)				
Common stock issued in connection with directors' compensation			58,569	293		50				343
Common stock issued in connection with director and employee stock purchase plans			10,030	50		26				76
Compensation expense related to stock options and restricted stock						148				148

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Common stock cash dividends paid (\$0.20 per share)						(1,238)				(1,238)
Preferred stock cash dividends paid or declared						(1,250)				(1,250)
<b>Balance, December 31, 2010</b>	25,000	\$ 23,520	6,546,273	\$32,732	\$ 2,307	\$65,506	\$ 12,960	\$ (4,387)	\$ (191)	\$132,447
<b>Comprehensive income:</b>										
Net loss						(20,581)				(20,581)
Change in net unrealized gains on securities available for sale, net of tax effect and reclassification adjustments for losses and impairment charges								5,355		5,355
Change in net unrealized losses on securities held to maturity, net of tax effect and reclassification adjustments for losses and impairment charges								393		393
<b>Total comprehensive loss</b>										<b>(14,833)</b>
Preferred stock discount accretion		459						(459)		
Restricted stock issued in connection with employee compensation			73,083	365		(365)				
Common stock issued in connection with directors' compensation			20,298	101		43				144
Common stock issued in connection with director and employee stock purchase plans			9,433	47		18				65
Compensation expense related to stock options and restricted stock						424				424
Common stock cash dividends paid (\$0.20 per share)						(1,314)				(1,314)
Preferred stock cash dividends paid or declared						(1,250)				(1,250)
<b>Balance, December 31, 2011</b>	25,000	\$ 23,979	6,649,087	\$33,245	\$ 2,307	\$65,626	\$ (10,644)	\$ 1,361	\$ (191)	\$115,683

See Notes to Consolidated Financial Statements.

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**VIST FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**Years Ended December 31, 2011, 2010 and 2009**

**(Dollars in thousands)**

	<b>Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Net (loss) income</b>	\$ (20,581)	\$ 3,984	\$ 607
Other comprehensive income:			
Change in unrealized holding gains on available for sale securities	8,353	895	3,679
Change in non-credit impairment losses on available for sale securities	(286)	139	(769)
Reclassification adjustment for credit related impairment on available for sale securities realized in income	1,519	481	2,468
Change in non-credit impairment losses on held to maturity securities	596	(1,004)	
Reclassification adjustment for credit related impairment on held to maturity securities realized in income		369	
Reclassification adjustment for investment gains realized in income	(1,473)	(691)	(344)
Net unrealized gains	8,709	189	5,034
Income tax effect	(2,961)	(64)	(1,712)
Other comprehensive income	5,748	125	3,322
<b>Total comprehensive income (loss)</b>	<b>\$ (14,833)</b>	<b>\$ 4,109</b>	<b>\$ 3,929</b>

See Notes to Consolidated Financial Statements.



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## VIST FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars In thousands)

	Years Ended December 31,		
	2011	2010	2009
<b>Cash Flows From Operating Activities</b>			
Net (loss) income	\$ (20,581)	\$ 3,984	\$ 607
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Provision for loan losses	9,036	10,210	8,572
Provision for depreciation and amortization of premises and equipment	1,255	1,288	1,332
Amortization of identifiable intangible assets	476	543	647
Goodwill impairment	25,069		
Deferred tax benefit	(146)	(674)	(3,958)
Director stock compensation	144	343	218
Net amortization of securities premiums	3,380	1,224	851
Amortization of mortgage servicing rights	31	114	150
Accretion of fair value discounts related to FDIC indemnification asset	(54)	(3)	
Accretion of fair value discounts related to covered loans	(1,189)	(61)	
Net realized losses on sales of and writedowns on other real estate owned	1,245	1,640	1,117
Impairment charge on investment securities recognized in earnings	1,519	850	2,468
Net realized gains on sales of securities	(1,473)	(691)	(344)
Gain on sale of equity interest		(1,875)	
Proceeds from sales of loans held for sale	35,741	44,439	65,514
Net gains on sales of loans held for sale (included in mortgage banking activities)	(702)	(963)	(1,168)
Loans originated for sale	(34,709)	(45,209)	(64,025)
Realized gain on sale of premises and equipment			(25)
Earnings on bank owned life insurance	(457)	(423)	(398)
Decrease (increase) in FDIC prepaid deposit insurance	1,381	1,727	(5,712)
Decrease in FDIC indemnification asset	676		
Compensation expense related to stock options and restricted stock	424	148	198
Net change in fair value of junior subordinated debt	97	(1,221)	1,398
Net change in fair value of interest rate swaps	(292)	1,027	(1,214)
(Decrease) increase in accrued interest receivable and other assets	(480)	6,052	82
Decrease in accrued interest payable and other liabilities	(1,028)	(435)	(1,528)
<b>Net Cash Provided by Operating Activities</b>	<b>19,363</b>	<b>22,034</b>	<b>4,782</b>
<b>Cash Flow From Investing Activities</b>			
Investment securities:			
Purchases available for sale	(243,687)	(146,953)	(182,598)
Principal repayments, maturities and calls available for sale	61,013	68,638	77,405
Principal repayments, maturities and calls held to maturity		51	
Proceeds from sales available for sale	92,488	73,579	65,912
Net decrease (increase) in loans receivable	32,656	(57,519)	(41,232)
Net decrease in covered loans	16,546	1,986	
Net decrease in Federal Home Loan Bank stock	1,299	283	
Sales of other real estate owned	5,446	5,641	5,251
Proceeds from the sale of premises and equipment			259
Purchases of premises and equipment	(2,330)	(876)	(1,165)
Disposals of premises and equipment	127	65	76
Contingent payments	(250)	(250)	(250)
Net cash received from acquisitions		18,275	
<b>Net Cash Used In Investing Activities</b>	<b>(36,692)</b>	<b>(37,080)</b>	<b>(76,342)</b>



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## VIST FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars In thousands)

	Years Ended December 31,		
	2011	2010	2009
<b>Cash Flow From Financing Activities</b>			
Net increase in deposits	38,169	34,584	170,298
Net decrease in federal funds purchased			(53,424)
Net decrease in short-term securities sold under agreements to repurchase	(3,481)	(8,353)	(4,890)
Repayments of long-term debt	(10,000)	(23,161)	(30,000)
Issuance of common stock		4,831	
Reissuance of treasury stock			424
Proceeds from stock purchase plans	64	76	103
Tax benefits from employee stock transactions	1		
Cash dividends paid on preferred and common stock	(2,564)	(2,488)	(2,863)
<b>Net Cash Provided By Financing Activities</b>	<b>22,189</b>	<b>5,489</b>	<b>79,648</b>
Increase (decrease) in cash and cash equivalents	4,860	(9,557)	8,088
<b>Cash and Cash Equivalents:</b>			
January 1	17,815	27,372	19,284
December 31	\$ 22,675	\$ 17,815	\$ 27,372
<b>Cash Payments For:</b>			
Interest	\$ 21,614	\$ 23,569	\$ 27,989
Taxes	\$ 1,800	\$ 600	\$
<b>Supplemental Schedule of Non-cash Investing and Financing Activities</b>			
Transfer of loans receivable to other real estate owned	\$ 4,753	\$ 7,252	\$ 11,326
<b>Acquisitions (for more information, refer to Note 9 FDIC-Assisted Acquisition):</b>			
Assets acquired at fair value	\$	\$ 105,084	\$
Liabilities assumed at fair value		(106,632)	
Net liabilities assumed	\$	\$ (1,548)	\$

See Notes to Consolidated Financial Statements.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

**Principles of Consolidation:**

The consolidated financial statements include the accounts of VIST Financial Corp. (the "Company"), a bank holding company, which has elected to be treated as a financial holding company, and its wholly-owned subsidiaries, VIST Bank (the "Bank"), VIST Insurance, LLC ("VIST Insurance") and VIST Capital Management, LLC ("VIST Capital"). As of December 31, 2011, the Bank's wholly-owned subsidiary, VIST Mortgage Holdings, LLC was inactive. All significant inter-company accounts and transactions have been eliminated.

**Nature of Operations:**

The Bank provides full banking services. VIST Insurance provides risk management services, employee benefits insurance and personal and commercial insurance coverage through multiple insurance companies. VIST Capital provides investment advisory and brokerage services. VIST Mortgage Holdings, LLC provides mortgage brokerage services through its limited partnership agreements with unaffiliated third parties involved in the real estate services industry. First Leesport Capital Trust I, Leesport Capital Trust II and Madison Statutory Trust I are trusts formed for the purpose of issuing mandatory redeemable debentures on behalf of the Company. These trusts are wholly-owned subsidiaries of the Company, but are not consolidated for financial statement purposes. See "Junior Subordinated Debt" in Note 12 to the consolidated financial statements. The Company and the Bank are subject to the regulations of various federal and state agencies and undergo periodic examinations by various regulatory authorities.

**Basis of Presentation:**

The accompanying audited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for year end financial information and with the instructions to Form 10-K. All significant inter-company accounts and transactions have been eliminated. In the opinion of management, all adjustments (including normal recurring adjustments) considered necessary for a fair presentation of the results for the year ended December 31, 2011 have been included.

**Subsequent Events:**

Effective April 1, 2009, the Company adopted FASB ASC 855, Subsequent Events. FASB ASC 855 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. FASB ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. In preparing these financial statements, the Company evaluated the events and transactions that occurred after December 31, 2011 through the date these financial statements were issued and determined that no further disclosures were required.

On January 25, 2012, the Company entered into a its definitive merger agreement under which Tompkins Financial will acquire VIST Financial Corp. VIST Bank will operate as a subsidiary of Tompkins Financial with a separate banking charter, local management team, and local Board of

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Directors. The transaction is expected to close early in the third quarter of 2012, subject to required regulatory approvals and other customary conditions, including required shareholder approval. For further information related to the merger, see Note 2 Merger with Tompkins Financial Corp.

**Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the potential impairment of goodwill, intangible assets, the potential impairment on restricted stock, the valuation of deferred tax assets, the calculations of income tax provisions, fair value disclosures and the determination of other-than-temporary impairment on investment securities.

**Significant Group Concentrations of Credit Risk:**

Most of the Company's banking, insurance and wealth management activities are with customers located within Berks, Schuylkill, Philadelphia, Montgomery, Chester and Delaware Counties, as well as, within other southeastern Pennsylvania market areas. Note 5 to the consolidated financial statements included in this Form 10-K details the Company's investment securities portfolio for both available for sale and held to maturity investments. Note 6 to the consolidated financial statements included in this Form 10-K details the Company's loan concentrations. Although the Company has a diversified loan portfolio, its debtors' ability to honor contracts is influenced by the region's economy.

**Reclassifications:**

Certain amounts previously reported have been reclassified to conform to the financial statement presentation for 2011. Such reclassifications did not have a material impact on the presentation of the overall financial statements.

**Cash and Cash Equivalents:**

For purposes of reporting the consolidated statement of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing demand deposits with banks, and federal funds sold. Generally, federal funds sold are for one-day periods. The Federal Reserve Bank requires the Bank to maintain reserve balances. For the year 2011 and 2010, the average of the daily reserve balances required to be maintained approximated \$689,000 and \$3.3 million, respectively.

**Investment Securities and Related Impairment Evaluation:**

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income



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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. For the years ended December 31, 2011, 2010 and 2009, respectively, there were no securities classified as trading, therefore, there were no gains or losses included in earnings that were a result of transfers of securities from the available for sale category into a trading category. There were no sales or transfers from securities classified as held to maturity.

For equity securities, when the Company has decided to sell an impaired available for sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if the decision to sell has not been made.

Management evaluates investment securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Factors that may be indicative of impairment include, but are not limited to, the following:

Fair value below cost and the length of time

Adverse condition specific to a particular investment

Rating agency activities (*e.g.*, downgrade)

Financial condition of an issuer

Dividend activities

Suspension of trading

Management intent

Changes in tax laws or other policies

Subsequent market value changes

Economic or industry forecasts

Other-than-temporary impairment means management believes the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, management has to first consider (a) whether the Company intends to sell the security, and (b) whether it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but the Company does not

expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows), while the amount related to



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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

**Federal Home Loan Bank Stock and Related Impairment Evaluation:**

The Bank is required to maintain certain amounts of FHLB Stock as a voluntary member of the FHLB. These equity securities are "restricted" in that they can only be sold back to the respective institutions or another member institution at par; therefore, they are less liquid than other tradable equity securities and are carried at amortized cost.

The FHLB announced in December 2008 that it voluntarily suspended the payment of dividends and the repurchase of excess capital stock from member banks. As of December 31, 2011, the FHLB last paid a dividend in the third quarter of 2008. Accounting guidance indicates that an investor in FHLB capital stock should recognize impairment if it concludes that it is not probable that it will ultimately recover the par value of its shares. The decision of whether impairment exists is a matter of judgment that should reflect the investor's view of FHLB's long-term performance, which includes factors such as its operating performance, the severity and duration of declines in the market value of its net assets related to its capital stock amount, its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance, the impact of legislation and regulatory changes on FHLB, and accordingly, on the members of FHLB and its liquidity and funding position. As a result of improved core earnings and a decrease in OTTI charges on non-agency investment securities, the FHLB repurchased stock totaling \$283,000 and \$1.3 million in 2010 and 2011, respectively. Also, subsequent to December 31, 2011, in February 2012 the FHLB continued its policy of repurchasing 5% of the Bank's excess outstanding FHLB Stock investment and reinstated paying a .10% cash dividend on the Bank's average outstanding FHLB Stock balance. Based on the financial results of the FHLB for the year-ended December 31, 2011 and 2010, management believes that the suspension of both the dividend payments and excess capital stock repurchase is temporary in nature. Management further believes that the FHLB will continue to be a primary source of wholesale liquidity for both short-term and long-term funding and has concluded that its investment in FHLB Stock is not other-than-temporarily impaired. After evaluating all of these considerations, the Company believes the par value of its shares will be recovered. Future evaluations of the above mentioned factors could result in the Company recognizing an impairment charge.

**Loans Held for Sale:**

Mortgage loans originated and intended for sale in the secondary market at the time of origination are carried at the lower of cost or estimated fair value on an aggregate basis. The fair value of mortgage loans held for sale is determined, when possible, using Level 2 quoted secondary-market prices. If no such quoted price exists, the fair value of a loan is determined based on expected proceeds based on sales contracts and commitments.

These loans are all sold 100% servicing released to various financial institutions, usually within a 30 day period after origination. The loans are generally sold to institutions approved by the Company. Loan sales are typically subject to recourse agreements ranging from 90 to 150 days. Recourse only becomes an issue in the instance of payment delinquency or fraud during the recourse period which

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

rarely occurs due to the strictness of the underwriting guidelines. The Company does not engage in any subprime lending. These loan sales are not subject to any other agreements or indemnifications. The Company is not currently involved in any servicing, pooling or securitization of these loans. There are no reserves set up for any contingencies or litigation that may occur with regard to this portfolio due to the portfolio's immateriality to the Company's balance sheet.

**Rate Lock Commitments:**

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates.

**Loans:**

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are stated at their outstanding unpaid principal balances, net of any deferred fees or costs on originated loans or unamortized premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. These amounts are generally being amortized over the contractual life of the loan. Discounts and premiums on purchased loans are amortized to income using the interest method over the expected lives of the loans. The Bank has not underwritten any hybrid loans or sub-prime loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

**Covered Loans:**

In connection with the acquisition discussed in Note 9, the Bank has purchased loans of a failed bank, some of which have shown evidence of credit deterioration since origination. These purchased loans were recorded at the amount paid, such that there was no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Of the loans acquired with evidence of credit deterioration, some of the loans were aggregated into ten pools of loans based on common risk characteristics such as credit risk and loan type. The cash flows

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates and prepayment speeds are utilized to calculate the expected cash flows. Other loans acquired in the acquisition evidencing credit deterioration were recorded initially at the amount paid. For pools or loans or individual loans evidencing credit deterioration, the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the pool or loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Our determination of the initial fair value of loans purchased in the FDIC-assisted acquisitions involved a high degree of judgment and complexity. 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 non-accretable discounts 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.

Prospective losses incurred on Covered loans are eligible for partial reimbursement by the FDIC under loss sharing agreements. Subsequent decreases in the amount expected to be collected result in a provision for credit losses, an increase in the allowance for loan losses, and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected result in the reversal of any previously-recorded provision for credit losses and related allowance for loan loss and adjustments to the FDIC receivable, or prospective adjustment to the accretable yield if no provision for credit losses had been recorded.

In accordance with the loss sharing agreements with the FDIC, certain expenses relating to covered assets of external parties such as legal, property taxes, insurance, and the like may be reimbursed by the FDIC at 70% or if certain levels of reimbursement are reached, 80%, as defined.

**Allowance for Loan Losses:**

In accordance with U.S. GAAP, the allowance for loan losses represents management's estimate of losses inherent in the loan and lease portfolio as of the balance sheet date and is recorded as a reduction to loans and leases. The allowance for loan losses is increased by the provision for loan

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 1. Summary of Significant Accounting Policies (Continued)**

losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 90 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance, which is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan and lease portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans and leases that are classified as impaired. For such loans and leases, an allowance is established when the (i) discounted cash flows, or (ii) collateral value, or (iii) observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity loans, home equity lines of credit and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for relevant qualitative factors. Separate qualitative adjustments are made for higher-risk criticized loans that are not impaired. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and historical-based loss/collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as trends and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for all criticized and classified loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals or evaluations. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The Company collectively evaluates certain smaller balance homogeneous loans for impairment.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses 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, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, an extension of a loan's stated maturity date or a change in the loan payment to interest-only. For troubled debt restructurings on loans that are accruing interest, the Company will continue to accrue interest based upon the modified terms. Troubled debt restructurings on loans not accruing interest are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are classified as impaired.

**Other Real Estate Owned**

Other real estate owned ("OREO") includes assets acquired through foreclosure, deed in-lieu of foreclosure, and loans identified as in-substance foreclosures. A loan is classified as an in-substance foreclosure when effective control of the collateral has been taken prior to completion of formal foreclosure proceedings. OREO is held for sale and is recorded at fair value of the property, based on current independent appraisals obtained at the time of acquisition less estimated costs to sell. Costs to maintain OREO and subsequent gains and losses attributable to OREO liquidation are included in the Consolidated Statements of Operations in other income and other expense as realized. No depreciation or amortization expense is recognized.

**Covered Other Real Estate Owned**

Other real estate acquired through foreclosure covered under loss sharing agreements with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Subsequent decreases to the estimated recoverable value of covered other real estate result in a reduction of covered other real estate, and a charge to non-interest income, and an increase in the FDIC receivable for the estimated amount to be reimbursed, with a corresponding amount recorded in non-interest income.

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 1. Summary of Significant Accounting Policies (Continued)****Premises and Equipment:**

Land and land improvements are stated at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is calculated principally on the straight-line method over the respective assets estimated useful lives as follows:

	Years
Buildings and leasehold improvements	10 - 40
Furniture and equipment	3 - 10

**Transfer of Financial Assets:**

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Bank Owned Life Insurance:**

The Bank invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is reflected in non-interest income on the consolidated statements of operations.

**FDIC Indemnification Asset**

Under the terms of the loss sharing agreements with the FDIC, which is a significant component of the acquisition discussed in Note 9, the FDIC will absorb 70% of the losses and certain related expenses and share in loss recoveries on loans and other real estate owned covered under the loss share agreements. The FDIC indemnification asset is measured separately from each of the covered asset categories. The indemnification asset represents the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets based on the credit adjustment estimated for each covered asset and the loss sharing percentages. These cash flows are discounted at a rate to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The FDIC indemnification asset will be reduced as losses are recognized on covered assets and loss sharing payments are received from the FDIC.

When cash flow estimates are adjusted downward for a particular loan or pool, the FDIC indemnification asset is increased. An allowance for loan losses is established for the impairment of the loans. A provision for loan losses is recognized for the difference between the increase in the FDIC indemnification asset and the decrease in cash flows.

When cash flow estimates are adjusted upward for a particular loan pool, the FDIC indemnification asset is decreased. The difference between the decrease in the FDIC indemnification

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

asset and the increase in cash flows is accreted over the estimated life of the loan pool or individual loans.

**FDIC Assisted Acquisition:**

U.S. GAAP requires that the acquisition method of accounting, formerly referred to as purchase method, be used for all business combinations and that an acquirer be identified for each business combination. Under U.S. GAAP, the acquirer is the entity that obtains control of one or more businesses in the business combination, and the acquisition date is the date the acquirer achieves control. U.S. GAAP requires that the acquirer recognize the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date.

The Company's wholly-owned subsidiary acquired Allegiance Bank of North America ("Allegiance") headquartered in Bala Cynwyd, Pennsylvania. The acquisition was completed with the assistance of the Federal Deposit Insurance Corporation ("FDIC"). The acquired assets and assumed liabilities of Allegiance were measured at estimated fair value as of the date of the acquisition. Management made significant estimates and exercised significant judgment in accounting for the acquisition of Allegiance. Management judgmentally assigned risk ratings to loans based on appraisals and estimated collateral values, expected cash flows, and estimated loss factors to measure fair values for loans. Other real estate acquired through foreclosure was valued based upon pending sales contracts and appraised values, adjusted for current market conditions. Management used quoted or current market prices to determine the fair value of investment securities, short-term borrowings and long-term obligations that were assumed from Allegiance.

**Stock-Based Compensation:**

On January 1, 2006, the Company transitioned to fair-value based accounting for stock-based compensation using the modified-prospective transition method. Under the modified-prospective method, the Company is required to record compensation cost for new awards and to awards modified, purchased or cancelled after January 1, 2006. Additionally, compensation cost for the portion of non-vested awards (awards for which the requisite service has not been rendered) that were outstanding as of January 1, 2006 are being recognized prospectively over the remaining vesting period of such awards.

**Mortgage Servicing Rights:**

Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. As of December 31, 2011, the Company had no mortgage servicing rights.

**Revenue Recognition for Insurance Activities:**

Insurance revenues are derived from commissions and fees. Commission revenues, as well as the related premiums receivable and payable to insurance companies, are recognized the later of the



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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

effective date of the insurance policy or the date the client is billed, net of an allowance for estimated policy cancellations. The reserve for policy cancellations is periodically evaluated and adjusted as necessary. Commission revenues related to installment premiums are recognized as billed. Commissions on premiums billed directly by insurance companies are generally recognized as income when received. Contingent commissions from insurance companies are generally recognized as revenue when the data necessary to reasonably estimate such amounts is obtained. A contingent commission is a commission paid by an insurance company that is based on the overall profit and/or volume of the business placed with the insurance company. Fee income is recognized as services are rendered.

**Goodwill and Other Intangible Assets:**

The excess of the cost of an acquisition over the fair value of the net assets acquired consists of goodwill. Under the provisions of ASC Topic 350, goodwill is subject to at least annual assessments for impairment by applying a fair value based test. The Company tests for goodwill impairment at least annually, or more frequently if events and circumstances indicate that the asset might be impaired.

Other intangible assets typically include core deposit intangibles, customer related intangibles and covenants not to compete. 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 is 7 years using a straight-line method. The covenants not to compete are amortized on a straight-line basis over 3 to 7 years, while the customer related intangible is amortized on an accelerated basis over a range of 10 to 20 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.

**Income Taxes:**

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carry-forwards and tax credit carry-forwards, while deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

**Equity Method Investment:**

On December 29, 2003, the Bank entered into a limited partner subscription agreement with Midland Corporate Tax Credit XVI Limited Partnership, where the Bank receives special tax credits and other tax benefits. The Bank subscribed to a 6.2% interest in the partnership, which is subject to an adjustment depending on the final size of the partnership at a purchase price of \$5.0 million. This investment of \$2.5 million and \$2.8 million is recorded in other assets as of December 31, 2011 and 2010, respectively, and is not guaranteed; therefore, it is accounted for in accordance with FASB ASC 970, "Accounting for Investments in Real Estate Ventures" using the equity method.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Segment Reporting:**

The Bank acts as an independent community financial services provider which offers traditional banking and related financial services to individual, business and government customers. Through its branch and automated teller machine networks, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services.

The Company's insurance, investment and mortgage banking operations are managed separately from the Bank. The mortgage banking operation offers residential lending products and generates revenue primarily through gains recognized on loan sales. VIST Insurance provides coverage for commercial, individual, surety bond, and group and personal benefit plans. VIST Capital Management provides services for individual financial planning, retirement and estate planning, investments, corporate and small business pension and retirement planning (See Note 18 Segment and Related Information, for segment related information on the Bank, mortgage banking, VIST Insurance and VIST Capital Management).

**Marketing and Advertising:**

Marketing and advertising costs are expensed as incurred.

**Off-Balance Sheet Financial Instruments:**

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated balance sheets when they become receivable or payable.

**Derivative Financial Instruments:**

The Company maintains an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. The Company views this strategy as a prudent management of interest rate sensitivity, such that earnings are not exposed to undue risk presented by changes in interest rates.

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes the Company, and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it has no repayment risk. The Company minimizes the credit (or repayment) risk in the derivative instruments by entering into transactions with high quality counterparties.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Market risk is the adverse effect that a change in interest rates, currency, or implied volatility rates has on the value of a financial instrument. The Company manages the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. The Company periodically measures this risk by using value-at-risk methodology.

**Note 2. Merger with Tompkins Financial Corp.**

On January 25, 2012, the Company entered into a definitive merger agreement under which Tompkins Financial will acquire VIST Financial Corp. Based on the average of the closing prices of Tompkins Financial common stock for the 20 trading days ending January 24, 2012, the all stock transaction is valued at approximately \$86.0 million at the time of signing the merger agreement, or \$12.50 per VIST common share. Under the terms of the merger agreement, VIST shareholders will receive 0.3127 shares of Tompkins Financial common stock for each share of VIST common stock held. The exchange ratio is subject to adjustment based on the average of the closing prices of Tompkins Financial common stock for the 20 business days ending three business days prior to the VIST shareholder meeting called to consider the merger agreement (the "Average Closing Price"). If the Average Closing Price is more than \$43.98, the Exchange Ratio shall be 0.2842; and if the Average Closing Price is less than \$35.98, the Exchange Ratio shall be 0.3475.

VIST Bank will operate as a subsidiary of Tompkins Financial with a separate banking charter, local management team, and local Board of Directors. The Boards of Directors of both companies have approved the transaction, which is expected to close early in the third quarter of 2012, subject to required regulatory approvals and other customary conditions, including required shareholder approval.

**Note 3. Recently Issued Accounting Standards:**

In April 2011, the FASB issued (ASU) 2011-02 Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This Update gives creditors additional guidance and clarification for evaluating whether or not a creditor has granted a concession and whether or not a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. No significant impact to amounts reported in the consolidated financial position or results of operations occurred from the adoption of ASU 2011-02.

In April 2011, the FASB issued (ASU) 2011-03 Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements. The purpose of this Update is to improve the accounting for repurchase agreements and other agreements that entitle and obligate transferors to repurchase or redeem financial assets prior to their maturity. This Update removes from the assessment of effective control, the criterion requiring the transferor to have the ability to repurchase or redeem financial assets at substantially the agreed terms even in the event of default by the transferee and the collateral maintenance implementation guidance related to that criterion. The amendments in this Update are effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to new or modification transactions that occur after the effective date. No significant impact to amounts reported in the consolidated financial position or results of operations is expected from the adoption of ASU 2011-03.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 3. Recently Issued Accounting Standards: (Continued)**

In May 2011, the FASB issued (ASU) 2011-04 Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The purpose of this Update is to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This Update clarifies the Board's intent about the application of existing fair value measurement and disclosure requirements and includes changes to particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. In addition, to improve consistency in application across jurisdictions some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. The amendments in this Update are effective during interim and annual period beginning on or after December 15, 2011. Early application by public entities is not permitted. No significant impact to amounts reported in the consolidated financial position or results of operations is expected from the adoption of ASU 2011-04.

In June 2011, the FASB issued (ASU) 2011-05 Comprehensive Income (Topic 220) Presentation of Comprehensive Income. The purpose of this Update is to indicate that an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued (ASU) 2011-12 which deferred the effective date of this amendment until the first interim or annual period beginning on or after December 15, 2011 which should be applied retrospectively. The Bank elected to early adopt this update. There were no significant impact to amounts reported in the consolidated financial position or results of operations.

In September 2011, the FASB issued (ASU) 2011-08 Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment. The purpose of this amendment is to simplify how entities test goodwill for impairment. This amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. These amendments are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early application is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. No significant impact to amounts reported in the consolidated financial position or results of operations is expected from the adoption of ASU 2011-08. The Bank elected not to early adopt this update.

In December 2011, the FASB issued (ASU) 2011-11 Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. The purpose of this amendment is to facilitate comparison between

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3. Recently Issued Accounting Standards: (Continued)**

those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This amendment requires an entity to address significant differences in amounts presented in the statements of financial position by disclosing both gross and net information about instruments and transactions eligible for offset. This amendment covers derivatives, sale and repurchase agreements and reverse sale and repurchase agreements. These amendments are effective for annual reporting periods beginning on or after January 1, 2013. No significant impact to amounts reported in the consolidated financial position or results of operations is expected from the adoption of ASU 2011-11.

**Note 4. Earnings Per Common Share:**

Basic earnings per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per common share reflects the potential dilution that could occur if options to issue common stock were exercised. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method. Stock options with exercise prices that exceed the average market price of the Company's common stock during the periods presented are excluded from the dilutive earnings per common share calculation. For the years ended December 31, 2011, 2010 and 2009, anti-dilutive common stock options totaled 870,569, 579,270 and 645,036, respectively.

The Company's calculation of earnings (loss) per common share for the years ended December 31, 2011, 2010, and 2009 is presented below:

	<b>Years ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollar amounts in thousands)</b>		
Net (loss) income	\$ (20,581)	\$ 3,984	\$ 607
Less: preferred stock dividends	(1,250)	(1,250)	(1,250)
Less: preferred stock discount accretion	(459)	(428)	(399)
Net (loss) income available to common shareholders	\$ (22,290)	\$ 2,306	\$ (1,042)
Average common shares outstanding	6,577,137	6,275,341	5,780,541
Effect of dilutive stock options		42,444	
Average common shares used to calculate diluted earnings per common share	6,577,137	6,317,785	5,780,541
<b>EARNINGS PER SHARE DATA</b>			
Basic (loss) earnings per common share	\$ (3.39)	\$ 0.37	\$ (0.18)
Diluted (loss) earnings per common share	\$ (3.39)	\$ 0.37	\$ (0.18)

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. Securities Available For Sale and Securities Held to Maturity**

The amortized cost and estimated fair values of securities available for sale and securities held to maturity were as follows at December 31, 2011 and 2010:

Securities Available For Sale	December 31, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollar amounts in thousands)								
U.S. Government agency securities	\$ 11,298	\$ 853	\$ (64)	\$ 12,087	\$ 11,648	\$ 366	\$ (224)	\$ 11,790
Agency residential mortgage-backed debt securities	318,620	7,407	(1,056)	324,971	216,956	6,220	(811)	222,365
Non-Agency collateralized mortgage obligations	8,166	5	(1,928)	6,243	13,663		(3,648)	10,015
Obligations of states and political subdivisions	24,647	790		25,437	33,141	18	(2,252)	30,907
Trust preferred securities single issuer	500		(375)	125	500	1		501
Trust preferred securities pooled	4,564		(2,736)	1,828	5,396		(4,912)	484
Corporate and other debt securities	2,570		(115)	2,455	1,117		(69)	1,048
Equity securities	3,224	38	(717)	2,545	3,345	30	(730)	2,645
<b>Total investment securities available for sale</b>	<b>\$ 373,589</b>	<b>\$ 9,093</b>	<b>\$ (6,991)</b>	<b>\$ 375,691</b>	<b>\$ 285,766</b>	<b>\$ 6,635</b>	<b>\$ (12,646)</b>	<b>\$ 279,755</b>

Securities Held To Maturity	December 31, 2011					
	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
(Dollar amounts in thousands)						
Trust preferred securities single issuer	\$ 978	\$	\$ 978	\$ 58	\$	\$ 1,036
Trust preferred securities pooled	617	(40)	577			577
<b>Total investment securities held to maturity</b>	<b>\$ 1,595</b>	<b>\$ (40)</b>	<b>\$ 1,555</b>	<b>\$ 58</b>	<b>\$</b>	<b>\$ 1,613</b>

Amortized Cost	Other-Than-Temporary Impairment Recognized	December 31, 2010		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
		Carrying Value				

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**In  
Accumulated  
Other  
Comprehensive  
Loss**

(Dollar amounts in thousands)

Trust preferred securities	single issuer	\$	2,007	\$		\$	2,007	\$	26	\$	(160)	\$	1,873	
Trust preferred securities	pooled		650		(635)		15						15	
Total investment securities held to maturity			\$	2,657	\$	(635)	\$	2,022	\$	26	\$	(160)	\$	1,888

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

The age of unrealized losses and fair value of related investment securities available for sale and investment securities held to maturity at December 31, 2011 and December 31, 2010 were as follows:

Securities Available for Sale	December 31, 2011								
	Less than Twelve Months			More than Twelve Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
	(Dollar amounts in thousands)								
U.S. Government agency securities	\$ 5,201	\$ (64)	1	\$	\$		\$ 5,201	\$ (64)	1
Agency residential mortgage-backed debt securities	101,487	(957)	39	10,233	(99)	4	111,720	(1,056)	43
Non-Agency collateralized mortgage obligations	136	(11)	1	5,611	(1,917)	6	5,747	(1,928)	7
Obligations of states and political subdivisions									
Trust preferred securities single issuer	125	(375)	1				125	(375)	1
Trust preferred securities pooled				1,828	(2,736)	6	1,828	(2,736)	6
Corporate and other debt securities	1,444	(56)	1	1,011	(59)	2	2,455	(115)	3
Equity securities	1,067	(48)	3	870	(669)	21	1,937	(717)	24
Total investment securities available for sale	\$ 109,460	\$ (1,511)	46	\$ 19,553	\$ (5,480)	39	\$ 129,013	\$ (6,991)	85

Securities Held To Maturity	December 31, 2011								
	Less than Twelve Months			More than Twelve Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
	(Dollar amounts in thousands)								
Trust preferred securities single issue	\$	\$		\$	\$		\$	\$	
Trust preferred securities pooled				577	(40)	1	577	(40)	1
Total investment securities held to maturity	\$	\$		\$ 577	\$ (40)	1	\$ 577	\$ (40)	1



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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)

Securities Available for Sale	December 31, 2010								
	Less than Twelve Months			More than Twelve Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
(Dollar amounts in thousands)									
U.S. Government agency securities	\$ 4,244	\$ (224)	3	\$	\$		\$ 4,244	\$ (224)	3
Agency residential mortgage-backed debt securities	43,774	(811)	21				43,774	(811)	21
Non-Agency collateralized mortgage obligations	1,510	(6)	1	7,450	(3,642)	8	8,960	(3,648)	9
Obligations of states and political subdivisions	27,200	(2,130)	31	965	(122)	2	28,165	(2,252)	33
Trust preferred securities single issuer									
Trust preferred securities pooled				484	(4,912)	8	484	(4,912)	8
Corporate and other debt securities	934	(66)	1	114	(3)	1	1,048	(69)	2
Equity securities	989	(11)	1	1,031	(719)	22	2,020	(730)	23
Total investment securities available for sale	\$ 78,651	\$ (3,248)	58	\$ 10,044	\$ (9,398)	41	\$ 88,695	\$ (12,646)	99

Securities Held To Maturity	December 31, 2010								
	Less than Twelve Months			More than Twelve Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
(Dollar amounts in thousands)									
Trust preferred securities single issue	\$ 870	\$ (160)	1	\$	\$		\$ 870	\$ (160)	1
Trust preferred securities pooled				15	(635)	1	15	(635)	1
Total investment securities held to maturity	\$ 870	\$ (160)	1	\$ 15	\$ (635)	1	\$ 885	\$ (795)	2

At December 31, 2011, there were 46 securities with unrealized losses in the less than twelve month category and 40 securities with unrealized losses in the twelve month or more category.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

Management evaluates investment securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Factors that may be indicative of impairment include, but are not limited to, the following:

Fair value below cost and the length of time

Adverse condition specific to a particular investment

Rating agency activities (e.g., downgrade)

Financial condition of an issuer

Dividend activities

Suspension of trading

Management intent

Changes in tax laws or other policies

Subsequent market value changes

Economic or industry forecasts

Other-than-temporary impairment means management believes the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, management has to first consider (a) whether the Company intends to sell the security, and (b) whether it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but the Company does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows), while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

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If a decline in market value of a security is determined to be other than temporary, under U.S. GAAP, we are required to write these securities down to their estimated fair value. As of December 31, 2011, we owned single issuer and pooled trust preferred securities of other financial institutions, private label collateralized mortgage obligations and equity securities whose aggregate historical cost basis is greater than their estimated fair value. We reviewed all investment securities and have identified those securities that are other-than-temporarily impaired. The losses associated with these other-than-temporarily impaired securities have been bifurcated into the portion of non-credit

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

impairment losses recognized in other comprehensive loss and into the portion of credit impairment losses recorded in earnings. We perform an ongoing analysis of all investment securities utilizing both readily available market data and third party analytical models. Future changes in interest rates or the credit quality and strength of the underlying issuers may reduce the market value of these and other securities. If such decline in these securities is determined to be other than temporary, we will write them down through a charge to earnings to their then current fair value.

A. Obligations of U. S. Government Agencies and Corporations. The net unrealized losses on the Company's investments in obligations of U.S. Government agencies were caused by changing credit spreads in the market as a result of current monetary policy and fluctuating interest rates. At December 31, 2011, the fair value of the U. S. Government agencies and corporations bonds represented 3.2% of the total fair value of the available for sale securities held in the investment securities portfolio. The contractual cash flows are guaranteed by an agency of the U.S. Government. Because the Company does not have the intent to sell these securities, nor is it more likely than not that the Company will be required to sell these securities, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2011. Future evaluations of the above mentioned factors could result in the Company recognizing an impairment charge.

B. Mortgage-Backed Debt Securities. The net unrealized losses on the Company's investments in federal agency residential mortgage-backed securities and corporate (non-agency) collateralized mortgage obligations ("CMO") were primarily caused by changing credit and pricing spreads in the market and fluctuating interest rates. At December 31, 2011, federal agency residential mortgage-backed securities and collateralized mortgage obligations represented 86.5% of the total fair value of available for sale securities held in the investment securities portfolio. Corporate (non-agency) collateralized mortgage obligations represented 1.7% of the total fair value of available for sale securities held in the investment securities portfolio. The Company purchased those securities at a price relative to the market at the time of the purchase. The contractual cash flows of those federal agency residential mortgage-backed securities are guaranteed by the U.S. Government. Because the decline in the market value of agency residential mortgage-backed debt securities is primarily attributable to changes in market pricing since the time of purchase and not credit quality, and because the Company does not have the intent to sell these securities, nor is it more likely than not that the Company will be required to sell these securities, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2011. Future evaluations of the above mentioned factors could result in the Company recognizing an impairment charge.

As of December 31, 2011, the Company owned 8 corporate (non-agency) collateralized mortgage obligation issues in super senior or senior tranches of which 7 corporate (non-agency) collateralized mortgage obligation issues aggregate historical cost basis is greater than estimated fair value. At December 31, 2011, all 8 non-agency CMO's with an amortized cost basis of \$8.2 million were collateralized by residential real estate. The Company uses a two step modeling approach to analyze each non-agency CMO issue to determine whether or not the current unrealized losses are due to credit impairment and therefore other-than-temporarily impaired ("OTTI"). Step one in the modeling process applies default and severity credit vectors to each security based on current credit data detailing delinquency, bankruptcy, foreclosure and real estate owned (REO) performance. The results of the credit vector analysis are compared to the security's current credit support coverage to determine if the security has adequate collateral support. If the security's current credit support coverage falls below certain predetermined levels, step two is utilized. In step two, the Company uses a third party to

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

assist in calculating the present value of current estimated cash flows to ensure there are no adverse changes in cash flows during the quarter leading to an other-than-temporary-impairment. Management's assumptions used in step two include default and severity vectors and prepayment assumptions along with various other criteria including: percent decline in fair value; credit rating downgrades; probability of repayment of amounts due, credit support and changes in average life. Two non-agency CMO securities qualified for the step two modeling approach which produced an OTTI credit loss for the three and twelve month periods ended December 31, 2011 of \$566,000 and \$1,182,000, respectively. None of the 8 non-agency CMO's are currently deferring or are in default of interest payments to the Company. Because of the results of the modeling process and because the Company does not have the intent to sell these securities, nor is it more likely than not that the Company will be required to sell these securities, the Company does not consider the remaining non-agency CMO investments with no prior OTTI charges to be other-than-temporarily impaired at September 30, 2011. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or AOCI to reduce the securities to their then current fair value.

C. State and Municipal Obligations. The net unrealized losses on the Company's investments in state and municipal obligations were primarily caused by changing credit spreads in the market as a result of current monetary policy and fluctuating interest rates. At December 31, 2011, state and municipal obligation bonds represented 6.8% of the total fair value of available for sale securities held in the investment securities portfolio. The Company purchased those obligations at a price relative to the market at the time of the purchase, and the tax advantaged benefit of the interest earned on these investments reduces the Company's federal tax liability. Because the Company does not have the intent to sell these securities, nor is it more likely than not that the Company will be required to sell these securities, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2011. Future evaluations of the above mentioned factors could result in the Company recognizing an impairment charge.

D. Corporate and Other Debt Securities and Trust Preferred Securities. Included in corporate and other debt securities available for sale at December 31, 2011, was 1 asset-backed security and 2 corporate debt issues representing 0.7% of the total fair value of available for sale securities. The net unrealized losses on other debt securities relate primarily to changing pricing due to the ongoing economic downturn affecting these markets and not necessarily the expected cash flows of the individual securities. Due to market conditions, it is unlikely that the Company would be able to recover its investment in these securities if the Company sold the securities at this time. Because the Company has analyzed the credit risk and cash flow characteristics of these securities and the Company does not have the intent to sell these securities, nor is it more likely than not that the Company will be required to sell these securities, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2011.

Included in trust preferred securities were single issue, trust preferred securities ("TRUPS" or "CDO") representing 0.1% and 64.2% of the total fair value of available for sale securities and the total held to maturity securities, respectively, and pooled TRUPS representing 0.5% and 35.8% of the total fair value of available for sale securities and the total held to maturity securities, respectively.

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

As of December 31, 2011, the Company owned 2 single issuer TRUPS issues and 7 pooled TRUPS issues of other financial institutions. In the fourth quarter of 2011, 1 single issuer TRUPS issue and 1 pooled TRUPS issue prepaid in full. At December 31, 2011, the historical cost basis of 1 single issuer TRUPS and 7 pooled TRUPS was greater than each security's estimated fair value. Investments in TRUPS in which the historical cost basis was greater than each security's estimated fair value included (a) amortized cost of \$500,000 of single issuer TRUPS of other financial institutions with a fair value of \$375,000 and (b) amortized cost of \$5.2 million of pooled TRUPS of other financial institutions with a fair value of \$2.4 million. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company has evaluated these securities and determined that the decreases in estimated fair value are temporary with the exception of 5 pooled TRUPS which were other than temporarily impaired at December 31, 2011. For the three months ended December 31, 2011, the Company did not recognize any credit impairment charges to earnings on any available for sale or held to maturity pooled TRUPS investment security as the Company's estimate of projected cash flows it expects to receive for these TRUPS was greater than the security's carrying value. For the year ended December 31, 2011, the Company recognized a net credit impairment charge to earnings of \$296,000 on 4 available for sale pooled TRUPS as the Company's estimate of projected cash flows it expected to receive for these TRUPS prior to the fourth quarter of 2011 was less than the security's carrying value. For the year ended December 31, 2011, the OTTI losses recognized on available for sale pooled trust preferred securities resulted primarily from higher estimates for collateral defaults and deferrals as a result of stressed economic conditions affecting the financial services industry. During the fourth quarter of 2011, the Company adjusted its estimates for collateral defaults and deferrals based on many issuers prepaying issues or curing previous defaults and deferrals through recapitalization or through mergers and acquisitions.

The Company performs an ongoing analysis of these securities utilizing both readily available market data and third party analytical models. Future changes in interest rates or the credit quality and strength of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or AOCI to reduce the securities to their then current fair value.

For pooled TRUPS, on a quarterly basis, the Company uses a third party model ("model") to assist in calculating the present value of current estimated cash flows to the previous estimate to ensure there are no adverse changes in cash flows. The model's valuation methodology is based on the premise that the fair value of a CDO's collateral should approximate the fair value of its liabilities. Conceptually, this premise is supported by the notion that cash generated by the collateral flows through the CDO structure to bond and equity holders, and that the CDO structure neither enhances nor diminishes its value. This approach was designed to value structured assets like TRUPS that currently do not have an active trading market, but are secured by collateral that can be benchmarked to comparable, publicly traded securities. The following describes the model's assumptions, cash flow projections, and the valuation approach developed using the market value equivalence approach:

***Collateral Cash Flows***

The aggregated loan level cash flows are primarily dependent on the estimated speeds at which the trust preferred securities are expected to prepay, the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default, and the severity of the losses on securities which default.

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

***Prepayment Assumptions***

Trust preferred securities generally allow for prepayment without a prepayment penalty any time after five years. Prior to August 2007, the spread to the benchmark on trust preferred securities narrowed. Because of the narrowing of spreads, many financial institutions prepaid their outstanding trust preferred securities at the five year mark and refinanced. As a result, many industry experts valuing the CDOs were using relatively high prepayment speed assumptions. However, due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, the model is forecasting relatively modest rates of prepayment over the long-term.

Nevertheless, the recently enacted Dodd-Frank act could affect prepayments of trust preferred securities in the collateral pool. Depository institution holding companies with more than \$15 billion of total assets at December 31, 2009 will no longer be able to count trust preferred securities as Tier 1 regulatory capital beginning January 1, 2013. Similarly, US bank holding company subsidiaries of foreign banking organizations with more than \$15 billion in total assets will no longer be able to count trust preferred securities as Tier 1 capital beginning July 1, 2015.

On the other hand, many of the trust preferred securities contained in the collateral pools of trust preferred collateralized debt obligations were issued at relatively favorable interest rates, including floating rate securities with relatively modest spreads compared to the rates in the marketplace today. The model believes that many of these issues represent an efficient long-term funding mechanism and will not necessarily be prepaid based on the change in capital treatment. In order to estimate the increase in near-term prepayments resulting from this legislation, the model first identified all fixed rate trust preferred securities issued by banks with more than \$15 billion in total assets at December 31, 2009. The model also identified the holding companies' approximate cost of long-term funding given their rating and marketplace interest rates. The model assumed that any holding company that could refinance for a cost savings of more than 2 percent will refinance and will do so on January 1, 2013, or July 1, 2015 at the end of the respective transition period.

Prepayments affect the securities in three ways. First, prepayments lower the absolute amount of excess spread, an important credit enhancement. Second, the prepayments are directed to the senior tranches, the effect of which is to increase the overcollateralization of the mezzanine layer. However, the prepayments can lead to adverse selection in which the strongest institutions have prepaid, leaving the weaker institutions in the pool, thus mitigating the effect of the increased overcollateralization. Third, prepayments can limit the numeric and geographic diversity of the pool, leading to concentration risks.

***Bank Deferral and Default Rates***

Trust preferred securities include a provision that allows the issuing bank to defer interest payments for up to five years. The model's estimates for the rates of deferral are based on the financial condition of the trust preferred issuers in the pool. The model first estimates a near-term rate of deferral based on the financial condition of these issuers. The model then assumes the deferrals will return to their historical levels.

The model's estimates for the conditional default rates (CDR) are based on the payment characteristics of the trust preferred securities themselves (e.g. current, deferred, or defaulted) as well as the financial condition of the trust preferred issuers in the pool. The model first estimates a

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

near-term CDR based on the financial condition of the issuers in the pool. In 2013 and beyond, the CDR rate is calculated based upon a comparison of certain key financial ratios of the active issuers in the deal to all FDIC insured bank institutions. The model's estimates for the near-term rates of deferral and CDR are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Also, the model considers the CDO's most recent ratings from outside services including Standard & Poors, Moodys, and Fitch, as well as, the most recent stock price information for each financial institution in the CDO, whether or not the financial institution has received TARP funding, recent summaries of regulatory actions to the extent they are available as well as any news related to the banks we are analyzing, including offers to redeem the trust preferred securities, and whether the bank has the ability to generate additional capital internally or externally.

The model bases the assumption of longer-term rates of deferral and defaults on historical averages as detailed in readily available third party research reports. The research report defines a default as any instance when a regulator takes an active role in a bank's operations under a supervisory action. This definition of default is distinct from failure. The research report considers a bank to have defaulted if it falls below minimum capital requirements or becomes subject to regulatory actions including a written agreement, or a cease and desist order. The research report calculates the default rate as a fraction in which the numerator represents the number of issuers that default and the denominator represents the number of banks at risk of defaulting. The research also performed a "cohort" analysis, the purpose of which is to determine the default rate of the original population over a number of years.

The fact that an issuer defaults on a loan, does not necessarily mean that the investor will lose all of their investment. Thus, it is important to understand not only the default assumption, but also the expected loss given a default, or the loss severity assumption. The model uses published rating agency methodology for rating trust preferred/hybrid securities loss severity assumptions.

***Note Waterfall***

The trust preferred securities CDOs have several tranches: Senior tranches, Mezzanine tranches, and the Residual or income tranches. Financial institutions generally invested in the mezzanine tranches, which were usually rated A or BBB at the time of purchase.

The Senior and Mezzanine tranches were over-collateralized at issuance, meaning that the par value of the underlying collateral was more than the balance issued on these tranches. The terms generally provide that if the performing collateral balances fall below certain "triggers", then income is diverted from the residual tranches to pay the Senior and Mezzanine Tranches. If significant deferrals occur, income could also be diverted from the Mezzanine tranches to pay the Senior tranches.

Collateral cash flows are calculated based on the attributes of the trust preferred securities as of the collateral cut-off date corresponding to the disclosure date referenced in this document along with the model's valuation input assumptions for the underlying collateral. Cash flows are then allocated to securities by priority based upon the cash flow waterfall rules provided in the prospectus supplement. The allocations are based on the overcollateralization and interest coverage tests (triggers), events of default and liquidation, deferrals of interest, mandatory auction calls, optional redemptions and any interest rate hedge agreements.



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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

***Internal Rate of Return***

Internal rates of return (IRR) are the pre-tax yield rates used to discount the future cash flow stream expected from the collateral cash flows. The marketplace for the pooled trust security CDOs is not active. This is evidenced by a significant widening of the bid/ask spreads in the markets in which the CDOs trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive and only a very small number of trust preferred CDOs have been issued since 2007.

The model explicitly calculates the credit component utilizing conditional default and loss severity vectors within the cash flow valuation model. The model relies on FASB ASC paragraph 820-10-55-5 to provide guidance on the discount rates to be used when a market is not active. According to the standard, the discount rate should take into account all of the following factors: (1) the time value of money (risk free rate), (2) price for bearing the uncertainty in the cash flows (risk premium), and (3) other case specific factors that would be considered by market participants, including a liquidity adjustment.

The model combines the risk free rate to the corporate bond spread for banks to determine the credit valuation adjustment is included within these values. To remove the credit component the model uses the credit default swap rates for financial companies as a proxy for credit based on various terms and provides discount rates that are exclusive of the credit component. The model then backs out the Swap / LIBOR curve in order to get back to a floating rate spread. Characteristics of the securities and their related collateral may cause adjustment to these values. Additionally, the model's discount rate estimates come from conversations with major financial institutions regarding assumptions they are using for highly rated assets, from opportunistic hedge funds regarding assumptions they are using to bid on lower and unrated assets, and other industry experts. The model has observed a relatively wide range of discount rates used to estimate fair value.

In addition to the above factors, our evaluation of impairment also includes a stress test analysis which provides an estimate of excess subordination for each tranche. We stress the cash flows of each pool by increasing current default assumptions to the level of defaults which results in an adverse change in estimated cash flows. This stressed breakpoint is then used to calculate excess subordination levels for each pooled trust preferred security.

Future evaluations of the above mentioned factors could result in the Company recognizing additional impairment charges on its TRUPS portfolio.

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)

The following table provides additional information related to our pooled trust preferred securities as of December 31, 2011:

Deal	Class	Amortized Cost	Fair Value	Unrealized Gain/Loss	Lowest Credit Rating	# of Issuers	Actual Deferrals	Expected Deferrals	Current Outstanding Balance	Current Tranche Subordination	Actual	Expected	Excess
											Deferrals as a % of Current Outstanding	Deferrals as a % of Remaining	Subordination as a % of Current Collateral
<b>December 31, 2011</b>													
(Dollar amounts in thousands)													
<b>Pooled trust preferred available for sale securities for which an other-than-temporary impairment charge has been recognized:</b>													
Holding #2	Class B-2	\$ 585	\$ 300	\$ (285)	Ca (Moody's)	16	\$ 121,250	\$	\$ 239,250	\$ 33,000	50.7%	0.0%	0.0%
Holding #3	Class B	487	245	(242)	Caa3 (Moody's)	18	134,100		345,500	62,650	38.8%	0.0%	0.0%
Holding #4	Class B-2	894	368	(526)	Ca (Moody's)	19	99,750		267,000	38,500	37.4%	0.0%	0.0%
Holding #5	Class B-3	335	115	(220)	Ca (Moody's)	43	185,280	7,500	573,745	53,600	32.3%	1.9%	0.0%
Total		\$ 2,301	\$ 1,028	\$ (1,273)									
<b>Pooled trust preferred held to maturity securities for which an other-than-temporary impairment charge has been recognized:</b>													
Holding #9	Mezzanine	617	577	(40)	Ca (Moody's)	18	87,000		228,500	20,289	38.1%	0.0%	0.0%
Total		\$ 617	\$ 577	\$ (40)									
<b>Pooled trust preferred available for sale securities for which an other-than-temporary impairment charge has not been recognized:</b>													
Holding #6	Class B-1	1,300	585	(715)	CCC- (S&P)	15	\$ 32,500	\$ 5,000	\$ 193,500	\$ 109,202	16.8%	3.1%	13.5%
Holding #7	Class C	963	215	(748)	CCC- (S&P)	26	23,000	10,000	272,550	31,550	8.4%	4.0%	13.4%
Total		\$ 2,263	\$ 800	\$ (1,463)									
Grand Total		\$ 5,181	\$ 2,405	\$ (2,776)									

The following table provides additional information related to our single issuer trust preferred securities:

	<b>December 31, 2011</b>			
	Amortized Cost	Fair Value	Unrealized Gains/Losses	Number of Securities
(Dollar amounts in thousands)				
Investment grades:				
BBB Rated	978	1,036	58	1
Not rated	500	125	(375)	1

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Total                                   \$   1,478   \$   1,161   \$           (317)   \$            2

There were no interest deferrals or defaults in any of the single issuer trust preferred securities in our investment portfolio as of December 31, 2011.

As of December 31, 2011, no OTTI charges were recorded on any of the single issue TRUPs. Future changes in interest rates or the credit quality and strength of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or AOCI to reduce the securities to their then current fair value.

E. Equity Securities. Included in equity securities available for sale at December 31, 2011, were equity investments in 27 financial services companies. The Company owns 1 qualifying Community Reinvestment Act ("CRA") equity investment with an amortized cost and fair value of approximately \$1.0 million and \$991,000, respectively. The remaining 26 equity securities have an average amortized cost of approximately \$86,000 and an average fair value of approximately \$60,000. Testing for

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

other-than-temporary-impairment for equity securities is governed by FASB ASC 320-10. Approximately \$638,000 in fair value of the equity securities has been below amortized cost for a period of more than twelve months. The Company believes the decline in market value of the equity investment in financial services companies is primarily attributable to changes in market pricing and not fundamental changes in the earning potential of the individual companies. In the fourth quarter of 2011, a national credit rating agency downgraded the credit rating of two of the financial service companies held in the Company's equity investment portfolio. As a result, the Company recognized an OTTI credit impairment charge to earnings of \$42,000 for the three and twelve months ended December 31, 2011, respectively. The Company has the intent and ability to retain its fair value investment of \$870,000 in equity securities with losses greater than twelve months for a period of time sufficient to allow for any anticipated recovery in market value. The Company does not consider the remaining equity securities to be other-than-temporarily-impaired as December 31, 2011.

As of December 31, 2011, the fair value of all securities available for sale that were pledged to secure public deposits, repurchase agreements, and for other purposes required by law, was \$290.1 million.

The contractual maturities of investment securities at December 31, 2011, are set forth in the following table. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following summary.

	At December 31, 2011			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	\$	\$	\$	\$
Due after one year through five years	20	20		
Due after five years through ten years	8,936	9,045		
Due after ten years	34,623	32,867	1,595	1,613
Agency residential mortgage-backed debt securities	318,620	324,971		
Non-Agency collateralized mortgage obligations	8,166	6,243		
Equity securities	3,224	2,545		
	\$ 373,589	\$ 375,691	\$ 1,595	\$ 1,613

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to the scheduled maturity without penalty.

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5. Securities Available For Sale and Securities Held to Maturity (Continued)**

The following gross gains (losses) were realized on sales of investment securities available for sale included in earnings for the years ended December 31, 2011 and 2010:

	Year ended December 31,		
	2011	2010	2009
	(in thousands)		
Gross gains	\$ 1,993	\$ 827	\$ 556
Gross losses	(520)	(136)	(212)
Net realized gains on sales of securities	\$ 1,473	\$ 691	\$ 344

The specific identification method was used to determine the cost basis for all investment security available for sale transactions.

There are no securities classified as trading, therefore, there were no gains or losses included in earnings that were a result of transfers of securities from the available for sale category into a trading category.

There were no sales or transfers from securities classified as held to maturity.

Other-than-temporary impairment recognized in earnings for credit impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) the Company receives the cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that the Company has recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income (see Note 18 to the consolidated financial statements):

	Year ended December 31,	
	2011	2010
	(in thousands)	
Balance, beginning of period	\$ 2,256	\$ 2,468
Additions:		
Initial credit impairments	356	81
Subsequent credit impairments	1,164	769
Reductions:		
Fully written down credit impaired debt and equity securities		(1,062)
Balance, end of period	\$ 3,776	\$ 2,256

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Loans and Related Allowance for Credit Losses**

The components of loans by portfolio class as of December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Amount	As a % of gross loans	Amount	As a % of gross loans
(in thousands)				
Residential real estate one to four family	\$ 129,335	14.3%	\$ 153,499	16.1%
Residential real estate multi family	57,776	6.4%	53,497	5.6%
Commercial industrial and agricultural	158,018	17.4%	150,097	15.7%
Commercial real estate	418,589	46.1%	427,546	44.8%
Construction	56,824	6.3%	78,202	8.2%
Consumer	2,148	0.2%	2,713	0.3%
Home equity lines of credit	84,487	9.3%	88,809	9.3%
Gross loans, excluding covered loans	907,177	100.0%	954,363	100.0%
Covered loans	50,706		66,770	
Total loans	957,883		1,021,133	
Allowance for loan losses	(14,049)		(14,790)	
Loans, net of allowance for loan losses	\$ 943,834		\$ 1,006,343	

Commercial real estate loans are secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions and similar properties. Commercial real estate loans include owner-occupied and non-owner occupied loans, which amount to \$153.7 million and \$264.9 million, respectively, at December 31, 2011 as compared to \$158.4 million and \$269.1 million, respectively, at December 31, 2010.

Residential real estate loans one to four family serviced for other financial institutions are not reflected in the Company's consolidated balance sheets as they are not owned by the Company. The unpaid principal balance of these loans serviced for other financial institutions as of December 31, 2011 and December 31, 2010 was \$9.0 million and \$11.3 million, respectively. The balance of capitalized servicing rights, which reflects fair value is included in other assets in the consolidated balance sheets was \$0 and \$31,000 at December 31, 2011 and 2010, respectively.

At December 31, 2011, the Company had \$50.7 million (net of fair value adjustments) of covered loans (covered under loss share agreements with the FDIC) as compared to \$66.8 million at December 31, 2010. Covered loans were recorded at fair value pursuant to the purchase accounting guidelines in FASB ASC 805 "Fair Value Measurements and Disclosures". Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, "Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality".

The carrying value of covered 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 \$24.8 million at December 31, 2011 as compared to \$37.1 million at December 31, 2010. 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.

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6. Loans and Related Allowance for Credit Losses (Continued)**

The carrying value of covered loans acquired and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was \$25.9 million at December 31, 2011 as compared to \$29.7 million at December 31, 2010. 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. Of the loans acquired with evidence of credit deterioration, a portion of the loans were aggregated into ten pools of loans based on common risk characteristics such as credit risk and loan type. Other loans acquired in the acquisition evidencing credit deterioration are recorded individually at fair value. For pools or loans or individual loans evidencing credit deterioration, the expected cash flows in excess of fair value is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the pool or loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). There were no material increases or decreases in the expected cash flows of covered loans in each of the pools during 2011. Overall, the Company accreted income of \$3.0 million and \$293,000 for the twelve months ended December 31, 2011 and 2010, respectively, on the loans acquired with evidence of credit deterioration.

The following summarizes mortgage servicing rights capitalized and amortized:

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Mortgage servicing rights capitalized	\$	\$	\$
Mortgage servicing rights amortized	\$ 31	\$ 114	\$ 150

An analysis of changes in the allowance for credit losses for the years ended December 31, 2011, 2010 and 2009 is as follows:

	Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Beginning Balance	\$ 14,790	\$ 11,449	\$ 8,124
Charge offs	(9,939)	(7,383)	(5,477)
Recoveries	162	514	230
Provision for loan losses	9,036	10,210	8,572
Ending Balance	\$ 14,049	\$ 14,790	\$ 11,449

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**VIST FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 6. Loans and Related Allowance for Credit Losses (Continued)**

The following tables represent the changes in the allowance for loan loss for 2011 and 2010 based on the Company's loan portfolio class.

Year Ended December 31, 2011										
	Residential Real Estate 1 - 4 Family	Residential Real Estate Multi-Family	Commercial Industrial & Agricultural	Commercial Real Estate	Commercial Real Estate Construction	Consumer	Home Equity Lines of Credit	Covered Loans	Unallocated	Total Loans
(in thousands)										
<b>Allowance for Loan Losses:</b>										
Beginning balance, January 1, 2011	\$ 2,918	\$ 735	\$ 2,576	\$ 3,321	\$ 3,063	\$ 310	\$ 1,713	\$	\$ 154	\$ 14,790
Charge offs	(1,303)	(2,373)	(1,374)	(2,214)	(1,513)	(353)	(809)			(9,939)
Recoveries	22	11	59	33	4	3	30			162
Provision for loan losses	925	2,319	483	1,990	1,952	156	1,230	135	(154)	9,036
Ending balance, December 31, 2011	\$ 2,562	\$ 692	\$ 1,744	\$ 3,130	\$ 3,506	\$ 116	\$ 2,164	\$ 135	\$	\$ 14,049

Year Ended December 31, 2010										
	Residential Real Estate 1 - 4 Family	Residential Real Estate Multi-Family	Commercial Industrial & Agricultural	Commercial Real Estate	Commercial Real Estate Construction	Consumer	Home Equity Lines of Credit	Covered Loans	Unallocated	Total Loans
(in thousands)										
<b>Allowance for Loan Losses:</b>										
Beginning balance, January 1, 2010	\$ 1,159	\$ 205	\$ 2,027	\$ 2,723	\$ 4,413	\$ 526	\$ 389	\$	\$ 7	\$ 11,449
Charge offs	(1,978)	(62)	(500)	(440)	(2,983)	(45)	(1,375)			(7,383)
Recoveries	101		150	18	46	17	182			514
Provision for loan losses	3,636	592	899	1,020	1,587	(188)	2,517		147	10,210
Ending balance, December 31, 2010	\$ 2,918	\$ 735	\$ 2,576	\$ 3,321	\$ 3,063	\$ 310	\$ 1,713	\$	\$ 154	\$ 14,790

The following tables represent the loans evaluated individually or collectively for impairment for 2011 and 2010 based on the Company's loan portfolio class.

At December 31, 2011										
	Residential Real Estate One to Four Family	Residential Real Estate Multi-Family	Commercial Industrial & Agricultural	Commercial Real Estate	Commercial Real Estate Construction	Consumer	Home Equity Lines of Credit	Covered Loans	Unallocated	Total Loans
(in thousands)										
<b>ALL ending balance:</b>										
Individually evaluated for impairment	\$ 1,370	\$ 483	\$ 721	\$ 1,968	\$ 2,746	\$ 2	\$ 1,240	\$ 135	\$	\$ 8,665



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Collectively evaluated for impairment	1,192	209	1,023	1,162	760	114	924		5,384
Unallocated balance									

<b>Total</b>	<b>\$ 2,562</b>	<b>\$ 692</b>	<b>\$ 1,744</b>	<b>\$ 3,130</b>	<b>\$ 3,506</b>	<b>\$ 116</b>	<b>\$ 2,164</b>	<b>\$ 135</b>	<b>\$ 14,049</b>
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**Loans ending balance:**

Individually evaluated for impairment	13,917	2,876	5,648	16,950	23,861	2	3,479	8,173	74,906
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Collectively evaluated for impairment	115,418	54,900	152,370	401,639	32,963	2,146	81,008	42,533	882,977
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<b>Total</b>	<b>\$ 129,335</b>	<b>\$ 57,776</b>	<b>\$ 158,018</b>	<b>\$ 418,589</b>	<b>\$ 56,824</b>	<b>\$ 2,148</b>	<b>\$ 84,487</b>	<b>\$ 50,706</b>	<b>\$ 957,883</b>
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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 6. Loans and Related Allowance for Credit Losses (Continued)

	At December 31, 2010									
	Residential Real Estate One to Four Family	Residential Real Estate Multi-Family	Commercial Industrial & Agricultural	Commercial Real Estate	Commercial Real Estate Construction	Consumer	Home Equity Lines of Credit	Covered Loans	Unallocated	Total Loans
	(in thousands)									
<b>ALLL ending balance:</b>										
Individually evaluated for impairment	\$ 2,163	\$ 633	\$ 1,155	\$ 1,895	\$ 2,203	\$ 276	\$ 1,193	\$	\$	\$ 9,518
Collectively evaluated for impairment	755	102	1,421	1,426	860	34	520			5,118
Unallocated Balance								154		154
<b>Total</b>	<b>\$ 2,918</b>	<b>\$ 735</b>	<b>\$ 2,576</b>	<b>\$ 3,321</b>	<b>\$ 3,063</b>	<b>\$ 310</b>	<b>\$ 1,713</b>	<b>\$ 154</b>	<b>\$</b>	<b>\$ 14,790</b>
<b>Loans ending balance:</b>										
Individually evaluated for impairment	11,658	2,432	4,477	9,655	18,412	277	2,175			49,086
Collectively evaluated for impairment	141,841	51,065	145,620	417,891	59,790	2,436	86,634	66,770		972,047
<b>Total</b>	<b>\$ 153,499</b>	<b>\$ 53,497</b>	<b>\$ 150,097</b>	<b>\$ 427,546</b>	<b>\$ 78,202</b>	<b>\$ 2,713</b>	<b>\$ 88,809</b>	<b>\$ 66,770</b>	<b>\$</b>	<b>\$ 1,021,133</b>

The recorded investment in impaired loans not requiring an allowance for loan losses was \$29.1 million at December 31, 2011 and \$8.4 million at December 31, 2010. The recorded investment in impaired loans requiring an allowance for loan losses was \$45.8 million and \$40.7 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the related allowance for loan losses associated with those loans was \$8.7 million and \$9.5 million, respectively.

Loans (excluding covered loans) on which the accrual of interest has been discontinued amounted to \$36.3 million and \$26.5 million at December 31, 2011 and 2010, respectively. Loan balances (excluding covered loans) past due 90 days or more and still accruing interest but which management expects will eventually be paid in full, amounted to \$239,000 and \$594,000 at December 31, 2011 and 2010, respectively. Non accrual loans that maintained a current payment status for six consecutive months are placed back on accrual status under the Bank's loan policy.

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Loans and Related Allowance for Credit Losses (Continued)**

The following table presents loans that are individually and collectively evaluated for impairment and their related allowance for loan loss by loan portfolio class as of December 31, 2011 and December 31, 2010.

	At December 31, 2011			At December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)						
<b>Impaired Loans:</b>						
With no specific allowance recorded:						
Residential real estate 1 - 4 family	\$ 7,388	\$ 7,791	\$	\$ 1,866	\$ 2,146	\$
Residential real estate multi family	1,326	1,413		365	427	
Commercial industrial & agricultural	2,434	2,821		363	363	
Commercial real estate	8,115	8,457		900	900	
Construction	8,900	9,408		4,123	4,242	
Consumer						
Home equity lines of credit	962	971		755	755	
Covered loans						
<b>Total</b>	<b>29,125</b>	<b>30,861</b>		<b>8,372</b>	<b>8,833</b>	
With an allowance recorded:						
Residential real estate 1 - 4 family	6,529	6,914	1,370	9,792	9,828	2,163
Residential real estate multi family	1,550	1,856	483	2,067	2,067	633
Commercial industrial & agricultural	3,214	4,167	721	4,114	4,114	1,155
Commercial real estate	8,835	9,669	1,968	8,755	8,932	1,895
Construction	14,961	21,828	2,746	14,289	15,145	2,203
Consumer	2	2	2	277	277	276
Home equity lines of credit	2,517	2,548	1,240	1,420	1,456	1,193
Covered loans	8,173	8,682	135			
<b>Total</b>	<b>45,781</b>	<b>55,666</b>	<b>8,665</b>	<b>40,714</b>	<b>41,819</b>	<b>9,518</b>
<b>Total:</b>						
Residential real estate 1 - 4 family	13,917	14,705	1,370	11,658	11,974	2,163
Residential real estate multi family	2,876	3,269	483	2,432	2,494	633
Commercial industrial & agricultural	5,648	6,988	721	4,477	4,477	1,155
Commercial real estate	16,950	18,126	1,968	9,655	9,832	1,895
Construction	23,861	31,236	2,746	18,412	19,387	2,203
Consumer	2	2	2	277	277	276
Home equity lines of credit	3,479	3,519	1,240	2,175	2,211	1,193
Covered loans	8,173	8,682	135			

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Total	\$	74,906	\$	86,527	\$	8,665	\$	49,086	\$	50,652	\$	9,518
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For the years ended December 31, 2011 and 2010, the average recorded investment in impaired loans was \$75.8 million and \$41.2 million, respectively, and interest income recognized on impaired loans was \$2.8 and \$1.5 million for the years ended December 31, 2011 and 2010, respectively.

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Loans and Related Allowance for Credit Losses (Continued)**

The following presents the average balance of impaired loans by portfolio class along with the related interest income recognized by the Company for the years ended December 31, 2011 and 2010.

	For The Year Ended December 31, 2011		For The Year Ended December 31, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(in thousands)				
<b>Impaired Loans:</b>				
With no specific allowance recorded:				
Residential real estate 1 - 4 family	\$ 9,209	\$ 257	\$ 2,150	\$ 14
Residential real estate multi family	2,571	15	92	
Commercial industrial & agricultural	4,334	220	280	
Commercial real estate	12,762	458	895	5
Construction	10,367	222	2,867	
Consumer	170	6		
Home equity lines of credit	1,040	8	596	1
Covered loans				
<b>Total</b>	<b>40,453</b>	<b>1,186</b>	<b>6,880</b>	<b>20</b>
With an allowance recorded:				
Residential real estate 1 - 4 family	5,522	205	8,815	323
Residential real estate multi family	1,552	18	1,592	26
Commercial industrial & agricultural	3,247	94	4,212	270
Commercial real estate	6,684	290	5,846	264
Construction	12,802	305	12,550	512
Consumer			198	10
Home equity lines of credit	1,444	49	1,155	38
Covered loans	4,086	680		
<b>Total</b>	<b>35,337</b>	<b>1,641</b>	<b>34,368</b>	<b>1,443</b>
Total:				
Residential real estate 1 - 4 family	14,731	462	10,965	337
Residential real estate multi family	4,123	33	1,684	26
Commercial industrial & agricultural	7,581	314	4,492	270
Commercial real estate	19,446	748	6,741	269
Construction	23,169	527	15,417	512
Consumer	170	6	198	10
Home equity lines of credit	2,484	57	1,751	39
Covered loans	4,086	680		
<b>Total</b>	<b>\$ 75,790</b>	<b>\$ 2,827</b>	<b>\$ 41,248</b>	<b>\$ 1,463</b>

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6. Loans and Related Allowance for Credit Losses (Continued)**

The following table presents loans that are no longer accruing interest by portfolio class. These loans are considered impaired and included in the previous impaired loan table.

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>	
<b>Non-accrual loans:</b>		
Residential real estate one to four family	\$ 6,123	\$ 5,595
Residential real estate multi-family	2,556	1,950
Commercial industrial & agricultural	2,314	2,016
Commercial real estate	5,686	5,477
Construction	17,457	10,393
Consumer	2	15
Home equity lines of credit	2,206	1,067
<b>Non-accrual loans, excluding covered loans</b>	<b>\$ 36,344</b>	<b>\$ 26,513</b>
<b>Covered loans</b>	<b>5,581</b>	<b>4,408</b>
<b>Total non-accrual loans</b>	<b>\$ 41,925</b>	<b>\$ 30,921</b>

Non-accrual loans that maintained a current payment status for six consecutive months are placed back on accrual status under the Bank's loan policy. Loans on which the accrual of interest has been discontinued amounted to \$41.9 million and \$30.9 million at December 31, 2011 and December 31, 2010, respectively. Loan balances past due 90 days or more and still accruing interest, but which management expects will eventually be paid in full, amounted to \$449,000 and \$930,000 at December 31, 2011 and December 31, 2010, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following

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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Loans and Related Allowance for Credit Losses (Continued)**

table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2011 and December 31, 2010:

	December 31, 2011						
	31 - 60 days Past Due	61 - 90 days Past Due	>90 days Past Due	Total Past Due	Current	Total Financing Receivables	>90 days and Accruing
(in thousands)							
Age Analysis of Past Due Loans:							
Residential real estate one to four family	\$ 1,275	\$ 2,770	\$ 4,458	\$ 8,503	\$ 120,832	\$ 129,335	\$
Residential real estate multi-family	65		2,297	2,362	55,414	57,776	
Commercial industrial and agricultural	252	1,374	625	2,251	155,767	158,018	
Commercial real estate	1,886	538	3,558	5,982	412,607	418,589	
Construction	6,030	191	16,399	22,620	34,204	56,824	
Consumer	6	62		68	2,080	2,148	
Home equity lines of credit	1,197	351	2,003	3,551	80,936	84,487	239
Total, excluding covered loans	\$ 10,711	\$ 5,286	\$ 29,340	\$ 45,337	\$ 861,840	\$ 907,177	\$ 239
Covered loans	467	71	4,075	4,613	46,093	50,706	210
Total loans	\$ 11,178	\$ 5,357	\$ 33,415	\$ 49,950	\$ 907,933	\$ 957,883	\$ 449

	December 31, 2010						
	31 - 60 days Past Due	61 - 90 days Past Due	>90 days Past Due	Total Past Due	Current	Total Financing Receivables	>90 days and Accruing
(in thousands)							
Age Analysis of Past Due Loans:							
Residential real estate one to four family	\$ 914	\$ 1,659	\$ 4,204	\$ 6,777	\$ 146,722	\$ 153,499	\$ 249
Residential real estate multi-family	549	465	1,400	2,414	51,083	53,497	
Commercial industrial and agricultural	582	417	1,693	2,692	147,405	150,097	
Commercial real estate	857	756	4,625	6,238	421,308	427,546	
Construction			10,610	10,610	67,592	78,202	245
Consumer	5	17	15	37	2,676	2,713	
Home equity lines of credit	557	550	534	1,641	87,168	88,809	100
Total, excluding covered loans	\$ 3,464	\$ 3,864	\$ 23,081	\$ 30,409	\$ 923,954	\$ 954,363	\$ 594

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Covered loans	1,231	646	4,408	6,285	60,485	66,770	336
Total loans	\$ 4,695	\$ 4,510	\$ 27,489	\$ 36,694	\$ 984,439	\$ 1,021,133	\$ 930



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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Loans and Related Allowance for Credit Losses (Continued)**

The following table presents the classes of the loan portfolio (excluding covered loans) summarized by the aggregate pass, watch, special mention, substandard and doubtful rating within the Company's internal risk rating system as of year end 2011 and 2010:

	December 31, 2011							Gross Loans
	Residential Real Estate 1 - 4 Family	Residential Real Estate Multi Family	Commercial Industrial & Agricultural	Commercial Real Estate	Construction	Consumer	Home Equity Lines of Credit	
	(in thousands)							
<b>Credit Rating:</b>								
Pass	\$ 111,732	\$ 53,896	\$ 149,038	\$ 358,269	\$ 28,399	\$ 1,905	\$ 79,792	\$ 783,031
Watch	3,745	1,004	3,332	43,699	4,564	241	1,216	57,801
Special Mention	627		3,209	3,649	1,254		75	8,814
Substandard	13,231	2,876	2,439	12,972	22,607	2	3,404	57,531
Doubtful								
	\$ 129,335	\$ 57,776	\$ 158,018	\$ 418,589	\$ 56,824	\$ 2,148	\$ 84,487	\$ 907,177

	December 31, 2010							Gross Loans
	Residential Real Estate 1 - 4 Family	Residential Real Estate Multi Family	Commercial Industrial & Agricultural	Commercial Real Estate	Construction	Consumer	Home Equity Lines of Credit	
	(in thousands)							
<b>Credit Rating:</b>								
Pass	\$ 135,231	\$ 49,136	\$ 136,978	\$ 358,853	\$ 48,878	\$ 2,224	\$ 85,075	\$ 816,375
Watch	2,519	1,621	6,460	49,945	5,863	212	1,425	68,045
Special Mention	1,653		476	2,554	6,351		75	11,109
Substandard	14,096	2,740	6,183	16,194	17,110	277	2,234	58,834
Doubtful								
	\$ 153,499	\$ 53,497	\$ 150,097	\$ 427,546	\$ 78,202	\$ 2,713	\$ 88,809	\$ 954,363

Troubled Debt Restructurings ("TDRs") As a result of adopting the amendments in ASU No. 2011-02 in the third quarter of 2011, the Company reassessed all restructurings that occurred on or after January 1, 2011, for which the borrower was determined to be troubled, for identification as TDRs. Upon identifying those receivables as TDRs, the Company identified them as impaired under the guidance in Section 310-10-35 of the Accounting Standards Codification. The amendments in ASU No. 2011-02 require prospective application of the impairment measurement guidance in Section 450-20 for those receivables newly identified as impaired.

TDRs may be modified by means of extended maturity at below market adjusted interest rates, a combination of rate and maturity, or by other means including covenant modifications, forbearance and other concessions. However, the Company generally only restructures loans by temporarily modifying the payment structure to interest only or by reducing the actual interest rate. Once a loan becomes a TDR, it will continue to be reported as a TDR during the term of the restructure. After the loan reverts to the original terms and conditions, it will still be considered a TDR until it has paid current for six consecutive months, at which time the loan will no longer be reported as a TDR.

The recorded investment in TDRs was \$3.4 million and \$10.8 million at December 31, 2011 and December 31, 2010, respectively. At December 31, 2011 and December 31, 2010, the Company had \$2.7 million and \$9.9 million of accruing TDRs while TDRs on nonaccrual status totaled \$655,000 and



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## VIST FINANCIAL CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Loans and Related Allowance for Credit Losses (Continued)**

\$849,000 at December 31, 2011 and December 31, 2010, respectively. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall estimate of the allowance for loan losses. The level of any re-defaults will likely be affected by future economic conditions. At December 31, 2011 and December 31, 2010, the allowance for loan and lease losses included specific reserves of \$245,000 and \$423,000 related to TDRs, respectively.

The following table shows information on the troubled and restructured debt by loan portfolio (excluding covered loans) for the year ended December 31, 2011:

	Number of Contracts	At December 31, 2011	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollars in thousands)			
<b>Troubled Debt Restructurings:</b>			
Residential real estate one to four family	3	\$ 156	\$ 156
Commercial real estate	3	909	909
Home equity lines of credit	1	210	210
<b>Total Troubled Debt Restructurings</b>	<b>7</b>	<b>\$ 1,275</b>	<b>\$ 1,275</b>

For the twelve months ended December 31, 2011, the Company added an additional \$1.3 million in TDRS. The Company had reserves allocated for loan loss of \$32,000 for the additions in troubled debt restructurings made during the twelve months ending December 31, 2011. A default on a troubled debt restructured loan for purposes of this disclosure occurs when the borrower is 90 days past due or a foreclosure or repossession of the applicable collateral has occurred. No defaults on troubled debt restructured loans occurred during the twelve month period ending December 31, 2011.

*Transactions with Executive Officers and Directors*

The Bank has had banking transactions in the ordinary course of business with its executive officers and directors and their related interests on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties not affiliated with the Bank. At December 31, 2011 and 2010, these persons were indebted to the Bank for loans totaling \$8.9 million and \$8.3 million, respectively. During 2011, \$2.4 million of new loans were made and repayments totaled \$1.8 million.

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7. Premises and Equipment**

Components of premises and equipment were as follows:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Land and land improvements	\$ 263	\$ 263
Buildings	554	532
Leasehold improvements	4,719	4,438
Furniture and equipment	11,635	9,814
	17,171	15,047
Less accumulated depreciation	10,584	9,408
Premises and equipment, net	\$ 6,587	\$ 5,639

For the years ended December 31, 2011, 2010 and 2009, depreciation and amortization expense on premises, leasehold improvements and equipment was \$1.3 million, 1.3 million and \$1.3 million, respectively.

Future minimum rental commitments under non-cancelable leases as of December 31, 2011 were as follows (in thousands):

2012	3,214
2013	2,931
2014	2,712
2015	2,520
2016	2,284
Subsequent to 2016	11,285
Total minimum payments	\$ 24,946

Certain facilities and equipment are leased under various operating leases. Total gross rental expense amounted to \$3.5 million, \$2.9 million and \$2.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

**Note 8. Goodwill and Other Intangible Assets**

At December 31, 2011, and 2010, the Company had Goodwill of \$16.5 million and \$41.9 million, respectively. The goodwill balances resulted from previous acquisitions. During the fourth quarter of 2011, the Company recorded a goodwill impairment charge of \$25.1 million, resulting from the decrease in market value caused by underlying capital and credit concerns which was valued through the Agreement and Plan of Merger dated January 25, 2012 between Tompkins Financial Corp and the Company, which will be merged into Tompkins Financial. This impairment was determined based upon the announced sale price of the Company to Tompkins Financial for \$12.50 per share. For further information related to the merger, see Note 2 Merger with Tompkins Financial Corp. Also during 2011, the Company recorded purchase accounting adjustments related to the Allegiance acquisition which reduced goodwill by \$526,000. For further information related to the acquisitions, see Note 9 FDIC-Assisted Acquisition.

Table of Contents**VIST FINANCIAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 8. Goodwill and Other Intangible Assets (Continued)**

Management performs a review of goodwill and other identifiable intangibles for potential impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

A step two goodwill impairment test was completed for all three of its reporting units (i) banking and financial services, (ii) insurance, and (iii) brokerage and investment services. Based on the results of the step two goodwill impairment test, the Company recorded an impairment charge to each reporting unit, which is disclosed in the table below.

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 were as follows:

	<b>Banking and Financial Services</b>	<b>Insurance</b>	<b>Brokerage and Investment Services</b>	<b>Total</b>
	(Dollar amounts in thousands)			
Balance as of January 1, 2010	\$ 27,768	\$ 11,193	\$ 1,021	\$ 39,982
Goodwill acquired	1,548	78		1,626
Contingent payments		250		250
Balance as of December 31, 2010	29,316	11,521	1,021	41,858
Goodwill impairment	(22,374)	(2,363)	(332)	(25,069)
Purchase accounting adjustment*	(526)			(526)
Contingent payments		250		250
Balance as of December 31, 2011	\$ 6,416			