TOMPKINS FINANCIAL CORP
Form 10-K
March 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______to ______

Commission File Number 1-12709

Tompkins Financial Corporation
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer o Accelerated Filer x Nonaccelerated Filer o Smaller Reporting Company o

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

The aggregate market value of the registrant's voting stock held by non-affiliates was $360,306,000 on June 30, 2011, based on the closing sales price of a share of the registrant's common stock, $.10 par value (the "Common Stock"), as reported on the NYSE-Amex, on such date.

The number of shares of the registrant's Common Stock outstanding as of February 20, 2012, was 11,157,357 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2012 Annual Meeting of stockholders are incorporated by reference into Part III of this Form 10-K where indicated.

TOMPKINS FINANCIAL CORPORATION

Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2011

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PART I

Item 1. Business

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

General

Tompkins Financial Corporation, ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a financial holding company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. The Company's subsidiaries include: three wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, and The Mahopac National Bank ("Mahopac National Bank"); AM&M Financial Services, Inc., d/b/a Tompkins Financial Advisors, a wholly owned and registered investment advisor ("AM&M"); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). AM&M and the trust division of the Trust Company provide a full array of investment services under the Tompkins Financial Advisors division, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the NYSE-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 the Trust Company, a commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. Information relating to revenues, profit and loss, and total assets for the Company's two business segments – banking and financial services - is incorporated herein by reference to Part II, Item 8. of this Report.

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

In June 2011, Tompkins Insurance acquired all of the outstanding shares of Olver & Associates, Inc., ("Olver"), a property and casualty insurance agency located in Ithaca, New York. The two principal officers and staff continued with Olver after the acquisition. The acquisition-date fair value of the consideration paid was $3.2 million and included $250,000 of cash and 75,188 shares of Tompkins' common stock. The Company did not make any acquisitions in 2010 and 2009. Additional information on acquisitions is provided in "Note 2 Mergers and Acquisitions" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

On January 25, 2012, the Company entered into an Agreement and Plan of Merger with VIST Financial Corp. ("VIST"), pursuant to which VIST will merge into a wholly-owned subsidiary of the Company. As of December 31, 2011, VIST had total assets of $1.4 billion. The transaction has been approved by the board of directors of each of Tompkins and

VIST. Subject to approval of the shareholders of VIST and Tompkins, regulatory approvals and other customary closing conditions, the Company anticipates completing the merger in the third quarter of 2012. Additional information on this acquisition is provided in "Note 23 Subsequent Events" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

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

Narrative Description of Business

Information about the Company's business segments are included in "Note 22 Segment and Related Information" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company has identified two business segments, banking and financial services. Financial services activities consist of the results of the Company's trust, financial planning and wealth management services, broker-dealer services, and insurance and risk management operations. All other activities are considered banking.

Banking services consist primarily of attracting deposits from the areas served by the Company's banking subsidiaries' 45 banking offices and using those deposits to originate a variety of commercial loans, agricultural loans, consumer loans, real estate loans, and leases in those same areas. The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Policies and procedures are reviewed on a regular basis. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. The Company has an independent third party loan review process that reviews and validates the risk identification and assessment made by the lenders and credit personnel. The results of these reviews are presented to the Board of Directors of each of the Company's banking subsidiaries, and the Company's Audit Committee.

Residential real estate mortgage loans are generally underwritten in accordance with Federal Home Loan Mortgage Corporation ("FHLMC") guidelines, which enhance the liquidity of these lending products. The Company's subsidiary banks have sold residential mortgage loans to FHLMC over the past several years to manage exposure to changing interest rates and to take advantage of favorable market conditions. The Company's subsidiary banks retain the servicing of the loans sold to FHLMC and record a servicing asset at the time of sale. For additional details on loan sales, refer to the section entitled "Loans and Leases" elsewhere in this Report.

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

Financial services consist of providing insurance, financial planning and wealth management, and trust services to individuals and businesses in the Company's market area. The Company has expanded its financial services segment over the past ten years. In that time period, the Company has acquired nine small insurance agencies and successfully consolidated them into one insurance agency. In 2006, the Company acquired AM&M, a financial planning and wealth management company, to complement its existing trust and investment services businesses. In 2010, the Company unified the branding of its trust and investment services business and its wealth management and financial planning business and began marketing these services under Tompkins Financial Advisors.

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

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

Commercial Services

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

Retail Services

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

Trust and Investment Management Services

The Company offers a comprehensive suite of financial services to customers, including trust and estate services, investment management, and financial and insurance planning. These services are offered through Tompkins Investment Services (“TIS”), a division of Tompkins Trust Company, and AM&M. In 2010, the Company unified these services under the Tompkins Financial Advisors brand name. Tompkins Financial Advisors has office locations at all three of the Company’s subsidiary banks, and provides a full range of money management services, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services.

Broker-Dealer Services

AM&M operates a broker-dealer subsidiary, Ensemble Financial Services, Inc., which is an outsourcing company for financial planners and investment advisors.

Insurance Services

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance. Tompkins Insurance is an independent insurance agency, representing many major insurance carriers. Tompkins Insurance has automated systems for record keeping, claim processing and coverage confirmation, and can provide insurance pricing comparisons from a wide range of insurance companies. Tompkins Insurance provides employee benefits consulting to employers in Western and Central New York, assisting them with their medical, group life insurance and group disability insurance. In addition to its seven stand-alone offices, Tompkins Insurance shares several offices with The Bank of Castile and The Trust Company. AM&M also provides insurance services for financial planning and wealth management clients, offering customized risk management plans using life, disability and long-term care insurance products.

Subsidiaries

The Company operates three banking subsidiaries, an insurance agency subsidiary, and a financial planning, wealth management, and broker-dealer subsidiary in New York. In addition, the Company also owns 100% of the common stock of Tompkins Capital Trust I and Sleepy Hollow Capital Trust I. The Company's subsidiary banks operate 45 offices, including 3 limited-service offices, serving communities in New York. The decision to operate as three locally managed community banks reflects management's commitment to community banking as a business strategy. For Tompkins, personal delivery of high quality services, a commitment to the communities in which we operate, and the convergence of a single-source financial service provider characterize management's community banking approach. The combined resources of the Tompkins organization provides increased capacity for growth and the greater capital resources necessary to make investments in technology and services. Tompkins has developed several specialized financial services that are now available in markets served by all three subsidiary banks. These services include trust and investment services, insurance, leasing, card services, Internet banking, and remote deposit services.

Tompkins Trust Company (the "Trust Company")

The Trust Company is a New York State-chartered commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. The Trust Company operates 15 banking offices, including 2 limited-service banking offices in the counties of Tompkins, Cortland, Cayuga and Schuyler, New York. The Trust Company's largest market area is Tompkins County, which has a population of approximately 102,000. Education plays a significant role in the Tompkins County economy with Cornell University and Ithaca College being two of the county's major employers. The Trust Company has a full-service office in Cortland, New York and a full-service office in Auburn, New York. Both of these offices are located in counties contiguous to Tompkins County.

The Bank of Castile ("The Bank of Castile")

The Bank of Castile is a New York State-chartered commercial bank and conducts its operations through its 15 banking offices, in towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State. The main business office for The Bank of Castile is located in Batavia, New York and is shared with Tompkins Insurance. The Bank of Castile serves a five-county market, much of which is rural in nature, but also includes Monroe County, where the city of Rochester is located. The population of the counties served by The Bank of Castile, other than Monroe, is approximately 211,000. The Bank of Castile's lending portfolio includes loans to the agricultural industry.

The Mahopac National Bank ("Mahopac National Bank")

Mahopac National Bank operates 15 banking offices, including 1 limited-service office in counties north of New York City. The 15 banking offices include 5 full-service offices in Putnam County, New York, 3 full-service offices in Dutchess County, New York, and 6 full-service offices, and 1 limited-service office in Westchester County, New York. Mahopac's presence in Westchester County increased with the May 9, 2008 acquisition of Sleepy Hollow Bancorp, Inc. ("Sleepy Hollow"). At the time of the acquisition, Sleepy Hollow Bank, the wholly-owned subsidiary of Sleepy Hollow, operated 5 full-service offices and 1 limited-service facility, all in Westchester County, New York. Upon completion of the Sleepy Hollow acquisition, Sleepy Hollow Bank was merged into Mahopac National Bank.

Putnam County has a population of approximately 100,000 and is about 60 miles north of Manhattan. Dutchess County has a population of approximately 297,000, and Westchester County has a population of approximately 949,000. All three counties have seen an increase in the unemployment rate as a result of the downturn in the State and national economies.

Tompkins Insurance Agencies, Inc. ("Tompkins Insurance")
Tompkins Insurance is headquartered in Batavia, New York, and offers property and casualty insurance to individuals and businesses primarily in Western and Central New York. Over the past eleven years, Tompkins Insurance has acquired ten smaller insurance agencies generally in the market areas serviced by the Company's banking subsidiaries. In June 2011, Tompkins Insurance acquired all the outstanding shares of Olver & Associates, Inc, ("Olver"), a property and casualty insurance agency located in Ithaca, New York. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile and The Trust Company. In addition to these shared offices, Tompkins Insurance has four stand-alone offices in Western New York and two stand-alone offices in Tompkins County, New York.

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

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

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

For additional details on Tompkins Capital Trust I and Sleepy Hollow Capital Trust I refer to "Note 12 Trust Preferred Debentures" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Competition

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

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

Supervision and Regulation

Regulatory Agencies

As a registered financial holding company, the Company is subject to examination and comprehensive regulation by the Federal Reserve Board ("FRB"). The Company's banking subsidiaries are subject to examination and comprehensive regulation by various regulatory authorities, including the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), and the New York Department of Financial Services ("NYDFS"). Each of these agencies issues regulations and requires the filing of reports describing the activities and financial condition of the entities under its jurisdiction. Likewise, such agencies conduct examinations on a recurring basis to evaluate the safety and soundness of the institutions, and to test compliance with various regulatory requirements, including: consumer protection, privacy, fair lending, the Community Reinvestment Act, the Bank Secrecy Act, sales of non-deposit investments, electronic data processing, and trust department activities.

The Company's financial services subsidiaries are subject to examination and regulation by various regulatory agencies, including the New York State Insurance Department, Securities and Exchange Commission ("SEC"), and the Financial Industry Regulatory Authority ("FINRA"). The trust division of Tompkins Trust Company is subject to examination and comprehensive regulation by the FDIC and NYDFS.

Share Repurchases and Dividends

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

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

Support of Subsidiary Banks

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

Liability of Commonly Controlled Institutions

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

Transactions with Affiliates and Other Related Parties

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

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

Mergers and Acquisitions
The Bank Holding Company Act requires bank holding companies to obtain the prior approval of the Federal Reserve Board before: (1) it may acquire direct or indirect ownership or control of any voting share of any bank or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control 5% or more of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of and bank or savings and loan association; or (3) it may merge or consolidate with any other bank holding company.

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

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

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

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

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

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

In light of the recent economic downturn, bank regulatory agencies have been requiring many banks to maintain higher minimum capital ratios. This is particularly true in the case of institutions with significant commercial real estate loan portfolios and/or increasing levels of non-performing assets, such as Mahopac National Bank, one of the Company's three banking subsidiaries. During the first quarter of 2010, the Comptroller of the Currency ("OCC") notified the Company that it was requiring Mahopac National Bank, one of the Company's three banking subsidiaries, to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac has agreed to maintain a Tier 1 capital to average assets ratio of 8.0%, a Tier 1 risk-based capital to risk-weighted capital ratio of 10.0% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. Mahopac exceeded these minimum requirements at the time of the notification and continues to maintain ratios above these minimums. Since Mahopac's ratios were above the minimum requirements at the time of notification, there was not a material impact to Mahopac or the Company. As of December 31, 2011, Mahopac had a Tier 1 capital to average assets ratio of 9.0%, a Tier 1 risk-based capital to risk-weighted capital ratio of 13.3% and a Total risk-based capital to risk-weighted assets ratio of 14.5%.

For further information concerning the regulatory capital requirements, actual capital amounts and the ratios of Tompkins and its bank subsidiaries, see the discussion in "Note 20 Regulations and Supervision" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Deposit Insurance

Substantially all of the deposits of the Company banking subsidiaries are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The Dodd-Frank Act permanently increases the maximum amount of deposit insurance to $250,000 per deposit category, per depositor, per institution retroactive to January 1, 2008, and noninterest-bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

On April 1, 2011, the deposit insurance assessment base changed from total domestic deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act. Additionally, the deposit insurance assessment system was revised to create a two scorecard system, one for most large institutions that have more than $10 billion in assets and another for "highly complex" institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. The Company's subsidiary banks are not affected by the two scorecard system as total assets are below the minimum threshold.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

On November 12, 2009, the FDIC adopted a final rule requiring insured depository institutions to prepay their estimated quarterly insurance premium for the fourth quarter of 2009, and all of 2010, 2011 and 2012. For purposes of calculating the assessment; beginning on September 29, 2009, the FDIC increased annual assessment rates uniformly by 3 basis points beginning in 2011. In addition, an institution's third quarter 2009 assessment base was increased quarterly at a 5 percent annual growth rate through the end of 2012. On December 30, 2009, the Company paid $12.2 million related to the 3 year premium FDIC insurance prepayments for its subsidiary banks. As of December 31, 2011, $5.9 million of prepaid deposit insurance assessments are included in other assets in the Consolidated Statements of Financial Condition.

On May 22 2009, the FDIC approved a final rule for a special assessment of 5 basis points on each insured depository institution's assets minus Tier 1 capital; not to exceed 10 basis points of the institution's risk-based assessment as of June 30, 2009, to restore the DIF. As a result, the Company's subsidiary banks paid a special assessment in the aggregate amount of $1.4 million in 2009.

FDIC insurance expense totaled $2.5 million, $3.8 million and $5.0 million in 2011, 2010 and 2009, respectively. FDIC insurance expense includes deposit insurance assessments, assessments related to participation in the Temporary Liquidity Guaranty Program ("TLGP") program, and Financing Corporation ("FICO") assessments related to outstanding FICO bonds. FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation. The Company paid FICO assessments of $230,000 in 2011, $261,000 in 2010 and $246,000 in 2009.

Depositor Preference

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

Community Reinvestment Act

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

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

The USA Patriot Act
The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”) imposes obligations on financial institutions, including banks and broker-dealer subsidiaries to implement policies, procedures and controls which are reasonably designed to detect and report instances of money laundering and the financing of terrorism.

Financial Privacy
In accordance with the Gramm Leach Bliley Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Office of Foreign Assets Control Regulation
The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are known as the “OFAC” rules based on their administration by the US Treasury Department Office of Foreign Assets Control (“OFAC”). The OFAC-administered sanctions take many forms. Generally, however, they include restrictions on trade with or investment in a sanctioned country and a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest.

Consumer Protection Laws
In connection with their lending and leasing activities, the Company’s banking subsidiaries are subject to a number of federal and state laws designed to protect borrowers and promote lending. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and similar laws at the State level.

Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines (“ATM”) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer’s account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. Before opting in, the consumer must be provided a notice that explains the financial institution’s overdraft services, including the fees associated with the service, and the consumer’s choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in. The Company did see a reduction in overdraft fees as a result of the adoption of the new rule. The Company cannot provide any assurance as to the ultimate impact of this rule on the amount of overdraft/insufficient funds charges reported in future periods.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law on July 21, 2010. The Dodd-Frank Act contains numerous and wide-ranging reforms to the structure and operation of the U.S. financial system. Among the Dodd-Frank Act's significant regulatory changes are (i) the imposition of more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios and prohibiting new trust preferred issuances from counting as Tier 1 capital; (ii) making permanent the temporary increase in FDIC deposit insurance coverage from $100,000 to $250,000 and providing for unlimited deposit insurance on noninterest-bearing transaction accounts, together with an increase in the minimum Deposit Insurance Fund reserve requirement and a change in the assessment base from deposits to net assets; (iii) the creation of the Bureau of Consumer Financial Protection, a new financial consumer protection agency, which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer compliance; (iv) provisions permitting states to adopt stricter consumer protection laws and permitting state attorneys general to enforce rules issued by the Bureau of Consumer Financial Protection; (v) increased regulation of derivatives and hedging transactions and restrictions on the Company's ability to engage in certain proprietary trading and investing activities; (vi) limitations on debit card interchange fees; (vii) the imposition of new disclosure and other requirements related to corporate governance and executive compensation; (viii) the creation of the Financial Stability Oversight Council, with responsibility for identifying and monitoring systemic risks posed by financial firms, activities and practices; and (ix) the repeal of the federal prohibitions on the payment of interest on demand deposits, therby permitting depository institutions to pay interest on business transaction and other accounts.

The Company is currently evaluating the potential impact of the Act on its business, financial condition and results of operations. While many of the provisions in the Dodd-Frank Act are applicable to larger institutions (greater than $10 billion in assets), management expects that some provisions of the Dodd-Frank Act may have adverse effects on the Company, such as the cost of complying with numerous new regulations and disclosure and reporting requirements mandated by the Dodd-Frank Act. Portions of the Dodd-Frank Act become effective at different times, and many of the Dodd-Frank Act's provisions consist of general statements directing various regulators to issue more detailed rules. Consequently, the full scope of the Dodd-Frank Act's impact on the financial system in general and the Company in particular cannot be predicted at this time.

Incentive Compensation

In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Management believes the current and past compensation practices of the Company do not encourage excessive risk taking or undermine the safety and soundness of the organization.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the FRB, the OCC and the FDIC approved a joint proposed rulemaking to implement Section 956 of the Dodd-Frank Act, which prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and that are deemed to be excessive, or that may lead to material losses.

Other Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory authorities. These initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to change the financial institution regulatory environment. Such legislation could change banking laws and the operating environment of Tompkins in substantial, but unpredictable ways. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations would have on our financial condition or results of operations.

Employees

At December 31, 2011, the Company had 743 employees, approximately 90 of whom were part-time. No employees are covered by a collective bargaining agreement and the Company believes its employee relations are excellent.

Available Information

The Company maintains a website at www.tompkinsfinancial.com. The Company makes available free of charge through its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, its proxy statements related to its annual shareholders' meetings, and amendments to these reports or statements, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the "SEC"). Copies of these reports are also available at no charge to any person who requests them, with such requests directed to Tompkins Financial Corporation, Investor Relations Department, The Commons, Ithaca, New York 14851, telephone no. (607) 273-3210. Materials that the Company files with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. This information may also be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Company is not including the information contained on the Company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K, or into any other report filed with or furnished to the SEC by the Company.

Item 1A. Risk Factors

The Company's business, operating results, financial condition, liquidity, and cash flow may be impacted by numerous factors, including but not limited to those discussed below. These items may cause the Company's results to vary materially from recent results.

Risks Related to the Company's Business

Repayment of the Company's commercial business loans is often dependent on the cash flows of the borrower, which may be difficult to predict, and the collateral securing these loans may fluctuate in value.

The Company offers different types of commercial loans to a variety of businesses. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. The Company's commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrowers' cash flow may be difficult to predict, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower. As of December 31, 2011, commercial and commercial real estate loans totaled $1.1 billion or 57.0% of total loans.

As part of the Company's commercial business lending activities, the Company's subsidiary banks originate agricultural loans, consisting of agricultural real estate loans and agricultural operating loans. As of December 31, 2011, $120.6 million or 6.1% of the Company's total loan portfolio consisted of agriculturally-related loans, including $53.1 million in agricultural real estate loans and $67.6 million in agricultural operating loans. Payments on agricultural loans, primarily dairy loans, are typically dependent on the profitable operation or management of the related farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields, declines in market prices for agricultural products and the impact of governmental regulations and subsidies. In 2009, low milk prices and generally weak economic conditions led to weak financial results for many farms in the Company's primary market areas, which led to an increase in the Company's internally criticized and classified agricultural loans. Milk prices rebounded in 2010 and in 2011 remained above the low levels of 2009. As a result, many of the Company's agricultural customers reported improved operating results and financial conditions, which led to an upgrade in risk ratings for several agricultural loans. Many farms are dependent upon a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. While agricultural operating loans are generally secured by a blanket lien on the farm's operating assets, any repossessed collateral in respect of a defaulted loan may not provide an adequate source of repayment of the outstanding balance as a result of the greater likelihood of damage, loss or depreciation.

Declines in asset values may result in impairment charges and may adversely affect the value of the Company's investments, financial performance, and capital.

A majority of the Company's investment portfolio is comprised of securities which are collateralized by residential mortgages. These residential mortgage-backed securities include securities of U.S. government agencies, U.S. government-sponsored entities, and private-label collateralized mortgage obligations ("CMOs"). The Company's securities portfolio also includes obligations of U.S. government-sponsored entities, obligations of states and political subdivisions thereof, U.S. corporate debt securities and equity securities. A more detailed discussion of the investment portfolio, including types of securities held, the carrying and fair values, and contractual maturities is provided in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report. The fair value of investments may be affected by factors other than the underlying performance of the issuer or composition of the obligations themselves, such as rating downgrades, adverse changes in the business climate and a lack of liquidity for resale of certain investment securities. The Company periodically, but not less than quarterly, evaluates investments and other assets for impairment indicators. Under U.S. generally accepted accounting principles, 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 to the extent the impairment is related to credit losses. The amount of the impairment related to other non-credit related factors for available-for-sale securities is recognized in other comprehensive income provided that the Company does not intend to sell the underlying debt security and it is more-likely-than not that the Company would not have to sell the debt security prior to recovery of the unrealized loss, which may be to maturity. If the Company intended to sell any securities with an unrealized loss or it is more-likely-than not that the Company would be required to sell the investment securities, before recovery of their amortized cost basis, then the entire unrealized loss would be recorded in earnings. The fair value of certain investments in the Company's securities portfolio, and the amount of any recorded charges for other-than-temporary impairment ("OTTI") during the most recent fiscal year, are discussed in Part II, Item 8 of this Report on Form 10-K. With the national downturn in real estate markets and the high mortgage delinquency and foreclosure rates, investors are concerned about these types of securities. Given the market conditions and the significant judgments involved, there is risk that further declines in fair value may occur and additional OTTI charges may be recorded in earnings in future periods. The current market environment limits the Company's ability to mitigate its exposure to valuation changes in its CMOs by selling them. This impairment could negatively impact the Company's earnings and capital position.

The Company may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of counterparty relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry. The most important counterparty for the Company, in terms of liquidity, is the Federal Home Loan Bank of New York ("FHLBNY"). The Company uses FHLBNY as its primary source of overnight funds and also has long-term advances and repurchase agreements with FHLBNY. The Company has placed sufficient collateral in the form of commercial and residential real estate loans at FHLBNY. In addition, the Company is required to hold stock in FHLBNY. The amount of borrowed funds and repurchase agreements with the FHLBNY, and the amount of FHLBNY stock held by the Company, at its most recent fiscal year end are discussed in Part II, Item 8 of this Report on Form 10-K.

There are 12 branches of the FHLB, including New York. The FHLBNY is jointly and severally liable along with the other Federal Home Loan Banks for the consolidated obligations issued on behalf of the Federal Home Loan Banks through the Office of Finance. Dividends on, redemption of, or repurchase of shares of the FHLBNY's capital stock can not occur unless the principal and interest due on all consolidated obligations have been paid in full. If another Federal Home Loan Bank were to default on its obligation to pay principal or interest on any consolidated obligations, the Federal Home Loan Finance Agency (the "Finance Agency") may allocate the outstanding liability among one or more of the remaining Federal Home Loan Banks on a pro rata basis or on any other basis the Finance Agency may determine. As a result, the FHLBNY's ability to pay dividends on, to redeem, or to repurchase shares of capital stock could be affected by the financial condition of one or more of the other Federal Home Loan Banks. However, no Federal Home Loan Bank has ever defaulted on its debt since the FHLB System was established in 1932.

Systemic weakness in the FHLB could result in higher costs of FHLB borrowings, reduced value of FHLB stock, and increased demand for alternative sources of liquidity that are more expensive, such as brokered time deposits, the discount window at the Federal Reserve, or lines of credit with correspondent banks.

The Company relies on cash dividends from its subsidiaries to fund its operations, and payment of those dividends could be discontinued at any time.

The Company is a financial holding company whose principal assets and sources of income are its wholly-owned subsidiaries. The Company is a separate and distinct legal entity from its subsidiaries, and therefore the Company relies primarily on dividends from these banking and other subsidiaries to meet its obligations and to provide funds for the payment of dividends to the Company's shareholders, to the extent declared by the Company's board of directors. Various federal and state laws and regulations limit the amount of dividends that a bank may pay to its parent company and impose regulatory capital and liquidity requirements on the Company and its banking subsidiaries. In addition, as discussed in greater detail in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report, during the first quarter of 2010 the OCC notified the Company that it was requiring Mahopac National Bank to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations, which could limit that subsidiary's ability to pay dividends to the Company. Further, as a holding company, the Company's right to participate in a distribution of assets upon the liquidation or reorganization of a subsidiary is subject to the prior claims of the subsidiary's creditors (including, in the case of the Company's banking subsidiaries, the banks' depositors). The inability to receive dividends from its subsidiaries materially and adversely affects the Company's liquidity and its ability to service its debt, pay its other obligations, or pay cash dividends on its common or preferred stock, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company’s business may be adversely affected by conditions in the financial markets and local and national economies.

General economic conditions impact the banking and financial services industry. The Company’s financial performance generally, and in particular the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of collateral securing these loans, is highly dependent upon the business environment in the markets where the Company operates. Although the Company serves numerous market areas within New York State, the Company is still dependent on the economic conditions of New York. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the services offered by the Company’s two business segments. Economic conditions have been weak over the last three years as evidenced by a weak housing market with falling home prices and rising foreclosures, higher unemployment, difficulties in financial and credit markets, slowdown in consumer spending, a decrease in consumer confidence, and generally reduced business activity across a wide range of industries and regions in the U.S. While economic conditions have started to show signs of improvement, there can be no assurance that this improvement will continue. A downturn in the economy or financial markets could adversely affect the credit quality of the Company’s loan portfolio, results of operations and financial condition.

The Company is subject to interest rate risk.

The Company’s earnings, financial condition and liquidity are susceptible to fluctuations in market interest rates. This exposure is a result of assets and liabilities repricing at different times and by different amounts as interest rates change. Net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and borrowings, is the largest component of the Company’s total revenues. The level of net interest income is dependent upon the volume and mix of interest-earning assets and interest-bearing liabilities, the level of nonperforming assets, and the level and trend of interest rates. Changes in market interest rates will also affect the level of prepayments on the Company’s loans and payments on mortgage-backed securities, resulting in the receipt of proceeds that may be reinvested at a lower rate than the loan or mortgage-backed security being prepaid. Interest rates are highly sensitive to many factors, including: inflation, economic growth, employment levels, monetary policy and international markets. Significant fluctuations in interest rates could have a material adverse affect on the Company’s earnings, financial condition, and liquidity.

The Company manages interest rate risk using an income simulation to measure interest rate risk inherent in its on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the potential effect of interest rate shifts on net interest income for future periods. Each quarter the Company’s Asset/Liability Management Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within Board-approved levels. The Committee also discusses strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. In addition, the Company has focused on expanding its fee-based business to help mitigate its exposure to fluctuations in interest rates.

For additional information about how the Company manages its interest rate risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of this Report.

The Company is subject to liquidity risk.

Liquidity risk refers to the Company’s ability to ensure sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demand for loans and deposits withdrawals, funding operating costs, and for other corporate purposes. In addition to cash flow and short-term investments, the Company obtains funding through deposits and various short-term and long-term wholesale borrowings, including Federal funds purchased and securities sold under agreements to repurchase, brokered certificates of deposit, and borrowings from the Federal Home Loan Bank of New York ("FHLBNY") and others. The Company also maintains available lines of credit with the FHLBNY that are secured by loans. Management closely monitors its liquidity position for compliance with internal policies and is comfortable that available sources of liquidity are adequate to meet funding needs in the normal course of business.

The Company operates in a highly regulated environment and may be adversely impacted by changes in laws and regulations.

The Company is subject to extensive state and federal laws and regulations, supervision, and legislation that affect how it conducts its business. The majority of these laws and regulations are for the protection of consumers, depositors and the deposit insurance funds. The regulations influence such things as the Company's lending practices, capital structure, investment practices, and dividend policy. The Dodd-Frank Act, enacted in July 2010, represents a comprehensive overhaul of the financial services industry in the United States and requires federal agencies to implement many new rules. Any changes to state and federal banking laws and regulations may negatively impact the Company's ability to expand services and to increase shareholder value. There can also be significant costs related to compliance with various laws and regulations. The Company has established an extensive internal control structure to ensure compliance with governing laws and regulations, including those related to financial reporting. Refer to "Supervision and Regulation" for additional information on laws and regulations.

The Company is subject to state and federal tax laws and regulations. Changes to these regulations could impact future tax expense and the value of deferred tax assets. Each of the Company's banking subsidiaries is a majority owner of a real estate investment trust ("REIT"). Legislation is periodically proposed at the State level that would change the treatment of dividends paid by the REITs. Changes to the laws governing the taxation of REITs would likely result in additional income tax expense.

The Company operates in a highly competitive industry and market areas.

Competition for commercial banking and other financial services is strong in the Company's market areas. In one or more aspects of its business, the Company's subsidiaries compete with other commercial banks, savings and loan associations, credit unions, finance companies, Internet-based financial services companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Some of these competitors have substantially greater resources and lending capabilities and may offer services that the Company does not currently provide. In addition, many of the Company's non-bank competitors are not subject to the same extensive Federal regulations that govern financial holding companies and Federally insured banks. The Company focuses on providing unparalleled customer service, which includes offering a strong suite of products and services. Based upon our ability to grow our customer base in recent years, management feels that this business model does allow the Company to compete effectively in the markets it serves.

The Company's information systems may experience an interruption or breach in security.

The Company is subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. The Company depends upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet. Despite instituted safeguards, the Company cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and the Company could be exposed to claims from customers. Any of these results could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. The Company maintains a system of internal controls to mitigate against such occurrences and maintains insurance coverage for exposures that are insurable. The Company regularly tests internal controls to ensure that they are appropriate and functioning as designed.

The Company is subject to the risks presented by acquisitions, including the pending acquisition of VIST Financial Corp.

The Company's strategic initiatives include diversification within its markets, growth of its fee-based businesses, and growth internally and through acquisitions of financial institutions, branches, and financial services businesses. As such, the Company from time to time considers acquiring banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses within markets currently served by the Company or in other locations that would complement the Company's business or its geographic reach. The Company generally targets merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The pending acquisition of VIST Financial Corp., as well as any other future acquisitions, will be accompanied by the risks commonly encountered in acquisitions. These risks include among other things: the difficulty of integrating operations and personnel, the potential disruption of our ongoing business, the inability of management to maximize financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with employees and customers as a result of changes in ownership and management. Further, the asset quality or other financial characteristics of an acquired company may deteriorate after the acquisition agreement is signed or after the acquisition closes.

Risks Associated with the Company’s Common Stock

The Company’s stock price maybe volatile.

The Company’s stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in our operating results; recommendations by securities analysts; significant acquisitions or business combinations; operating and stock price performance of other companies that investors deem comparable to Tompkins; new technology used, or services offered by our competitors; news reports relating to trends, concerns and other issues in the financial services industry; and changes in government regulations. Other factors, including general market fluctuations, industry-wide factors and economic and general political conditions and events, including terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, may adversely affect the Company’s stock price even though they do not directly pertain to the Company’s operating results,

The trading volume in our common stock is less than that of other larger financial services companies, which may adversely affect the price of our common stock.

The Company’s common stock is traded on the NYSC-Amex. The trading volume in the Company’s common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of the Company’s common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

An investment in our common stock is not an insured deposit.

The Company’s common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company’s common stock is inherently risky for the reasons described in this “Risk Factors” section and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company’s common stock, you may lose some or all of your investment.

Dividend Payouts

Holders of Tompkins’ common stock are only entitled to receive such dividends as its board of directors may declare out of funds legally available for such payments. Tompkins has historically declared cash dividends on its common stock. Tompkins is not required to pay dividends on its common stock and could reduce or eliminate its common stock dividend in the future. This could adversely affect the market price of Tompkins’ common stock. Also, Tompkins is a bank holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company’s executive offices are located at 110 North Tioga Street, Ithaca, New York. The Company’s banking subsidiaries have 45 branch offices, of which 27 are owned and 17 are leased at market rates. The Company’s insurance subsidiary has 5 stand-alone offices, of which 3 are owned by the Company and 2 are leased at market rents. The Company's wealth management and financial planning subsidiary has 1 office, which it leases at a market rent. Management believes the current facilities are suitable for their present and intended purposes. For additional information about the Company's facilities, including rental expenses, see "Note 8 Premises and Equipment" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Item 3. Legal Proceedings

On February 2, 2012, a complaint was filed in the Supreme Court of Pennsylvania, Court of Common Pleas, Berks County against VIST Financial Corp, ("VIST"), its directors, Tompkins, and TMP Mergeco, Inc., a wholly-owned subsidiary of Tompkins ("Merger sub"), in connection with the Agreement and Plan of Merger which was signed by Tompkins, VIST, and Merger Sub on January 25, 2012 (the "Merger"). This agreement describes the terms and conditions under which VIST will be merged with and into Merger sub, thereby becoming a wholly-owned subsidiary of Tompkins. 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, an individual claiming to be a 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. Tompkins believes that any claims asserted against Tompkins and Merger Sub are without merit, and that there are substantial legal and factual defenses to the claims. Accordingly, Tompkins intends to vigorously defend itself and Merger Sub against these allegations.

Item 4. Mine Safety Disclosures

Not applicable

Executive Officers of the Registrant

The information concerning the Company's executive officers is provided below as of March 1, 2012.

Name	Age	Title	Year Joined Company
Stephen S. Romaine	47	President and CEO	January 2000
James W. Fulmer	60	Vice Chairman of the Board	January 2000
Robert B. Bantle	60	Executive Vice President	March 2001
David S. Boyce	45	Executive Vice President	January 2001
Francis M. Fetsko	47	Executive Vice President and CFO	October 1996
Gregory J. Hartz	51	Executive Vice President	August 2002
Gerald J. Klein, Jr.	53	Executive Vice President	January 2000
Kathleen M. Rooney	59	Executive Vice President	April 2004
Richard W. Page, Jr.	50	Senior Vice President and Chief Technology Officer	August 2008

Business Experience of the Executive Officers:

Stephen S. Romaine was appointed President and Chief Executive Officer of the Company effective January 1, 2007. From 2003 through 2006, he served as President and Chief Executive Officer of Mahopac National Bank. Prior to this appointment, Mr. Romaine was Executive Vice President and Chief Financial Officer of Mahopac National Bank. Mr. Romaine currently serves on the board of the New York Bankers Association.

James W. Fulmer has served as Vice Chairman since January 1, 2007, and Director of the Company since 2000. From 2000 through 2006 he served as President of the Company. He has also served as a Director of The Bank of Castile since 1988 and as its Chairman since 1992. Effective December 18, 2002, he assumed the additional responsibilities of President and Chief Executive Officer of The Bank of Castile. Mr. Fulmer has served as a Director of Mahopac National Bank since 1999, and as Chairman of Tompkins Insurance Agencies since January 1, 2001. He served as the President and Chief Executive Officer of Letchworth Independent Bancshares Corporation from 1991 until its merger with the Company in 1999. Mr. Fulmer also served as the Chief Executive Officer of The Bank of Castile from 1996 through April 2000. He was elected to the Board of the Federal Home Loan Bank in 2006, effective January 2007.

Robert B. Bantle has been employed by the Company since March 2001. He currently serves as Executive Vice President of Tompkins Services, a group that provides support to the Company in the areas of Human Resources, Training & Development, Consumer and Residential Lending Services, Collections, and Commercial Loan Operations. Prior to this assignment, he was also responsible for several additional areas including Operations, Information Technology, Remote Banking, and Card Services.

David S. Boyce has been employed by the Company since January 2001 and was promoted to Executive Vice President in April 2004. He was appointed President and Chief Executive Officer of Tompkins Insurance Agencies in 2002. He has been employed by Tompkins Insurance Agencies and a predecessor company to Tompkins Insurance Agencies for 23 years.

Francis M. Fetsko has been employed by the Company since 1996, and has served as Chief Financial Officer since December 2000. In July 2003, he was promoted to Executive Vice President. Mr. Fetsko also serves as Chief

Financial Officer of Tompkins Trust Company, The Bank of Castile, and Mahopac National Bank.

Gregory J. Hartz has been employed by the Company since 2002 and was appointed President and Chief Executive Officer of Tompkins Trust Company and Executive Vice President of the Company effective January 1, 2007. Previously, he was Senior Vice President of Tompkins Trust Company, with responsibility for Tompkins Investment Services. Mr. Hartz serves on the Board of Independent Bankers Association of New York State, currently serving as Treasurer.

Gerald J. Klein, Jr. has been employed by the Company since 2000 and was appointed President and Chief Executive Officer of Mahopac National Bank and Executive Vice President of the Company effective January 1, 2007. Previously, he was Executive Vice President of Mahopac National Bank, responsible for all lending and credit functions at the Bank.

Kathleen M. Rooney has been employed by the Company since April 2004 and served as Senior Vice President and Corporate Marketing Officer since April 2005. She was appointed Executive Vice President, Corporate Marketing Officer of the Company on April 24, 2007. Ms. Rooney is also a Senior Vice President of Mahopac National Bank with responsibility for the Bank's Community Banking Division. Prior to joining the Company, Ms. Rooney was employed by JPMorgan Chase for over 28 years in various capacities, most recently as the Senior Vice President and Investments Executive responsible for sales, service, operation and compliance of brokerage, portfolio management and trust products for the retail bank.

Richard W. Page, Jr. has been employed with Tompkins since 2007 as its Senior Vice President and Chief Technology Officer. He was made a Senior Vice President of the Company, effective August 4, 2008. He formerly served as Business Transformation Executive with IBM.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price and Dividend Information

The Company's common stock is traded under the symbol "TMP" on the NYSE-Amex (the "Exchange"). The high and low closing sale prices, which represent actual transactions as quoted on the Exchange, of the Company's common stock for each quarterly period in 2010 and 2011 are presented below. The per share dividends paid by the Company in each quarterly period in 2010 and 2011 and the payment dates of these dividends are also presented below.

		Market Price		Cash Dividends	
		High	Low	Amount	Date Paid
2010	1st Quarter	$ 39.05	$ 35.00	$ .31	2/15/10
	2nd Quarter	43.44	36.52	.34	5/14/10
	3rd Quarter	42.03	36.13	.34	8/16/10
	4th Quarter	41.91	38.04	.34	11/15/10
2011	1st Quarter	$ 41.85	$ 39.15	$ .34	2/15/11
	2nd Quarter	42.20	36.43	.34	5/16/11
	3rd Quarter	41.00	34.01	.36	8/15/11
	4th Quarter	40.49	33.75	.36	11/15/11

Cash dividends per share and the high and low market prices in the table above have been retroactively adjusted to reflect a 10% stock dividend paid on February 15, 2010.

As of February 21, 2012, there were approximately 2,482 holders of record of the Company's common stock.

The Company's ability to pay dividends is generally limited to earnings from the prior year, although retained earnings and dividends from its subsidiaries may also be used to pay dividends under certain circumstances. The Company's primary source of funds to pay for shareholder dividends is receipt of dividends from its subsidiaries. Future dividend payments to the Company by its subsidiaries will be dependent on a number of factors, including the earnings and financial condition of each subsidiary, and are subject to the regulatory limitations discussed in “Note 20 Regulations and Supervision” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The following table includes all Company repurchases, including those made pursuant to publicly announced plans or programs during the quarter ended December 31, 2011.

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (d)
October 1, 2011 through October 31, 2011	1,760	$ 37.34	0	0
November 1, 2011 through November 30, 2011	545	$ 38.75	0	0
December 1, 2011 through December 31, 2011	0	$ 0.00	0	0
Total	2,305	$ 37.67	0	0

Included above are 1,760 shares purchased in October 2011, at an average cost of $37.34, and 545 shares purchased in November 2011 at an average cost of $38.75 by the trustee of the rabbi trust established by the Company under the Company's Stock Retainer Plan For Eligible Directors of Tompkins Financial Corporation and Participating Subsidiaries, and were part of the director deferred compensation under that plan. Shares purchased under the rabbi trust are not part of the Board approved stock repurchase plan.

On October 25, 2011, the Company's Board of Directors authorized a new stock repurchase plan for the Company to repurchase up to 335,000 shares of the Company's common stock. Purchases may be made on the open market or in privately negotiated transactions over the next 24 months. The repurchase program may be suspended, modified, or terminated at any time for any reason.

Recent Sales of Unregistered Securities

On June 1, 2011, Tompkins Insurance acquired all the outstanding shares of Olver & Associates, Inc, a property and casualty insurance agency located in Ithaca, New York. In connection with the acquisition, 75,188 shares of the Company's common stock were issued to one shareholder in a transaction exempt from registration pursuant to Section 4(2).

Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans is provided in Part III, "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Report.

Performance Graph

The following graph compares the Company's cumulative total stockholder return since December 31, 2006, with (1) the total return index for the NASDAQ Composite and (2) the total return index for SNL Bank Index. The graph assumes $100.00 was invested on December 31, 2006, in the Company's common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

In accordance with and to the extent permitted by applicable law or regulation, the information set forth below under the heading "Performance Graph" shall not be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the "Securities Act"), or Exchange Act and shall not be deemed to be "soliciting material" or to be "filed" with the SEC under the Securities Act or the Exchange Act. The performance graph represents past performance and should not be considered an indication of future performance.

Index	Period Ending 12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Tompkins Financial Corporation	114.60	101.02	155.27	111.87	123.11	109.39
NASDAQ Composite	110.39	122.15	73.32	106.57	125.91	113.16
SNL Bank	116.98	90.90	51.87	51.33	57.52	38.08

Item 6. Selected Financial Data

The following consolidated selected financial data is taken from the Company's audited financial statements as of and for the five years ended December 31, 2011. The following selected financial data should be read in conjunction with the consolidated financial statements and the notes thereto in Part II, Item 8. of this Report. All of the Company's acquisitions during the five year period were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included in the Company's results of operations since their respective acquisition dates.

	Year ended December 31				
(in thousands except per share data)	2011	2010	2009	2008	2007
FINANCIAL STATEMENT HIGHLIGHTS					
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
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
PER SHARE INFORMATION1					
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
SELECTED RATIOS					
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 %
Average shareholders' equity to average assets	8.94 %	8.33 %	7.74 %	8.01 %	8.38 %
Dividend payout ratio	43.61 %	42.49 %	41.61 %	42.70 %	45.75 %
OTHER SELECTED DATA (in whole numbers, unless otherwise noted)					
Employees (average full-time equivalent)	719	726	720	686	662
Banking offices	45	45	45	45	39
Bank access centers (ATMs)	63	69	67	69	61

Trust and investment services assets under management, or custody (in thousands)	$ 2,780,622	$ 2,859,725	$ 2,542,792	$ 2,161,484	$ 2,345,575

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Company and its operating subsidiaries for the periods shown. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with other sections of this Report on Form 10-K, including Part I, "Item 1. Business", Part II, "Item 6. Selected Financial Data", and Part II, "Item 8. Financial Statements and Supplementary Data".

OVERVIEW

Tompkins Financial Corporation ("Tompkins" or the "Company"), is registered as a financial holding company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. Tompkins is the corporate parent of three community banks, Tompkins Trust Company ("Trust Company"), The Bank of Castile, and The Mahopac National Bank ("Mahopac National Bank"), which together operate 45 banking offices, including 3 limited-service offices, in local market areas throughout New York State. The Company expanded its banking offices in 2008 with the acquisition of Sleepy Hollow Bancorp, Inc., effective May 9, 2008, which added 6 banking offices, including 1 limited service office, all in Westchester County, New York.

In addition to traditional banking products and services, AM&M and the trust division of the Trust Company provides a full array of investment services under the Tompkins Financial Advisors brand, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services.

Tompkins Insurance is headquartered in Batavia, New York, and offers property and casualty insurance to individuals and businesses primarily in Western and Central New York. Over the past several years, Tompkins Insurance has acquired smaller insurance agencies generally in the market areas serviced by the Company's banking subsidiaries. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile and The Trust Company. In addition to these shared offices, Tompkins Insurance has four stand-alone offices in Western New York and two stand-alone offices in Tompkins County, New York.

Forward-Looking Statements

The Company is making this statement in order to satisfy the "Safe Harbor" provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Report on Form 10-K that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company's operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed and/or implied by forward-looking statements. The following factors, in addition to those listed as Risk Factors in Item 1.A are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the Company's interest rate spread, other income or cash flow anticipated from the Company's operations, investment and/or lending activities; changes in laws and regulations affecting banks, bank holding companies and/or financial holding companies, such as the Dodd-Frank Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; and financial resources in the amounts, at the times and on the terms required to support the Company's future businesses. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, including interest rate and currency exchange rate fluctuations, and other factors.

Critical Accounting Policies

In the course of normal business activity, management must select and apply many accounting policies and methodologies and make estimates and assumptions that lead to the financial results presented in the Company's consolidated financial statements and accompanying notes. There are uncertainties inherent in making these estimates and assumptions, which could materially affect our results of operations and financial position.

Management considers accounting estimates to be critical to reported financial results if (i) the accounting estimates require management to make assumptions about matters that are highly uncertain, and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the Company's financial statements. Management considers the accounting policies relating to the allowance for loan and lease losses ("allowance"), pension and postretirement benefits and the review of the securities portfolio for other-than-temporary impairment to be critical accounting policies because of the uncertainty and subjectivity involved in these policies and the material effect that estimates related to these areas can have on the Company's results of operations.

Management considers the accounting policy relating to the allowance to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates can have on the Company's results of operations.

The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company's methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues and includes allowance allocations calculated in accordance with Accounting Standards Codification ("ASC") Topic 310, Receivables, and allowance allocations calculated in accordance with ASC Topic 450 Contingencies. The Company's methodology for determining the allowance for loan and lease losses focuses on our annual, or more often if necessary, ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a quarterly basis.

Since the methodology is based upon historical experience, market trends, and management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, changes in interest rates, concentration of risk, declines in local property values, and the view of regulatory authorities towards loan classifications. Management believes that the allowance is appropriate given the inherent risk of loss in the loan and lease portfolios, as of December 31, 2011. Under adversely different conditions or assumptions, the Company would need to increase the allowance. Refer to the section captioned "Allowance for Loan and Lease Losses" elsewhere in this discussion for further details on the Company's methodology and allowance.

Another critical accounting policy is the policy for pensions and other post-retirement benefits. The calculation of the expenses and liabilities related to pensions and post-retirement benefits requires estimates and assumptions of key factors including, but not limited to, discount rate, return on plan assets, future salary increases, employment levels, employee retention, and life expectancies of plan participants. The Company uses an actuarial firm in making these estimates and assumptions. Changes in these assumptions due to market conditions, governing laws and regulations, or Company specific circumstances may result in material changes to the Company's pension and other post-retirement expenses and liabilities.

Another critical accounting policy is the policy for reviewing available-for-sale securities and held-to-maturity securities to determine if declines in fair value below amortized cost are other-than-temporary as required by FASB ASC Topic 320, Investments – Debt and Equity Securities. When other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security and whether it is more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. In estimating other-than-temporary impairment losses, management considers, among other factors, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, underlying collateral of the security, and the structure of the security.

All accounting policies are important and the reader of the financial statements should review these policies, described in “Note 1 Summary of Significant Accounting Policies” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Form 10-K, to gain a better understanding of how the Company’s financial performance is reported.

RESULTS OF OPERATIONS
(Comparison of December 31, 2011 and 2010 results)

General

The Company reported diluted earnings per share of $3.20 in 2011, an increase of 2.9% over diluted earnings per share of $3.11 in 2010. Net income for the year ended December 31, 2011, was $35.4 million, up 4.7% compared to $33.8 million in 2010. The improvement in 2011 results was mainly attributable to an increase in noninterest income and lower noninterest expense.

In addition to earnings per share, key performance measurements for the Company include return on average shareholders' equity (ROE) and return on average assets (ROA). ROE was 12.02% in 2011, compared to 12.72% in 2010, while ROA was 1.07% in 2011 and 1.06% in 2010. Tompkins' ROE and ROA continue to compare favorably to peer ratios, ranking in the 86th percentile for ROE and the 70th percentile for ROA of its peer group. The peer group is derived from the Federal Reserve Board and represents banks and bank holding companies with assets between $3.0 billion and $10.0 billion. The comparative peer group ratios are as of September 30, 2011, the most recent data available from the Federal Reserve Board.

Segment Reporting

The Company has identified two business segments, banking and financial services. Financial services activities consist of the results of the Company's trust, financial planning and wealth management, broker-dealer services, and risk management operations. All other activities are considered banking.

The Banking segment net income increased $1.0 million or 3.4% compared to 2010, driven by growth in noninterest income and lower noninterest expense. Net interest income declined $328,000, or 0.3% in 2011 versus 2010 due to lower average earning assets yields compared to reductions in rates paid on interest-bearing liabilities.

The provision for loan and lease losses increased $438,000 or 5.2% over 2010. The increase in the provision for loan and lease losses in 2011 was largely the result of an increase in loan charge-offs during the third quarter of 2011, which included a $5.0 million charge-off related to a single commercial real estate customer.

Noninterest income grew $938,000 or 4.7% in 2011 from 2010. The main contributors to the improvement were an increase in card services income of $775,000 or 18.1% and a $218,000 increase in net gains on securities transactions. Card services income rose as a result of an increase in debit card transaction volumes and the expiration of associated reward program incentives. Service charges on deposit accounts were down $63,000 or 0.7% in 2011 compared to 2010. The decrease was mainly a result of lower overdraft fees and reflects regulatory changes that took affect in 2010.

Noninterest expenses declined $585,000 or 0.7% from the same period in 2010. Decreases in pension expense and FDIC insurance expense more than offset increases in cardholder expenses, and salaries and other benefits, including annual merit increases, increases in incentive compensation and stock based compensation, and higher health insurance costs.

The Financial Services segment reported an improvement in net income of $551,000 or 16.4% in 2011 over the same period in 2010. Noninterest income derived from the Financial Services segment increased $1.2 million or 4.4% compared to the same period in 2010. Insurance commissions and fees were up $804,000 or 6.3% in 2011 over the prior year. Noninterest expenses increased in 2011 by $369,000 or 1.7% over the same period prior year. The increase was mainly in salaries and benefits, reflecting annual merit increases, and other incentive compensation accruals, and other operating expenses.

Net Interest Income

Net interest income is the Company's largest source of revenue, representing 69.9% of total revenues for the twelve months ended December 31, 2011 and 77.6% of total revenues for the twelve months ended December 31, 2010. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The Company's net interest income over the past several years has benefitted from steady growth in average earning assets, as well as the low interest rate environment. Over this period the Company's interest-bearing liabilities repriced at a faster pace than our interest earning assets. With deposit rates currently at low levels, the downward pricing of these liabilities has slowed, while interest earning assets continue to reprice downward at a steady rate. This has contributed to a decrease in net interest margin for the twelve months ended December 31, 2011 compared to the same period in 2010. The taxable equivalent net interest margin of 3.72% for 2011 is below the 3.86% for 2010. The decrease in the net interest margin was also partly due to the impact of the growth in interest earning assets over prior year being concentrated in lower yielding securities rather than higher yielding loans.

Table 1 – Average Statements of Condition and Net Interest Analysis shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. Taxable-equivalent net interest income for 2011 was $114.0 million, which is down less than 0.3% compared to 2010. Taxable-equivalent net interest income was positively impacted by growth in average interest earnings assets and lower funding costs; however, these positives were more than offset by the decrease in average earning asset yields. For 2011, average earning assets were up $102.7 million or 3.5%, and the average cost of interest bearing liabilities decreased by 28 basis points when compared to 2010. However, over this period the average yields on interest-earning assets decreased by 39 basis points. The yield on average earning assets was impacted by the low rate environment as well as growth being concentrated in lower yielding securities as a result of soft loan demand.

Taxable-equivalent interest income decreased by 4.8% in 2011 over the same period in 2010. The decrease in taxable-equivalent interest income was primarily a result of lower average yields on interest-earning assets year-over-year. In addition to the lower level of market interest rates, the yield on interest earning assets was also impact by the composition of interest earning assets. Of the $102.7 million of growth in average earnings assets in 2011, $89.6 million was in average securities, which had an average yield of 3.11% in 2011 compared to an average yield of 3.86% in 2010 and an average yield on loans of 5.42% in 2011. During 2011, cash flow from securities maturities and prepayments have been reinvested at lower yields as a result of the decrease in market interest rates. Average loan balances were up $30.6 million or 1.6% in 2011 over 2010, while the average yield on loans decreased 20 basis points to 5.42%. Loan growth in 2011 included a $50.0 million increase in average real estate loans, and a decrease of $12.0 million and $4.2 million in average consumer and commercial loan balances, respectively.

Interest expense for 2011 was down $6.6 million or 20.5% compared to 2010, reflecting lower average rates paid on deposits and borrowings, a lower average volume of borrowings and growth in noninterest bearing deposit balances. The average rate paid on interest-bearing deposits during 2011 of 0.63% was 25 basis points lower than the average rate paid in 2010. The decrease in the average cost of interest-bearing deposits reflects a decrease in the interest rates offered on deposit products due to decreases in average market rates combined with an increase in the relative proportion of lower cost savings and money market deposits. Average interest-bearing deposit balances increased by $56.0 million or 2.8% in 2011 compared to 2010. The majority of the increase was in average interest bearing checking, savings and money market deposit balances, which were up 10.1%, and were partially offset by lower average time deposits of $100,000 or less which were down $30.9 million or 7.1%. Average noninterest bearing deposit balances were up $71.7 million or 15.3% in 2011 over the same period in 2010. Average other borrowings were down $37.6 million or 19.5% over prior year.

Table 1 - Average Statements of Condition and Net Interest analysis

(Dollar amounts in thousands)	December 31, 2011 Average Balance (YTD)	Interest	Average Yield/ Rate	2010 Average Balance (YTD)	Interest	Average Yield/ Rate	2009 Average Balance (YTD)	Interest	Average Yield/ Rate
ASSETS									
Interest-earning assets									
Interest-bearing balances due from banks	$12,717	$12	0.09%	$25,189	$31	0.12%	$17,017	$27	0.16%
Money market funds	100	-	0.00%	100	-	0.00%	17,130	36	0.21%
Securities (1)									
U.S. Government Securities	969,303	27,504	2.84%	857,724	30,964	3.61%	721,438	31,812	4.41%
Trading Securities	21,262	873	4.11%	27,389	1,085	3.96%	35,067	1,362	3.88%
State and municipal (2)	95,039	5,143	5.41%	107,376	6,059	5.64%	111,253	6,715	6.04%
Other Securities (2)	13,971	648	4.64%	17,465	849	4.86%	20,710	1,047	5.06%
Total securities	1,099,575	34,168	3.11%	1,009,954	38,957	3.86%	888,468	40,936	4.61%
Federal Funds Sold	5,837	7	0.12%	9,233	17	0.18%	8,542	15	0.18%
FHLBNY and FRB stock	17,992	910	5.06%	19,597	1,049	5.35%	20,274	910	4.49%
Loans, net of unearned income (3)									
Real Estate	1,395,533	74,598	5.35%	1,345,540	75,610	5.62%	1,284,063	75,479	5.88%
Commercial Loans (2)	457,120	24,792	5.42%	461,339	24,730	5.36%	466,076	25,461	5.46%
Consumer Loans	68,364	4,712	6.89%	80,412	5,619	6.99%	87,283	6,083	6.97%
Direct Lease Financing	7,523	446	5.93%	10,692	643	6.01%	13,031	784	6.02%
Total loans, net of unearned income	1,928,540	104,548	5.42%	1,897,983	106,602	5.62%	1,850,453	107,807	5.83%
Total interest-earning assets	3,064,761	139,645	4.56%	2,962,056	146,656	4.95%	2,801,884	149,731	5.34%

Other assets	230,221			229,784			207,123		
Total assets	3,294,982			3,191,840			3,009,007		
LIABILITIES & EQUITY									
Deposits									
Interest-bearing deposits									
Interest bearing checking, savings, & money market	1,350,659	4,741	0.35 %	1,226,852	5,994	0.49 %	1,128,648	8,694	0.77 %
Time Dep > $100,000	313,881	3,292	1.05 %	327,626	4,297	1.31 %	303,761	5,442	1.79 %
Time Dep < $100,000	401,902	5,033	1.25 %	432,804	6,984	1.61 %	420,351	9,223	2.19 %
Brokered Time Dep < $100,000	1,731	21	1.21 %	24,886	402	1.62 %	43,218	852	1.97 %
Total interest-bearing deposits	2,068,173	13,087	0.63 %	2,012,168	17,677	0.88 %	1,895,978	24,211	1.28 %
Federal funds purchased & securities sold under agreements to repurchase	173,692	4,872	2.80 %	185,563	5,418	2.92 %	190,975	6,254	3.27 %
Other borrowings	155,650	6,143	3.95 %	193,296	7,611	3.94 %	204,467	8,206	4.01 %
Trust preferred debentures	25,062	1,580	6.30 %	25,058	1,581	6.31 %	17,311	1,087	6.28 %
Total interest-bearing liabilities	2,422,577	25,682	1.06 %	2,416,085	32,287	1.34 %	2,308,731	39,758	1.72 %
Noninterest bearing deposits	539,917			468,219			427,025		
Accrued expenses and other liabilities	37,868			41,593			40,242		
Total liabilities	3,000,362			2,925,897			2,775,998		
Tompkins Financial Corporation Shareholders’ equity	292,845			264,431			231,498		

Noncontrolling interest	1,775			1,512			1,511		
Total equity	294,620			265,943			233,009		
Total liabilities and equity	$3,294,982			$3,191,840			$3,009,007		
Interest rate spread			3.50%			3.61%			3.62%
Net interest income/margin on earning assets		113,963	3.72%		114,369	3.86%		109,973	3.92%
Tax Equivalent Adjustment		(2,557)			(2,594)			(2,936)	
Net interest income per consolidated financial statements		$111,406			$111,775			$107,037	

(1) Average balances and yields on available-for-sale securities are based on historical amortized cost.
(2) Interest income includes the tax effects of taxable-equivalent adjustments using a combined New York State and Federal effective income tax rate of 40% to increase tax exempt interest income to taxable-equivalent basis.
(3) Nonaccrual loans are included in the average asset totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's condensed consolidated financial statements included in Part I of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2011.

Table 2 - Analysis of Changes in Net Interest Income

(in thousands)(taxable equivalent)

	2011 vs. 2010			2010 vs. 2009		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
	Average Volume	Yield/Rate	Total	Average Volume	Yield/Rate	Total
INTEREST INCOME:						
Certificates of deposit, other banks	$(13)	$(6)	$(19)	$11	$(7)	$4
Money market funds	0	0	0	(18)	(18)	(36)
Federal funds sold	(5)	(5)	(10)	2	0	2
Investments						
Taxable	3,445	(7,318)	(3,873)	5,060	(6,383)	(1,323)
Tax-exempt	(675)	(241)	(916)	(229)	(427)	(656)
FHLB and FRB stock	(83)	(56)	(139)	(31)	170	139
Loans, net:						
Taxable	1,654	(3,770)	(2,116)	2,654	(3,620)	(966)
Tax-exempt	(229)	291	62	70	(309)	(239)
Total interest income	$4,094	$(11,105)	$(7,011)	$7,519	$(10,594)	$(3,075)
INTEREST EXPENSE:						
Interest-bearing deposits:						
Interest checking, savings and money market	560	(1,813)	(1,253)	702	(3,402)	(2,700)
Time	(946)	(2,391)	(3,337)	357	(4,191)	(3,834)
Federal funds purchased and securities sold under agreements to repurchase	(338)	(208)	(546)	(172)	(664)	(836)
Other borrowings	(1,607)	138	(1,469)	(144)	43	(101)
Total interest expense	$(2,331)	$(4,274)	$(6,605)	$743	$(8,214)	$(7,471)
Net interest income	$6,425	$(6,831)	$(406)	$6,776	$(2,380)	$4,396

Changes in net interest income occur from a combination of changes in the volume of interest-earning assets and interest-bearing liabilities, and in the rate of interest earned or paid on them. The above table illustrates changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of the change. In 2011, net interest income decreased by $406,000, reflecting a $7.0 million decrease in interest income and a $6.6 million decrease in interest expense. Lower yields on earnings assets contributed $11.1 million to the decrease in interest income, while the growth in average earning assets added $4.1 million to interest income. The decrease in interest expense is mainly due to lower rates paid on interest bearing liabilities.

Provision for Loan and Lease Losses

The provision for loan and lease losses represents management's estimate of the expense necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses was $8.9 million in

2011, compared to $8.5 million in 2010. The increase in the provision for loan and lease losses in 2011 was largely the result of an increase in loan charge-offs during 2011, which included a $5.0 million charge-off related to a single commercial real estate customer ($1.9 million of this was specifically reserved at December 31, 2010). The increase in net charge-offs was offset by reductions in criticized and classified loans. In 2011 and 2010 the provision was higher than historical levels due to increases in nonperforming loans and leases and net charge-offs as well as concerns over weak economic conditions and uncertain real estate markets. During 2011, the Company reported some improvement in asset quality measures, including a decrease in nonperforming loans at year-end 2011 compared with year-end 2010 as well as a decrease in internally-classified loans over the same period. See the section captioned "The Allowance for Loan and Lease Losses" included within "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition" of this Report for further analysis of the Company's allowance for loan and lease losses.

Noninterest Income

(in thousands)	2011	2010	2009
Investment services	$14,287	$14,329	$13,328
Insurance commissions and fees	13,542	12,738	12,307
Service charges on deposit accounts	8,491	8,554	9,312
Card services	5,060	4,285	3,664
Net mark-to-market (losses) gains	(402)	(222)	1,467
Other income	6,705	6,331	5,933
Net other-than-temporary impairment losses	(65)	(34)	(146)
Net gain on securities transactions	396	178	348
Total	$48,014	$46,159	$46,213

Noninterest income is a significant source of income for the Company, representing 30.1% of total revenues in 2011, and 29.2% in 2010, and is an important factor in the Company's results of operations. Noninterest income increased 4.0% over 2010. The year-over-year changes in the various noninterest categories are discussed in more detail below.

Investment services income was relatively flat compared to the same period in 2011. Increases in trust and wealth management fees were mainly offset by lower brokerage fees and commissions. In 2011, the Company discontinued providing Dreker dealer services to third party representatives, which resulted in lower commissions. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. With fees largely based on the market value and the mix of assets managed, volatility in the equity and bond markets impacts the market value of assets and the related investment fees. The market value of assets managed by, or in custody of, Tompkins was $2.7 billion at December 31, 2011, and $2.9 billion in 2010. These figures include $974.3 million, and $844.9 million, of Company-owned securities where Tompkins Investment Services serves as custodian.

Insurance commissions and fees increased $804,000 or 6.3% over 2010. Revenues for commercial insurance lines, personal insurance lines, and health and benefit related insurance products were all up for the year compared to the same period in 2010. Part of the increase in all three product lines was the June 1, 2011 acquisition of Olver & Associates, Inc. The Olver acquisition has added about $322,000 of commercial lines revenue, $138,000 of personal lines revenue, and $108,000 in health and benefit revenues in 2011. Health and benefit related insurance products continue to be a main source of growth increasing by $289,000 in 2011over the same period prior year.

Service charges on deposit accounts were down $63,000 or 0.7%, compared to 2010. The largest component of this category is overdraft fees, which is largely driven by customer activity. Regulatory changes which became effective in the third quarter of 2010 impacted earning capability in overdraft fees. The Federal Reserve Board rule prohibits financial institutions from charging consumer fees for paying overdrafts on automated teller machines and one-time debit transactions, unless the consumer consents, or opts in, to the overdraft service for these types of transactions.

Card services income increased $775,000 or 18.1% over the same period in 2010. The primary components of card services income are fees related to debit card transactions and ATM usage. Debit card income and fees associated with debit card transactions increased by 17.2% compared to 2010. The increase was mainly due to the increased number of cards and transactions, as well as an increase in interchange fees associated with debit cards. ATM fee income was relatively flat compared to 2010. As mentioned above in the "Supervision and Regulation" section of Item 1. Business, the Dodd-Frank Act required the Federal Reserve Board to establish rules regarding interchange fees charged in electronic debit card transaction by payment issuers. In June 2011, the Federal Reserve Board issued final rules. Currently, these rules would only apply to banks with total assets exceeding $10 billion, which exempts Tompkins. However, the long-term impact of any new regulations is uncertain.

Net mark-to-market losses on securities and borrowings held at fair value were up $180,000 compared to losses reported in 2010. Mark-to-market losses or gains relate to the change in the fair value of securities and borrowings where the Company has elected the fair value option. The year-over-year losses are mainly attributed to changes in market interest rates.

Other income increased $374,000 or 5.9% when compared to 2010. The primary components of other income are other service charges, increases in cash surrender value of life insurance, gains on sales of residential mortgage loans, and other miscellaneous income, which includes, income from miscellaneous equity investments, including the Company's investment in a Small Business Investment Company ("SBIC").

Other service charge income, included in other income on the consolidated statements of income, was down compared to prior year by $151,000, mainly as a result of lower loan related fees.

Net gains on sale of loans, included in other income on the consolidated statements of income, of $496,000 in 2011 were down by $459,000 or 48.1% compared to 2010. The decrease in gains in 2011 compared to 2010 is consistent with the decrease in volume of loans sold in 2011 compared to 2010. To manage interest rate risk exposures, the Company from time to time sells certain fixed rate residential mortgage loan originations that have rates below or maturities greater than the standards set by the Company's Asset/Liability Committee for loans held in the portfolio.

Increases in the value of COLI net of mortality expenses, included in other income on the consolidated statements of income, were $1.5 million in 2011, up $126,000 or 9.1% over 2010. COLI relates to life insurance policies covering certain senior officers of the Company and its subsidiaries. The Company's average investment in COLI was $41.6 million at December 31, 2011, and $36.5 million during the same period in 2010.

Other miscellaneous income, included in other income on the consolidated statements of income, also includes income related to an investment in a SBIC. In 2011 and 2010, the Company recognized $1.1 million and $543,000, respectively, related to an investment in a SBIC. The amounts for 2011 and 2010 included $807,000 and $371,000, respectively, of gains recognized and distributed by the SBIC. The SBIC periodically recognizes gains related to investments held in its portfolio and distributes these gains to its investors. The Company believes that, as of December 31, 2011, there were no impairments with respect to its investment in the SBIC. Other miscellaneous income in 2011 also included approximately $600,000 in nonrecurring gains on the sale of real estate and other assets.

Noninterest Expense

(in thousands)	2011	2010	2009
Salaries and wages	$44,140	$42,530	$40,459
Pension and other employee benefits	14,275	14,523	13,367
Net occupancy expense of premises	7,117	7,161	7,135
Furniture and fixture expense	4,463	4,421	4,462
FDIC insurance	2,527	3,768	4,976
Amortization of intangible assets	589	762	915
Other	25,441	25,880	25,303
Total	$98,552	$99,045	$96,617

Noninterest expenses for 2011were in line with 2010. Changes in various components of noninterest expense are discussed below.

Total personnel-related expenses increased by $1.4 million or 2.4% in 2011 over 2010. Salaries and wages increased by $1.6 million or 3.8% in 2011 when compared to 2010. The increases were primarily related to annual merit increases as well as increases in incentive compensation expense and stock-based compensation expense. Total pension and other employee benefit expense decreased by $248,000 or 1.7% compared to 2010. The decrease was mainly in pension expense (down $964,000) and was partially offset by higher health insurance expense (up $810,000).

FDIC insurance decreased by $1.2 million or 32.9% in 2011 compared to 2010, mainly as a result of changes to the FDIC assessment calculation that took effect in the second quarter of 2011.

Other operating expenses decreased by 1.7% compared to 2010. The primary components of other operating expense are marketing expense, professional fees, software licensing and maintenance, and cardholder expense. Contributing to the decrease in the 2011 from 2010 were the following: professional fees (down $815,000), partially offset by increases in software licenses and maintenance (up $167,000) and cardholder expenses (up $220,000). Professional fees include amounts paid to outside consultants for assistance on projects or initiatives and vary depending on the number and scope of actual projects in a given year. The increase in cardholder expenses is mainly a result of an increased number of cards and a higher volume of customer transactions.

The Company's efficiency ratio, defined as operating expense excluding amortization of intangible assets, divided by tax-equivalent net interest income plus noninterest income before securities gains and losses (increase in the cash surrender value of COLI is shown on a tax equivalent basis), improved to 60.3% in 2011, compared to 60.9% in 2010. Tax equivalency was based upon a 40% tax rate. Excluding the tax equivalent adjustments for tax-exempt securities and tax-exempt loans and leases, the efficiency ratio would be 61.4% in 2011 and 62.0% in 2010.

Noncontrolling Interests

Net income attributable to noncontrolling interests represents the portion of net income in consolidated majority-owned subsidiaries that is attributable to the minority owners of a subsidiary. The Company had net income attributable to noncontrolling interests of $131,000 in 2011 and 2010. The noncontrolling interests are mainly in three real estate investment trusts, which are substantially owned by the Company's banking subsidiaries.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. The 2011 provision was $16.4 million, which is in line with same period prior year. The effective tax rate for the Company was 31.6% in 2011, down from 32.7% in 2010. The effective rate in 2011 benefitted from investments in low income housing tax credits.

RESULTS OF OPERATIONS
(Comparison of December 31, 2010 and 2009 results)

General

The Company reported diluted earnings per share of $3.11 in 2010, an increase of 5.1% over diluted earnings per share of $2.96 in 2009. Net income for the year ended December 31, 2010, was $33.8 million, up 6.3% compared to $31.8 million in 2009. The increase in earnings performance in 2010 was mainly attributable to growth in net interest income. Net interest income benefited from growth in average earnings assets and lower funding costs in 2010 compared to 2009. The growth in net income over the prior period was impacted by a special event in the second quarter of 2009. The second quarter of 2009 included a $1.4 million (pre-tax) expense related to the FDIC's special deposit insurance assessment, a negative impact of $0.07 per share of diluted earnings.

The Company's return on equity was 12.72% in 2010 compared to 13.66% in 2009, while return on assets was 1.06% in 2010 and 2009, respectively. Total revenues, consisting of net interest income and noninterest income, were $157.9 million in 2010, up $4.7 million or 3.1% over 2009. Total revenues in 2010 benefited from growth in net interest income, resulting from lower funding costs and growth in average earning assets. Noninterest income was fairly flat year-over-year as increases in investment services income, insurance commissions and fees and card services income were more than offset by lower service charges on deposit accounts.

Segment Reporting

The Banking segment reported net income of $30.6 million in 2010, up $2.0 million or 7.1% from net income of $28.6 million in 2009, driven by growth in net interest income. Net interest income of $111.5 million was up $4.7 million, or 4.4% in 2010 from $106.8 million in 2009. Net interest income benefited from growth in average earning assets and lower rates paid on interest-bearing liabilities. The year-over-year comparison of operating results was impacted by the FDIC special deposit insurance assessment of $1.4 million (pre-tax) in the second quarter of 2009.

The provision for loan and lease losses in 2010 was $8.5 million, compared to $9.3 million in 2009.

Noninterest income of $20.2 million in 2010 was down 5.0% from 2009. The two main contributors to the lower noninterest income were an increase in mark-to-market losses on securities and liabilities held at fair value and lower service fees on deposit accounts. Net mark-to-market losses on securities and liabilities held at fair value totaled $222,000 in 2010 compared to net mark-to-market gains of $1.5 million in 2009. Service charges on deposit accounts were down $758,000 or 8.1% in 2010 compared to 2009. The decrease was mainly a result of lower overdraft fees. In November 2009, the Federal Reserve Board issued a final rule that, effective July 1, 2010, prohibited financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Card services income totaled $4.3 million in 2010, an increase of $621,000 or 16.9% over 2009. The increase was mainly in debit card income and reflects a higher transaction volume, partially attributable to an increase in the number of cardholders.

Noninterest expenses totaled $78.1 million in 2010, an increase of $1.4 million or 1.8% over the same period in 2009. Increases in salaries and other benefit related accruals, reflecting additional headcount, annual merit increases, and healthcare insurance and pension costs, were partially offset by lower FDIC insurance expense. The second quarter of 2009 included a FDIC special deposit insurance assessment of $1.4 million (pre-tax).

The Financial Services segment had net income of $3.4 million in 2010, which was in line with the results from 2009. Noninterest income derived from the Financial Services segment was $27.0 million in 2010, an increase of $1.4 million or 5.6% compared to the same period in 2009. Improvement in the bond and equity markets from a volatile market in 2009 and stabilization in the overall economy in 2010 had a positive effect on fee-based businesses, including investment services income. The market value of assets managed by or in custody of the Company at year-end 2010 was up over prior year-end, increasing over the course of the year as a result of higher market levels and new business initiatives. Insurance commissions and fees were up $431,000 or 3.5% in 2010 over prior year. Noninterest expenses of $22.0 million in 2010 were up $1.4 million or 7.0% over the same period prior year. The increase was mainly in salaries and benefits, reflecting annual merit increases, stock-based and other incentive compensation accruals, and other operating expenses.

Net Interest Income

Net interest income represented 77.6% of total revenues for the twelve months ended December 31, 2010 and 72.9% of total revenues for the twelve months ended December 31, 2009. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The Company’s net interest income over the past several years has benefitted from steady growth in average earning assets, as well as the low interest rate environment. Over this period the Company’s interest-bearing liabilities repriced at a faster pace than our interest earning assets. With deposit rates at low levels, the downward pricing of these liabilities had slowed, while interest earning assets continued to reprice downward at a steady rate. This had contributed to a decrease in net interest margin for the twelve months ended December 31, 2010 compared to the same period in 2009. The taxable equivalent net interest margin of 3.86% for 2010 was below the 3.92% for 2009. The decrease in the net interest margin was also partly due to the impact of the growth in interest earning assets over prior year being concentrated in lower yielding securities rather than higher yielding loans.

Taxable-equivalent net interest income for 2010 was $114.4 million, an increase of $4.4 million, or 4.0%, compared to the same period in 2009. Taxable-equivalent net interest income was positively impacted by the lower cost of funds, which outpaced lower yields on interest-earning assets. For 2010, average earning assets were up $160.2 million or 5.7%, over the same period in 2009. The average cost of interest bearing liabilities decreased 38 basis points from 1.72% in 2009 to 1.34% in 2010, while the average yield on interest-earning assets decreased by 39 basis points from 5.34% to 4.95%, respectively. The average yield on interest-earring assets was primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of interest-earning assets.

Taxable-equivalent interest income decreased by 2.1% in 2010 over 2009. The decrease in taxable-equivalent interest income was primarily a result of lower average yields on interest-earning assets year-over-year. In addition to the lower level of market interest rates, the yield on interest earning assets was also impact by the composition of interest earning assets. Average security balances were up $121.5 million or 13.7% over prior year, while average yields were down 75 basis points to 3.86%. During 2010, cash flow from securities maturities and prepayments were reinvested at lower yields as a result of the decrease in market interest rates. Average loan balances were up $47.5 million or 2.6% in 2010 over 2009, while the average yield on loans decreased 21 basis points to 5.62%. Loan growth in 2010 included a $61.5 million increase in average commercial real estate loans, and a decrease of $6.9 million and $4.7 million in average consumer and commercial loan balances, respectively. The decrease in yields on average loans in 2010 was mainly due to the prime interest rate reduction of 400 basis points to 3.25% in 2009, which has remained there over the subsequent years.

Interest expense for 2010 was down $7.5 million or 18.8% compared to 2009, reflecting lower average rates paid on deposits and borrowings, partially offset by growth in average balances. The average rate paid on interest-bearing deposits during 2010 of 0.88% was 40 basis points lower than the average rate paid in 2009. The decrease in the average cost of interest-bearing deposits reflected a decrease in the interest rates offered on deposit products due to decreases in average market rates combined with an increase in the relative proportion of lower cost savings and money market deposits. Average interest-bearing deposit balances increased by $116.2 million or 6.1% in 2010 compared to 2009. The majority of the increase was in average interest bearing checking, savings and money market deposit balances, which were up 8.7% to $1.2 billion, and average time deposits of $100,000 or more which were up 7.9% to $327.6 million, and were partially offset by lower average brokered time deposits of $100,000 or less which were down $18.3 million or 42.4%. Average noninterest bearing deposit balances of $468.2 million were up 9.6% in 2010 over the same period in 2009. Average other borrowings of $193.3 million were down 5.5% over prior year.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $8.5 million in 2010, compared to $9.3 million in 2009. In 2010 and 2009, the provision was higher than historical levels due to increases in nonperforming loans and leases and net charge-offs as well as concerns over weak economic conditions and uncertain market condition. At December 31, 2010, the allowance for loan and lease losses totaled $27.8 million or 1.46% of total loans compared to $24.4 million or 1.27% of total loans at December 31, 2009.

Noninterest Income

Noninterest income represented 29.2% of total revenues in 2010, and 30.2% in 2009. The decrease in noninterest income as a percentage of revenues in 2010 compared to 2009 was due to an increase in net interest income year-over-year, lower service charges on deposit accounts and an increase in net mark-to-market losses on liabilities held at fair value.

Investment services income was $14.3 million in 2010, an increase of 7.5% from $13.3 million in 2009. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. The market value of assets managed by, or in custody of, Tompkins was $2.9 billion at December 31, 2010, up 12.5% from $2.5 billion at December 31, 2009. These figures included $844.9 million and $733.0 million, respectively, of Company-owned securities where Tompkins Investment Services served as custodian. The increase in the market value of assets over prior year reflected a rebound in equity markets and new business. The Company was successful with business development initiatives and customer retention despite the challenging equities markets in 2010 and the turmoil in the financial markets.

Insurance commissions and fees were $12.7 million in 2010, an increase of $431,000 or 3.5% over 2009. Health and benefit related insurance commissions and fees were up $285,000 over prior year. The Company established this business line in late 2007. Revenues for personal insurance lines were up $76,000 or 1.6% over prior year, while revenues for commercial insurance lines were up $50,000 or 1.13% over prior year.

Service charges on deposit accounts were $8.6 million in 2010, down 8.1% compared to $9.3 million in 2009. Contributing to the decrease was a new rule issued by the Federal Reserve Board and effective in the third quarter of 2010, which prohibited financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time transactions. Consumers must be provided a notice that explains the financial institutions' overdraft services, including the fees associated with the service, and the consumer's choices.

Card services income of $4.3 million in 2010 was up $621,000 or 16.9% from 2009. The primary components of card services income were fees related to debit card transactions and ATM usage. Debit card income and fees associated with debit card transactions increased by 24.3% compared to 2009 to $3.3 million, the increase was mainly due to increased number of cards and transactions as well as an increase in interchange fees. ATM fee income was relatively flat compared to December 31, 2009.

Net mark-to-market losses on securities and borrowings held at fair value totaled $222,000 in 2010, compared to net mark-to-market gains of $1.5 million in 2009. Mark-to-market losses or gains were related to the change in the fair value of securities and borrowings where the Company had elected the fair value option. The year-over-year loss was mainly attributed to changes in market interest rates.

Other income of $6.3 million in 2010 was up $398,000 or 6.7% from 2009. The primary components of other income were other service charges, increases in cash surrender value of life insurance, gains on sales of residential mortgage loans and income from miscellaneous equity investments, including the Company's investment in a Small Business

Investment Company ("SBIC").

Other service charge income, included in other income on the consolidated statements of income, of $2.4 million was up $502,000 or 25.9% compared to the same period in 2009. Higher loan related fees and safe deposit box fees were the primary contributors to the increase in other service charge income.

Noninterest Expense

Noninterest expenses for 2010 were $99.0 million, an increase of 2.5% over noninterest expenses of $96.6 million for 2009. The increase in 2010 over 2009 was primarily in compensation and benefits related expenses.

Personnel-related expense increased by $3.2 million or 6.0% in 2010 over 2009. Salaries and wages increased by $2.1 million year over year, mainly a result of the increase in average FTEs, as well as annual merit increases. The average number of FTEs increased from 720 in 2009 to 726 for 2010. Included in salaries and wages was stock option expense, which increased year-over-year by $281,000 or 30.0%. Pension and other employee benefit related expenses increased by $1.1 million to $14.5 million for 2010 compared to $13.4 million in 2009. Pension expense was up $552,000 million, while health and dental insurance was up $280,000 for the year ended December 31, 2010, when compared to the same period in 2009.

FDIC insurance of $3.8 million in 2010 was under prior year by $1.2 million or 24.3%. The decrease was mainly related to the special deposit insurance assessment of $1.4 million levied in the second quarter of 2009.

Other operating expenses increased by 2.3% in 2010 when compared to 2009. The primary components of other operating expense were marketing expense, professional fees, software licensing and maintenance, cardholder expense and other.

Professional fees for 2010 increased by $343,000 or 10.4% compared to 2009. Professional fees included amounts paid to outside consultants for assistance on projects or initiatives.

Software licensing and maintenance fee expense increased by $207,000 or 6.3% in 2010 over 2009. The increase in 2010 was mainly due to increased licensing fees related to the core operating system and the implementation of new software applications.

Cardholder expenses were up $294,000 or 19.2% for 2010 over 2009. The year-over-year increase is mainly a result of the increased number of cards and a higher volume of customer transactions.

Additional items contributing to the change in other operating expenses were the following: other noninterest expense (up $275,000), printing and supplies (up $111,000), other loan and lease related fees (down $570,000).

The Company's efficiency ratio, defined as operating expense excluding amortization of intangible assets, divided by tax-equivalent net interest income plus noninterest income before securities gains and losses (increase in the cash surrender value of COLI is shown on a tax equivalent basis), improved to 60.9% in 2010, compared to 61.2% in 2009. Tax equivalency was based upon a 40% tax rate. Excluding the tax equivalent adjustments for tax-exempt securities and tax-exempt loans and leases, the efficiency ratio would be 62.0% in 2010 and 62.3% in 2009.

Noncontrolling Interests

Net income attributable to noncontrolling interests represented the portion of net income in consolidated majority-owned subsidiaries that was attributable to the minority owners of a subsidiary. The Company had net income attributable to noncontrolling interests of $131,000 in 2010 and 2009. The noncontrolling interests were mainly in three real estate investment trusts, which were substantially owned by the Company's banking subsidiaries.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. The 2010 provision was $16.4 million, compared to $15.4 million in 2009. The effective tax rate for the Company was 32.7% in 2010, consistent with 32.6% in 2009.

FINANCIAL CONDITION

Total assets grew by $139.9 million or 4.3% compared to the previous year ending December 31, 2010. Table 3-Balance Sheet Comparisons below provides a comparison of average and year-end balances of selected balance sheet categories over the past three years, and the change in those balances between 2010 and 2011. Earning asset growth over year-end 2010 was attributed to a $71.5 million increase in total loans and a $56.2 million increase in securities. Although improving, loan demand continues to be impacted by weak economic conditions. As such, deposit growth has been invested in short-term liquid assets and short duration available-for-sale securities to maintain flexibility to redeploy funds when loan demand picks up.

As of December 31, 2011, total securities comprised 35.0% of total assets, compared to 34.3% of total assets at year-end 2010. The securities portfolio contains primarily mortgage-backed securities, obligations of U.S. Government sponsored entities, and obligations of states and political subdivisions. The Company has no investments in preferred stock of U.S. Government sponsored entities and no investments in pools of trust preferred securities. A more detailed discussion of the securities portfolio is provided below in this section under the caption "Securities".

Loans and leases were 58.3% of total assets at December 31, 2011, compared to 58.6% of total assets at December 31, 2010. A more detailed discussion of the loan portfolio is provided below in this section under the caption "Loans and Leases".

Nonperforming loans (loans on nonaccrual, loans past due 90 days or more and still accruing interest, and loans restructured in a troubled debt restructuring) declined $3.9 million or 8.6% compared to the same period last year ending December 31, 2010. Nonperforming loans represented 2.09% of total loans at December 31, 2011, compared to 2.37% of total loans at December 31, 2010. For 2011, net charge-offs were $9.2 million, up from $5.0 million in the same period of 2010. A more detailed discussion of nonperforming loans and other asset quality measures is provided below in this section under the caption "Allowance for Loan and Lease Losses".

Total deposits increased $164.7 million or 6.6% over December 31, 2010. The growth in total deposits from December 31, 2010 was concentrated in the checking, money market and savings and noninterest bearing deposit balances which were up $126.1 million and $93.1 million, respectively. Other funding sources include Federal funds purchased, securities sold under agreements to repurchase, other borrowings, and trust preferred securities. These funding sources totaled $380.2 million at December 31, 2011, down $72.6 million or 16.0% from $452.9 million at December 31, 2010. Included in this total are certain borrowings that the Company elected to account for at fair value. As of December 31, 2011, the Company had $10.0 million of borrowings with the FHLB accounted for at fair value, with an aggregate fair value of $12.1 million. During 2009, the Company issued $20.5 million aggregate liquidation amount of 7.0% cumulative trust preferred securities through a newly-formed subsidiary, Tompkins Capital Trust I, a wholly-owned Delaware statutory trust.

A more detailed discussion of deposits and borrowings is provided below in this section under the caption "Deposits and Other Liabilities". In addition, refer to "Note 10 Securities Sold Under Agreements to Repurchase and Federal Funds Purchased", "Note 11 Other Borrowings", and "Note 12 Trust Preferred Debentures" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on these funding sources.

Table 3 Balance Sheet Comparisons

AVERAGE BALANCE SHEET	As of December 31,			Change (2010 to 2011)	
(in thousands)	2011	2010	2009	Amount	Percentage
Total assets	$ 3,294,982	$ 3,191,840	$ 3,009,007	103,142	3.23 %
Earning assets*	3,064,761	2,962,056	2,801,884	102,705	3.47 %
Total loans and leases, less unearned income and net deferred costs and fees	1,928,540	1,897,983	1,850,453	30,557	1.61 %
Securities*	1,099,575	1,009,954	888,468	89,621	8.87 %
Core deposits**	1,984,653	1,819,300	1,674,160	165,353	9.09 %
Time deposits of $100,000 and more	313,881	327,626	303,761	(13,745)	(4.20 %)
Federal funds purchased and securities sold under agreements to repurchase	173,692	185,563	190,975	(11,871)	(6.40 %)
Other borrowings	155,650	193,296	204,467	(37,646)	(19.48 %)
Shareholders' equity	294,620	265,943	233,009	28,677	10.78 %

ENDING BALANCE SHEET	As of December 31,			Change (2010 to 2011)	
(in thousands)	2011	2010	2009	Amount	Percentage
Total assets	$ 3,400,248	$ 3,260,343	$ 3,153,260	139,905	4.29 %
Earning assets*	3,165,412	3,029,621	2,922,138	135,791	4.48 %
	1,981,849	1,910,358	1,914,818	71,491	3.74 %

Total loans and leases, less unearned income and net deferred costs and fees						
Securities*	1,151,124	1,094,952	985,503	56,172	5.13	%
Core deposits**	2,211,702	1,917,886	1,725,315	293,816	15.32	%
Time deposits of $100,000 and more	305,652	296,399	327,890	9,253	3.12	%
Federal funds purchased and securities sold under agreements to repurchase	169,090	183,609	192,784	(14,519)	(7.91	%)
Other borrowings	186,075	244,193	208,965	(58,118)	(23.80	%)
Shareholders’ equity	299,143	273,408	245,008	25,735	9.41	%

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

**Core deposits equal total deposits less time deposits of $250,000 and more, brokered deposits, and municipal money market deposits. Prior to 2011, core deposits of $100,000 or more.

Shareholders' Equity

The Consolidated Statements of Changes in Shareholders' Equity included in the Consolidated Financial Statements of the Company contained in Part II, Item 8. of this Report, detail the changes in equity capital. Total shareholders' equity was up $25.7 million or 9.4% to $299.1 million at December 31, 2011, from $273.4 million at December 31, 2010. The increase was mainly due to the Company's strong financial performance, reflecting net income attributable to Tompkins Financial Corporation of $35.4 million less dividends of $15.4 million. Additional paid-in capital increased by $8.3 million, from $198.1 million at December 31, 2010, to $206.4 million at December 31, 2011. The $8.3 million included the following: $2.5 million attributed to shares issued for an acquisition; $880,000 of proceeds from stock option exercises and the related tax benefits; $1.3 million related to stock-based compensation; $2.4 million related to shares issued for dividend reinvestment plans; $1.1 million related to shares issued for the employee stock ownership plan; and $151,000 related to shares issued for director deferred compensation plan.

Accumulated other comprehensive loss increased from net unrealized loss of $1.3 million at December 31, 2010 to a net unrealized loss of $3.7 million at December 31, 2011; reflecting a $9.7 million increase in unrealized gains on available-for-sale securities due to lower market rates, and an $12.1 million decrease related to postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company's defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage capital ratios.

Total shareholders' equity was up $28.4 million or 11.6% to $273.4 million at December 31, 2010, from $245.0 million at December 31, 2009. The increase was mainly due to net income of $33.8 million less dividend of $14.4 million. The Company paid a 10% stock dividend in February 2010 which increased additional paid-in capital by $35.3 million and decreased retained earnings by $35.4 million. Additional paid-in capital increased by $42.5 million, from $155.6 million at December 31, 2009, to $198.1 million at December 31, 2010. The $42.5 million included the following: $1.5 million of proceeds from stock option exercises and the related tax benefits of $212,000; $1.2 million related to stock-based compensation; $2.9 million related to shares issued for dividend reinvestment plans; $1.3 million in funds for shares issued for the employee stock ownership plan; and $111,000 related to shares issued for director deferred compensation plan

Accumulated other comprehensive loss decreased by $1.8 million, from a net unrealized loss of $3.1 million at December 31, 2009, to a net unrealized loss of $1.3 million at December 31, 2010. The change resulted from a $1.6 million increase in unrealized gains on available-for-sale securities due to lower market rates, and a $233,000 positive adjustment related to postretirement benefit plans.

The Company continued its long history of increasing cash dividends with a per share increase of 5.3% in 2011, which follows an increase of 7.3% in 2010. Dividends per share amounted to $1.40 in 2011, compared to $1.33 in 2010, and $1.24 in 2009. Dividends per share were retroactively adjusted to reflect a 10% stock dividend paid February 15, 2010. Cash dividends paid represented 43.5%, 42.5%, and 41.5% of after-tax net income in each of 2011, 2010, and 2009, respectively.

On October 25, 2011, the Company's Board of Directors authorized a new stock repurchase plan for the Company to repurchase up to 335,000 shares of the Company's common stock. Purchases may be made on the open market or in privately negotiated transactions over the next 24 months. The repurchase program may be suspended, modified, or terminated at any time for any reason. The Company did not purchase any shares in 2011 under the plan.

The Company and its subsidiary banks are subject to quantitative capital measures established by regulation to ensure capital adequacy. Consistent with the objective of operating a sound financial organization, the Company and its subsidiary banks maintain capital ratios well above regulatory minimums and meet the requirements to be considered well-capitalized under the regulatory guidelines.

During the first quarter of 2010, the Comptroller of the Currency ("OCC") notified the Company that it was requiring Mahopac National Bank, one of the Company's three banking subsidiaries, to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac has agreed to maintain a Tier 1 capital to average assets ratio of 8.0%, a Tier 1 risk-based capital to risk-weighted capital ratio of 10.0% and a Total risk-based capital to risk-weighted assets ratio of 12.0%. Mahopac exceeded these minimum requirements at the time of the notification and continues to maintain ratios above these minimums. Since Mahopac's ratios were above the minimum requirements at the time of notification, there was not a material impact to Mahopac or the Company. As of December 31, 2011, Mahopac had a Tier 1 capital to average assets ratio of 9.0%, a Tier 1 risk-based capital to risk-weighted capital ratio of 13.3% and a Total risk-based capital to risk-weighted assets ratio of 14.5%.

As of December 31, 2011, the capital ratios for the Company's other two subsidiary banks also exceeded the minimum levels required to be considered well capitalized. Additional information on the Company's capital ratios and regulatory requirements is provided in "Note 20 Regulations and Supervision" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report on Form 10-K.

Securities

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

The Company classifies its securities at date of purchase as either available-for-sale, held-to-maturity or trading. Securities, other than certain obligations of states and political subdivisions thereof, are generally classified as available-for-sale. Securities available-for-sale may be used to enhance total return, provide additional liquidity, or reduce interest rate risk. The held-to-maturity portfolio consists solely of obligations of state and political subdivisions. The securities in the trading portfolio reflect those securities that the Company elected to account for at fair value, with the adoption of ASC Topic 825, Financial Instruments, effective January 1, 2008.

The Company's securities portfolio at December 31, 2011 totaled $1.2 billion, reflecting an increase of 6.5% from $1.1 billion at December 31, 2010. The growth was in the available-for-sale portfolio as the held-to-maturity and trading portfolios were both down from year end 2010. The growth in the available-for-sale portfolio was mainly in mortgage backed securities issued by U.S. Government sponsored entities and driven by yield and duration considerations. The decrease in the held-to-maturity portfolio was due to maturities and calls during the year. The tables below show the composition of the securities portfolios as of the past three year ends. Additional information on the securities portfolio is available in "Note 3 Securities" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report, which details the types of securities held, the carrying and fair values, and the contractual maturities as of December 31, 2011 and 2010.

Available-for-Sale Securities	2011		2010		2009	
(in thousands)	Amortized Cost1	Fair Value	Amortized Cost1	Fair Value	Amortized Cost1	Fair Value
U.S. Treasury securities	$2,020	$2,070	$2,043	$2,129	$1,991	$2,079
Obligations of U.S. Government sponsored entities	408,958	422,590	402,057	407,440	377,920	379,015
Obligations of U.S. states and political subdivisions	56,939	59,653	60,707	63,037	61,176	63,695
Mortgage-backed securities - residential, issued by						
U.S. Government agencies	123,426	129,773	143,319	146,013	75,714	78,055

U.S. Government sponsored entities	501,136	517,378	393,331	405,478	373,307	388,860
Non-U.S. Government agencies or sponsored entities	6,334	5,876	9,636	9,283	12,656	10,766
U.S. corporate debt securities	5,017	5,183	5,024	5,203	5,032	5,136
Total debt securities	1,103,830	1,142,523	1,016,117	1,038,583	907,796	927,606
Equity securities	1,023	1,023	1,025	1,025	1,164	1,164
Total available-for-sale securities	$1,104,853	$1,143,546	$1,017,142	$1,039,608	$908,960	$928,770

1 Net of other-than-temporary impairment losses recognized in earnings.

Equity securities include miscellaneous investments carried at fair value, which approximates cost.

Held-to-Maturity Securities	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. states and political subdivisions	$26,673	$27,255	$54,973	$56,064	$44,825	$46,340
Total held-to-maturity securities	$26,673	$27,255	$54,973	$56,064	$44,825	$46,340

Held-for-Trading Securities	2011 Fair Value	2010 Fair Value	2009 Fair Value
Obligations of U.S. Government sponsored entities	$ 12,693	$ 13,139	$ 17,986
Mortgage-backed securities-residential issued by U.S. Government sponsored entities	6,905	9,698	13,732
Total held-for-trading securities	$ 19,598	$ 22,837	$ 31,718

The decrease in trading securities reflects maturities or calls during 2011. The pre-tax mark-to-market gains on trading securities in 2011 were $62,000, compared to pre-tax net mark-to-market gains of $219,000 in 2010 and $204,000 in 2009.

Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles. During 2009, the Company determined that three of the five non-U.S. Government mortgage backed securities held in the available-for-sale portfolio were other-than-temporarily impaired. As a result, the Company recorded other-than-temporary impairment charges of $1.8 million in 2009 on these investments. The credit loss component of $146,000 was recorded as other-than-temporary impairment losses in the consolidated statements of income, while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income (loss) in the consolidated statements of condition and changes in shareholders' equity. In 2010 and 2011, the Company reviewed these five securities and determined that additional other-than-temporary charges of $34,000 and $65,000 related to the three non-U.S. Government mortgage backed securities was necessary. As of December 31, 2011, the amount by which the carrying value of these three securities exceeded their fair value was $447,000. A continuation or worsening of current economic conditions may result in additional credit loss component of other-than-temporary impairment losses related to these investments.

The Company holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock and non-marketable Federal Reserve Bank ("FRB") stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock and FRB stock totaled $17.0 million and $2.1 million at December 31, 2011, respectively, $19.9 million and $2.1 million at December 31, 2010, respectively, and $18.1 million and $1.9 million at December 31, 2009, respectively. These securities are carried at par, which is also cost. The FHLBNY continues to pay dividends and repurchase its stock. As such, the Company has not recognized any credit loss other-than-temporary impairment on its holdings of FHLBNY stock.

Management's policy is to purchase investment grade securities that, on average, have relatively short expected durations. This policy helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital. The contractual maturity distribution of debt securities and mortgage-backed securities as of December 31, 2011, along with the weighted average yield of each category, is presented in Table 4-Maturity Distribution below. Balances are shown at amortized cost and weighted average yields are calculated on a fully taxable-equivalent basis. Expected maturities will differ from contractual maturities presented in Table 4-Maturity Distribution below, because issuers may have the right to call or prepay obligations with or without penalty and mortgage-backed securities will pay throughout the periods prior to contractual maturity.

Table 4 - Maturity Distribution

	As of December 31, 2011			
	Securities Available-for-Sale *		Securities Held-to-Maturity	
(dollar amounts in thousands)	Amount	Yield (FTE)	Amount	Yield (FTE)
U.S. Treasury securities				
Within 1 year	$ 1,010	2.80%	$ 0	0.00%
Over 1 to 5 years	1,010	2.96%	0	0.00%
	$ 2,020	2.88%	$ 0	0.00%
Obligations of U.S. Government sponsored entities				
Over 1 to 5 years	220,840	2.65%	0	0.00%
Over 5 to 10 years	183,115	1.96%	0	0.00%
Over 10 years	5,003	5.10%	0	0.00%
	$ 408,958	2.37%	$ 0	0.00%
Obligations of U.S. state and political subdivisions				
Within 1 year	$ 7,601	4.41%	$ 11,905	3.65%
Over 1 to 5 years	28,021	4.97%	10,808	5.90%
Over 5 to 10 years	19,667	4.65%	3,004	6.90%
Over 10 years	1,650	5.76%	956	7.16%
	$ 56,939	4.81%	$ 26,673	5.05%
Mortgage-backed securities - residential				
Within 1 year	$ 39	5.56%	$ 0	0.00%
Over 1 to 5 years	8,419	5.19%	0	0.00%
Over 5 to 10 years	212,247	3.21%	0	0.00%
Over 10 years	410,191	3.45%	0	0.00%
	$ 630,896	3.39%	$ 0	0.00%
Other securities				
Over 1 to 5 years	2,517	4.01%	0	0.00%
Over 10 years	2,500	3.12%	0	0.00%
Equity securities	1,023	0.16%	0	0.00%
	$ 6,040	2.99%	$ 0	0.00%
Total securities				
Within 1 year	$ 8,650	4.42%	$ 11,905	3.65%
Over 1 to 5 years	260,807	2.98%	10,808	5.90%
Over 5 to 10 years	415,029	2.73%	3,004	6.90%
Over 10 years	419,344	3.47%	956	7.16%
Equity securities	1,023	0.16%	0	0.00%
	$ 1,104,853	3.08%	$ 26,673	5.05%

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

The average taxable-equivalent yield on the securities portfolio was 3.11% in 2011 compared to 3.86% in 2010 and 4.61% in 2009. The decreases in yields were primarily a result of the reinvestment of proceeds from principal repayments and maturities at lower market rates.

At December 31, 2011, there were no holdings of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of the Company's shareholders' equity.

Table 5 Loans and Leases

Loans and Leases at December 31 were as follows:

(in thousands)	2011	2010	2009	2008	2007
Commercial and industrial					
Agriculture	$67,566	$65,918	$71,480	$64,358	$52,227
Commercial and industrial other	417,128	409,432	423,015	403,061	329,439
Subtotal commercial and industrial	484,694	475,350	494,495	467,419	381,666
Commercial real estate					
Construction	47,304	58,519	55,626	47,311	39,992
Agriculture	53,071	48,485	40,516	39,942	59,115
Commercial real estate other	665,859	619,458	601,221	531,988	363,164
Subtotal commercial real estate	766,234	726,462	697,363	619,241	462,271
Residential real estate					
Home equity	161,278	164,765	166,618	161,063	125,698
Mortgages	500,034	462,032	458,823	469,003	381,665
Subtotal residential real estate	661,312	626,797	625,441	630,066	507,363
Consumer and other					
Indirect	32,787	41,668	51,363	51,176	47,477
Consumer and other	30,961	31,757	35,324	36,822	33,253
Subtotal consumer and other	63,748	73,425	86,687	87,998	80,730
Leases	6,489	9,949	12,821	14,968	10,832
Total loans and leases	1,982,477	1,911,983	1,916,807	1,819,692	1,442,862
Less: unearned income and deferred costs and fees	(628)	(1,625)	(1,989)	(2,161)	(2,740)
Total loans and leases, net of unearned income and deferred costs and fees	$1,981,849	$1,910,358	$1,914,818	$1,817,531	$1,440,122

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to the above listed policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. There have been no significant changes in the policies over the past several years. As such, these policies are reflective of new originations as well as those balances held at year-end. See "Note 5 Loans and Leases" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details of the Company's policy guidelines for loans. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

Total loans and leases at December 31, 2011, were up 3.7% compared to December 31, 2010, with growth in both commercial, commercial real estate, and residential real estate more than offsetting lower balances in consumer loans. At of December 31, 2011 total loans and leases represented 58.3% of total assets compared to 58.6% of total assets at December 31, 2010. In general, weak economic conditions softened the demand for some lending products.

Residential real estate loans, including home equity loans, at year-end 2011 increased by $34.5 million or 5.5% from year-end 2010, and comprised 33.4% of total loans and leases at December 31, 2011. Residential loan growth is affected by the Company's decision to sell certain fixed rate residential loan originations in the secondary market for interest rate risk considerations.

The Company has not originated any hybrid loans, such as payment option ARMs. The Company underwrites residential real estate loans in accordance with secondary market standards in effect at the time of origination, including loan-to-value ("LTV") and documentation requirements. The Company does not underwrite low or reduced documentation loans other than those that meet secondary market standards for low or reduced documentation loans. In those instances, W2's and paystubs are used instead of sending Verification of Employment forms to employers to verify income and bank deposit statements are used instead of Verification of Deposit forms mailed to financial institutions to verify deposit balances.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. Loans are generally sold to the Federal Home Loan Mortgage Corporation ("FHLMC") or State of New York Mortgage Agency ("SONYMA"). These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. These residential real estate loan sales are subject to customary representations and warranties, including representations and warranties related to gross incompetence and fraud. The Company has not had to repurchase any loans as a result of these general representations and warranties. While in the past in rare circumstances the Company agreed to sell residential real estate loans with recourse, the Company has not done so in the past several years and the amount of such loans held in the loan portfolio is insignificant. The Company has never had to repurchase a loan sold with recourse.

During 2011, 2010, and 2009, the Company sold residential mortgage loans totaling $26.6 million, $56.3 million, and $89.0 million, respectively, and realized gains on these sales of $496,000, $955,000, and $1.4 million, respectively. These residential real estate loans were sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2011, 2010, and 2009, the Company recorded mortgage-servicing assets of $176,000, $376,000, and $648,000, respectively.

Amortization of mortgage servicing assets amounted to $257,000 in 2011, $262,000 in 2010, and $245,000 in 2009. At December 31, 2011 and 2010, the Company serviced residential mortgage loans aggregating $213.1 million and $223.4 million, including loans securitized and held as available-for-sale securities. Mortgage servicing rights, at amortized basis, totaled $1.4 million at December 31, 2011 and $1.5 million at December 31, 2010. These mortgage servicing rights were evaluated for impairment at year end 2011 and 2010 and no impairment was recognized. Loans held for sale, which are included in residential real estate in the table above, totaled $193,000 and $1.3 million at December 31, 2011 and 2010, respectively.

Commercial real estate loans increased by $39.8 million, or 5.5%, from $726.5 million at year-end 2010, to $766.2 million at year-end 2011. Commercial real estate loans represented 38.7% of total loans and leases at December 31, 2011. Commercial and industrial loans totaled $484.7 million at December 31, 2011, which is a 2.0% increase from commercial loans of $475.4 million at December 31, 2010. Demand for commercial and commercial real estate loans was up compared to 2010, but remained soft driven by continued weakness and uncertainty in the economy. As of December 31, 2011, agriculturally-related loans totaled $120.6 million or 6.1% of total loans and leases, up 5.4% over year-end 2010. Agriculturally-related loans include loans to dairy farms and cash and vegetable crop farms. Agriculturally-related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops. The growth in agriculturally-related loans reflects improving conditions in the industry as reflected by higher milk prices and higher food prices.

The consumer loan portfolio includes personal installment loans, indirect automobile financing, and overdraft lines of credit. Consumer and other loans were $63.7 million at December 31, 2011, down 13.2% from $73.4 million at December 31, 2010. The decrease is mainly in indirect automobile loans and reflects competitive conditions.

The lease portfolio decreased by 34.8% to $6.5 million at December 31, 2011, from $9.9 million at December 31, 2010. The lease portfolio has traditionally consisted of leases on vehicles for consumers and small businesses. Competition for automobile financing has led to a decline in the consumer lease portfolio over the past several years. Management continues to review leasing opportunities, primarily commercial leasing and municipal leasing. As of December 31, 2011, commercial leases and municipal leases represented 99.4% of total leases, while consumer leases made up the remaining 0.60%. As of December 31, 2010, commercial leases and municipal leases represented 96.8%

of total leases, while consumer leases made up the remaining 3.2%.

The Company's loan and lease customers are located primarily in the New York communities served by its three subsidiary banks. Although operating in numerous communities in New York State, the Company is still dependant on the general economic conditions of New York. Other than geographic and general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower. Further information on the Company's lending activities, including related party transactions, is provided in "Note 5 Loans and Leases" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The principal balances of nonperforming loans and leases as of December 31, are detailed in the table below.

Analysis of Past Due and Nonperforming Loans (dollar amounts in thousands)	2011		2010		2009		2008		2007	
Loans 90 days past due and accruing										
Commercial and industrial	$0		$842		$294		$0		$0	
Commercial real estate	0		0		0		0		21	
Residential real estate	1,378		368		75		143		283	
Consumer and other	2		0		0		18		8	
Leases	0		7		0		0		0	
Total loans 90 days past due and accruing	1,380		1,217		369		161		312	
Nonaccrual loans										
Commercial and industrial	7,105		7,271		7,334		2,606		1,922	
Commercial real estate	26,352		24,791		16,664		8,288		6,198	
Residential real estate	5,884		9,111		7,070		4,497		552	
Consumer and other	237		309		193		407		218	
Leases	10		19		28		0		0	
Total nonaccrual loans	39,587		41,501		31,289		15,798		8,890	
Troubled debt restructurings not included above	428		2,564		3,265		69		145	
Total nonperforming loans and leases	41,396		45,282		34,923		16,028		9,347	
Other real estate owned	1,334		1,255		299		110		5	
Total nonperforming assets	$42,730		$46,537		$35,222		$16,138		$9,352	
Allowance as a percentage of loans and leases outstanding	1.39	%	1.46	%	1.27	%	1.03	%	1.01	%
Allowance as a percentage of nonperforming loans and leases	66.65	%	61.46	%	69.72	%	116.50	%	156.27	%
Total nonperforming assets as percentage of total assets	1.26	%	1.43	%	1.12	%	0.56	%	0.40	%

Nonperforming assets include loans 90 days past due and accruing, nonaccrual loans, troubled debt restructurings ("TDR"), and foreclosed real estate. The level of nonperforming assets at the past five year ends is illustrated in the table above. In general, nonperforming assets increased in 2009 and 2010 reflective of weak economic conditions which began in the latter part of 2008. The Company has seen the level of nonperforming assets decrease from 2010. Nonperforming assets at year-end 2011 are down 8.2% from year-end 2010. While the overall strength of the economy remains uncertain, there are signs of improvement in national and local economic conditions, which have contributed to some improvements in the financial conditions of several of the Company's commercial and agricultural customers. The Company's ratio of nonperforming assets to total assets continues to compare favorably to our peer group's most recent ratio of 3.10% at September 30, 2011. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion.

Nonperforming loans (loans in nonaccrual status, loans past due 90 days or more and still accruing interest, and loans restructured in a troubled debt restructuring) at December 31, 2011 were down $3.9 million or 8.6% from December 31, 2010. Nonperforming loans represented 2.09% of total loans at December 31, 2011, compared to 2.37% of total loans at December 31, 2010, and 1.82% of total loans at December 30, 2009. A breakdown of nonperforming loans by portfolio segment is shown above. Loans secured by commercial real estate represent 63.7% of total nonperforming loans at December 31, 2011. Included in this category are two relationships with an aggregate balance of $12.5 million at December 31, 2011. Both of these relationships are considered impaired and have either been written down to fair value or have specific allocations within the allowance model.

Loans are considered modified in a TDR when, due to a borrower's financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. When modifications are provided for reasons other than as a result of the financial distress of the borrower, these loans are not classified as TDRs or impaired. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the nonaccrual loans category, or troubled debt restructurings not included above. Loans in the latter include loans that meet the definition of a TDR but are performing in accordance with the modified terms and have shown a satisfactory period of repayment and where full collection of all is reasonably assured. The TDR amount of $428,000 at December 31, 2011, consists of one commercial relationship where two loans were modified with concessions granted due to the stressed financial condition of the borrower. The TDR at December 31, 2010 was also one commercial relationship with an outstanding balance of $2.6 million. During 2011, this relationship was moved to nonaccruing status and is included within nonaccrual loans at year-end 2011 in the table above. At December 31, 2011 the Company had $20.0 million in TDRs of which $19.6 million were included in nonaccrual loans in the table above.

In general, the Company places a loan on nonaccrual status if principal or interest payments becomes 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when called for by regulatory requirements. Although in nonaccrual status, the Company may continue to receive payments on these loans. These payments are generally recorded as a reduction to principal and interest income is recorded only after principal recovery is reasonably assured. As of December 31, 2011, the Company was regularly receiving payments on approximately 64% of the loans categorized as nonaccrual. The difference between the interest income that would have been recorded if these loans and leases had been paid in accordance with their original terms and the interest income that was recorded for the year ended December 31, 2011, was $2.7 million. The amount for the year ended December 31, 2010, was $1.7 million and $669,000 for December 31, 2009. The Company had no material commitments to make additional advances to borrowers with nonperforming loans.

The Company's recorded investment in loans and leases that are considered impaired totaled $32.8 million at December 31, 2011, and $35.2 million at December 31, 2010. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans and loans that are 90 days or more past due. Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off.

The average recorded investment in impaired loans and leases was $28.6 million in 2011, $28.6 million in 2010, $17.0 million in 2009. At December 31, 2011, $8.7 million of impaired loans had specific reserve allocations of $3.5 million and $24.0 million had no specific reserve allocation. At December 31, 2010, $15.4 million of impaired loans had specific reserve allocations of $3.2 million and $19.8 million had no specific reserve allocation. At December 31, 2009, $13.1 million of impaired loans had specific reserve allocations of $803,000 and $16.9 million had no specific reserve allocations. The majority of impaired loans are collateral dependant impaired loans that have limited exposure or require limited specific reserve because of the amount of collateral support with respect to these loans. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis. Interest income recognized on impaired loans and leases, all collected in cash, was $0 for 2011, $252,000 for 2010, and $234,000 for 2009.

The ratio of the allowance to nonperforming loans (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 66.7% at December 31, 2011, compared to 61.5% at December 31, 2010. The slight improvement in the ratio compared to year-end 2010 reflects a relatively flat balance of the allowance and a decrease in the balance of nonperforming loans. The Company's ratio is below our peer group ratio of 0.84 times as of September 30, 2011. Generally, the Company believes that our portfolio is different from our peers and made up of mostly collateral dependant loans. The Company's nonperforming loans are mostly made up of collateral dependent impaired loans requiring little to no specific allowance due to the level of collateral available with respect to these loans and/or previous charge-offs or specific allocations. The Company's policy is to underwrite loans with strong LTV percentages. This practice, among others, has had a positive impact on the level of our loan charge-offs.

Management reviews the loan portfolio continuously for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its credit administration function, identified 60 commercial relationships totaling $40.2 million at December 31, 2011 that were potential problems. This presents an improvement from the 65 commercial relationships totaling $63.9

million at December 31, 2010, which were classified as Substandard, and continued to accrue interest. Of the 60 commercial relationships, there are 12 relationships that equaled or exceeded $1.0 million, which in aggregate totaled $29.0 million. Over the past few years, the Company has seen an increase in potential problem loans as weak economic conditions have strained borrowers' cash flows and collateral values. The decrease in the dollar volume of potential problem loans since year-end 2010 was mainly due to the upgrade of several large commercial credits to a risk grading better than Substandard. The Company continues to monitor these relationships, however, management cannot predict the extent to which continued weak economic conditions or other factors may further impact borrowers. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management's attention is focused on these credits, which are reviewed on at least a quarterly basis.

The Allowance for Loan and Lease Losses

Management reviews the appropriateness of the allowance for loan and lease losses (“allowance”) on a regular basis. Management considers the accounting policy relating to the allowance to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that assumptions could have on the Company’s results of operations. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company’s methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues and allowance allocations are calculated in accordance with ASC Topic 310, Receivables and ASC Topic 450, Contingencies.

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

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

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated 6 or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or discounted cash flows. For commercial loans, commercial mortgage loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management’s judgment of the effects of current economic conditions on portfolio performance.

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. Based on its evaluation of the allowance as of December 31, 2011, management considers the allowance to be appropriate. Under adversely different conditions or assumptions, the Company would need to increase the allowance.

The allocation of the Company's allowance as of December 31, 2011, and each of the previous four years is illustrated in Table 6- Allocation of the Allowance for Loan and Lease Losses, below.

Table 6 - Allocation of the Allowance for Loan and Lease Losses

	As of December 31,				
(in thousands)	2011	2010	2009	2008	2007
Total loans outstanding at end of year	$ 1,981,849	$ 1,910,358	$ 1,914,818	$ 1,817,531	$ 1,440,122
ALLOCATION OF THE ALLOWANCE BY LOAN TYPE:					
Commercial and industrial	$ 8,936	$ 7,824	$ 7,304	$ 6,225	$ 6,107
Commercial real estate	12,662	14,445	11,119	7,190	4,917
Residential real estate	4,247	3,526	3,616	2,960	1,759
Consumer and other	1,709	1,976	2,230	2,219	1,807
Leases	39	61	81	78	17
Total	$ 27,593	$ 27,832	$ 24,350	$ 18,672	$ 14,607
ALLOCATION OF THE ALLOWANCE AS A PERCENTAGE OF TOTAL ALLOWANCE:					
Commercial and industrial	32 %	28 %	30 %	33 %	42 %
Commercial real estate	46 %	52 %	46 %	39 %	34 %
Residential real estate	16 %	13 %	15 %	16 %	12 %
Consumer and other	6 %	7 %	9 %	12 %	12 %
Total	100 %	100 %	100 %	100 %	100 %
LOAN AND LEASE TYPES AS A PERCENTAGE OF TOTAL LOANS AND LEASES:					
Commercial and industrial	24 %	25 %	26 %	26 %	26 %
Commercial real estate	39 %	38 %	36 %	34 %	32 %
Residential real estate	33 %	32 %	32 %	34 %	35 %
Consumer and other	3 %	4 %	5 %	5 %	6 %
Leases	1 %	1 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %	100 %

Management is committed to maintaining an appropriate allowance. The above allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

As shown above, the allowance increased steadily from 2007 to 2010, and remained relatively flat at year-end 2011 compared to year-end 2010. The majority of the growth in the allowance between 2007 and 2010 was allocated to commercial real estate, commercial loans, and residential real estate loans and was driven by deterioration in asset quality measures, including: higher levels of net charge-offs, internally-classified commercial and commercial real estate loans, and nonperforming loans and leases; weak economic conditions; soft real estate markets; and growth in the loan portfolio. The increase in the Company's net charge-offs during this period led to higher historical loss factors in the allowance model. These historical loss factors were also adjusted upwards to reflect weak and uncertain economic conditions, including pressure on real estate values, and high unemployment. The allocations assigned to the internally-classified loans were also up as a result of an increase in the volume of loans internally-classified and higher historical loss factors. In 2011, the Company reported some improvement in asset quality measures, including a decrease in nonperforming loans at year-end 2011 compared with year-end 2010 as well as a decrease in internally-classified loans over the same period. Both of these asset quality measures benefitted from improvements in the Company's agriculture portfolio as a result of higher milk prices. Improved operating results led to the upgrade of several large agricultural related relationships in 2011.

Reserve allocations for residential loans are up over year-end 2010 amid concern over continued high unemployment and soft real estate values in some of the Company's market areas. The increase in the allocation for commercial and industrial loans was primarily related to an allocation for a $4.2 million commercial loan, partially offset by a decrease in classified commercial loans. The decrease in the allocation for commercial real estate was mainly a result of a decrease in allocations for specific loans and a decrease in the level of classified commercial real estate loans. The Company had a $5.0 million partial charge off of a commercial real estate development loan during the third quarter of 2011. This loan was previously identified and had specific allocations assigned in prior quarters based upon the facts and circumstances in effect in those prior quarters. As a result of events that occurred during the third quarter, the Company recorded the $5.0 million charge-off related to this loan of which $1.9 million was specifically reserved for at December 31, 2010. At December 31, 2011, there was no reserve allocation for this loan due to the charge-off noted above. The decrease in the allocation for consumer loans is mainly a result of a decrease in the outstanding balance for this portfolio.

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

Table 7 - Analysis of the Allowance for Loan and Lease Losses

	December 31,				
(in thousands)	2011	2010	2009	2008	2007
Average loans outstanding during year	$1,928,540	$1,897,983	$1,850,453	$1,612,716	$1,362,417
Balance of allowance at beginning of year	27,832	24,350	18,672	14,607	14,328
LOANS CHARGED-OFF:					
Commercial and industrial	2,403	3,265	1,653	1,491	674
Commercial real estate	4,488	1,167	558	473	2
Residential real estate	2,730	791	828	112	118
Consumer and other	608	912	1,195	1,214	966
Leases	3	0	0	0	0
Total loans charged-off	$10,232	$6,135	$4,234	$3,290	$1,760
RECOVERIES OF LOANS PREVIOUSLY CHARGED-OFF:					
Commercial and industrial	424	464	305	132	124
Commercial real estate	280	225	27	0	19
Residential real estate	33	85	24	2	9
Consumer and other	311	336	268	308	358
Total loans recovered	$1,048	$1,110	$624	$442	$510
Net loans charged-off	9,184	5,025	3,610	2,848	1,250
Allowance acquired in purchase acquisition		0	0	1,485	0
Additions to allowance charged to operations	8,945	8,507	9,288	5,428	1,529
Balance of allowance at end of year	$27,593	$27,832	$24,350	$18,672	$14,607
Allowance as a percentage of loans and leases outstanding	1.39 %	1.46 %	1.27 %	1.03 %	1.01 %
Net charge-offs as a percentage of average loans and leases outstanding during the year	0.48 %	0.26 %	0.20 %	0.18 %	0.09 %

As previously stated, the provision for loan and lease losses represents management's estimate of the expense necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses was $8.9 million in 2011, compared to $8.5 million in 2010. The increase in the provision for loan and lease losses in 2011 was largely the result of an increase in loan charge-offs, which included a $5.0 million charge-off related to a single commercial real estate customer. In 2011, 2010 and 2009, the provision was higher than historical levels due to increases in nonperforming loans and leases and net charge-offs as well as concerns over weak economic conditions and uncertain real estate markets. During 2011, the Company reported some improvement in asset quality measures, including a decrease in nonperforming loans at year-end 2011 compared with year-end 2010 as well as a decrease in internally-classified loans over the same period.

The increase in net charge-offs in 2011 compared to 2010 was mainly a result of a $5.0 million charge-off related to a single commercial relationship. The ratio of net charge-offs to average total loans and leases of 0.48%, for 2011, is up over prior year, but is favorable to a peer ratio of 0.94%. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion. The peer ratio is as of September 30, 2011, the most recent data available from the Federal Reserve Board.

The ratio of the allowance for loan and lease losses as a percentage of total loans decreased 7 basis points from 1.46% at year-end 2010 to 1.39% at year-end 2011, which is reflective of the improvement in the level of classified loans and nonperforming loans and leases. Management believes that, based upon its evaluation as of December 31, 2011, the allowance is appropriate.

Deposits and Other Liabilities

Total deposits of $2.7 billion at December 31, 2011, were up $164.7 million or 6.6% over year-end 2010. Deposit growth included $126.1 million in interest checking, savings and money market balances and $93.1 million in noninterest bearing deposits. This growth was partially offset by a decline in time deposits of $54.5 million. The low interest rate environment has resulted in a shift in customer savings trends, as time deposits have continued to decline, while noninterest-bearing deposits and savings deposits have increased.

The most significant source of funding for the Company is core deposits. During 2010 and prior years, the Company defined core deposits as total deposits less time deposits of $100,000 or more, brokered deposits and municipal money market deposits. A provision of the Dodd-Frank Act permanently increased the maximum amount of FDIC deposit insurance for financial institutions to $250,000 per depositor. That maximum was $100,000 per depositor until 2009, when it was raised to $250,000 temporarily through December 31, 2013. As a result of the permanently increased deposit insurance coverage, effective December 31, 2011 the Company defines core deposits as total deposits less time deposits of $250,000 or more (formerly $100,000), brokered deposits and municipal money market deposits.

Core deposits grew by $293.8 million or 15.3% to $2.2 billion at year-end 2011 from $1.9 billion at year-end 2010. Core deposits represented 83.1% of total deposits at December 31, 2011, compared to 76.8% of total deposits at December 31, 2010. Some of the growth in core deposits in 2011 is attributable to the calculation of current year core deposit balances using the most recent definition (less time deposits of $250,000 or more) while the previous year's balances were not restated to reflect the definition change. The definition change between periods resulted in a $139.2 million or 47.0% decrease in time deposits of $250,000 or more in 2011 versus time deposits of $100,000 or more in 2010.

Municipal money market accounts increased by $25.8 million or 9.7% to $291.7 million at year-end 2011 from $265.9 million at year-end 2010. In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and into the winter months from tax deposits and receive an additional inflow at the end of March from the electronic deposit of state funds.

Brokered deposits declined $15.0 million as maturing deposits from 2010 were not renewed in 2011.

Table 1-Average Statements of Condition and Net Interest Analysis shows the average balance and average rate paid on the Company's primary deposit categories for the years ended December 31, 2011, 2010, and 2009. Average interest-bearing deposits were up 2.8% in 2011 over 2010, while the average cost of interest-bearing deposits decreased to 0.63% for 2011 from 0.88% in 2010. A maturity schedule of time deposits outstanding at December 31, 2011, is included in "Note 9 Deposits" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The Company uses both retail and wholesale repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Retail repurchase agreements totaled $49.1 million at December 31, 2011, and $43.6 million at December 31, 2010. Management generally views local repurchase agreements as an alternative to large time deposits. The Company's wholesale repurchase agreements are primarily with the Federal Home Loan Bank ("FHLB") and amounted to $120.0 million at December 31, 2011, and $140.0 million at December 31, 2010. During 2010, the Company prepaid a $5.0 million repurchase agreement with the FHLB where the Company had elected the fair value option. A net mark-to-market pre-tax loss of $147,000 related to this repurchase agreement is included in 2010 results within the Company's Consolidated Statements of Income in the "Mark-to-Market Gain (Loss) on Liabilities Held at Fair Value" line item. Refer to "Note 10 Securities Sold Under Agreements to Repurchase and Federal Funds Purchased" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company's repurchase agreements.

The Company's other borrowings totaled $186.1 million at year-end 2011, down $58.1 million or 23.8% from $244.2 million at year-end 2010. The decrease in borrowings primarily reflects the pay down of FHLB borrowings as a result of deposit growth and soft loan demand. The $186.1 million in borrowings at December 31, 2011, included $122.1 million in term advances, $53.1 million of overnight FHLB advances, and a $10.9 million advance from a bank. Of the $122.1 million of the FHLB term advances at year-end 2011, $90.0 million are due over one year and have a weighted average rate of 4.72%. In 2007, the Company elected to account for a $10.0 million advance with the FHLB at fair value. The fair value of this advance increased by $465,000 (pre-tax net mark-to-market loss of $465,000) over the 12-months ended December 31, 2011.

Refer to "Note 11 Other Borrowings" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company's term borrowings with the FHLB.

LIQUIDITY MANAGEMENT

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

Core deposits, discussed above under "Deposits and Other Liabilities", are a primary and low cost funding source obtained primarily through the Company's branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of $250,000 or more, brokered time deposits, municipal money market accounts, securities sold under agreements to repurchase, overnight borrowings and term advances from the FHLB and other funding sources. Rates and terms are the primary determinants of the mix of these funding sources. Non-core funding sources decreased by $201.8 million or 20.6% to $804.0 million at year end 2011 from $1.1 billion at year-end 2010. As a percentage of total liabilities, non-core funding sources decreased from 33.7% at year-end 2010 to 25.9% at year-end 2011. A large contributor to the decrease in non-core funding sources at year-end 2011 from year-end 2010 is the aforementioned change in definition of core and non-core funding sources. In addition, the decrease in non-core funding sources was due to a decrease of brokered time deposits, FHLB advances, and securities sold under agreements to repurchase, partially offset by an increase in municipal money market balances. With the growth in core deposits and soft loan demand over the past several quarters, the Company has paid down non-core funding sources.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at $730.6 million and $682.2 million at December 31, 2011 and 2010, respectively, were either pledged or sold under agreements to repurchase. Pledged securities represented 66.1% of total securities at December 31, 2011, compared to 67.6% of total securities at December 31, 2010.

Cash and cash equivalents totaled $49.5 million as of December 31, 2011, down from $49.7 million at December 31, 2010. Short-term investments, consisting of securities due in one year or less, decreased from $42.5 million at December 31, 2010, to $19.6 million on December 31, 2011. The Company also has $19.6 million of securities designated as trading securities.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were $653.0 million at December 31, 2011 compared with $560.8 million at December 31, 2010. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately $731.1 million at December 31, 2011 as compared to $710.2 million at December 31, 2010. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

Liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At December 31, 2011, the unused borrowing capacity on established lines with the FHLB was $973.7 million.

As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets to secure additional borrowings from the FHLB. At December 31, 2011, total unencumbered residential mortgage loans of the Company were $206.3 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

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

Table 8-Loan Maturity details total scheduled maturities of selected loan categories.

Table 8 - Loan Maturity

Remaining maturity of selected loans	At December 31, 2011			
(in thousands)		Within		After
	Total	1 year	1-5 years	5 years
Commercial and industrial	$484,694	$186,090	$133,398	$165,206
Commercial real estate	766,234	39,464	70,769	656,001
Residential real estate	661,312	570	9,308	651,434
Total	$1,912,240	$226,124	$213,475	$1,472,641

Of the loan amounts shown above in Table 8- Loan Maturity maturing over 1 year, $570.1 million have fixed rates and $1.1 billion have adjustable rates

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business the Company is party to certain financial instruments, which in accordance with accounting principles generally accepted in the United States, are not included in its Consolidated Statements of Condition. These transactions include commitments under standby letters of credit, unused portions of lines of credit, and commitments to fund new loans and are undertaken to accommodate the financing needs of the Company's customers. Loan commitments are agreements by the Company to lend monies at a future date. These loan and letter of credit commitments are subject to the same credit policies and reviews as the Company's loans. Because most of these loan commitments expire within one year from the date of issue, the total amount of these loan commitments as of December 31, 2011, are not necessarily indicative of future cash requirements. Further information on these commitments and contingent liabilities is provided in "Note 17 Commitments and Contingent Liabilities" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

CONTRACTUAL OBLIGATIONS

The Company leases land, buildings, and equipment under operating lease arrangements extending to the year 2090. Most leases include options to renew for periods ranging from 5 to 20 years. In addition, the Company has a software contract for its core banking application through July 31, 2015, along with contracts for more specialized software programs through 2016. Further information on the Company's lease arrangements is provided in "Note 8 Premises and Equipment" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company's contractual obligations as of December 31, 2011, are shown in Table 9-Contractual Obligations and Commitments below.

Table 9 - Contractual Obligations and Commitments

Contractual Cash Obligations		Payments Due By Period			
(in thousands)		Within			Over 5
As of December 31, 2011	Total	1 year	1-3 years	3-5 years	Years
Long-term debt	$337,753	$97,540	$114,416	$64,655	$61,142
Operating leases	22,974	2,009	3,905	3,579	13,481
Software contracts	5,761	2,220	3,275	266	0
Total contractual cash obligations	$366,488	$101,769	$121,596	$68,500	$74,623

RECENTLY ISSUED ACCOUNTING STANDARDS

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

Fourth Quarter Summary

The Company reported diluted earnings per share of $0.84 for the fourth quarter of 2011, a 3.7% increase from $0.81 for the comparable year-ago period. Fourth quarter 2011 net income was $9.4 million, up 5.6% over fourth quarter 2010 net income of $8.9 million.

Taxable-equivalent net interest income of $28.6 million in the fourth quarter of 2011 was slightly ahead of the same quarter 2010. Taxable-equivalent net interest income benefitted from growth in average earning assets and lower funding costs, which offset the overall lower yields on earning assets. Average earning assets increased $120.7 million or 4.0%, to $3.1 billion in the fourth quarter of 2011 from $3.0 billion in the fourth quarter of 2010. The growth in average earnings assets in the fourth quarter over the year-earlier quarter included a $57.3 million or 5.4% increase in average securities. The yield on interest earning assets was 4.37% in the fourth quarter of 2011, down 35 basis points from 4.72% in the fourth quarter of 2010. The rate paid on interest-bearing liabilities was 0.96% in the fourth quarter of 2011, down 25 basis points from 1.21% in the same quarter prior year.

Provision for loan and lease losses was $1.2 million for the fourth quarter of 2011 down from $1.4 million in the fourth quarter of 2010. Net charge-offs totaled $1.4 million in the fourth quarter of 2011, representing an annualized 0.29% of average loans and leases, compared with net charge-offs of $2.3 million in the fourth quarter of 2010, representing an annualized 0.48% of average loans and leases.

Noninterest income was down 8.8% for the fourth quarter compared to the same period in 2010. Card services income and insurance commissions and fees increased 12.0% and 4.0%, respectively, while investment services income was down 10.3% for the quarter, when compared to the same period in 2010. Other income was down $958,000 or 39.2% for the quarter compared to the same period in 2010.

Noninterest expense for the fourth quarter of 2011 was $24.2 million, down 3.9% compared to the same period prior year. A reduction in FDIC insurance costs contributed to the decrease in noninterest expense for the fourth quarter compared to the same quarter prior year.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

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

The Company’s Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 100 basis point parallel change in rates. Based upon the simulation analysis performed as of November 30, 2011, a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decline in net interest income from the base case of approximately 0.18%, while a 100 basis point parallel decline in interest rates over a one-year period would result in a marginal decrease in one-year net interest income from the base case of 0.48%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The relatively flat change to net interest income in the rising rate scenario results as asset yield increases offset expected increases in average cost of funds. The slight exposure in the 100 basis point decline scenario results from the Company’s assets repricing downward to a greater degree than the rates on the Company’s interest-bearing liabilities, mainly deposits. Rates on savings and money market accounts are at low levels given the historically low interest rate environment experienced in recent years. In addition, the model assumes that prepayments accelerate in the down interest rate environment resulting in additional pressure on asset yields as proceeds are reinvested at lower rates.

In our most recent simulation, the base case scenario, which assumes interest rates remain unchanged from the date of the simulation, showed a relatively flat net interest margin during 2012.

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

In addition to the simulation analysis, management uses an interest rate gap measure. Table 10-Interest Rate Risk Analysis below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of December 31, 2011. The Company's one-year interest rate gap was a negative $89,000 or 2.63% of total assets at December 31, 2011, compared with a negative $153,000 or 4.69% of total assets at December 31, 2010. A negative gap position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

Table 10 - Interest Rate Risk Analysis

Condensed Static Gap - December 31, 2011	Repricing Interval				
(in thousands)	Total	0-3 months	3-6 months	6-12 months	12 months
Interest-earning assets*	$3,154,313	$694,193	$198,448	$313,938	$1,206,579
Interest-bearing liabilities	2,422,577	906,658	149,259	240,042	1,295,959
Net gap position		(212,465)	49,189	73,896	(89,380)
Net gap position as a percentage of total assets		(6.25)%	1.45%	2.17%	(2.63)%

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

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Item 8. Financial Statements and Supplementary Data

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

Management's Statement of Responsibility

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

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

The Audit/Examining Committee of the board of directors, composed solely of outside directors, meets periodically and privately with management, internal auditors, and independent registered public accounting firm, KPMG LLP, to review matters relating to the quality of financial reporting, internal accounting control, and the nature, extent, and results of audit efforts. The independent registered public accounting firm and internal auditors have unlimited access to the Audit/Examining Committee to discuss all such matters. The consolidated financial statements have been audited by KPMG, LLP for the purpose of expressing an opinion on the consolidated financial statements. In addition, KPMG, LLP has audited internal control over financial reporting, as of December 31, 2011.

Date: March 8, 2012

Stephen S. Romaine	Francis M. Fetsko
Chief Executive Officer	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Tompkins Financial Corporation:

We have audited the accompanying consolidated statements of condition of Tompkins Financial Corporation and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We 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 financial position of Tompkins Financial Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tompkins Financial Corporation 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 8, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLC
Syracuse, New York
March 8, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Tompkins Financial Corporation:

We have audited Tompkins Financial Corporation and subsidiaries' (the Company) 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). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective 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).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of Tompkins Financial Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated March 7, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Syracuse, New York
March 8, 2012

Consolidated Statements of Condition	As of December 31,	
(In thousands, except share and per share data)	2011	2010
ASSETS		
Cash and noninterest bearing balances due from banks	$47,297	$47,339
Interest bearing balances due from banks	2,170	2,226
Money market funds	100	100
Cash and Cash Equivalents	49,567	49,665
Trading securities, at fair value	19,598	22,837
Available-for-sale securities, at fair value	1,143,546	1,039,608
Held-to-maturity securities, fair value of $27,255 at December 31, 2011, and $56,064 at December 31, 2010	26,673	54,973
Loans and leases, net of unearned income and deferred costs and fees	1,981,849	1,910,358
Less: Allowance for loan and lease losses	27,593	27,832
Net Loans and Leases	1,954,256	1,882,526
Federal Home Loan Bank stock and Federal Reserve Bank stock	19,070	21,985
Bank premises and equipment, net	44,712	46,103
Corporate owned life insurance	43,044	40,024
Goodwill	43,898	41,649
Other intangible assets, net	4,096	4,207
Accrued interest and other assets	51,788	56,766
Total Assets	$3,400,248	$3,260,343
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	1,356,870	1,230,815
Time	687,321	741,829
Noninterest bearing	616,373	523,229
Total Deposits	2,660,564	2,495,873
Federal funds purchased and securities sold under agreements to repurchase	169,090	183,609
Other borrowings, including certain amounts at fair value of $12,093 at December 31, 2011 and $11,629 at December 31, 2010	186,075	244,193
Trust preferred debentures	25,065	25,060
Other liabilities	60,311	38,200
Total Liabilities	$3,101,105	$2,986,935
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 11,159,466 shares at December 31, 2011; and 10,934,385 shares at December 31, 2010	1,116	1,093
Additional paid-in capital	206,395	198,114
Retained earnings	96,445	76,446
Accumulated other comprehensive loss	(3,677)	(1,260)
Treasury stock, at cost – 95,105 shares at December 31, 2011, and 92,025 shares at December 31, 2010	(2,588)	(2,437)

Total Tompkins Financial Corporation Shareholders' Equity	297,691	271,956
Noncontrolling interests	1,452	1,452
Total Equity	$299,143	$273,408
Total Liabilities and Equity	$3,400,248	$3,260,343

See notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	Year ended December 31, 2011	2010	2009
INTEREST AND DIVIDEND INCOME			
Loans	$103,998	$106,357	$107,452
Due from banks	12	31	27
Federal funds sold	7	17	15
Money market funds	0	0	36
Trading securities	873	1,084	1,362
Available-for-sale securities	30,103	33,989	35,196
Held-to-maturity securities	1,185	1,535	1,814
Federal Home Loan Bank stock and Federal Reserve Bank stock	910	1,049	893
Total Interest and Dividend Income	137,088	144,062	146,795
INTEREST EXPENSE			
Time certificates of deposits of $100,000 or more	3,292	4,297	5,442
Other deposits	9,795	13,380	18,769
Federal funds purchased and securities sold under agreements to repurchase	4,872	5,418	6,254
Trust preferred debentures	1,580	1,581	1,087
Other borrowings	6,143	7,611	8,206
Total Interest Expense	25,682	32,287	39,758
Net Interest Income	111,406	111,775	107,037
Less: Provision for loan and lease losses	8,945	8,507	9,288
Net Interest Income After Provision for Loan and Lease Losses	102,461	103,268	97,749
NONINTEREST INCOME			
Investment services income	14,287	14,329	13,328
Insurance commissions and fees	13,542	12,738	12,307
Service charges on deposit accounts	8,491	8,554	9,312
Card services income	5,060	4,285	3,664
Mark-to-market gain on trading securities	62	219	204
Mark-to-market (loss) gain on liabilities held at fair value	(464)	(441)	1,263
Other income	6,705	6,331	5,933
Net other-than-temporary impairment losses1	(65)	(34)	(146)
Net gain on securities transactions	396	178	348
Total Noninterest Income	48,014	46,159	46,213
NONINTEREST EXPENSES			
Salaries and wages	44,140	42,530	40,459
Pension and other employee benefits	14,275	14,523	13,367
Net occupancy expense of premises	7,117	7,161	7,135
Furniture and fixture expense	4,463	4,421	4,462
FDIC insurance	2,527	3,768	4,976
Amortization of intangible assets	589	762	915
Other operating expenses	25,441	25,880	25,303
Total Noninterest Expenses	98,552	99,045	96,617
Income Before Income Tax Expense	51,923	50,382	47,345
Income Tax Expense	16,373	16,420	15,383
Net Income Attributable to Noncontrolling Interests and Tompkins Financial Corporation	35,550	33,962	31,962
Less: Net income attributable to noncontrolling interests	131	131	131

Net Income Attributable to Tompkins Financial Corporation	$35,419	$33,831	$31,831
Basic Earnings Per Share2	$3.21	$3.13	$2.98
Diluted Earnings Per Share2	$3.20	$3.11	$2.96

1 In 2011, other-than-temporary impairment ("OTTI") on securities available-for-sale totaling $178,000 in losses were recognized which included $113,000 recognized in AOCI, and $65,000 of OTTI losses recognized in noninterest income. In 2010, OTTI on securities available-for-sale totaling $34,000 was recognized in noninterest income. There were no additional non-credit OTTI losses on these securities in 2010. In 2009, OTTI on securities available-for-sale totaling $1.8 million in losses were recognized which included $1.6 million recognized in accumulated other comprehensive income, and $146,000 of OTTI losses recognized in noninterest income.

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

See notes to consolidated financial statements

Consolidated Statements of Cash Flows	Year ended December 31,		
(In thousands)	2011	2010	2009
OPERATING ACTIVITIES			
Net income attributable to Tompkins Financial Corporation	$35,419	$33,831	$31,831
Adjustments to reconcile net income, attributable to Tompkins Financial Corporation, to net cash provided by operation activities:			
Provision for loan and lease losses	8,945	8,507	9,288
Depreciation and amortization of premises, equipment, and software	4,758	4,665	4,484
Amortization of intangible assets	589	762	915
Earnings from corporate owned life insurance, net	(1,504)	(1,378)	(1,090)
Net amortization on securities	9,376	4,793	1,878
Other-than-temporary impairment loss	65	34	146
Mark-to-market gain on trading securities	(62)	(219)	(204)
Mark-to-market loss (gain) on liabilities held at fair value	464	441	(1,263)
Deferred income tax (benefit) expense	(2,100)	2,251	(1,854)
Net gain on securities transactions	(396)	(178)	(348)
Net gain on sale of loans	(496)	(955)	(1,357)
Proceeds from sale of loans	27,074	54,566	90,357
Loans originated for sale	(25,498)	(53,532)	(90,206)
Net (gain) loss on sale of bank premises and equipment	(8)	(22)	7
Stock-based compensation expense	1,261	1,219	938
(Increase) decrease in interest receivable	(907)	1,961	(139)
Decrease in interest payable	(449)	(658)	(799)
Proceeds from maturities, calls and principal paydowns of trading securities	3,244	8,948	6,315
Contribution to pension plan	(2,750)	(7,250)	0
Decrease (increase) in FDIC prepaid insurance	2,190	3,311	(11,423)
Other, net	12,776	3,757	(13,612)
Net Cash Provided by Operating Activities	71,991	64,854	23,864
INVESTING ACTIVITIES			
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	385,599	356,539	303,700
Proceeds from sales of available-for-sale securities	59,666	13,976	32,510
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	38,314	19,903	21,506
Proceeds from sale of held-to-maturity securities	0	382	0
Purchases of available-for-sale securities	(541,976)	(482,690)	(519,902)
Purchases of held-to-maturity securities	(10,002)	(30,461)	(11,930)
Net increase in loans and leases	(81,755)	(644)	(99,691)
Net decrease (increase) in Federal Home Loan Bank and Federal Reserve Bank Stock	2,915	(1,944)	2,833
Proceeds from sale of bank premises and equipment	48	83	53
Purchases of bank premises and equipment	(3,310)	(3,531)	(5,165)
Purchase of corporate owned life insurance	(1,500)	(2,625)	0
Net cash provided by acquisitions	(243)	0	0
Other, net	(372)	(2,783)	(1,875)
Net Cash Used in Investing Activities	(152,616)	(133,795)	(277,961)
FINANCING ACTIVITIES			
Net increase in demand, money market, and savings deposits	219,199	108,918	214,226

Net (decrease) increase in time deposits	(54,508)	(52,909)	91,631
Net decrease in securities sold under agreements to repurchase and Federal funds purchased	(14,519)	(9,322)	(3,102)
Increase in other borrowings	98,980	79,000	11,000
Repayment of other borrowings	(157,562)	(44,066)	(75,981)
Net shares issued related to restricted stock awards	(13)	0	0
Cash dividends	(15,420)	(14,381)	(13,208)
Cash paid in lieu of fractional shares for 10% stock dividend	0	(7)	0
Proceeds from issuance of trust preferred debentures, net of issuance cost	0	0	21,073
Shares issued for dividend reinvestment plan	2,435	2,872	631
Shares issued for employee stock ownership plan	1,053	1,278	0
Common stock repurchased and returned to unissued status	0	0	(178)
Net proceeds from exercise of stock options	866	1,549	955
Tax benefit from stock option exercises	16	212	163
Net Cash Provided by Financing Activities	80,527	73,144	247,210
Net (Decrease) Increase in Cash and Cash Equivalents	(98)	4,203	(6,887)
Cash and cash equivalents at beginning of year	49,665	45,462	52,349
Total Cash & Cash Equivalents at End of year	49,567	49,665	45,462

See notes to consolidated financial statements.

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for - Interest	$26,131	$32,945	$40,558
Cash paid during the year for - Income taxes	11,003	19,048	28,117
Non-cash investing and financing activities:			
Fair value for non-cash assets other than goodwill acquired in purchase acquisitions	64	0	0
Fair value of liabilities assumed in purchase acquisitions	31	0	0
Goodwill related to acquisitions	2,308	0	0
Fair value of shares issued for acquisitions	2,535	0	0
Transfer of loans to other real estate owned	872	1,190	299

See notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at December 31, 2008	$ 973	$ 152,842	$ 73,779	$ (7,602)	$ (2,083)	$ 1,452	$ 219,361
Comprehensive Income:							
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			31,831			131	31,962
Other comprehensive income				4,515			4,515
Total Comprehensive Income							36,477
Cash dividends ($1.24 per share)			(13,208)				(13,208)
Net Exercise of stock options and related tax benefit (34,393 shares, net)	3	1,115					1,118
Common stock repurchased and returned to unissued status (5,000 shares)	(1)	(177)					(178)
Stock-based compensation expense		938					938
Shares issued for dividend reinvestment plan (15,554 shares)	2	629					631
Directors deferred compensation plan (4,842 shares)		243			(243)		0
Net shares issued related to restricted stock awards	1	(1)					0

(12,900)

Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2009	$ 978	$ 155,589	$ 92,402	$ (3,087)	$ (2,326)	$ 1,452	$ 245,008
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			33,831			131	33,962
Other comprehensive income				1,827			1,827
Total Comprehensive Income							35,789
Cash dividends ($1.33 per share)			(14,381)				(14,381)
Net exercise of stock options and related tax benefit (62,738 shares, net)	6	1,755					1,761
Effect of 10% stock dividend (988,664 shares)1	98	35,301	(35,399)				0
Cash paid in lieu of fractional shares			(7)				(7)
Stock-based compensation expense		1,219					1,219
Shares issued for dividend reinvestment plan (71,406 shares)	7	2,865					2,872
Shares issued for employee stock ownership plan (34,436 shares)	4	1,274					1,278
Directors deferred compensation plan (2,418 shares)		111			(111)		0
Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2010	$ 1,093	$ 198,114	$ 76,446	$ (1,260)	$ (2,437)	$ 1,452	$ 273,408

See notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at December 31, 2010	$1,093	$198,114	$76,446	$ (1,260)	$(2,437)	$ 1,452	$273,408
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			35,419			131	35,550
Other comprehensive loss				(2,417)			(2,417)
Total Comprehensive Income							33,133
Cash dividends ($1.40 per share)			(15,420)				(15,420)
Net exercise of stock options and related tax benefit (26,757 shares, net)	2	880					882
Stock-based compensation expense		1,261					1,261
Shares issued for dividend reinvestment plan (61,262 shares)	6	2,429					2,435
Shares issued for employee stock ownership plan (25,139 shares)	3	1,050					1,053
Directors deferred compensation plan (3,080 shares)		151			(151)		0
Net shares issued related to restricted stock awards (36,735 net shares)	4	(17)					(13)
Stock issued for purchase acquisition (75,188 shares)	8	2,527					2,535
Dividend to noncontrolling interests						(131)	(131)
Balances at December 31, 2011	$1,116	$206,395	$96,445	$ (3,677)	$(2,588)	$ 1,452	$299,143

1 Included in the shares issued for the 10% stock dividend in 2010 were treasury shares of 3,264, and director deferred compensation plan shares of 4,620.

Cash dividends per share have been retroactively adjusted to reflect 10% stock dividend paid on February 15, 2010.

See notes to consolidated financial statements

Note 1 Summary of Significant Accounting Policies

BASIS OF PRESENTATION: Tompkins Financial Corporation ("Tompkins" or "the Company") is a registered Financial Holding Company with the Federal Reserve Board pursuant to the Bank Holding Company Act of 1956, as amended, organized under the laws of New York State, and is the parent company of Tompkins Trust Company (the "Trust Company"), The Bank of Castile, The Mahopac National Bank ("Mahopac National Bank"), Tompkins Insurance Agencies, Inc. ("Tompkins Insurance") and AM&M Financial Services, Inc. ("AM&M"). Unless the context otherwise requires, the term "Company" refers to Tompkins Financial Corporation and its subsidiaries.

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

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

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

The Company has evaluated subsequent events for potential recognition and/or disclosure. Refer to Note 23 "Subsequent Events".

CASH EQUIVALENTS: Cash equivalents in the Consolidated Statements of Cash Flows include cash and noninterest bearing balances due from banks, interest-bearing balances due from banks, Federal funds sold, and money market funds. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risk on cash and cash equivalents. Each bank subsidiary is required to maintain reserve balances by the Federal Reserve Bank of New York. At December 31, 2011, and December 31, 2010 the reserve requirements for the Company's banking subsidiaries totaled $7,893,000 and $6,797,000, respectively.

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

Securities with limited marketability or restricted equity securities, such as Federal Home Loan Bank stock and Federal Reserve Bank stock, are carried at cost.

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

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

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

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

Interest income on loans is accrued and credited to income based upon the principal amount outstanding. Loan origination fees and costs are deferred and recognized over the life of the loan as an adjustment to yield. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Loans are placed on nonaccrual status either due to the delinquency status of principal and/or interest (generally when past due 90 or more days) or a judgment by management that the full repayment of principal and interest is unlikely.

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

Loans are considered modified in a troubled debt restructuring ("TDR") when, due to a borrower's financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include, among others, an extension for the term of the loan, and granting a period when interest-only payments can be made with the principal payments and interest caught up over the remaining term of the loan or at maturity. Generally, a nonaccrual loan that has been modified in a TDR remains on non-accrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

Loans acquired in a business combination, that exhibit deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payment receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment (a provision for loan losses). Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

In general, the principal balance of a loan is charged off in full or in part when management concludes, based on the available facts and circumstances, that collection of principal in full is improbable. For commercial and commercial real estate loans, this conclusion is generally based upon a review of the borrower's financial condition and cash flow, payment history, economic conditions, and the conditions in the various markets in which the collateral, if any, may be liquidated. In general, consumer loans are charged-off in accordance with regulatory guidelines which provide that such loans be charged-off when the Company becomes aware of the loss, such as from a triggering event that may include new information about a borrower's intent/ability to repay the loan, bankruptcy, fraud or death, among other things, but in no case will the charge-off exceed specified delinquency timeframes. Such delinquency timeframes state that closed-end retail loans (loans with pre-defined maturity dates, such as real estate mortgages, home equity loans and consumer installment loans) that become past due 120 cumulative days and open-end retail loans (loans that roll-over at the end of each term, such as home equity lines of credit) that become past due 180 cumulative days should be classified as a loss and charged-off. For residential real estate loans, charge-off decisions are based upon past due status, current assessment of collateral value, and general market conditions in the areas where the properties are located.

ALLOWANCE FOR LOAN AND LEASE LOSSES: Management regularly reviews the allowance for loan and lease losses in order to maintain the allowance at a level consistent with the inherent risk of loss in the loan and lease portfolios. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to ensure that an appropriate allowance is maintained. The methodology includes an estimate of exposure for the following: specifically reviewed and graded loans; historical loss experience by product type; past due and nonperforming loans; and other internal and external factors such as local and regional economic conditions, growth trends, collateral values, and credit policy and underwriting standards. The methodology includes a review of loans considered impaired in accordance with ASC Topic 310. In addition, other commercial loans and commercial mortgage loans are evaluated using an internal rating system. An estimated exposure amount is assigned to these internally reviewed credits based upon a review of the borrower's financial condition, payment history, collateral adequacy, business conditions, and historical loss experience. For commercial loans and commercial mortgage loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience as well as past due status. Lastly, additional allowances are maintained based upon management judgment and assessment of other quantitative and qualitative factors such as regional and local economic conditions, portfolio growth trends, new lending products, and new market areas.

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, and declines in local property values. In addition, various Federal and State regulatory agencies, as part of their examination process, review the Company's allowance and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination which may not be currently available to management.

INCOME RECOGNITION ON IMPAIRED AND NONACCRUAL LOANS AND LEASES: Loans and leases, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. Loans that are past due less than 90 days may also be classified as nonaccrual if repayment in full of principal or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable time period, and there is a sustained period of repayment performance by the borrower in accordance with the contractual terms of the loan agreement. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on loans on nonaccrual are generally applied to reduce the principal balance of the loan.

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

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

Expenses and subsequent adjustments to the fair value are treated as other operating expense.

GOODWILL: Goodwill represents the excess of purchase price over the fair value of assets acquired in a transaction using purchase accounting. The Company tests goodwill for impairment at least annually.

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

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

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

Under FASB ASC Topic 825, Financial Instruments ("ASC Topic 825") the Company elected to account for certain repurchase agreements at fair value, with unrealized gains or losses included in earnings.

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

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

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

SEGMENT REPORTING: The Company has identified two business segments, banking and financial services. Financial services activities consist of the results of the Company's trust, financial planning and wealth management, broker-dealer, and risk management operations. All other activities are considered banking.

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

PENSION AND OTHER EMPLOYEE BENEFITS: The Company incurs certain employment-related expenses associated with its noncontributory defined-benefit pension plan, supplemental employee retirement plan and post-retirement healthcare benefit plan. In order to measure the expense associated with these plans, various assumptions are made including the discount rate used to value certain liabilities, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. A third-party actuarial firm is used to assist management in measuring the expense and liability associated with the plans. The Company uses a December 31 measurement date for its plans. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

Periodic pension expense or credits include service costs, interest costs based on the assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and amortization of actuarial gains or losses. Periodic postretirement benefit expense or credits include service costs, interest costs based on the assumed discount rate, amortization of unrecognized net transition obligations, and recognized actuarial gains or losses.

In the first quarter of 2010, the Company stopped admitting new employees to its noncontributory DB Pension Plan. The Company offered employees hired before January 1, 2010 a one-time opportunity to choose how they would earn future retirement benefits, either continuing in the DB Pension Plan or participating in the new noncontributory defined contribution Retirement Plan (the “DC Retirement Plan”). Elections were effective July 1, 2010. Employees hired after January 1, 2010 participate in the DC Retirement Plan when they have completed one year of service and reached the age of 21. For participants in the DC Retirement Plan, the Company makes contributions to an account set up in the participant’s name. The amount equals a percentage of base pay and varies based on the participant’s age plus service as of the previous January 1st.

STOCK BASED COMPENSATION: Under FASB ASC Topic 718, Compensation - Stock Compensation (“ASC Topic 718”), compensation costs recognized include the compensation cost for all share-based payments based upon the grant date fair value estimated in accordance with ASC Topic 718. Compensation cost is recorded on a straight-line basis over the vesting period of the awards.

The Company’s stock-based employee compensation plan is described in Note 14 “Stock Plans and Stock Based Compensation”, of this Report.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

ASU No. 2010-20, “Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users’ evaluation of (i) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company’s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company’s financial statements beginning on January 1, 2011, and are disclosed in Note 5 “Loans and Leases”.

ASU No. 2011-02, “Receivables (Topic 310): A Creditor’s Determination of whether a Restructuring Is a Troubled Debt Restructuring”. ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 became effective for the Company on July 1, 2011, and did not have a significant impact on the Company's financial statements.

ASU No. 2011-03, "Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities 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 or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," as further discussed below. ASU 2011-05 is not expected to have a significant impact on the Company's financial statements.

ASU No. 2011-08, "Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment." ASU 2011-08 amends Topic 350, "Intangibles-Goodwill and Other," to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-11, "Balance Sheet (Topic 210) - "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011 and is not expected to have a significant impact on the Company's financial statements.

Note 2 Mergers and Acquisitions

The acquisition discussed below was accounted for as a purchase transaction. The purchase price was allocated to the underlying assets and liabilities based on estimated fair values at the date of acquisition. The operating results of the acquired company are included in the Company's results of operations since their respective date of acquisition.

On June 1, 2011, Tompkins Insurance acquired all the outstanding shares of Olver & Associates, Inc, ("Olver"), a property and casualty insurance agency located in Ithaca, New York. The two principal officers and staff continued with Olver after the acquisition. The acquisition-date fair value of the merger consideration was $3.2 million and included $250,000 of cash and 75,188 shares of Tompkins' common stock. Including the present value of expected contingent payments, the Company recorded the following intangible assets as a result of the acquisition: goodwill ($2.3 million), customer related intangible ($403,000) and a covenant-not-to-compete ($190,000). The values of the customer related intangible and covenant-not-to-compete are being amortized over 15 years and 5 years, respectively. The goodwill is not being amortized but will be evaluated at least annually for impairment. The goodwill is not deductible for taxes. The agreement also provided for the possibility of annual contingent post-closing payments, based upon certain criteria being met. Maximum contingent payments are $50,000 in 2015 and $50,000 in 2016, and are payable in Tompkins' common stock.

Note 3 Securities

Available-for-Sale Securities
The following tables summarize available-for-sale securities held by the Company at December 31, 2011 and 2010:

	Available-for-Sale Securities			
December 31, 2011	Amortized Cost1	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
U.S. Treasury securities	$2,020	$ 50	$ 0	$2,070
Obligations of U.S. Government sponsored entities	408,958	13,663	31	422,590
Obligations of U.S. states and political subdivisions	56,939	2,722	8	59,653
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	123,426	6,347	0	129,773
U.S. Government sponsored entities	501,136	16,300	58	517,378
Non-U.S. Government agencies or sponsored entities	6,334	0	458	5,876
U.S. corporate debt securities	5,017	166	0	5,183
Total debt securities	1,103,830	39,248	555	1,142,523
Equity securities	1,023	0	0	1,023
Total available-for-sale securities	$1,104,853	$ 39,248	$ 555	$1,143,546

1 Net of other-than-temporary impairment losses recognized in earnings