

TOMPKINS FINANCIAL CORP
Form 10-Q
November 09, 2011

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-12709

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

New York
(State or other jurisdiction of incorporation or organization)

16-1482357
(I.R.S. Employer
Identification No.)

The Commons, P.O. Box 460, Ithaca, NY
(Address of principal executive offices)

14851
(Zip Code)

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

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

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

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

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

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

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

Class	Outstanding as of October 28, 2011
Common Stock, \$0.10 par value	11,122,886 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited)	As of	As of
ASSETS	09/30/2011	12/31/2010
Cash and noninterest bearing balances due from banks	\$57,496	\$47,339
Interest bearing balances due from banks	51,173	2,226
Money market funds	100	100
Cash and Cash Equivalents	108,769	49,665
Trading securities, at fair value	20,432	22,837
Available-for-sale securities, at fair value	1,082,970	1,039,608
Held-to-maturity securities, fair value of \$28,053 at September 30, 2011, and \$56,064 at December 31, 2010	27,367	54,973
Loans and leases, net of unearned income and deferred costs and fees	1,951,598	1,910,358
Less: Allowance for loan and lease losses	27,878	27,832
Net Loans and Leases	1,923,720	1,882,526
Federal Home Loan Bank stock and Federal Reserve Bank stock	16,906	21,985
Bank premises and equipment, net	44,991	46,103
Corporate owned life insurance	42,656	40,024
Goodwill	43,958	41,649
Other intangible assets, net	4,318	4,207
Accrued interest and other assets	42,930	56,766
Total Assets	\$3,359,017	\$3,260,343
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	1,402,542	1,230,815
Time	702,716	741,829
Noninterest bearing	570,416	523,229
Total Deposits	2,675,674	2,495,873
Federal funds purchased and securities sold under agreements to repurchase	171,943	183,609
Other borrowings, including certain amounts at fair value of \$12,117 at September 30, 2011 and \$11,629 at December 31, 2010	138,001	244,193
Trust preferred debentures	25,063	25,060
Other liabilities	39,001	38,200
Total Liabilities	\$3,049,682	\$2,986,935
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value \$.10 per share: Authorized 25,000,000 shares; Issued: 11,158,796 at September 30, 2011; and 10,934,385 at December 31, 2010	1,116	1,093
Additional paid-in capital	206,010	198,114

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Retained earnings	91,063	76,446
Accumulated other comprehensive income (loss)	12,097	(1,260)
Treasury stock, at cost – 92,800 shares at September 30, 2011, and 92,025 shares at December 31, 2010	(2,501)	(2,437)
Total Tompkins Financial Corporation Shareholders' Equity	307,785	271,956
Noncontrolling interests	1,550	1,452
Total Equity	\$309,335	\$273,408
Total Liabilities and Equity	\$3,359,017	\$3,260,343

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data) (Unaudited)	Three Months Ended		Nine Months Ended	
	09/30/2011	09/30/2010	09/30/2011	09/30/2010
INTEREST AND DIVIDEND INCOME				
Loans	\$26,134	\$26,675	\$77,718	\$80,044
Due from banks	1	5	10	27
Federal funds sold	1	5	6	14
Trading securities	213	255	668	843
Available-for-sale securities	7,524	8,215	23,110	26,009
Held-to-maturity securities	249	359	944	1,160
Federal Home Loan Bank stock and Federal Reserve Bank stock	212	230	719	731
Total Interest and Dividend Income	34,334	35,744	103,175	108,828
INTEREST EXPENSE				
Time certificates of deposits of \$100,000 or more	817	1,035	2,534	3,360
Other deposits	2,449	3,178	7,639	10,506
Federal funds purchased and securities sold under agreements to repurchase	1,204	1,336	3,743	4,069
Trust preferred debentures	405	407	1,197	1,210
Other borrowings	1,546	1,924	4,655	5,770
Total Interest Expense	6,421	7,880	19,768	24,915
Net Interest Income	27,913	27,864	83,407	83,913
Less: Provision for loan and lease losses	4,870	3,483	7,785	7,074
Net Interest Income After Provision for Loan and Lease Losses	23,043	24,381	75,622	76,839
NONINTEREST INCOME				
Investment services income	3,425	3,423	11,090	10,764
Insurance commissions and fees	3,573	3,365	10,406	9,722
Service charges on deposit accounts	2,165	2,115	6,256	6,602
Card services income	1,271	1,105	3,785	3,147
Mark-to-market gain on trading securities	55	177	170	558
Mark-to-market loss on liabilities held at fair value	(461)	(323)	(488)	(940)
Other income	1,998	1,401	5,217	3,887
Net other-than-temporary impairment losses ¹	0	(34)	0	(34)
Net gain (loss) on securities transactions	286	(2)	381	173
Total Noninterest Income	12,312	11,227	36,817	33,879
NONINTEREST EXPENSES				
Salaries and wages	11,190	10,611	33,225	31,618
Pension and other employee benefits	3,374	3,616	11,063	10,970
Net occupancy expense of premises	1,721	1,820	5,321	5,427
Furniture and fixture expense	1,088	986	3,325	3,312
FDIC insurance	475	978	2,057	2,747
Amortization of intangible assets	137	186	453	586
Other operating expense	5,988	6,655	18,908	19,202
Total Noninterest Expenses	23,973	24,852	74,352	73,862
Income Before Income Tax Expense	11,382	10,756	38,087	36,856
Income Tax Expense	3,490	3,233	11,956	11,818

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Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	7,892	7,523	26,131	25,038
Less: Net income attributable to noncontrolling interests	33	33	98	98
Net Income Attributable to Tompkins Financial Corporation	\$7,859	\$7,490	\$26,033	\$24,940
Basic Earnings Per Share	\$0.71	\$0.69	\$2.37	\$2.31
Diluted Earnings Per Share	\$0.71	\$0.69	\$2.36	\$2.30

1 During the three and nine months ended September 30, 2010, net other-than-temporary impairment ("OTTI") on securities available-for-sale totaling \$385,000 in unrealized gains, and \$872,000 in unrealized gains, respectively, were recognized, which included \$351,000 and \$838,000, respectively, in unrealized gains, recognized in accumulated other comprehensive income (AOCI), net of tax and \$34,000 of OTTI losses recognized in earnings.

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	09/30/2011	09/30/2010
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	\$26,033	\$24,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	7,785	7,074
Depreciation and amortization of premises, equipment, and software	3,553	3,484
Amortization of intangible assets	453	586
Earnings from corporate owned life insurance	(1,118)	(1,025)
Net amortization on securities	6,446	2,946
Other than temporary impairment loss	0	34
Mark-to-market gain on trading securities	(170)	(558)
Mark-to-market loss on liabilities held at fair value	488	940
Net gain on available-for-sale securities	(381)	(173)
Net gain on sale of loans	(378)	(685)
Proceeds from sale of loans	20,727	31,501
Loans originated for sale	(19,693)	(30,376)
Net gain on sale of bank premises and equipment	(8)	(39)
Stock-based compensation expense	998	850
(Increase) decrease in accrued interest receivable	(1,204)	940
Decrease in accrued interest payable	(417)	(608)
Proceeds from maturities and payments of trading securities	2,530	7,767
Contribution to pension plan	(2,750)	0
Other, net	10,600	7,242
Net Cash Provided by Operating Activities	53,494	54,840
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	274,728	273,384
Proceeds from sales of available-for-sale securities	59,927	13,959
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	33,379	15,496
Proceeds from sales of held-to-maturity securities	0	382
Purchases of available-for-sale securities	(362,934)	(329,699)
Purchases of held-to-maturity securities	(5,763)	(14,169)
Net increase in loans	(49,635)	(2,426)
Net decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	5,079	711
Proceeds from sale of bank premises and equipment	48	48
Purchases of bank premises and equipment	(2,607)	(2,652)
Net cash used in acquisitions	(243)	0
Other, net	(726)	(2,026)
Net Cash Used in Investing Activities	(48,747)	(46,992)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	218,915	112,364
Net decrease in time deposits	(39,114)	(23,700)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(11,666)	(1,334)
Increase in other borrowings	45,880	0
Repayment of other borrowings	(152,560)	(26,980)
Cash dividends	(11,416)	(10,682)
Cash paid in lieu of fractional shares - 10% stock dividend	0	(7)

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Shares issued for dividend reinvestment plan	2,435	2,088
Shares issued for employee stock ownership plan	1,053	1,278
Net proceeds from exercise of stock options	837	1,548
Tax benefit from stock option exercises	(7)	212
Net Cash Provided by Financing Activities	54,357	54,787
Net Increase in Cash and Cash Equivalents	59,104	62,635
Cash and cash equivalents at beginning of period	49,665	45,462
Total Cash & Cash Equivalents at End of Period	108,769	108,097
Supplemental Information:		
Cash paid during the year for - Interest	\$20,185	\$25,523
Cash paid during the year for - Taxes	8,123	15,078
Transfer of loans to other real estate owned	457	1,845
Non-cash investing and financing activities:		
Fair value of non-cash assets other than goodwill acquired in purchase acquisitions	64	0
Fair value of liabilities assumed in purchase acquisition	31	0
Goodwill related to acquisition	2,309	0
Fair value of shares issued for acquisition	2,535	0

See accompanying notes to unaudited condensed 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 January 1, 2010	\$ 978	\$ 155,589	\$ 92,402	\$ (3,087)	\$ (2,326)	\$ 1,452	\$ 245,008
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			24,940			98	25,038
Other comprehensive income				11,162			11,162
Total Comprehensive Income							36,200
Cash dividends (\$0.99 per share)			(10,682)				(10,682)
Exercise of stock options and related tax benefit (62,638 shares, net)	6	1,754					1,760
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		850					850
Shares issued for dividend reinvestment plan (51,734 shares)	5	2,083					2,088
Shares issued for employee stock ownership plan (34,436 shares)	4	1,274					1,278
Directors deferred compensation plan (812 shares)		47			(47)		0

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Forfeiture of
restricted shares
(330 shares)

Balances at September 30, 2010	\$ 1,091	\$ 196,898	\$ 71,254	\$ 8,075	\$ (2,373)	\$ 1,550	\$ 276,495
Balances at January 1, 2011	\$ 1,093	\$ 198,114	\$ 76,446	\$ (1,260)	\$ (2,437)	\$ 1,452	\$ 273,408
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			26,033			98	26,131
Other comprehensive income				13,357			13,357
Total Comprehensive Income							39,488
Cash dividends (\$1.04 per share)			(11,416)				(11,416)
Exercise of stock options and related tax benefit (25,757 shares, net)	2	828					830
Stock-based compensation expense		998					998
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 (775 shares)		64			(64)		0
Net shares issued related to restricted stock awards (37,725 shares)	4						4
Stock issued for purchase acquisition (75,188	8	2,527					2,535

shares)

Forfeiture of
restricted shares
(660 shares)

Balances at

September 30,

2011	\$ 1,116	\$ 206,010	\$ 91,063	\$ 12,097	\$ (2,501)	\$ 1,550	\$ 309,335
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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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tompkins Financial Corporation, (“Tompkins” or the “Company”) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. The Company’s subsidiaries include: three wholly-owned banking subsidiaries, Tompkins Trust Company (the “Trust Company”), The Bank of Castile, The Mahopac National Bank (“Mahopac National Bank”) and AM&M Financial Services, Inc., a wholly owned 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.”

2. Basis of Presentation

The unaudited condensed consolidated financial statements included in this quarterly report have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. In the application of certain accounting policies management is required to make assumptions regarding the effect of matters that are inherently uncertain. These estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues, and expenses in the unaudited condensed consolidated financial statements. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies. The accounting policies that management considers critical in this respect are the determination of the allowance for loan and lease losses, the expenses and liabilities associated with the Company’s pension and post-retirement benefits, and the review of its securities portfolio for other than temporary impairment.

In management’s opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2011. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes to the Company’s accounting policies from those presented in the 2010 Annual Report on Form 10-K. Refer to Note 3- “Accounting Standards Updates” of this Report for a discussion of recently issued accounting guidelines.

Cash and cash equivalents in the consolidated statements of cash flow include cash and noninterest bearing balances due from banks, interest-bearing balances due from banks, and money market funds. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risk on cash and cash equivalents.

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

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders' equity of the Company and its subsidiaries. Amounts in the prior periods' unaudited condensed consolidated financial statements are reclassified when necessary to conform to the current periods' presentation. All significant intercompany balances and transactions are eliminated in consolidation.

3. Accounting Standards Updates

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 nonowner 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, and 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 Corporation's financial statements.

4. Securities

Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at September 30, 2011:

September 30, 2011 (in thousands)	Available-for-Sale Securities			Fair Value
	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	\$2,026	\$62	\$0	\$2,088
Obligations of U.S. Government sponsored entities	350,220	14,488	21	364,687
Obligations of U.S. states and political subdivisions	56,046	2,781	13	58,814
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	131,668	6,386	0	138,054
U.S. Government sponsored entities	486,387	20,218	0	506,605
Non-U.S. Government agencies or sponsored entities	7,002	0	510	6,492
U.S. corporate debt securities	5,019	189	0	5,208
Total debt securities	1,038,368	44,124	544	1,081,948
Equity securities	1,022	0	0	1,022
Total available-for-sale securities	\$1,039,390	\$44,124	\$544	\$1,082,970

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

The following table summarizes available-for-sale securities held by the Company at December 31, 2010:

December 31, 2010 (in thousands)	Available-for-Sale Securities			Fair Value
	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	\$2,043	\$86	\$0	\$2,129
Obligations of U.S. Government sponsored entities	402,057	7,372	1,989	407,440
Obligations of U.S. states and political subdivisions	60,707	2,339	9	63,037
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	143,319	3,233	539	146,013
U.S. Government sponsored entities	393,331	13,568	1,421	405,478
Non-U.S. Government agencies or sponsored entities	9,636	3	356	9,283
U.S. corporate debt securities	5,024	179	0	5,203
Total debt securities	1,016,117	26,780	4,314	1,038,583
Equity securities	1,025	0	0	1,025
Total available-for-sale securities	\$1,017,142	\$26,780	\$4,314	\$1,039,608

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

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at September 30, 2011:

September 30, 2011 (in thousands)	Held-to-Maturity Securities			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Obligations of U.S. states and political subdivisions	\$27,367	\$686	\$0	\$28,053

Total held-to-maturity debt securities	\$27,367	\$686	\$0	\$28,053
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The following table summarizes held-to-maturity securities held by the Company at December 31, 2010:

December 31, 2010 (in thousands)	Amortized Cost	Held-to-Maturity Securities		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligations of U.S. states and political subdivisions	\$54,973	\$1,155	\$64	\$56,064
Total held-to-maturity debt securities	\$54,973	\$1,155	\$64	\$56,064

Realized gains on available-for-sale securities were \$286,000 and \$495,000 in the third quarter and nine months ending September 30, 2011, respectively, and \$1,000 and \$176,000 in the same periods of 2010; realized losses on available-for-sale securities were \$0 and \$114,000 in the third quarter and nine months ending September 30, 2011, respectively, and \$1,000 and \$0 in the same time periods of 2010.

Realized losses on held-to-maturity securities were \$2,000 in the third quarter and the first nine months of 2010. The Company sold \$382,000 of municipal securities that were downgraded by a rating agency. There were no sales of held-to-maturity securities in 2011.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 2011:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	\$7,155	\$21	\$0	\$0	\$7,155	\$21
Obligations of U.S. states and political subdivisions	1,138	13	0	0	1,138	13
Mortgage-backed securities – residential, issued by Non-U.S. Government agencies or sponsored entities	2,302	184	4,190	326	6,492	510
Total available-for-sale securities	\$10,595	\$218	\$4,190	\$326	\$14,785	\$544

As of September 30, 2011, there were no held-to-maturity securities with unrealized losses.

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2010:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored						

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entities	\$93,167	\$1,989	\$0	\$0	\$93,167	\$1,989
Obligations of U.S. states and political subdivisions	1,771	9	0	0	1,771	9
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	44,288	539	0	0	44,288	539
U.S. Government sponsored entities	119,102	1,421	0	0	119,102	1,421
Non-U.S. Government agencies or sponsored entities	0	0	8,343	356	8,343	356
Total available-for-sale securities	\$258,328	\$3,958	\$8,343	\$356	\$266,671	\$4,314

The following table summarizes held-to-maturity securities that had unrealized losses at December 31, 2010:

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. states and political subdivisions	\$14,947	\$63	\$14	\$1	\$14,961	\$64
Total held-to-maturity securities	\$14,947	\$63	\$14	\$1	\$14,961	\$64

The gross unrealized losses reported at September 30, 2011 and December 31, 2010 for mortgage-backed securities-residential relate to investment securities issued by U.S. government sponsored entities such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, and U.S. government agencies such as Government National Mortgage Association, and non U.S. Government agencies or sponsored entities. Total gross unrealized losses were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and generally not due to the credit quality of the investment securities.

The Company does not intend to sell the securities that are in an unrealized loss position and it is not more-likely-than not that the Company will be required to sell these available-for-sale investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of September 30, 2011, and December 31, 2010, management believes the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. 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.

The Company considers the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover.

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

- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

As of September 30, 2011, the Company held five mortgage backed securities, with a fair value of \$6.5 million, that were not issued by U.S. Government agencies or U.S. Government sponsored entities. In 2009, the Company determined that three of these non-U.S. Government mortgage backed securities were other-than-temporarily impaired based on an analysis of the above factors for these three securities. As a result, the Company recorded other-than-temporary impairment charges of \$2.0 million in 2009 on these investments. The credit loss component of \$146,000 was recorded as other-than-temporary impairment losses in the consolidated statement of income, while the remaining non-credit portion of the impairment loss

was recognized in other comprehensive income in the consolidated statements of condition and changes in shareholders' equity. In 2010, the Company recorded an additional credit loss component of other-than-temporary charge of \$34,000. The Company's review of these securities as of September 30, 2011 determined that no additional impairment charges were necessary. As of September 30, 2011, the carrying value of these securities exceeded their fair value by \$510,000. 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 following table summarizes the roll-forward of credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

(in thousands)	Three Months Ended		Nine Months Ended	
	09/30/2011	09/30/2010	09/30/2011	09/30/2010
Credit losses at beginning of the period	\$ 180	\$ 146	\$ 180	\$ 146
Credit losses related to securities for which an other-than-temporary impairment was not previously recognized	0	0	0	0
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	0	34	0	34
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	\$ 180	\$ 180	\$ 180	\$ 180

The amortized cost and estimated fair value of debt securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are shown separately since they are not due at a single maturity date.

September 30, 2011

(in thousands)	Amortized Cost ¹	Fair Value
Available-for-sale securities:		
Due in one year or less	\$8,224	\$8,316
Due after one year through five years	239,891	251,531
Due after five years through ten years	155,764	161,264
Due after ten years	9,432	9,686
Total	413,311	430,797
Mortgage-backed securities	625,057	651,151
Total available-for-sale debt securities	\$1,038,368	\$1,081,948

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

December 31, 2010

(in thousands)	Amortized Cost ¹	Fair Value
Available-for-sale securities:		
Due in one year or less	\$7,770	\$7,867
Due after one year through five years	309,193	312,952
Due after five years through ten years	143,682	147,546

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Due after ten years	9,186	9,444
Total	469,831	477,809
Mortgage-backed securities	546,286	560,774
Total available-for-sale debt securities	\$1,016,117	\$1,038,583

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

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September 30, 2011

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	\$11,586	\$11,628
Due after one year through five years	11,309	11,798
Due after five years through ten years	3,451	3,606
Due after ten years	1,021	1,021
Total held-to-maturity debt securities	\$27,367	\$28,053

December 31, 2010

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	\$34,645	\$34,692
Due after one year through five years	15,378	16,157
Due after five years through ten years	3,765	4,024
Due after ten years	1,185	1,191
Total held-to-maturity debt securities	\$54,973	\$56,064

The Company also 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 FHLBNY stock is tied to the Company’s borrowing levels with the FHLBNY. Holdings of FHLBNY stock and FRB stock totaled \$14.8 million and \$2.1 million at September 30, 2011, respectively, and \$19.9 million and \$2.1 million at December 31, 2010, respectively. The FHLBNY continues to pay dividends and repurchase its stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY stock.

Trading Securities

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

(in thousands)	09/30/2011	12/31/2010
Obligations of U.S. Government sponsored entities	\$12,912	\$13,139
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	7,520	9,698
Total	\$20,432	\$22,837

The net gain on trading account securities, which reflects mark-to-market adjustments, totaled \$55,000 and \$170,000 for the three and nine months ended September 30, 2011, respectively, and \$177,000 and \$558,000 for the three and nine months ended September 30, 2010, respectively.

5. Loans and Leases

Loans and Leases at September 30, 2011, and December 31, 2010 were as follows:

(in thousands)	09/30/2011	12/31/2010
Commercial and industrial		
Agriculture	\$48,557	\$65,918
Commercial and industrial other	416,484	409,432
Subtotal commercial and industrial	465,041	475,350
Commercial real estate		
Construction	45,010	58,519
Agriculture	52,785	48,485
Commercial real estate other	669,411	619,458
Subtotal commercial real estate	767,206	726,462
Residential real estate		
Home equity	161,710	164,765
Mortgages	485,212	462,032
Subtotal residential real estate	646,922	626,797
Consumer and other		
Indirect	34,783	41,668
Consumer and other	31,617	31,757
Subtotal consumer and other	66,400	73,425
Leases	7,244	9,949
Total loans and leases	1,952,813	1,911,983
Less: unearned income and deferred costs and fees	(1,215)	(1,625)
Total loans and leases, net of unearned income and deferred costs and fees	\$1,951,598	\$1,910,358

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. Management reviews these policies and procedures on a regular basis. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 5 – “Loans and Leases” in the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes in these policies and guidelines. As such, these policies are reflective of new originations as well as those balances held at September 30, 2011. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

An age analysis of past due loans, segregated by class of loans, as of September 30, 2011 is provided below.

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing	Nonaccrual
Commercial and industrial						
Agriculture	\$39	\$0	\$48,518	\$48,557	\$0	\$144
Commercial and industrial other	816	626	415,042	416,484	0	8,999
Subtotal commercial and industrial	855	626	463,560	465,041	0	9,143
Commercial real estate						
Construction	7	7,827	37,176	45,010	0	7,924
Agriculture	186	207	52,392	52,785	0	382
Commercial real estate other	4,194	5,280	659,937	669,411	0	14,465
Subtotal commercial real estate	4,387	13,314	749,505	767,206	0	22,771
Residential real estate						
Home equity	262	1,242	160,206	161,710	379	1,236
Mortgages	3,551	6,573	475,088	485,212	0	7,004
Subtotal residential real estate	3,813	7,815	635,294	646,922	379	8,240
Consumer and other						
Indirect	84	231	34,468	34,783	0	14
Consumer and other	762		30,855	31,617	0	240
Subtotal consumer and other	846	231	65,323	66,400	0	254
Leases	15	0	7,229	7,244	0	11
Total loans and leases	9,916	21,986	1,920,911	1,952,813	379	40,419
Less: unearned income and deferred costs and fees	0	0	0	(1,215)	0	0
Total loans and leases, net of unearned income and deferred costs and fees	\$9,916	\$21,986	\$1,920,911	\$1,951,598	\$379	\$40,419

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An age analysis of past due loans, segregated by class of loans, as of December 31, 2010 is provided below.

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing	Nonaccrual
Commercial and industrial						
Agriculture	50	118	65,750	65,918	0	165
Commercial and industrial other	3,131	1,443	404,858	409,432	842	7,106
Subtotal commercial and industrial	3,181	1,561	470,608	475,350	842	7,271
Commercial real estate						
Construction	8	176	58,335	58,519	0	13,003
Agriculture	189	0	48,296	48,485	0	0
Commercial real estate other	1,943	4,094	613,421	619,458	0	11,788
Subtotal commercial real estate	2,140	4,270	720,052	726,462	0	24,791
Residential real estate						
Home equity	262	1,434	163,069	164,765	368	1,429
Mortgages	4,709	6,257	451,066	462,032	0	7,682
Subtotal residential real estate	4,971	7,691	614,135	626,797	368	9,111
Consumer and other						
Indirect	926	311	40,431	41,668	7	309
Consumer and other	0	0	31,757	31,757	0	0
Subtotal consumer and other	926	311	72,188	73,425	7	309
Leases	0	0	9,949	9,949	0	19
Total loans and leases	11,218	13,833	1,886,932	1,911,983	1,217	41,501
Less: unearned income and deferred costs and fees	0	0	0	(1,625)	0	0
Total loans and leases, net of unearned income and deferred costs and fees	\$11,218	\$13,833	\$1,886,932	\$1,910,358	\$1,217	\$41,501

The principal balances of nonperforming loans and leases, including impaired loans and leases are detailed in the table below.

(in thousands)	09/30/2011	12/31/2010
Loans 90 days past due and accruing	\$379	\$1,217
Nonaccrual loans	40,419	41,501
Troubled debt restructurings not included above	441	2,564
Nonperforming loans and leases	\$41,239	\$45,282

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

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

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

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. While management’s evaluation of the allowance as of September 30, 2011, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase the allowance.

The following tables detail activity in the allowance for loan and lease losses by portfolio segment for the three and nine months ended September 30, 2011 and 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended September 30, 2011

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for credit losses:						
Beginning balance	\$7,840	\$14,444	\$4,425	\$1,605	\$47	\$28,361
Charge-offs	(2)	(5,014)	(308)	(168)	0	(5,492)
Recoveries	14	52	1	72	0	139
Provision	717	4,371	(109)	(101)	(8)	4,870

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Ending Balance \$ 8,569 \$ 13,853 \$ 4,009 \$ 1,408 \$ 39 \$ 27,878

Three months ended September 30, 2010

(in thousands)	Commercial and Industrial Real Estate					Finance Leases	Total
	Commercial Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other			
Allowance for credit losses:							
Beginning balance	\$ 7,277	\$ 13,459	\$ 3,507	\$ 2,215	\$ 72	\$ 26,530	
Charge-offs	(1,255)	(25)	(70)	(176)	0	(1,526)	
Recoveries	39	15	52	91	0	197	
Provision	1,872	1,459	100	58	(6)	3,483	
Ending Balance	\$ 7,933	\$ 14,908	\$ 3,589	\$ 2,188	\$ 66	\$ 28,684	

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Nine months ended September 30, 2011

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for credit losses:						
Beginning balance	\$ 7,824	\$ 14,445	\$ 3,526	\$ 1,976	\$ 61	\$ 27,832
Charge-offs	(1,259)	(5,383)	(1,503)	(436)	0	(8,581)
Recoveries	407	157	33	245	0	842
Provision	1,597	4,634	1,953	(377)	(22)	7,785
Ending Balance	\$ 8,569	\$ 13,853	\$ 4,009	\$ 1,408	\$ 39	\$ 27,878

Nine months ended September 30, 2010

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for credit losses:						
Beginning balance	\$ 7,304	\$ 11,119	\$ 3,616	\$ 2,230	\$ 81	\$ 24,350
Charge-offs	(2,245)	(347)	(432)	(709)	0	(3,733)
Recoveries	417	214	85	277	0	993
Provision	2,457	3,922	320	390	(15)	7,074
Ending Balance	\$ 7,933	\$ 14,908	\$ 3,589	\$ 2,188	\$ 66	\$ 28,684

At September 30, 2011 and December 31, 2010, the allocation of the allowance for loan and lease losses summarized on the basis of the Company's impairment methodology was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
September 30, 2011						
Individually evaluated for impairment	\$ 2,338	\$ 509	\$ 0	\$ 0	\$ 0	\$ 2,847
Collectively evaluated for impairment	6,231	13,344	4,009	1,408	39	25,031
Ending balance	\$ 8,569	\$ 13,853	\$ 4,009	\$ 1,408	\$ 39	\$ 27,878
December 31, 2010						
Individually evaluated for impairment	\$ 682	\$ 2,554	\$ 0	\$ 0	\$ 0	\$ 3,236
Collectively evaluated for impairment	7,142	11,891	3,526	1,976	61	24,596
Ending balance	\$ 7,824	\$ 14,445	\$ 3,526	\$ 1,976	\$ 61	\$ 27,832

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of September 30, 2011 and December 31, 2010 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
September 30, 2011						
Individually evaluated for impairment	\$ 8,387	\$ 21,184	\$ 0	\$ 0	\$ 0	\$ 29,571
Collectively evaluated for impairment	456,654	746,022	646,922	66,400	7,244	1,923,242
Total	\$ 465,041	\$ 767,206	\$ 646,922	\$ 66,400	\$ 7,244	\$ 1,952,813
December 31, 2010						
Individually evaluated for impairment	\$ 5,617	\$ 29,622	\$ 0	\$ 0	\$ 0	\$ 35,239
Collectively evaluated for impairment	469,733	696,840	626,797	73,425	9,949	1,876,744
Total	\$ 475,350	\$ 726,462	\$ 626,797	\$ 73,425	\$ 9,949	\$ 1,911,983

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, and all loans restructured in a troubled debt restructuring (TDR). Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off. The majority of impaired loans are collateral dependant impaired loans that have limited exposure or require limited specific reserves because of the amount of collateral support with respect to these loans, and previous charge-offs. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis.

Impaired loans are set forth in the tables below as of September 30, 2011 and December 31, 2010.

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September 30,
2011

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment		Interest Income Recognized	
				Quarter to date	Year to date	Quarter to date	Year to date
With no related allowance							
Commercial and industrial							
Commercial and industrial other	\$3,395	\$3,816	\$0	\$2,978	2,875	\$0	0
Commercial real estate							
Construction	7,400	13,187	0	10,027	10,400	0	0
Commercial real estate other	13,275	13,308	0	9,956	11,640	14	24
Residential real estate other	387	387	0	375	399	0	0
Subtotal	\$24,457	\$30,698	\$0	\$23,336	25,314	\$14	24

With related allowance

Commercial and industrial							
Commercial and industrial other	4,992	4,992	2,338	2,226	1,350	0	0
Commercial real estate							
Commercial real estate other	509	509	509	1,922	864	0	0
Subtotal	\$5,501	\$5,501	\$2,847	\$4,148	2,214	\$0	0
Total	\$29,958	\$36,199	\$2,847	\$27,484	27,528	\$14	24

December 31, 2010

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance			
Commercial and industrial			
Agriculture	\$724	\$724	\$0
Commercial and industrial other	3,393	4,336	0
Commercial real estate			
Commercial real estate other	15,675	15,831	0
Subtotal	\$19,792	\$20,891	\$0

With related allowance

Commercial and industrial

Commercial and industrial other	1,500	1,500	682
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Commercial real estate

Construction	12,816	13,400	1,927
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Commercial real estate other	1,131	1,303	627
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Subtotal	\$ 15,447	\$ 16,203	\$ 3,236
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Total	\$ 35,239	\$ 37,094	\$ 3,236
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The average recorded investment in impaired loans and leases for the three and nine months ended September 30, 2010 was \$30.4 million and \$32.4 million, respectively, and interest income recognized on these impaired loans and leases, all collected in cash, was \$42,000 and \$147,000 for the same period.

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 made over the remaining term of the loan or at maturity.

The following tables present loans by class modified as troubled debt restructurings that occurred during the three and nine months ended September 30, 2011.

Troubled Debt Restructuring

September 30, 2011	Three months ended			Nine months ended		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(in thousands)						
Commercial and industrial						
Commercial and industrial other	4	2,115	2,115	6	2,694	2,694
Commercial real estate						
Commercial real estate other	14	8,023	8,023	14	8,023	8,023
Residential real estate						
Mortgages	2	387	387	2	387	387
Total	20	\$ 10,525	\$ 10,525	22	\$ 11,104	\$ 11,104

The Company recognized TDRs with a balance of \$10.6 million and \$11.1 million for the three and nine month periods ended September 30, 2011. Specific reserves with an ending balance of \$509,000 have been allocated to customers whose loan terms have been modified in TDRs as of September 30, 2011. The loans requiring these specific reserves were impaired prior to the troubled debt restructuring and there was no change in the specific reserve related to these loans. The Company is not committed to lend additional amounts as of September 30, 2011 to customers with outstanding loans that are classified as TDRs.

There were no charge-offs taken on these TDRs for the three and nine months ended September 30, 2011.

A loan that was restructured as a TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. During the three and nine months ended September 30, 2011, only one TDR, a commercial mortgage loan with a recorded balance of \$184,000 that had been restructured in the 12 months prior to September 30, 2011, became 91 days past due.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of September 30, 2011 and December 31, 2010.

September 30, 2011

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Internal risk grade:						
Pass	\$380,253	\$44,455	\$592,910	\$46,892	\$27,218	\$1,091,728
Special Mention	15,672	3,437	33,832	3,376	10,380	66,697
Substandard	20,559	665	42,160	2,517	7,412	73,313
Doubtful	0	0	509	0	0	509

Total	\$416,484	\$48,557	\$669,411	\$52,785	\$45,010	\$1,232,247
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December 31, 2010

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Internal risk grade:						
Pass	\$355,153	\$53,302	\$537,195	\$37,894	\$45,703	\$1,029,247
Special Mention	28,478	3,570	43,138	5,734	0	80,920
Substandard	25,801	9,046	39,125	4,857	12,816	91,645
Doubtful	0	0	0	0	0	0
Total	\$409,432	\$65,918	\$619,458	\$48,485	\$58,519	\$1,201,812

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of September 30, 2011 and December 31, 2010.

September 30, 2011

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Performing	\$160,095	\$478,208	\$34,769	\$31,377	\$704,449
Nonperforming	1,615	7,004	14	240	8,873
Total	\$161,710	\$485,212	\$34,783	\$31,617	\$713,322

December 31, 2010

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Performing	\$162,968	\$454,350	\$41,352	\$31,757	\$690,427
Nonperforming	1,797	7,682	316	0	9,795
Total	\$164,765	\$462,032	\$41,668	\$31,757	\$700,222

7. Earnings Per Share

The Company follows the provisions of FASB ASC Topic 260, Earnings Per Share (“EPS”). A computation of Basic EPS and Diluted EPS for the three and nine months ending September 30, 2011, and 2010 is presented in the table below.

Three months ended September 30, 2011

(in thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic EPS:			
Net income attributable to Tompkins Financial Corporation	\$ 7,859	11,049,831	\$0.71
Effect of potentially dilutive common shares:		74,500	

Diluted EPS:

Net income attributable to Tompkins Financial Corporation plus assumed conversions	\$ 7,859	11,124,331	\$0.71
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The effect of dilutive securities calculation for the three-month period ended September 30, 2011, excludes stock options and stock appreciation rights covering an aggregate of 755,428 shares of common stock because they are anti-dilutive.

Three months ended September 30, 2010

(in thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic EPS:			
Net income attributable to Tompkins Financial Corporation	\$ 7,490	10,845,106	\$0.69
Effect of potentially dilutive common shares:		48,536	
Diluted EPS:			
Net income attributable to Tompkins Financial Corporation plus assumed conversions	\$ 7,490	10,893,642	\$0.69

The effect of dilutive securities calculation for the three-month period ended September 30, 2010, excludes stock options and stock appreciation rights covering an aggregate of 690,249 shares of common stock because they are anti-dilutive.

Nine months ended September 30, 2011

(in thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic EPS:			
Net income attributable to Tompkins Financial Corporation	\$ 26,033	10,977,446	\$2.37
Effect of potentially dilutive common shares:		50,774	
Diluted EPS:			
Net income attributable to Tompkins Financial Corporation plus assumed conversions	\$ 26,033	11,028,220	\$2.36

The effect of dilutive securities calculation for the nine-month period ended September 30, 2011, excludes stock options and stock appreciation rights covering an aggregate of 713,354 shares of common stock because they are anti-dilutive.

Nine months ended September 30, 2010

(in thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic EPS:			
Net income attributable to Tompkins Financial Corporation	\$ 24,940	10,791,714	\$2.31
Effect of potentially dilutive common shares:		53,166	

Diluted EPS:

Net income attributable to Tompkins Financial Corporation plus assumed conversions	\$ 24,940	10,844,880	\$2.30
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The effect of dilutive securities calculation for the nine-month period ended September 30, 2010, excludes stock options and stock appreciation rights covering an aggregate of 706,348 shares of common stock because they are anti-dilutive.

8. Comprehensive Income

(in thousands)	Three Months Ended		Nine Months Ended	
	09/30/2011	09/30/2010	09/30/2011	09/30/2010
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	\$7,892	\$7,523	\$26,131	\$25,038
Other comprehensive income loss, net of tax:				
Unrealized gain on available-for-sale securities:				
Net unrealized holding gain on available-for-sale securities arising during the period.	3,772	1,618	12,900	9,923
Memo: Pre-tax net unrealized holding gain	6,284	2,697	21,495	16,536
Reclassification adjustment for net realized (gain) loss on sale included in of available-for-sale securities	(172)	1	(229)	(104)
Memo: Pre-tax net realized (gain)/loss	(286)	2	(381)	(173)
Other-than-temporary impairment on available-for-sale securities ¹	-	211	-	503
Memo: Pre-tax unrealized loss	-	351	-	838
Employee benefit plans:				
Amortization of actuarial losses, prior service cost, and transition obligation	122	280	686	840
Memo: Pre-tax amounts	203	467	1,143	1,400
Other comprehensive income	3,722	2,110	13,357	11,162
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	11,614	9,633	39,488	36,200
Less: Other comprehensive income attributable to noncontrolling interests	(33)	(33)	(98)	(98)
Total comprehensive income attributable to Tompkins Financial Corporation	\$11,581	\$9,600	\$39,390	\$36,102

¹ During the three and nine months ended September 30, 2010, net other-than-temporary impairment ("OTTI") on securities available-for-sale totaling \$385,000 in unrealized gains, and \$872,000 in unrealized gains, respectively, were recognized, which included \$351,000 and \$838,000, respectively, in unrealized gains, recognized in accumulated other comprehensive income ("AOCI"), net of tax and \$34,000 of OTTI losses recognized in earnings.

9. Employee Benefit Plan

The following table sets forth the amount of the net periodic benefit cost recognized by the Company for the Company's pension plan, post-retirement plan (Life and Health), and supplemental employee retirement plans ("SERP") including the following components: service cost; interest cost; expected return on plan assets for the period; amortization of the unrecognized transitional obligation or transition asset; and the amounts of recognized gains and losses, prior service cost recognized, and gain or loss recognized due to settlement or curtailment.

Components of Net Period Benefit Cost

(in thousands)	Pension Benefits		Life and Health		SERP Benefits	
	Three Months Ended		Three Months Ended		Three Months Ended	
	09/30/2011	09/30/2010	09/30/2011	09/30/2010	09/30/2011	09/30/2010
Service cost	\$589	\$538	\$22	\$23	\$50	\$46
Interest cost	734	646	95	96	155	147
Expected return on plan assets for the period	(951)	(675)	0	0	0	0
Amortization of transition liability	0	0	17	17	0	0
Amortization of prior service cost	(31)	(29)	6	4	25	25
Amortization of net loss	147	463	8	0	33	26
FAS 88 curtailment gain	0	(39)	0	0	0	0
Net periodic benefit cost	\$488	\$904	\$148	\$140	\$263	\$244

(in thousands)	Pension Benefits		Life and Health		SERP Benefits	
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
	09/30/2011	09/30/2010	09/30/2011	09/30/2010	09/30/2011	09/30/2010
Service cost	\$1,723	\$1,614	\$88	\$70	\$150	\$139
Interest cost	2,073	1,938	285	288	465	441
Expected return on plan assets for the period	(2,762)	(2,025)	0	0	0	0
Amortization of transition liability	0	0	51	50	0	0
Amortization of prior service cost	(93)	(88)	12	12	75	76
Amortization of net loss	993	1,389	9	0	98	77
FAS 88 curtailment gain	0	(116)	0	0	0	0
Net periodic benefit cost	\$1,934	\$2,712	\$445	\$420	\$788	\$733

The Company realized approximately \$686,000 and \$840,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the nine months ended September 30, 2011 and 2010, respectively.

The Company is not required to contribute to the pension plan in 2011, but it may make voluntary contributions. The Company contributed \$2.8 million to the pension plan in the first nine months of 2011.

In the first quarter of 2010, the Company stopped admitting new employees to its noncontributory defined-benefit retirement and pension plan. Employees hired after January 1, 2010 participate in a defined contribution plan. Effective July 1, 2011 the Company split the noncontributory defined-benefit retirement and pension plan, with no change in benefits to any participants. Current employees who are still receiving credits and/or benefit accruals remain in the existing plan. All other participants in the plan were placed into a new plan. The above disclosures reflect the combined costs of the two defined benefit plans.

10. Stock Plans

Under Tompkins Financial Corporation 2009 Equity Plan (“2009 Equity Plan”), the Company may grant incentive stock options, non-qualified stock options, stock appreciation rights, shares of restricted stock and restricted stock units covering up to 820,000 common shares to certain officers, employees, and nonemployee directors. Prior to the adoption of the 2009 Equity Plan, the Company had similar stock option plans, which remain in effect solely with respect to unexercised options issued under these plans. The Company granted 155,725 equity awards to its employees in the third quarter of 2011. The third quarter 2011 awards included 37,725 shares of restricted stock and 118,000 shares of stock appreciation rights. The Company’s practice is to issue original issue shares of its common stock upon exercise of equity awards rather than treasury shares.

The Company uses the Black-Scholes option-valuation model to determine the fair value of each incentive stock option and stock appreciation right at the date of grant. This valuation model estimates fair value based on the assumptions listed in the table below. The risk-free interest rate is the interest rate available on zero-coupon U.S. Treasury instruments with a remaining term equal to the expected term of the share option at the time of grant. The expected dividend yield is based on dividend trends and the market price of the Company’s stock price at grant. Volatility is largely based on historical volatility of the Company’s stock price. Expected term is based upon historical experience of employee exercises and terminations as well as the vesting term of the grants. The fair values of the grants are expensed over the vesting period.

	2011	2010	2009
Weighted per share average fair value at granted date	\$9.26	\$13.12	\$13.12
Risk-free interest rate	1.28 %	2.90 %	2.90 %
Expected dividend yield	4.10 %	3.13 %	3.13 %
Volatility	39.19 %	40.03 %	40.03 %
Expected life (years)	6.50	6.50	6.50

For the three and nine months ended September 30, 2011, stock-based compensation expense was \$367,000 and \$998,000 compared to \$281,000 and \$850,000 for the same periods in 2010.

The Company granted 1,800 equity awards to its employees in 2010, including 1,600 stock appreciation rights and 200 shares of restricted stock.

11. Other Income and Operating Expense

Other income and operating expense totals are presented in the table below. Components of these totals exceeding 1% of the aggregate of total noninterest income and total noninterest expenses for any of the years presented below are stated separately.

(in thousands)	Three Months Ended		Nine Months Ended	
	09/30/2011	09/30/2010	09/30/2011	09/30/2010
Noninterest Income				
Other service charges	\$598	\$546	\$1,703	\$1,627
Increase in cash surrender value of corporate owned life insurance	357	314	1,118	1,025
Net gain on sale of loans	78	346	378	685
Miscellaneous Investments	42	54	739	134
Other income	923	141	1,279	416
Total other income	\$1,998	\$1,401	\$5,217	\$3,887
Noninterest Expenses				
Marketing expense	\$926	\$936	\$2,709	\$2,955
Professional fees	626	835	2,072	2,628
Software licensing and maintenance	870	875	2,735	2,693
Cardholder expense	502	472	1,467	1,345
Other expenses	3,064	3,537	9,925	9,581
Total other operating expense	\$5,988	\$6,655	\$18,908	\$19,202

12. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of September 30, 2011, the Company's maximum potential obligation under standby letters of credit was \$54.6 million compared to \$54.4 million at December 31, 2010. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions, and has determined that the fair value of standby letters of credit is not significant.

13. Segment and Related Information

The Company manages its operations through 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, including holding company activities, are considered banking. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the Banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies in the 2010 Annual Report on Form 10-K.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other assets between the banking and financial services segments.

As of and for the three months ended September 30, 2011

(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	\$34,241	\$68	\$ 25	\$ 34,334
Interest expense	6,396	0	25	6,421
Net interest income	27,845	68	0	27,913
Provision for loan and lease losses	4,870	0	0	4,870
Noninterest income	5,402	7,221	(311)	12,312
Noninterest expense	18,734	5,550	(311)	23,973
Income before income tax expense	9,643	1,739	0	11,382
Income tax expense	2,839	651	0	3,490
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	6,804	1,088	0	7,892
Less: Net income attributable to noncontrolling interests	33	0	0	33
Net Income attributable to Tompkins Financial Corporation	\$6,771	\$1,088	\$ 0	\$ 7,859
Depreciation and amortization	\$1,104	\$73	\$ 0	\$ 1,177
Assets	3,332,350	31,049	(4,382)	3,359,017
Goodwill	23,600	20,358	0	43,958
Other intangibles, net	2,587	1,731	0	4,318
Net loans and leases	1,923,720	0	0	1,923,720
Deposits	2,679,675	0	(4,001)	2,675,674
Total equity	284,705	24,630	0	309,335

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As of and for the three months ended September 30, 2010

(in thousands)	Financial			Consolidated
	Banking	Services	Intercompany	
Interest income	\$35,662	\$81	\$ 1	\$ 35,744
Interest expense	7,879	0	1	7,880
Net interest income	27,783	81	0	27,864
Provision for loan and lease losses	3,483	0	0	3,483
Noninterest income	4,458	6,774	(5)	11,227
Noninterest expense	19,471	5,386	(5)	24,852
Income before income tax expense	9,287	1,469	0	10,756
Income tax expense	2,699	534	0	3,233
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	6,588	935	0	7,523
Less: Net income attributable to noncontrolling interests	33	0	0	33
Net Income attributable to Tompkins Financial Corporation	\$6,555	\$935	\$ 0	\$ 7,490
Depreciation and amortization	\$1,063	\$68	\$ 0	\$ 1,131
Assets	3,223,266	28,239	(4,394)	3,247,111
Goodwill	23,600	17,989	0	41,589
Other intangibles, net	2,939	1,377	0	4,316
Net loans and leases	1,885,380			