TOMPKINS FINANCIAL CORP
Form 10-Q
May 10, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o (Do not check if a smaller reporting company)	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.

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

Class	Outstanding as of April 30, 2012
Common Stock, $0.10 par value	12,215,898 shares

TOMPKINS FINANCIAL CORPORATION

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PART I -FINANCIAL INFORMATION

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited) ASSETS	As of 03/31/2012	As of 12/31/2011
Cash and noninterest bearing balances due from banks	$102,163	$47,297
Interest bearing balances due from banks	1,154	2,170
Money market funds	0	100
Cash and Cash Equivalents	103,317	49,567
Trading securities, at fair value	18,766	19,598
Available-for-sale securities, at fair value	1,240,598	1,143,546
Held-to-maturity securities, fair value of $26,849 at March 31, 2012, and $27,255 at December 31, 2011	26,321	26,673
Loans and leases, net of unearned income and deferred costs and fees	1,977,569	1,981,849
Less: Allowance for loan and lease losses	26,948	27,593
Net Loans and Leases	1,950,621	1,954,256
Federal Home Loan Bank stock and Federal Reserve Bank stock	16,460	19,070
Bank premises and equipment, net	45,200	44,712
Corporate owned life insurance	43,473	43,044
Goodwill	44,653	43,898
Other intangible assets, net	3,916	4,096
Accrued interest and other assets	53,369	51,788
Total Assets	$3,546,694	$3,400,248
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	1,524,978	1,356,870
Time	729,107	687,321
Noninterest bearing	605,351	616,373
Total Deposits	2,859,436	2,660,564
Federal funds purchased and securities sold under agreements to repurchase	169,456	169,090
Other borrowings, including certain amounts at fair value of $12,005 at March 31, 2012 and $12,093 at December 31, 2011	132,884	186,075
Trust preferred debentures	25,066	25,065
Other liabilities	53,885	60,311
Total Liabilities	$3,240,727	$3,101,105
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 11,233,280 at March 31, 2012; and 11,159,466 at December 31, 2011	1,123	1,116
Additional paid-in capital	209,472	206,395
Retained earnings	100,251	96,445
Accumulated other comprehensive loss	(3,837)	(3,677)

Treasury stock, at cost – 93,433 shares at March 31, 2012, and 95,105 shares at December 31, 2011	(2,527)	(2,588)
Total Tompkins Financial Corporation Shareholders’ Equity	304,482	297,691
Noncontrolling interests	1,485	1,452
Total Equity	$305,967	$299,143
Total Liabilities and Equity	$3,546,694	$3,400,248

See notes to unaudited condensed consolidated financial statements

TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
(In thousands, except per share data) (Unaudited)	03/31/2012	03/31/2011
INTEREST AND DIVIDEND INCOME		
Loans	$ 25,303	$ 25,701
Due from banks	3	6
Federal funds sold	2	3
Trading securities	198	235
Available-for-sale securities	7,176	7,687
Held-to-maturity securities	225	365
Federal Home Loan Bank stock and Federal Reserve Bank stock	221	290
Total Interest and Dividend Income	33,128	34,287
INTEREST EXPENSE		
Time certificates of deposits of $100,000 or more	734	849
Other deposits	2,027	2,625
Federal funds purchased and securities sold under agreements to repurchase	1,092	1,291
Trust preferred debentures	405	405
Other borrowings	1,429	1,575
Total Interest Expense	5,687	6,745
Net Interest Income	27,441	27,542
Less: Provision for loan and lease losses	1,125	1,910
Net Interest Income After Provision for Loan and Lease Losses	26,316	25,632
NONINTEREST INCOME		
Investment services income	3,397	3,841
Insurance commissions and fees	3,638	3,374
Service charges on deposit accounts	1,785	1,984
Card services income	1,569	1,245
Mark-to-market loss on trading securities	(82)	(50)
Mark-to-market gain on liabilities held at fair value	88	174
Other income	1,264	1,829
Net gain on securities transactions	2	95
Total Noninterest Income	11,661	12,492
NONINTEREST EXPENSES		
Salaries and wages	11,300	10,825
Pension and other employee benefits	4,299	4,031
Net occupancy expense of premises	1,805	1,894
Furniture and fixture expense	1,100	1,038
FDIC insurance	528	1,050
Amortization of intangible assets	133	170
Other operating expense	7,206	6,208
Total Noninterest Expenses	26,371	25,216
Income Before Income Tax Expense	11,606	12,908
Income Tax Expense	3,762	4,102
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	7,844	8,806
Less: Net income attributable to noncontrolling interests	33	33

Net Income Attributable to Tompkins Financial Corporation	$	7,811	$	8,773
Basic Earnings Per Share	$	0.70	$	0.80
Diluted Earnings Per Share	$	0.70	$	0.80

See notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months Ended 03/31/2012	03/31/2011
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$7,844	$8,806
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 (net of tax of $(305) in 2012 and $708 in 2011).	(459)	1,061
Reclassification adjustment for net realized gain on sale included in of available-for-sale securities (net of tax of $(1) in 2012 and $(38) in 2011).	(1)	(57)
Employee benefit plans:		
Net retirement plan gain (net of tax of $200 for 2012 and $183 for 2011).	300	275
Other comprehensive (loss) income	(160)	1,279
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	7,684	10,085
Less: Other comprehensive income attributable to noncontrolling interests	(33)	(33)
Total comprehensive income attributable to Tompkins Financial Corporation	$7,651	$10,052

See notes to unaudited condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	03/31/2012	03/31/2011
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$7,811	$8,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,125	1,910
Depreciation and amortization of premises, equipment, and software	1,209	1,174
Amortization of intangible assets	133	170
Earnings from corporate owned life insurance	(426)	(411)
Net amortization on securities	2,700	1,968
Mark-to-market loss on trading securities	82	50
Mark-to-market gain on liabilities held at fair value	(88)	(174)
Net gain on securities transactions	(2)	(95)
Net gain on sale of loans	(100)	(164)
Proceeds from sale of loans	4,281	10,235
Loans originated for sale	(5,072)	(9,138)
Net gain on sale of bank premises and equipment	(6)	0
Stock-based compensation expense	377	323
Increase in accrued interest receivable	(618)	(171)
Decrease in accrued interest payable	(52)	(198)
Proceeds from maturities and payments of trading securities	738	942
Contribution to pension plan	(5,000)	(2,750)
Other, net	(1,340)	1,805
Net Cash Provided by Operating Activities	5,752	14,249
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	89,456	125,415
Proceeds from sales of available-for-sale securities	0	34,019
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	1,043	5,426
Purchases of available-for-sale securities	(189,958)	(169,518)
Purchases of held-to-maturity securities	(692)	(556)
Net decrease (increase) in loans	3,401	(6,626)
Net decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	2,610	4,410
Proceeds from sale of bank premises and equipment	18	29
Purchases of bank premises and equipment	(1,473)	(528)
Net cash used in acquisitions	(755)	0
Other, net	(550)	(671)
Net Cash Used in Investing Activities	(96,900)	(8,600)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	157,086	114,753
Net increase in time deposits	41,786	1,891
Net increase (decrease) in Federal funds purchases and securities sold under agreements to repurchase	366	(1,600)
Increase in other borrowings	0	13,780
Repayment of other borrowings	(53,103)	(117,445)
Cash dividends	(4,005)	(3,706)

Shares issued for dividend reinvestment plan	710	522
Shares issued for employee stock ownership plan	1,037	1,053
Net proceeds from exercise of stock options	966	569
Tax benefit from stock option exercises	55	(17)
Net Cash Provided by Financing Activities	144,898	9,800
Net Increase in Cash and Cash Equivalents	53,750	15,449
Cash and cash equivalents at beginning of period	49,567	49,665
Total Cash & Cash Equivalents at End of Period	103,317	65,114
Supplemental Information:		
Cash paid during the year for - Interest	$5,739	$6,943
Cash paid during the year for - Taxes	4,252	57
Transfer of loans to other real estate owned	592	538

See 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, 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			8,773			33	8,806
Other comprehensive income				1,279			1,279
Total Comprehensive Income							10,085
Cash dividends ($0.34 per share)			(3,706)				(3,706)
Exercise of stock options and related tax benefit (16,155 shares, net)	2	550					552
Stock-based compensation expense		323					323
Shares issued for dividend reinvestment plan (12,751 shares, net)	1	521					522
Shares issued for employee stock ownership plan (25,139 shares)	3	1,050					1,053
Directors deferred compensation plan ((3,625) shares, net)		(114)			114		0
Forfeiture of restricted shares ((110) shares)							

Balances at March 31, 2011	$1,099	$200,444	$81,513	$19	$(2,323)	$1,485	$282,237
Balances at January 1, 2012	$1,116	$206,395	$96,445	$(3,677)	$(2,588)	$1,452	$299,143
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			7,811			33	7,844
Other comprehensive (loss) income				(160)			(160)
Total Comprehensive Income							7,684
Cash dividends ($0.36 per share)			(4,005)				(4,005)
Exercise of stock options and related tax benefit (30,976 shares, net)	3	1,018					1,021
Stock-based compensation expense		377					377
Shares issued for dividend reinvestment plan (17,383 shares, net)	2	708					710
Shares issued for employee stock ownership plan (25,655 shares, net)	2	1,035					1,037
Directors deferred compensation plan (1,672) shares, net)		(61)			61		0
Forfeiture of restricted shares (200 shares)							
Balances at March 31, 2012	$1,123	$209,472	$100,251	$(3,837)	$(2,527)	$1,485	$305,967

See notes to unaudited condensed consolidated financial statements

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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, 2012. 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, 2011. There have been no significant changes to the Company’s accounting policies from those presented in the 2011 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. Refer to Note 13 “Subsequent Events”.

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. 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 became effective for the Company on January 1, 2012 and did not 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 became effective on January 1, 2012, and did not 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 became effective on January 1, 2012. With the adoption of ASU 2011-05, the Company's consolidated financial statements now includes a separate condensed consolidated statements of comprehensive income.

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 did not 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 did not have a significant impact on the Company's financial statements.

4. Securities

Available-for-Sale Securities
The following table summarizes available-for-sale securities held by the Company at March 31, 2012:

		Available-for-Sale Securities		
March 31, 2012	Amortized Cost1	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
U.S. Treasury securities	$2,014	$35	$0	$2,049
Obligations of U.S. Government sponsored entities	550,885	13,646	1,945	562,586
Obligations of U.S. states and political subdivisions	58,876	2,333	76	61,133
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	115,233	6,476	0	121,709
U.S. Government sponsored entities	463,975	17,375	40	481,310
Non-U.S. Government agencies or sponsored entities	5,651	58	89	5,620
U.S. corporate debt securities	5,015	154	0	5,169
Total debt securities	1,201,649	40,077	2,150	1,239,576
Equity securities	1,022	0	0	1,022
Total available-for-sale securities	$1,202,671	$40,077	$2,150	$1,240,598

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, 2011:

		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.

Held-to-Maturity Securities
The following table summarizes held-to-maturity securities held by the Company at March 31, 2012:

March 31, 2012	Held-to-Maturity Securities			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. states and political subdivisions	$ 26,321	$ 528	$ 0	$ 26,849
Total held-to-maturity debt securities	$ 26,321	$ 528	$ 0	$ 26,849

The following table summarizes held-to-maturity securities held by the Company at December 31, 2011:

December 31, 2011	Held-to-Maturity Securities			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. states and political subdivisions	$ 26,673	$ 582	$ 0	$ 27,255
Total held-to-maturity debt securities	$ 26,673	$ 582	$ 0	$ 27,255

Realized gains on available-for-sale securities were $2,000 and $209,000 in the quarters ending March 31, 2012 and 2011, respectively. Realized losses on available-for-sale securities were $0 and $114,000 in the quarters ending March 31, 2012 and 2011, respectively.

The following table summarizes available-for-sale securities that had unrealized losses at March 31, 2012:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 190,057	$ 1,945	$ 0	$ 0	$ 190,057	$ 1,945
Obligations of U.S. states and political subdivisions	4,330	76	0	0	4,330	76
Mortgage-backed securities – residential, issued by						
U.S. Government sponsored entities	10,566	40	0	0	10,566	40
Non-U.S. Government agencies or sponsored entities	861	8	3,375	81	4,236	89
Total available-for-sale securities	$ 205,814	$ 2,069	$ 3,375	$ 81	$ 209,189	$ 2,150

There were no unrealized losses on held-to-maturity securities at March 31, 2012.

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2011:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$30,831	$31	$0	$0	$30,831	$31
	1,083	8	0	0	1,083	8

Obligations of U.S. states and political subdivisions						
Mortgage-backed securities – residential, issued by						
U.S. Government sponsored entities	28,307	58	0	0	28,307	58
Non-U.S. Government agencies or sponsored entities	1,944	172	3,932	286	5,876	458
Total available-for-sale securities	$62,165	$269	$3,932	$286	$66,097	$555

There were no unrealized losses on held-to-maturity securities at December 31, 2011.

The gross unrealized losses reported at March 31, 2012 and December 31, 2011 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 March 31, 2012, and December 31, 2011, 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 March 31, 2012, the Company held five mortgage backed securities, with a fair value of $5.6 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 condensed consolidated statements of condition and changes in shareholders' equity. In 2010 and 2011, the Company recorded an additional credit loss component of other-than-temporary charge of $34,000 and $65,000, respectively. The Company's review of these securities as of March 31, 2012 determined that no additional impairment charges were necessary. As of March 31, 2012, the carrying value of these securities exceeded their fair value by $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 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:

	Three Months Ended	
(in thousands)	03/31/2012	03/31/2011
Credit losses at beginning of the period	$ 245	$ 180
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	0	0
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	$ 245	$ 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.

March 31, 2012

(in thousands)	Amortized Cost1	Fair Value
Available-for-sale securities:		
Due in one year or less	$13,483	$13,695
Due after one year through five years	215,052	227,920
Due after five years through ten years	379,105	380,003
Due after ten years	9,150	9,319
Total	616,790	630,937
Mortgage-backed securities	584,859	608,639
Total available-for-sale debt securities	$1,201,649	$1,239,576

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

December 31, 2011

(in thousands)	Amortized Cost1	Fair Value
Available-for-sale securities:		
Due in one year or less	$8,611	$8,722
Due after one year through five years	252,388	265,814
Due after five years through ten years	202,782	205,584
Due after ten years	9,153	9,376
Total	472,934	489,496
Mortgage-backed securities	630,896	653,027
Total available-for-sale debt securities	$1,103,830	$1,142,523

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

March 31, 2012

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		

Due in one year or less	$11,840	$11,855
Due after one year through five years	10,669	11,063
Due after five years through ten years	2,872	2,990
Due after ten years	940	941
Total held-to-maturity debt securities	$26,321	$26,849

December 31, 2011

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$11,905	$11,932
Due after one year through five years	10,808	11,234
Due after five years through ten years	3,004	3,133
Due after ten years	956	956
Total held-to-maturity debt securities	$26,673	$27,255

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 FHBLNY stock and FRB stock totaled $14.4 million and $2.1 million at March 31, 2012, respectively, and $17.0 million and $2.1 million at December 31, 2011, 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)	03/31/2012	12/31/2011
Obligations of U.S. Government sponsored entities	$12,454	$12,693
Mortgage-backed securities – residential, issued by		
U.S. Government sponsored entities	6,312	6,905
Total	$18,766	$19,598

The net loss on trading account securities, which reflects mark-to-market adjustments, totaled $82,000 for the three months ended March 31, 2012, and $50,000 for the three months ended March 31, 2011.

5. Loans and Leases

Loans and Leases at March 31, 2012, and December 31, 2011 were as follows:

(in thousands)	03/31/2012	12/31/2011
Commercial and industrial		
Agriculture	$53,070	$67,566
Commercial and industrial other	410,563	417,128
Subtotal commercial and industrial	463,633	484,694
Commercial real estate		
Construction	27,811	47,304
Agriculture	53,334	53,071
Commercial real estate other	690,524	665,859
Subtotal commercial real estate	771,669	766,234
Residential real estate		
Home equity	157,405	161,278
Mortgages	517,824	500,034
Subtotal residential real estate	675,229	661,312
Consumer and other		
Indirect	31,368	32,787
Consumer and other	30,371	30,961

Subtotal consumer and other	61,739	63,748
Leases	5,867	6,489
Total loans and leases	1,978,137	1,982,477
Less: unearned income and deferred costs and fees	(568)	(628)
Total loans and leases, net of unearned income and deferred costs and fees	$1,977,569	$1,981,849

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, 2011. 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 March 31, 2012. 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 March 31, 2012 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	$ 0	$ 0	$ 53,070	$ 53,070	$ 0	$ 37
Commercial and industrial other	556	854	409,153	410,563	28	7,255
Subtotal commercial and industrial	556	854	462,223	463,633	28	7,292
Commercial real estate						
Construction	6	9,638	18,167	27,811	0	11,943
Agriculture	215	0	53,119	53,334	0	172
Commercial real estate other	6,704	9,498	674,322	690,524	1,202	12,079
Subtotal commercial real estate	6,925	19,136	745,608	771,669	1,202	24,194
Residential real estate						
Home equity	840	1,254	155,311	157,405	322	1,243
Mortgages	3,095	4,781	509,948	517,824	0	5,507
Subtotal residential real estate	3,935	6,035	665,259	675,229	322	6,750
Consumer and other						
Indirect	660	208	30,500	31,368	0	219
Consumer and other	0		30,371	30,371	0	0

Subtotal consumer and other	660	208	60,871	61,739	0	219
Leases	4	0	5,863	5,867	0	0
Total loans and leases	12,080	26,233	1,939,824	1,978,137	1,552	38,455
Less: unearned income and deferred costs and fees	0	0	0	(568)	0	0
Total loans and leases, net of unearned income and deferred costs and fees	$ 12,080	$ 26,233	$ 1,939,824	$ 1,977,569	$ 1,552	$ 38,455

An age analysis of past due loans, segregated by class of loans, as of December 31, 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	26	0	67,540	67,566	0	175
Commercial and industrial other	890	155	416,083	417,128	0	6,930
Subtotal commercial and industrial	916	155	483,623	484,694	0	7,105
Commercial real estate						
Construction	102	7,761	39,441	47,304	0	12,958
Agriculture	186	211	52,674	53,071	0	346
Commercial real estate other	4,923	9,449	651,487	665,859	0	13,048
Subtotal commercial real estate	5,211	17,421	743,602	766,234	0	26,352
Residential real estate						
Home equity	1,217	1,232	158,829	161,278	322	1,222
Mortgages	4,808	4,942	490,284	500,034	1,056	4,662
Subtotal residential real estate	6,025	6,174	649,113	661,312	1,378	5,884
Consumer and other						
Indirect	1,009	228	31,550	32,787	2	237
Consumer and other	0	0	30,961	30,961	0	0
Subtotal consumer and other	1,009	228	62,511	63,748	2	237
Leases	10	0	6,479	6,489	0	10
Total loans and leases	13,171	23,978	1,945,328	1,982,477	1,380	39,588
Less: unearned income and deferred costs and fees	0	0	0	(628)	0	0
Total loans and leases, net of unearned income and deferred costs and fees	$ 13,171	$ 23,978	$ 1,945,328	$ 1,981,849	$ 1,380	$ 39,588

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 March 31, 2012, 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 months ended March 31, 2012 and 2011. 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 March 31, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for credit losses:						
Beginning balance	$ 8,936	$ 12,662	$ 4,247	$ 1,709	$ 39	$ 27,593
Charge-offs	(252)	(969)	(409)	(259)	0	(1,889)
Recoveries	19	0	0	100	0	119
Provision	(433)	621	653	318	(34)	1,125
Ending Balance	$ 8,270	$ 12,314	$ 4,491	$ 1,868	$ 5	$ 26,948

Three months ended March 31, 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	(589)	(311)	(1,098)	(166)	0	(2,164)
Recoveries	327	41	1	88	0	457
Provision	1,132	(284)	1,380	(311)	(7)	1,910
Ending Balance	$ 8,694	$ 13,891	$ 3,809	$ 1,587	$ 54	$ 28,035

At March 31, 2012 and December 31, 2011, 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
March 31, 2012						
Individually evaluated for impairment	$2,044	$494	$0	$0	$0	$2,538
Collectively evaluated for impairment	6,226	11,820	4,491	1,868	5	24,410
Ending balance	$8,270	$12,314	$4,491	$1,868	$5	$26,948
December 31, 2011						
Individually evaluated for impairment	$2,863	$667	$0	$0	$0	$3,530
Collectively evaluated for impairment	6,073	11,995	4,247	1,709	39	24,063
Ending balance	$8,936	$12,662	$4,247	$1,709	$39	$27,593

The recorded investment in loans and leases summarized on the basis of the Company's impairment methodology as of March 31, 2012 and December 31, 2011 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
March 31, 2012						
Individually evaluated for impairment	$6,309	$23,213	$426	$0	$0	$29,948
Collectively evaluated for impairment	457,323	748,457	674,803	61,739	5,867	1,948,189
Total	$463,633	$771,669	$675,229	$61,739	$5,867	$1,978,137
December 31, 2011						
Individually evaluated for impairment	$10,161	$22,150	$445	$0	$0	$32,756
Collectively evaluated for impairment	474,533	744,084	660,867	63,748	6,489	1,949,721
Total	$484,694	$766,234	$661,312	$63,748	$6,489	$1,982,477

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 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 dependent 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 March 31, 2012 and December 31, 2011.

(in thousands)	03/31/2012 Recorded Investment	03/31/2012 Unpaid Principal Balance	03/31/2012 Related Allowance	12/31/2011 Recorded Investment	12/31/2011 Unpaid Principal Balance	12/31/2011 Related Allowance
With no related allowance						
Commercial and industrial						
Commercial and industrial other	$2,223	$2,663	$0	$2,489	$2,915	$0
Commercial real estate						
Construction	8,004	13,613	0	9,018	14,628	0
Commercial real estate other	14,715	15,362	0	12,150	12,496	0
Residential real estate						
Residential real estate other	426	426	0	445	445	0
Subtotal	$25,368	$32,064	$0	$24,102	$30,484	$0
With related allowance						
Commercial and industrial						
Commercial and industrial other	4,086	4,086	2,044	4,197	4,197	2,113
Commercial real estate						
Construction	0	0	0	3,475	3,475	750
Commercial real estate other	494	494	494	982	982	667
Subtotal	$4,580	$4,580	$2,538	$8,654	$8,654	$3,530
Total	$29,948	$36,644	$2,538	$32,756	$39,138	$3,530

The average recorded investment and interes income recognized on impaired loans was as follows:

(in thousands)	03/31/2012 Average Recorded Investment	03/31/2012 Interest Income Recognized	03/31/2011 Average Recorded Investment	03/31/2011 Interest Income Recognized
With no related allowance				
Commercial and industrial				
Commercial and industrial other	2,143	0	3,441	0
Commercial real estate				
Construction	9,207	0	0	0
Commercial real estate other	16,619	0	12,216	10
Residential real estate				
Residential real estate other	407	0	0	0
Subtotal	$28,376	$ 0	$15,657	$ 10

With related allowance				
Commercial and industrial				
Commercial and industrial other	4,142	0	2,842	0
Commercial real estate				
Construction	0	0	13,113	0
Commercial real estate other	493	0	4,535	0
Subtotal	$4,635	$0	$20,490	$0
Total	$33,011	$0	$36,147	$10

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. 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. There were no loans modified as TDRs during the three months ended March 31, 2012.

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 months ended March 31, 2012, there were no TDRs that had been restructured in the 12 months prior to March 31, 2012 that 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 March 31, 2012 and December 31, 2011.

March 31, 2012

(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	$371,875	$51,687	$628,232	$51,533	$9,710	$1,113,037
Special Mention	21,633	715	32,150	285	7,866	62,649
Substandard	17,055	668	28,798	1,516	10,235	58,272
Doubtful	0	0	1,344	0	0	1,344
Total	$410,563	$53,070	$690,524	$53,334	$27,811	$1,235,302

December 31, 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	$ 377,083	$ 65,795	$ 602,915	$ 50,333	$ 28,232	$ 1,124,358
Special Mention	14,488	1,059	25,743	1,022	9,844	52,156
Substandard	25,557	712	35,707	1,716	9,228	72,920
Doubtful	0	0	1,494	0	0	1,494
Total	$ 417,128	$ 67,566	$ 665,859	$ 53,071	$ 47,304	$ 1,250,928

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 March 31, 2012 and December 31, 2011.

March 31, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Performing	$155,840	$512,317	$31,149	$30,371	$729,677
Nonperforming	1,565	5,507	219	0	7,291
Total	$157,405	$517,824	$31,368	$30,371	$736,968

December 31, 2011

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Performing	$159,734	$494,316	$32,548	$30,961	$717,559
Nonperforming	1,544	5,718	239	0	7,501

Total	$161,278	$500,034	$32,787	$30,961	$725,060

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 months ending March 31, 2012 and 2011 is presented in the table below.

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(in thousands, except share and per share data)	Three Months Ended 03/31/2012	Three Months Ended 03/31/2011
Basic		
Net income available to common shareholders	$ 7,811	$ 8,773
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(34)	(11)
Net earnings allocated to common shareholders	7,777	8,762
Weighted average shares outstanding, including participating securities	11,151,981	10,919,110
Less: average participating securities	(48,789)	(13,913)
Weighted average shares outstanding - Basic	11,103,192	10,905,197
Diluted		
Net earnings allocated to common shareholders	7,777	8,762
Weighted average shares outstanding - Basic	11,103,192	10,905,197
Dilutive effect of common stock options or restricted stock awards	44,298	50,233
Weighted average shares outstanding - Diluted	11,147,490	10,955,430
Basic EPS	0.70	0.80
Diluted EPS	0.70	0.80

The dilutive effect of common stock options or restricted awards calculation for the three months ended March 31, 2012 and 2011 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 585,824 and 704,833 because the exercise prices were greater than the average market price during these periods.

8. 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

	Pension Benefits Three Months Ended		Life and Health Three Months Ended		SERP Benefits Three Months Ended	
(in thousands)	03/31/2012	03/31/2011	03/31/2012	03/31/2011	03/31/2012	03/31/2011
Service cost	$624	$564	$33	$28	$81	$51
Interest cost	713	664	102	93	181	154
Expected return on plan assets for the period	(824)	(881)	0	0	0	0
Amortization of transition liability	0	0	17	17	0	0

Amortization of prior service cost	(31)	(29)	4	4	38	25
Amortization of net loss	414	410	1	1	57	31
Net periodic benefit cost	$896	$728	$157	$143	$357	$261

The Company realized approximately $300,000 and $275,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the three months ended March 31, 2012 and 2011, respectively.

The Company is not required to contribute to the pension plan in 2012, but it may make voluntary contributions. The Company contributed $5.0 million to the pension plan in the first three months of 2012.

9. 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.

	Three Months Ended	
(in thousands)	03/31/2012	03/31/2011
Noninterest Income		
Other service charges	$537	$561
Increase in cash surrender value of corporate owned life insurance	426	411
Net gain on sale of loans	100	164
Other income	201	693
Total other income	$1,264	$1,829
Noninterest Expenses		
Marketing expense	$1,173	$862
Professional fees	887	599
Software licensing and maintenance	947	1,025
Cardholder expense	582	481
Other expenses	3,617	3,241
Total other operating expense	$7,206	$6,208

10. 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 March 31, 2012, the Company's maximum potential obligation under standby letters of credit was $55.2 million compared to $55.3 million at December 31, 2011. 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.

11. 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 2011 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 March 31, 2012

(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	$33,070	$60	$ (2)	$ 33,128
Interest expense	5,689	0	(2)	5,687
Net interest income	27,381	60	0	27,441
Provision for loan and lease losses	1,125	0	0	1,125
Noninterest income	4,839	7,181	(359)	11,661
Noninterest expense	20,689	6,041	(359)	26,371
Income before income tax expense	10,406	1,200	0	11,606
Income tax expense	3,333	429	0	3,762
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	7,073	771	0	7,844
Less: Net income attributable to noncontrolling interests	33	0	0	33
Net Income attributable to Tompkins Financial Corporation	$7,040	$771	$ 0	$ 7,811
Depreciation and amortization	$1,131	$78	$ 0	$ 1,209
Assets	3,519,337	31,110	(3,753)	3,546,694
Goodwill	23,600	21,053	0	44,653
Other intangibles, net	2,333	1,583	0	3,916
Net loans and leases	1,950,621	0	0	1,950,621
Deposits	2,863,031	0	(3,595)	2,859,436
Total equity	282,863	23,104	0	305,967

As of and for the three months ended March 31, 2011

(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	$34,216	$73	$ (2)	$ 34,287
Interest expense	6,747	0	(2)	6,745
Net interest income	27,469	73	0	27,542
Provision for loan and lease losses	1,910	0	0	1,910
Noninterest income	5,557	7,263	(328)	12,492
Noninterest expense	19,918	5,626	(328)	25,216
Income before income tax expense	11,198	1,710	0	12,908
Income tax expense	3,493	609	0	4,102
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	7,705	1,101	0	8,806
Less: Net income attributable to noncontrolling interests	33	0	0	33
Net Income attributable to Tompkins Financial Corporation	$7,672	$1,101	$ 0	$ 8,773
Depreciation and amortization	$1,097	$77	$ 0	$ 1,174
Assets	3,255,200	28,654	(4,960)	3,278,894
Goodwill	23,600	18,049	0	41,649
Other intangibles, net	2,785	1,254	0	4,039
Net loans and leases	1,886,309	0	0	1,886,309

Deposits	2,617,299	0	(4,782)	2,612,517
Total equity	260,650	21,587	0	282,237

12. Fair Value

FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB ASC Topic 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Transfers between leveling categories, when determined to be appropriate, are recognized at the end of each reporting period.

The three levels of the fair value hierarchy under FASB ASC Topic 820 are:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Recurring Fair Value Measurements
March 31, 2012

(in thousands)	Fair Value 03/31/2012	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$12,454	$12,454	$0	$0
Mortgage-backed securities – residential				
U.S. Government sponsored entities	6,312	6,312	0	0
Available-for-sale securities				
U.S. Treasury securities	2,049	2,049	0	0
Obligations of U.S. Government sponsored entities	562,586	0		