TOMPKINS FINANCIAL CORP
Form 10-K
March 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2009**

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	**16-1482357**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

The Commons, P.O. Box 460, Ithaca, New York	**14851**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes o No o. *The registrant has not yet been phased into the interactive data requirements.

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

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

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

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

The aggregate market value of the registrant s voting stock held by non-affiliates was $395,859,616 on June 30, 2009, based on the closing sales price of a share of the registrant s common stock, $.10 par value (the Common Stock), as reported on the NYSE-Amex, on such date.

The number of shares of the registrant s Common Stock outstanding as of February 25, 2010, was 10,728,128 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement relating to its 2010 Annual Meeting of stockholders to be held on May 10, 2010, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Form 10-K where indicated.

TOMPKINS FINANCIAL CORPORATION

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2009

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PART I

Item 1. Business

The disclosures set forth in this Item1. Business are qualified by the section captioned Forward-Looking Statements in Item 6. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Report and other cautionary statements set forth elsewhere in this Report.

General

Tompkins Financial Corporation, (Tompkins or the Company) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. The Company s subsidiaries include: three wholly-owned banking subsidiaries, Tompkins Trust Company (the Trust Company), The Bank of Castile and The Mahopac National Bank (Mahopac National Bank); a wholly-owned insurance subsidiary, Tompkins Insurance Agencies, Inc. (Tompkins Insurance); a wholly-owned financial planning, wealth management and broker-dealer subsidiary, AM&M Financial Services, Inc. (AM&M); and Tompkins Capital Trust I and Sleepy Hollow Capital Trust I, each of whose common stock is 100% owned by the Company. The Company s principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company s common stock is traded on the NYSE-Amex under the Symbol TMP.

Tompkins was organized in 1995, under the laws of the State of New York, as a bank holding company for the Trust Company, a commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. Information relating to revenues, profit and loss, and total assets for the Company s two business segments banking and financial services - is incorporated herein by reference to Part II, Item 7. of this Report.

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

On May 9, 2008, the Company acquired control of Sleepy Hollow Bancorp, Inc., (Sleepy Hollow), a privately held bank holding company located in Sleepy Hollow, New York. The outstanding shares of common stock of Sleepy Hollow were cancelled and exchanged for the right to receive the merger consideration totaling $30.2 million. The cost of the Sleepy Hollow acquisition was approximately $30.5 million, including acquisition related costs of approximately $234,000. Upon completion of the Sleepy Hollow acquisition, Sleepy Hollow Bank, the wholly-owned subsidiary of Sleepy Hollow, was merged into Mahopac National Bank, and its five full service offices and one limited service office, all in Westchester County, New York, became offices of Mahopac National Bank. Additional information on recent acquisitions is provided in Note 2 Mergers and Acquisitions in the Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

Narrative Description of Business

Information about the Company s business segments is included in Note 22 Segment and Related Information in the Notes to Consolidated Financial Statements in Part II, Item 7. of this Report. The Company has identified two business segments, banking and financial services. Financial services activities consist of the results of the Company s trust, financial planning and wealth management, broker-dealer services, and insurance and risk management operations. All other activities are considered banking.

Banking services consist primarily of attracting deposits from the areas served by the Company s banking subsidiaries 45 banking offices and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans, and leases in those same areas. Residential real estate mortgage loans are generally underwritten in accordance with Federal Home Loan Mortgage Corporation (FHLMC) guidelines, which enhance the liquidity of these lending products. The Company s subsidiary banks have sold residential mortgage loans to FHLMC over the past several years to manage exposure to changing interest rates and to take advantage of favorable market conditions. The Company s subsidiary banks retain the servicing of the loans sold to FHLMC and record a servicing asset at the time of sale. For additional details on loan sales, refer to Note 5 Loan and Lease Classification Summary and Related Party Transactions in the Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

The Company s lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Policies and procedures are reviewed on a regular basis. Reporting systems are in place to provide management with ongoing information related

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to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. The Company has an independent loan review process that reviews and validates the risk identification and assessment made by the lenders and credit personnel. The results of these reviews are presented to the Board of Directors of each of the Company s banking subsidiaries, and the Company s Audit Committee.

The Company s principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan and lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities. Tompkins provides a variety of financial services to individuals and small business customers. Some of the traditional banking services and financial services are detailed below.

Commercial Services

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

Retail Services

The Company s subsidiary banks provide a variety of retail banking services including checking accounts, savings accounts, time deposits, IRA products, brokerage services, residential mortgage loans, personal loans, home equity loans, credit cards, debit cards and safe deposit services. Retail services are accessible through a variety of delivery systems including branch facilities, ATMs, voice response, Internet banking, and remote deposit services, a service that brings deposit capability to an individual s desk any time of the day or night.

Securities Portfolio

The Company maintains a portfolio of securities such as U.S. government sponsored entities securities, obligations of states and political subdivisions thereof, equity securities, and interest-bearing deposits. Management typically invests in securities with short to intermediate average lives in order to better match the interest rate sensitivities of its assets and liabilities.

Investment decisions are made within policy guidelines established by the Company s Board of Directors. The investment policy established by the Company s Board of Directors is based on the asset/liability management goals of the Company, and is monitored by the Company s Asset/Liability Management Committee. The intent of the policy is to establish a portfolio of high quality diversified securities, which optimizes net interest income within safety and liquidity limits deemed acceptable by the Asset/Liability Management Committee. Securities, other than certain obligations of states and political subdivisions thereof, are generally classified as available-for-sale. Securities available-for-sale may be used to enhance total return, provide additional liquidity, or reduce interest rate risk.

The Company adopted FASB ASC Topic 825, *Financial Instruments* (ASC Topic 825), effective January 1, 2008. With the adoption, the Company elected to account for certain securities and certain borrowings at fair value, with unrealized gains or losses included in earnings.

Trust and Investment Management Services

The Company provides trust and investment services through Tompkins Investment Services (TIS), a division of Tompkins Trust Company, and investment services through AM&M. Tompkins Investment Services, with office locations at all three of the Company s subsidiary banks, provides a full range of money management services, including investment management accounts, custody accounts, trusts, retirement plans and rollovers, estate settlement, and financial planning. AM&M provides fee-based financial planning and wealth management services for small business owners, professionals and corporate executives and other individuals with complex financial needs.

Broker-Dealer Services

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

Insurance Services

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance. Tompkins Insurance is an independent insurance agency, representing many major insurance carriers. Tompkins Insurance has automated systems for record keeping, claim processing and coverage confirmation, and can provide insurance pricing comparisons from a wide range of insurance companies. Tompkins Insurance provides employee benefits consulting to employers in Western and Central New York, assisting them with

their medical, group life insurance and group disability insurance. In addition to its seven stand-alone offices, Tompkins Insurance shares several offices with The Bank of Castile and The Trust Company. AM&M operates a subsidiary that creates customized risk management plans using life, disability and long-term care insurance products.

Subsidiaries

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

Tompkins Trust Company (the Trust Company)

The Trust Company is a New York State-chartered commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. The Trust Company operates 15 banking offices, including 2 limited-service banking offices in the counties of Tompkins, Cortland, Cayuga and Schuyler, New York. The Trust Company s largest market area is Tompkins County, which has a population of approximately 101,000. Education plays a significant role in the Tompkins County economy with Cornell University and Ithaca College being two of the county s major employers. The negative trends affecting the national economy have had an impact on the markets served by the Trust Company, as evidenced by an increase in the unemployment rate. Nevertheless, trends for unemployment and housing compare favorably to New York State and national trends. The Trust Company has a full-service office in Cortland, New York and a full-service office in Auburn, New York. Both of these offices are located in counties contiguous to Tompkins County.

The Bank of Castile (The Bank of Castile)

The Bank of Castile is a New York State-chartered commercial bank and conducts its operations through its 15 banking offices, in towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State. The main business office for The Bank of Castile is located in Batavia, New York and is shared with Tompkins Insurance. The Bank of Castile serves a five-county market, much of which is rural in nature, but also includes Monroe County, where the city of Rochester is located. The population of the counties served by The Bank of Castile, other than Monroe, is approximately 205,000. The Bank of Castile lending portfolio includes loans to the agricultural industry. Weak economic conditions and low milk prices strained the agricultural industry in 2009.

The Mahopac National Bank (Mahopac National Bank)

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

Putnam County has a population of approximately 99,000 and is about 60 miles north of Manhattan. Dutchess County has a population of approximately 293,000, and Westchester County has a population of approximately 954,000. All three counties have seen an increase in the unemployment rate as a result of the downturn in the State and national economies. Given the proximities of these counties to New York City, the significant layoffs at financial firms and large corporations are likely to have an impact on the local economies, the extent of which is difficult to estimate. The recent turbulence experienced by many financial industry competitors has also provided continued opportunities for growth.

Tompkins Insurance Agencies, Inc. (Tompkins Insurance)

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

AM&M Financial Services, Inc. (AM&M)

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

Tompkins Capital Trust I

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

Sleepy Hollow Capital Trust I

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

For additional details on Tompkins Capital Trust I and Sleepy Hollow Capital Trust I refer to Note 12 Trust Preferred Debentures in the Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

Competition

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

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

Supervision and Regulation

Regulatory Agencies

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

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

Share Repurchases and Dividends

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

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

Liability of Commonly Controlled Institutions

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

Intercompany Transactions

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

Capital Adequacy

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

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

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

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

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

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

For further information concerning the regulatory capital requirements, actual capital amounts and the ratios of Tompkins and its bank subsidiaries, see the discussion in Note 20 Regulations and Supervision in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

Deposit Insurance

Historically, all deposit accounts of the Company s subsidiary banks were insured by the Deposit Insurance Fund (DIF), generally in amounts up to $100,000 per depositor. Certain types of retirement accounts are insured up to $250,000 per insured depositor. In October 2008, the FDIC announced the Temporary Liquidity Guarantee Program (TLGP). The TLGP provides full FDIC deposit insurance on funds invested in noninterest-bearing transaction accounts, and Negotiable Order of Withdrawal (NOW) accounts paying less than 0.5% interest per annum held at participating FDIC insured institutions. In November 2008, Tompkins elected to participate in the TLGP. For this additional insurance coverage,

participating depository institutions paid a fee of 10 basis points per quarter on amounts in covered accounts exceeding $250,000. The TLGP was initially set to end on December 31, 2009, but was extended until June 30, 2010. The extension provided an opportunity to opt out of the program, however, Tompkins has elected to continue enrollment. A new risk-based pricing schedule will accompany this extension and cost increases will range from an additional 5 - 15 basis points (annualized) for Risk Category I through IV institutions. Risk Category I institutions would be assessed an additional 5 basis points for continued participation in the program. All of Tompkins subsidiary banks fall within the Risk Category I classification as of the report date. Separately, Congress extended the temporary increase in the standard coverage limit to $250,000 until December 31, 2013.

On December 16, 2008, the Board of Directors of the FDIC voted to adopt a final rule increasing risk-based assessment rates uniformly by 7 basis points (7 cents for every $100 of deposits), on an annual basis, for the first quarter of 2009. This increase is a response to higher levels of bank failures that occurred in 2008. The assessment increase creates a path for the DIF to return to its statutorily mandated level. Under the final rule, risk-based rates would range between 12 and 50 basis points (annualized) for the first quarter 2009 assessment. The Chairman of the Committee on Banking, Housing, and Urban Affairs also introduced legislation which was in approved by Congress in May 2009, The Depositor Protection Act of 2009, which increased the FDIC s borrowing authority with the U.S. Treasury to $100.0 billion from $30.0 billion with a temporary ceiling of $500.0 billion through 2010.

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

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

Insurance premiums for periods covered in this report were governed by The Federal Deposit Insurance Reform Act of 2005 and The Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively the Reform Act). Under the Reform Act, the FDIC modified its risk-based deposit premium assessment system under which each depository institution is placed in one of four assessment categories based on the institution s capital classification under the prompt corrective action provisions and an institution s long-term debt issuer ratings. Effective January 1, 2007, the adjusted assessment rates for insured institutions under the modified system range from 5 basis points to 43 basis points depending upon the assessment category into which the insured institution is placed. Under the previous assessment system, the adjusted assessment rates ranged from 0 basis points to 27 basis points.

The Reform Act provided for a one-time assessment credit for eligible insured depository institutions (those institutions that were in existence on December 31, 1996 and paid a deposit insurance assessment prior to that date, or are a successor to any such institution). The credit was to be used to offset up to 100% of the 2007 DIF assessment, and if not completely used in 2007, was to be applied to not more than 90% of each of the aggregate 2008, 2009 and 2010 DIF assessments. The Company s one-time historical assessment credit was $1.0 million, of which $370,000 and $657,000 were used to offset the Federal deposit insurance assessments in 2008 and 2007, respectively. FDIC insurance expense, excluding the TLGP program, special assessments levied in 2009, and Financing Corporation (FICO) assessments totaled $2.9 million in 2009, $865,000 in 2008 and $14,000 in 2007.

In addition to the risk-based deposit insurance assessments, the FDIC is a collection agent for additional assessments imposed by FICO, a separate U.S. government agency affiliated with the FDIC, on insured deposits to pay for the interest cost of FICO bonds. The Company paid FICO assessments of $246,000 in 2009 and $225,000 in 2008.

Depositor Preference

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

Community Reinvestment Act

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

Sarbanes-Oxley Act of 2002

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

The USA Patriot Act

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

The Emergency Economic Stabilization Act of 2008

In the third quarter of 2008, the Federal Reserve, the U.S. Treasury, and the FDIC initiated measures to stabilize the financial markets and to provide liquidity for financial institutions. The Emergency Economic Stabilization Act of 2008 (EESA) was enacted in October of 2008 and authorizes the U.S. Treasury to provide funds to be used to restore liquidity and stability to the U.S. financial system. Under authority of EESA, the U.S. Treasury initiated a voluntary capital purchase program to encourage financial institutions to build capital to increase lending and to support the economy. Under the program, the U.S. Treasury has been purchasing senior preferred shares of financial institutions, together with warrants to purchase shares of common stock. The Company determined that it did not need additional capital and, although eligible to participate in this program, elected not to issue and sell shares of preferred stock. As mentioned above, EESA also increased FDIC insurance deposit limits for most accounts from $100,000 to $250,000 through December 31, 2009.

Financial Privacy

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

Office of Foreign Assets Control Regulation

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

Consumer Protection Laws

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

Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act will prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machines (ATM) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer s account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. Before opting in, the consumer must be provided a notice that explains the financial institution s overdraft services, including the fees associated with the service, and the consumer s choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in.

Other Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory authorities. These initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to change the financial institution regulatory environment. Such legislation could change banking laws and the operating environment

of Tompkins in substantial, but unpredictable ways. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations would have on our financial condition or results of operations.

Employees

At December 31, 2009, the Company had 744 employees, approximately 80 of whom were part-time. No employees are covered by a collective bargaining agreement and the Company believes its employee relations are excellent.

Available Information

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

Item 1A. Risk Factors

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

Economic Conditions / Financial Markets

General economic conditions impact the banking and financial services industry. The Company s financial performance generally, and in particular the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of collateral securing these loans, is highly dependent upon the business environment in the markets where the Company operates. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the services offered by the Company s two business segments.

Economic conditions have been weak over the last three years. Overall market conditions in 2009 included a weakened housing market with falling home prices and rising foreclosures, higher unemployment, difficulties in financial and credit markets, slowdown in consumer spending, a decrease in consumer confidence, slumping auto sales, and generally reduced business activity across a wide range of industries and regions in the U.S.

The U.S. government, the Federal Reserve and other regulators have taken numerous steps to increase liquidity and to restore investor confidence; however, there continues to be pressure on asset values and liquidity and a general lack of confidence in the financial markets. As such, the followings risks are associated with economic conditions:

- A further downturn in the housing markets and continued pressure on real estate values may result in higher delinquencies, foreclosures, and charge-offs, which would negatively affect the Company s financial condition and results of operations.
- A continued rise in unemployment may result in lower demand for the Company s products and services.
- Weak equities markets and declining stock market prices may affect the volume of income and demand for fee-based services in the Company s financial services segment.
- Lower earnings could result from other-than-temporary impairment charges related to the Company s investment securities portfolio.
- An increase in bank failures may result in additional increases in FDIC premiums as well as additional banking regulations, which would negatively affect the Company s results of operations. In 2009, the Company s FDIC insurance deposit expense increased significantly over prior year as a result of higher deposit premium rates and a special assessment in the second quarter of 2009.

Economic conditions in 2008 and 2009 contributed to an increase in the Company s past due loans and leases, nonperforming assets and net loan and lease losses as well as a decrease in income from certain fee based products and services. While Tompkins operates in markets that have been impacted to a lesser extent than many areas around the country, there is no assurance that these conditions may not adversely affect the credit quality of the Company s loans, results of operations and financial condition going forward.

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Interest Rate Risk

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

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

For additional information about how the Company manages its interest rate risk, refer to Part II, Item 6A, Quantitative and Qualitative Disclosures About Market Risk of this Report.

Credit Risk

The Company s business of originating and underwriting loans involves credit risk, which is the risk of loss of principal or interest because borrowers, guarantors and related parties fail to perform in accordance with the terms of their loan agreements. The Company has seen some deterioration in asset quality measures over the past two years, driven in large part by weak economic conditions. While management believes that it has appropriately identified and reserved for the credit exposure in these lending relationships, a continuation or worsening of the current economic conditions may result in further declines in asset quality measures and increases in loan losses. To help mitigate credit risk, the Company has adopted comprehensive credit policies, underwriting standards, and loan review procedures. The Company has developed an internal loan grading system which is applied to all commercial and commercial real estate loans. On a quarterly basis, the Company reviews all commercial and commercial real estate loans greater than $500,000 that are below a certain risk rating. Meetings are held to discuss these relationships, including operating results, future cash flows, recent developments and the borrower s outlook, accrual status, and the timing and extent of potential losses, considering collateral valuation and other factors. The Company maintains an allowance for loan losses that in management s judgment is adequate to absorb losses inherent in the loan and lease portfolio.

As of December 31, 2009, residential real estate loans represented approximately 32.5% of the Company s loan portfolio. In light of the Company s underwriting standards, historical experience, and current trends within the residential portfolio, these types of loans are generally viewed as having less risk of default than commercial or commercial real estate loans. See Part II, Item 7, Loans and Leases and The Allowance for Loan and Lease Losses of this Report for further discussion of the lending portfolio and the allowance for loan and lease losses.

The Company regularly reviews its investment securities for declines in value below amortized cost that might be characterized as other-than-temporary. Any declines in value below amortized cost that are deemed to be other-than- temporary are charged to earnings. Management believes that it has established policies and procedures that are appropriate to mitigate the risk of loss. Nonetheless, these policies and procedures may not prevent unexpected losses that could have a material adverse effect on the Company s business, financial condition, results of operations, or liquidity.

With weak economic conditions throughout 2009 and into 2010, credit risk may continue to increase. A weakening economy, increasing unemployment or further deterioration of housing markets could result in increased credit losses.

Government Laws and Regulations

The Company is subject to extensive state and federal laws and regulations, supervision, and legislation that affect how it conducts its business. The majority of these laws and regulations are for the protection of consumers, depositors and the deposit insurance funds. The regulations influence such things as the Company s lending practices, capital structure, investment practices, and dividend policy. Given the current unfavorable and uncertain conditions in the economy and financial markets, it is likely that there will be significant changes to the regulatory environment for the banking and financial services industry. Any changes to state and federal banking laws and regulations may negatively impact the Company s ability to expand services and to increase shareholder value. There can also be significant cost related to compliance with various laws and regulations. The Company has established an extensive internal control structure to ensure compliance with governing laws and regulations, including those related to financial reporting. Refer to Supervision and Regulation for additional information on laws and

regulations.

The Federal Reserve s monetary policies also affect the Company s operating results and financial condition. These policies, which include open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments.

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

Competition

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

Operational Risk

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

Technological Development and Changes

The financial services industry is subject to rapid technological changes with frequent introductions of new technology driven products and services. In addition to improving the Company s ability to serve customers, the effective use of technology increases efficiencies and helps to maintain or reduce expenses. The Company s ability to keep pace with technological changes affecting the financial industry and to introduce new products and services based on this new technology will be important to the Company s continued success.

Integration of Acquisitions

The Company periodically reviews potential acquisition opportunities involving other financial institutions and financial services companies. The Company seeks merger or acquisition partners that are culturally similar, present long-term growth opportunities, have experienced management, and have the potential for improved profitability through economies of scale or expanded services. Risks associated with acquisitions include potential exposure to asset quality issues of the acquired entity, the difficulty and expense of integrating the operations and personnel of the acquired entity, potential disruption to the business of the acquired entity, potential diversion of management time and attention from other matters and impairment of relationships with, and the possible loss of, key employees and customers of the acquired entity. Failure to realize expected revenue increases, cost savings, and/or other projected benefits from an acquisition could have a material adverse effect on the Company s financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company s executive offices are located at 110 North Tioga Street, Ithaca, New York. The Company s banking subsidiaries have 45 branch offices, of which 28 are owned and 17 are leased at market rents. The Company s insurance subsidiary has 5 stand-alone offices, of which 3 are

owned by the Company and 2 are leased at market rents. The Company s wealth management and financial planning subsidiary has 1 office, which it leases at a market rent. Management believes the current facilities are suitable for their present and intended purposes. For additional information about the Company s facilities, including rental expenses, see Note 8 Bank Premises and Equipment in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

Item 3. Legal Proceedings

In October 2007, Visa USA (Visa) completed a reorganization in contemplation of its initial public offering (IPO), which was completed in the first quarter of 2008. As part of that reorganization, Tompkins and other member banks of Visa received shares of common stock of Visa, Inc. Those banks are also obligated under various agreements with Visa to share in losses stemming from certain litigation (Covered Litigation). Tompkins is not a named defendant in any of the Covered Litigation. Although Visa set aside a portion of the proceeds from its IPO in an escrow account to fund any judgments or settlements that may arise out of the Covered Litigation, guidance from the Securities and Exchange Commission (SEC) indicated that Visa member banks should record a liability for the fair value of the contingent obligation to Visa. As of December 31, 2009, the Company had a liability of $450,000 related to the Visa litigation.

The Company is involved in legal proceedings in the normal course of business, none of which are expected to have a material adverse impact on the financial condition or results of operations of the Company.

Executive Officers of the Registrant

The information concerning the Company s executive officers is provided below as of March 1, 2010. Unless otherwise stated, executive officers terms run until the first meeting of the board of directors after the Company s annual meeting of shareholders, and until their successors are elected and qualified.

Name	Age	Title	Year Joined Company
Stephen S. Romaine	45	President and CEO	January 2000
James W. Fulmer	58	Vice Chairman of the Board	January 2000
Robert B. Bantle	58	Executive Vice President	March 2001
David S. Boyce	43	Executive Vice President	January 2001
Francis M. Fetsko	45	Executive Vice President and CFO	October 1996
Gregory J. Hartz	49	Executive Vice President	August 2002
Gerald J. Klein, Jr.	51	Executive Vice President	January 2000
Richard W. Page, Jr.	48	Senior Vice President and Chief Technology Officer	August 2008
Thomas J. Rogers	39	Executive Vice President	January 2006
Kathleen M. Rooney	57	Executive Vice President	April 2004

Business Experience of the Executive Officers:

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

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

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

David S. Boyce has been employed by the Company since January 2001 and was promoted to Executive Vice President in April 2004. He was appointed President and Chief Executive Officer of Tompkins Insurance Agencies in 2002. He has been employed by Tompkins Insurance Agencies, and a predecessor company to Tompkins Insurance Agencies for 16 years.

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

Gregory J. Hartz has been employed by the Company since 2002 and was appointed President and Chief Executive Officer of Tompkins Trust Company and Executive Vice President of the Company effective January 1, 2007. Previously, he was Senior Vice President of Tompkins Trust Company, with responsibility for Tompkins Investment Services.

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

Richard W. Page, Jr. has been employed with Tompkins since 2007 as its Senior Vice President and Chief Technology Officer. He was made a Senior Vice President of the Company, effective August 4, 2008. He was formerly with IBM, and is a graduate of Buffalo University, with an MBA from Syracuse University.

Thomas J. Rogers has been employed by the Company since its acquisition of AM&M Financial Services, Inc. in January 2006, and was appointed President and Chief Executive Officer of AM&M Financial Services, Inc. at that time. He was appointed Executive Vice President of the Company on January 24, 2007. He has been employed by AM&M Financial Services, Inc. since 1998.

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

PART II

Item 4. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Market Price and Dividend Information

The Company s common stock is traded under the symbol TMP on the NYSE-Amex (the Exchange). The high and low closing sale prices, which represent actual transactions as quoted on the Exchange, of the Company s common stock for each quarterly period in 2008 and 2009 are presented below. The per share dividends paid by the Company in each quarterly period in 2008 and 2009 and the payment dates of these dividends are also presented below.

		Market Price		Cash Dividends	
		High	Low	Amount	Date Paid
2008	1st Quarter	$ 46.00	$ 32.88	$ .29	2/15/08
	2nd Quarter	46.50	33.82	.29	5/15/08
	3rd Quarter	49.55	33.16	.31	8/15/08
	4th Quarter	53.91	33.86	.31	11/14/08
2009	1st Quarter	$ 50.76	$ 29.55	$ .31	2/16/09
	2nd Quarter	45.95	36.64	.31	5/15/09
	3rd Quarter	43.59	38.25	.31	8/14/09
	4th Quarter	41.23	35.68	.31	11/16/09

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

As of February 22, 2010, there were approximately 2,087 holders of record of the Company s common stock.

The Company s ability to pay dividends is generally limited to earnings from the prior year, although retained earnings and dividends from its subsidiaries may also be used to pay dividends under certain circumstances. The Company s primary source of funds to pay for shareholder dividends is receipt of dividends from its subsidiaries. Future dividend payments to the Company by its subsidiaries will be dependent on a number of factors, including the earnings and financial condition of each subsidiary, and are subject to the regulatory limitations discussed in Note 20 Regulations and Supervision in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

Issuer Purchases of Equity Securities

The following table includes all Company repurchases, including those made pursuant to publicly announced plans or programs during the quarter ended December 31, 2009.

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (d)
October 1, 2009 through October 31, 2009	1,122	$ 43.11	0	143,500
November 1, 2009 through November 30, 2009	400	$ 40.64	0	143,500
December 1, 2009 through December 31, 2009	1,055	$ 40.41	0	143,500
Total	2,577	$ 41.62	0	143,500

On July 22, 2008, the Company s Board of Directors approved a stock repurchase plan (the 2008 Plan). The 2008 Plan authorizes the repurchase of up to 150,000 shares of the Company s outstanding common stock over a two-year period. The 2008 Plan replaces a previous repurchase plan that expired in July 2008. The Company did not purchase any shares under the 2008 Plan during the fourth quarter of 2009. The Company has purchased 6,500 shares under the 2008 Plan since its inception: 5,000 shares at an average price of $35.51 during the first quarter of 2009 and 1,500 shares at an average price of $38.53 in 2008.

Included above are 1,122 shares purchased in October 2009, at an average cost of $43.11, 400 shares purchased in November 2009 at an average cost of $40.64, and 1,055 shares purchased in December 2009, at an average cost of $40.41 by the trustee of the rabbi trust established by the Company under the Company s Stock Retainer Plan For Eligible Directors of Tompkins Financial Corporation and Participating Subsidiaries, and were part of the director deferred compensation under that plan. Shares purchased under the rabbi trust are not part of the Board approved stock repurchase plan.

Recent Sales of Unregistered Securities

None

Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans is provided in Part III, Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Report.

Performance Graph

The following graph compares the Company s cumulative total stockholder return since December 31, 2004, with (1) the total return index for the NASDAQ Composite and (2) the total return index for SNL Bank Index. The graph assumes $100.00 was invested on December 31, 2004, in the Company s common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

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

performance graph represents past performance and should not be considered an indication of future performance.

	Period Ending					
Index	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**
Tompkins Financial Corporation	100.00	94.63	108.45	95.60	146.94	105.87
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL Bank	100.00	101.36	118.57	92.14	52.57	52.03

Item 5. Selected Financial Data

The following consolidated selected financial data is taken from the Company s audited financial statements as of and for the five years ended December 31, 2009. The following selected financial data should be read in conjunction with the consolidated financial statements and the notes thereto in Part II, Item 7. of this Report. All of the Company s acquisitions during this five year period were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included in the Company s results of operations since their respective acquisition dates.

(in thousands except per share data)	Year ended December 31 2009	2008	2007	2006	2005
FINANCIAL STATEMENT HIGHLIGHTS					
Assets	$ 3,153,260	$ 2,867,722	$ 2,359,459	$ 2,210,837	$ 2,106,870
Total loans	1,914,818	1,817,531	1,440,122	1,326,298	1,271,349
Deposits	2,439,864	2,134,007	1,720,826	1,709,420	1,683,010
Other borrowings	208,956	274,791	210,862	85,941	63,673
Shareholders equity	245,008	219,361	198,647	191,072	182,673
Interest and dividend income	146,795	140,783	132,441	121,041	106,707
Interest expense	39,758	50,393	58,412	48,184	31,686
Net interest income	107,037	90,390	74,029	72,857	75,021
Provision for loan and lease losses	9,288	5,428	1,529	1,424	2,659
Net securities gains (losses)	348	477	384	15	(1,526)
Net income	31,831	29,834	26,371	27,767	27,685
PER SHARE INFORMATION (1)					
Basic earnings per share	2.98	2.81	2.47	2.56	2.55
Diluted earnings per share	2.96	2.78	2.45	2.52	2.52
Cash dividends per share	1.24	1.20	1.13	1.04	0.97
Book value per share	22.87	20.44	18.71	17.49	16.70
SELECTED RATIOS					
Return on average assets	1.06%	1.13%	1.16%	1.30%	1.36%
Return on average equity	13.66%	14.15%	13.88%	14.90%	15.69%
Average shareholders equity to average assets	7.74%	8.01%	8.38%	8.71%	8.66%
Dividend payout ratio	41.61%	42.70%	45.75%	40.63%	38.04%

OTHER SELECTED DATA *(in whole numbers, unless otherwise noted)*

	2009	2008	2007	2006	2005
Employees (average full-time equivalent)	720	686	662	658	587
Banking offices	45	45	39	37	34
Bank access centers (ATMs)	67	69	61	59	51
Trust and investment services assets under management, or custody (in thousands)	$ 2,542,792	$ 2,161,484	$ 2,345,575	$ 2,183,114	$ 1,534,557

(1) Per share data has been retroactively adjusted to reflect a 10% stock dividend paid on February 15, 2010 and a 10% stock dividend paid on May 15, 2006.

Item 6. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Company and its operating subsidiaries for the periods shown. This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with other sections of this Report on Form 10-K, including Part I, Item 1. Business , Part II, Item 5. Selected Financial Data , and Part II, Item 7. Financial Statements and Supplementary Data .

OVERVIEW

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

In addition to traditional banking products and services, the Company provides a full range of money management services through Tompkins Investment Services, a division of Tompkins Trust Company, and AM&M Financial Services, Inc. (AM&M); and insurance products and

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

Tompkins Insurance is an independent insurance agency with a history of over 100 years of service to individual and business clients throughout Western New York. Tompkins Insurance has expanded its geographic footprint into the Ithaca, New York market area with the acquisition of three insurance agencies over the past three years.

Each Tompkins subsidiary operates with a community focus, meeting the needs of the unique communities served. The Company conducts its business through its wholly-owned subsidiaries, Tompkins Trust Company, The Bank of Castile, Mahopac National Bank, Tompkins Insurance, and AM&M. Unless the context otherwise requires, the term Company refers to Tompkins Financial Corporation and its subsidiaries.

Forward-Looking Statements

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

Critical Accounting Policies

In the course of normal business activity, management must select and apply many accounting policies and methodologies and make estimates and assumptions that lead to the financial results presented in the consolidated financial statements and accompanying notes of the Company. There are uncertainties inherent in making these estimates and assumptions, which could materially affect our results of operations and financial position. Management considers the accounting policy relating to the allowance for loan and lease losses (allowance) to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates can have on the Company s results of operations.

The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an adequate allowance is maintained. The Company s methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* and includes allowance allocations calculated in accordance with Accounting Standards Codification (ASC) Topic 310, *Receivables*, and allowance allocations calculated in accordance with ASC Topic 450 *Contingencies.* The Company s methodology for determining 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 assets, 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 periodic basis.

Since the methodology is based upon historical experience, market trends, and management s judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, changes in interest rates, concentration of risk, declines in local property values, and the view of regulatory authorities towards loan classifications. While management considers the allowance to be adequate as of December 31, 2009, under adversely different conditions or assumptions, the Company would need to increase the allowance. Refer to the section captioned Allowance for Loan and Lease Losses elsewhere in this discussion for further details on the Company s methodology and allowance.

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

Another critical accounting policy is the policy for reviewing available-for-sale securities and held-to-maturity securities to determine if declines in fair value below amortized cost are other-than-temporary as required by FASB ASC Topic 320, *Investments Debt and*

Equity Securities. When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. In estimating other-than-temporary impairment losses, management considers, among other factors, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, underlying collateral of the security, and the structure of the security.

All accounting policies are important and the reader of the financial statements should review these policies, described in Note 1 Summary of Significant Accounting Policies in Notes to Consolidated Financial Statements in Part II, Item 7. of this Form 10-K, to gain a better understanding of how the Company s financial performance is reported.

RESULTS OF OPERATIONS
(Comparison of December 31, 2009 and 2008 results)

General

The Company reported diluted earnings per share of $2.96 in 2009, an increase of 6.5% over diluted earnings per share of $2.78 in 2008. Net income for the year ended December 31, 2009, was $31.8 million, up 6.7% compared to $29.8 million in 2008. Improvement in 2009 results over prior year was largely due to improved net interest margin and growth in earning assets. Both 2009 and 2008 results included certain nonrecurring items. Net income for 2009 included $1.4 million of expense related to the FDIC s special deposit insurance assessment. This item negatively impacted 2009 diluted earnings per share by $0.07. Net income for 2008 included after-tax income of $983,000 ($1.6 million pre-tax) related to the Visa IPO. This item added $0.09 to 2008 diluted earnings per share.

In addition to earnings per share, key performance measurements for the Company include return on average shareholders equity (ROE) and return on average assets (ROA). ROE was 13.66% in 2009, compared to 14.15% in 2008, while ROA was 1.06% in 2009, compared to 1.13% in 2008. Tompkins ROA and ROE continue to compare favorably to peer ratios, ranking in the 83rd percentile for ROA and the 89th percentile for ROE of its peer group. The peer group is from the Federal Reserve Board and represents banks and bank holding companies with assets between $3.0 billion and $10.0 billion. The peer ratios are as of December 31, 2009, the most recent data available from the Federal Reserve Board. Total revenues, consisting of net interest income and noninterest income, were $153.3 million in 2009, up $16.8 million or 12.3% over 2008. Revenues in 2008 included $1.6 million of income related to the Visa IPO. Total revenues in 2009 benefited from solid growth in net interest income, resulting from lower funding costs and growth in average earning assets. Low market interest rates in 2009 affected both asset yields and funding costs. However, deposit pricing strategies resulted in funding costs decreasing at a faster rate than asset yields. Noninterest income in 2009 benefited from net gains on assets and liabilities held at fair value and gains on the sales of residential mortgage loans as low interest rates led to higher volumes of loan originations.

Total assets were up 10.0% to $3.2 billion at December 31, 2009. Asset growth over the past twelve months included a $97.3 million increase in total loans and leases and a $168.7 million increase in the securities portfolio. Nonperforming assets increased to 1.12% of total assets, up from 0.56% at year-end 2008, driven in part by deteriorating trends in asset quality due to weak economic conditions.

Segment Reporting

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

The Banking segment reported net income of $28.4 million in 2009, up $2.4 million or 9.5% from net income of $26.0 million in 2008, driven by strong growth in net interest income. Net interest income of $106.8 million was up $16.6 million, or 18.4% in 2009 from $90.2 million in 2008. Net interest income benefited from growth in average earning assets and lower rates paid on interest-bearing liabilities. Both 2009 and 2008 had nonrecurring items, which affect the year-over-year comparison of operating results. Noninterest expense in 2009 included $1.4 million of expense ($0.07 per diluted share) related to the FDIC s special assessment, while noninterest income in 2008 included $1.6 million ($0.09 per diluted share) related to the Visa IPO.

The provision for loan and lease losses in 2009 was $9.3 million, compared to $5.4 million in 2008. The higher provision expense reflects deterioration in asset quality measures as evidenced by an increase in net charge-offs and nonperforming loans, growth in loans and leases, and the impacts of a weak economy.

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Noninterest income of $21.2 million in 2009 was up 1.6% over 2008. As previously mentioned, 2008 noninterest income included $1.6 million of proceeds from the Visa IPO. Service charges on deposit accounts were down $880,000 or 8.6% in 2009 from the prior year. Noninterest income in 2009 benefited from net mark-to-market gains on securities and liabilities held at fair value of $1.5 million compared to net mark-to-market losses of $1.2 million in 2008. Higher residential loan originations and sales in 2009 produced gains on sales of loans of $1.4 million in 2009, up from $105,000 in 2008.

Noninterest expenses totaled $76.7 million in 2009, an increase of $9.0 million or 13.3% over the same period in 2008. The two main contributors to the growth in noninterest expense were FDIC deposits insurance assessments and salaries and benefits. FDIC deposit insurance assessments totaled $5.0 million in 2009, up from $933,000 in 2008, reflecting the special assessment and higher deposit premiums.

The Financial Services segment had net income of $3.4 million in 2009, a decrease of $464,000 or 12.0% from net income of $3.9 million in 2008. Noninterest income derived from the Financial Services segment was $25.6 million in 2009, a decrease of $207,000 or 0.8% compared the same period in 2008. Volatility in the bond and equity markets and a weak overall economy in 2009 had an adverse affect on fee-based businesses, including investment services income. The market value of assets managed by or in custody of the Company at year-end 2009 was up over prior year-end, increasing over the course of the year as a result of higher market levels and new business initiatives. Insurance revenues were up $700,000 or 6.0% in 2009 over prior year. Noninterest expenses of $20.5 million in 2009 were up $550,000 or 2.8% over the same period prior year. The increase was mainly in salaries and benefits, reflecting annual merit increases, stock-based and other incentive compensation accruals, and other operating expenses.

Net Interest Income

Table 1 Average Statements of Condition and Net Interest Analysis shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. Taxable-equivalent net interest income for 2009 was $110.0 million, an increase of $16.8 million, or 18.0%, compared to the same period in 2008. The favorable year-over-year comparison primarily resulted from an increase in the average volume of interest-earning assets, and an increase in net interest margin compared to the same period in the prior year. For 2009, average earning assets were up $359.4 million or 14.7%, over the same period in 2008. The taxable-equivalent net interest margin for 2009 of 3.92% was up from 3.81% in 2008. The net interest margin benefited from the decrease in short-term market interest rates throughout 2009, which reduced both asset yields and funding costs. The lower short-term market rates led to a 54 basis point decrease in the yield on average earning assets to 5.34% for 2009, compared to 5.88% for 2008; however, the decrease in yield on average earning assets was more than offset by lower funding costs. The average cost of interest-bearing liabilities for 2009 was down 83 basis points to 1.72%, compared to 2.55% for 2008.

Taxable-equivalent interest income was up 4.3% in 2009 over 2008. The growth in taxable-equivalent interest income was primarily a result of higher average loan and investment balances as average yields were lower year-over-year. Average loan balances were up $237.7 million or 14.7% in 2009 over 2008, while the average yield on loans decreased 56 basis points to 5.83%. Loan growth in 2009 included a $125.5 million increase in average commercial real estate loans, and a $47.8 million increase in average residential real estate loans. The decrease in yields on average loans in 2009 was partly due to refinancing activity as a result of the prime interest rate reduction of 400 basis points in 2008. Average securities balances were up $97.7 million in 2009 over 2008, while average yields were down 31 basis points.

Interest expense for 2009 was down 21.1% compared to 2008, reflecting lower average rates paid on deposits and borrowings, partially offset by growth in average balances. The average rate paid on interest-bearing deposits during 2009 of 1.28% was 90 basis points lower than the average rate paid in 2008. The decrease in the average cost of interest-bearing deposits reflects a decrease in the interest rates offered on deposit products due to decreases in average market rates combined with an increase in the relative proportion of lower cost savings and money market deposits. Average interest-bearing deposit balances increased by $314.5 million or 19.9% in 2009 compared to 2008. The majority of the increase was in average interest checking, savings and money market deposit balances, which were up 24.5% to $1.1 billion, and average time deposits of $100,000 or less balances were up 9.2% to $420.4 million. Average noninterest bearing deposit balances of $427.0 million were up 4.8% in 2009 over the same period in 2008. Average other borrowings of $204.5 million were up 6.4% over prior year, while the average yield was down 27 basis points from prior year.

Table 1 - Average Statements of Condition and Net Interest Analysis

	December 31,								
	2009			2008			2007		
(dollar amounts in thousands)	**Average Balance**	**Interest**	**Average Yield/Rate**	**Average Balance**	**Interest**	**Average Yield/Rate**	**Average Balance**	**Interest**	**Average Yield/Rate**
ASSETS									
Interest-earning assets:									
Certificates of deposit, other banks	**$ 17,017**	**$ 27**	**0.16%**	$ 6,239	$ 133	2.13%	$ 4,820	$ 217	4.50%
Money market funds	**17,130**	**36**	**0.21**	9,064	246	2.71	4,149	205	4.94
Securities (1)									
U.S. Government securities	**721,438**	**31,812**	**4.41**	615,234	29,130	4.73	535,700	25,619	4.78
Trading securities	**35,067**	**1,362**	**3.88**	43,331	1,923	4.44	59,213	2,762	4.66
State and municipal (2)	**111,253**	**6,715**	**6.04**	110,551	6,648	6.01	103,213	6,270	6.07
Other securities (2)	**20,710**	**1,064**	**5.14**	21,620	1,177	5.44	18,499	1,031	5.57
Total securities	**888,468**	**40,953**	**4.61**	790,736	38,878	4.92	716,625	35,682	4.98
Federal funds sold	**8,542**	**15**	**0.18**	5,258	115	2.19	4,120	217	5.27
FHLB and FRB stock	**20,274**	**893**	**4.40**	18,490	1,074	5.81	13,450	1,010	7.51
Loans, net of unearned income (3)									
Residential real estate	**623,176**	**33,576**	**5.39**	575,356	34,057	5.92	490,839	31,359	6.39
Commercial real estate	**660,887**	**41,903**	**6.34**	535,366	33,711	6.30	424,748	31,418	7.40
Commercial loans (2)	**466,076**	**25,461**	**5.46**	402,263	28,383	7.06	355,084	28,272	7.96
Consumer and other	**87,283**	**6,083**	**6.97**	85,350	6,118	7.17	81,865	5,862	7.16
Lease financing (2)	**13,031**	**784**	**6.02**	14,381	841	5.85	9,881	627	6.35
Total loans, net of unearned income	**1,850,453**	**107,807**	**5.83**	1,612,716	103,110	6.39	1,362,417	97,538	7.16
Total interest-earning assets	**2,801,884**	**149,731**	**5.34**	2,442,503	143,556	5.88	2,105,581	134,869	6.41
Noninterest-earning assets	**207,123**			190,517			160,643		
Total assets	**$ 3,009,007**			$ 2,633,020			$ 2,266,224		
LIABILITIES & SHAREHOLDERS EQUITY									
Deposits:									
Interest-bearing deposits Interest checking, savings, and money market	**$ 1,128,648**	**$ 8,694**	**0.77%**	$ 906,404	$ 12,983	1.43%	$ 723,297	$ 14,361	1.99%
Time Deposits > $100,000	**303,761**	**5,442**	**1.79**	282,547	9,039	3.20	304,614	14,750	4.84
Time Deposits < $100,000	**420,351**	**9,223**	**2.19**	384,903	12,273	3.19	343,969	15,651	4.55
Brokered Time Dep. < $100,000	**43,218**	**852**	**1.97**	7,580	233	3.07	14,729	723	4.91
Total interest-bearing deposits	**1,895,978**	**24,211**	**1.28**	1,581,434	34,528	2.18	1,386,609	45,485	3.28
Federal funds purchased and securities sold under agreements to repurchase	**190,975**	**6,254**	**3.27**	203,385	7,496	3.69	199,126	8,125	4.08
Other borrowings	**204,467**	**8,206**	**4.01**	192,144	8,216	4.28	100,824	4,802	4.76
Trust preferred debentures	**17,311**	**1,087**	**6.28**	2,552	153	6.00	0	0	0.00
Total interest-bearing liabilities	**2,308,731**	**39,758**	**1.72**	1,979,515	50,393	2.55	1,686,559	58,412	3.46
Noninterest-bearing deposits	**427,025**			407,336			356,457		
Accrued expenses and other liabilities	**40,242**			35,384			33,246		
Total liabilities	**2,775,998**			2,422,235			2,076,262		
Tompkins Financial Corporation shareholders equity	**231,498**			207,382			188,482		
Noncontrolling interest	**1,511**			3,403			1,480		

Total equity	**233,009**			210,785			189,962		
Total liabilities and equity	**$ 3,009,007**			$ 2,633,020			$ 2,266,224		
Interest rate spread			**3.62%**			3.33%			2.95%
Net interest income/margin on earning assets		**$ 109,973**	**3.92%**		$ 93,163	3.81%		$ 76,457	3.63%
Tax equivalent adjustment		**(2,936)**			(2,773)			(2,428)	
Net interest income per consolidated financial statements		**$ 107,037**			$ 90,390			$ 74,029	

(1) Average balances and yields on available-for-sale securities are based on amortized cost.

(2) Interest income includes the tax effects of taxable-equivalent adjustments using a combined New York State and Federal effective income tax rate of 40% to increase tax-exempt interest income to a taxable equivalent basis.

(3) Nonaccrual loans are included in the average loan totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

Table 2 - Analysis of Changes in Net Interest Income

(in thousands) (taxable equivalent)	2009 vs. 2008			2008 vs. 2007		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
	Volume	Average Yield/Rate	Total	Volume	Average Yield/Rate	Total
INTEREST INCOME:						
Certificates of deposit, other banks	$ 91	$ (197)	$ (106)	$ 52	$ (136)	$ (84)
Money market funds	120	(330)	(210)	164	(123)	41
Federal funds sold	45	(145)	(100)	49	(151)	(102)
Investments:						
Taxable	4,418	(2,410)	2,008	3,190	(372)	2,818
Tax-exempt	(4)	71	67	415	(37)	378
FHLB and FRB stock	96	(277)	(181)	325	(261)	64
Loans, net:						
Taxable	14,276	(9,886)	4,390	16,235	(10,849)	5,386
Tax-exempt	88	219	307	365	(179)	186
Total interest income	$ 19,130	$ (12,955)	$ 6,175	$ 20,795	$ (12,108)	$ 8,687
INTEREST EXPENSE:						
Interest-bearing deposits:						
Interest checking, savings, and money market	2,673	(6,962)	(4,289)	3,153	(4,531)	(1,378)
Time	2,653	(8,681)	(6,028)	541	(10,120)	(9,579)
Federal funds purchased and securities sold under agreements to repurchase	(439)	(803)	(1,242)	171	(800)	(629)
Other borrowings	1,251	(327)	924	4,010	(443)	3,567
Total interest expense	$ 6,138	$ (16,773)	$ (10,635)	$ 7,875	$ (15,894)	$ (8,019)
Net interest income	$ 12,992	$ 3,818	$ 16,810	$ 12,920	$ 3,786	$ 16,706

Notes: See notes to Table 1 above.

Changes in net interest income occur from a combination of changes in the volume of interest-earning assets and interest-bearing liabilities, and in the rate of interest earned or paid on them. The above table illustrates changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of the change. The $16.8 million increase in taxable-equivalent net interest income from 2008 to 2009 resulted from a $6.2 million increase in interest income and an $10.6 million decrease in interest expense. An increased volume of interest earning assets, in excess of interest bearing liabilities contributed to a net $13.0 million increase in taxable-equivalent net interest income between 2008 and 2009, while changes in interest rates increased taxable-equivalent net interest income by $3.8 million, resulting in the net increase of $16.8 million from 2008.

Provision for Loan and Lease Losses

The provision for loan and lease losses represents management s estimate of the expense necessary to maintain the allowance for loan and lease losses at an adequate level. The provision for loan and lease losses was $9.3 million in 2009, compared to $5.4 million in 2008. The increase in 2009 over prior year was due to growth in the overall loan portfolio, increases in nonperforming loans and leases and net charge-offs, as well as concerns over deteriorating economic conditions and uncertain real estate markets. Nonperforming loans and leases were $34.9 million or 1.82% of total loans and leases at December 31, 2009, compared with $16.0 million or 0.88% of total loans and leases at December 31, 2008. Net charge-offs of $3.6 million in 2009 represented 0.20% of average loans and leases during the period, compared to net charge-offs of $2.8 million in 2008, representing 0.18% of average loans and leases. See the section captioned The Allowance for Loan and Lease Losses included within Management s Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition of this Report for further analysis of the Company s allowance for loan and lease losses.

Noninterest Income

Noninterest income is a significant source of income for the Company, representing 30.2% of total revenues in 2009, and 33.7% in 2008, and is an important factor in the Company s results of operations. The decrease in noninterest income as a percentage of revenues in 2009 compared to 2008 was due to the $16.6 million or 18.4% growth in net interest income outpacing the growth in noninterest income which remained relatively flat compared to 2008. The May 2008 acquisition of Sleepy Hollow Bancorp, Inc.

(Sleepy Hollow) contributed to the stronger growth in net interest income, as the impact of the acquisition on the Company s financial statements is included for a full year in 2009, and only a partial year in 2008.

Investment services income was $13.3 million in 2009, a decrease of 6.0% from $14.2 million in 2008. Investment services income reflects income from Tompkins Investment Services (TIS), a division within the Trust Company, and AM&M. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. TIS generates fee income through managing trust and investment relationships, managing estates, providing custody services, and managing investments in employee benefits plans. TIS also oversees retail brokerage activities in the Company s banking offices. AM&M provides financial planning services, wealth management services, and brokerage services to independent financial planners and investment advisors. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. The market value of assets managed by, or in custody of, Tompkins was $2.5 billion at December 31, 2009, up 13.6% from $2.2 billion at December 31, 2008. These figures include $733.0 million and $541.1 million, respectively, of Company-owned securities where TIS is custodian. The increase in the market value of assets over prior year, reflects a rebound in equity markets and new business. The Company was successful with business development initiatives and customer retention despite the challenging equities markets in 2009 and the recent turmoil in the financial markets.

Insurance commissions and fees were $12.3 million in 2009, an increase of $700,000 or 6.0% over 2008. The growth was at Tompkins Insurance and AM&M. Health and benefit related insurance commissions and fees were up $302,000 or 112.8% over prior year. The Company established this business line in late 2007, and added staff to expand its presence in the life, health and benefits areas. Revenues for personal lines were up $139,000 or 3.0% over prior year, while revenues for commercial lines were in line with prior year. Tompkins Insurance and AM&M continue to increase their penetration rate for customers of the Company s banking subsidiaries.

Service charges on deposit accounts were $9.3 million in 2009, down 8.6% compared to $10.2 million in 2008. The largest component of this category is overdraft fees, which is largely driven by customer activity. Customer activity has been changing over the past several years, with electronic transactions such as debit cards and Internet banking reducing the volume of checks.

Card services income of $3.7 million in 2009 was up $326,000 or 9.8% from 2008. The primary components of card services income are fees related to debit card transactions and ATM usage. Debit card income increased by 7.8% compared to 2008 to $2.3 million, the increase was mainly due to higher volume, partially attributable to the full year impact of a reward based program implemented in the second quarter of 2008. ATM fee income increased by 7.8% compared to 2008, mainly due increased foreign transaction fees.

Net mark-to-market gains on securities and borrowings held at fair value totaled $1.5 million in 2009, compared to net mark-to-market losses of $1.2 million in 2008. Mark-to-market losses or gains relate to the change in the fair value of securities and borrowings where the Company has elected the fair value option. The favorable gain year-over-year is mainly attributed to changes in market interest rates.

The $1.6 million gain on Visa stock redemption in 2008 relates to the proceeds received from the Company s allocation of the Visa, Inc. initial public offering (the Visa IPO), and consists of a $1.2 million gain on the partial redemption of Visa stock and a $0.4 million partial reversal of a fourth quarter 2007 accrual for indemnification charges. Visa withheld a portion of the shares allocated to its member banks to create an escrow account to cover the costs and liabilities associated with certain litigation for which its member banks are obligated to indemnify Visa. Visa s funding of this escrow account allowed member banks to reverse litigation related accruals made in the fourth quarter of 2007, up to each bank s proportionate membership interest in the $3.0 billion used to fund the escrow account.

Other income of $5.9 million in 2009 is up $140,000 or 2.4% from 2008. The primary components of other income are other service charges, increases in cash surrender value of life insurance, gains on sales of residential mortgage loans and income from miscellaneous equity investments, including the Company s investment in a Small Business Investment Company (SBIC).

Other service charge income of $1.9 million was down $720,000 or 27.1% compared to the same period in 2008. Lower safe deposit box fees, lower loan related fees, and lower servicing income were the primary contributors to the decrease in other service charge income.

Increases in cash surrender value of corporate owned life insurance (COLI), net of mortality expense, were $1.1 million in 2009, compared to $1.4 million in 2008. The COLI relates to life insurance policies covering certain senior officers of the Company and its subsidiaries. The Company s average investment in COLI was $35.3 million during 2009, compared to $32.8 million during 2008. The increase reflects earnings as well as the full year impact of the $3.5 million of COLI acquired in the Sleepy Hollow acquisition during the second quarter of 2008. Although income associated with the insurance policies is not included in interest income, the COLI produced an annualized tax-equivalent return of 5.1% for 2009, compared to 7.4% for 2008.

Net gains on the sales of residential mortgage loans totaled $1.4 million for 2009, compared to net gains of $105,000 in 2008. The increase in gains on sales of residential mortgage loans in 2009 is mainly a result of increased residential mortgage refinancing activity

and the decision to sell certain loans in the secondary market to FHLMC. Low market interest rates led to a significant increase in the volume of homeowners refinancing existing mortgages to lower fixed rates. To manage interest rate risk exposures, the Company sold certain fixed rate loan production that had rates below or maturities greater than the thresholds set by the Company s Asset/Liability Committee.

As of December 31, 2009, the Company s miscellaneous equity investments, including its investment in an SBIC, totaled $4.3 million, compared to $4.5 million at year-end 2008. Income related to these investments was $767,000 in 2009, up from $546,000 in 2008. The increase in 2009 over 2008 reflects gains on the sale of one equity investment as the company was acquired. This gain was partially offset by lower income related to the Company s SBIC investment. For 2009, the Company recognized income from this investment of $212,000, compared with income of $546,000 in 2008. The Company believes that as of December 31, 2009, there is no impairment with respect to this SBIC investment.

Management may periodically sell available-for-sale securities for liquidity purposes, to improve yields, or to adjust the risk profile of the portfolio. In 2009, the Company recognized net gains of $348,000 on sales of available-for-sale securities, primarily securities of U.S. government entities. The net gains on sales of available-for-sale securities of $477,000 in 2008 were primarily on the sale of the Company s Mastercard stock that it received as a member bank at the time of Mastercard s initial public offering.

Noninterest Expense

Noninterest expenses for 2009 were $96.6 million, an increase of 11.0% over noninterest expenses of $87.1 million for 2008. The increase in 2009 over 2008 was primarily in compensation and benefits related expenses, and FDIC deposit insurance expense. The acquisition of Sleepy Hollow impacted several noninterest expense categories discussed below.

Personnel-related expense increased by $3.4 million or 6.7% in 2009 over 2008. The increase was mainly in pension and other employee benefit related expenses, which were up $3.1 million or 29.7% in 2009 over 2008. Pension expense was up $2.0 million, while health and dental insurance was up $598,000 for the year ended December 31, 2009, when compared to the same period in 2008. The increase was partially due to an increase in average full-time equivalent employees (FTEs). Year-to-date December 31, 2009 FTEs of 720 were up from 686 at December 31, 2008. Salaries and wages were also up over prior year as a result of the increase in average FTEs, as well as annual merit increases.

Expenses related to bank premises and furniture and fixtures increased by $561,000 or 5.1% for the twelve months ended December 31, 2009 over the same period in 2008. 2009 reflected a full year of additional expense associated with the May 2008 acquisition of Sleepy Hollow, which added six banking offices to the Company s branch network.

FDIC insurance of $5.0 million in 2009 is over prior year by $4.0 million, or 433.3%. The increase reflects higher insurance premiums and a special deposit insurance assessment of $1.4 million in the second quarter of 2009. The increase in 2009 was also partly related to the additional 10 basis points paid on covered transaction accounts exceeding the $250,000 under the Temporary Liquidity Guaranty Program. Deposit insurance expense in 2008 was also favorably impacted by the Company s use of available credits to offset deposit assessments; these credits were fully used in 2008.

Other operating expenses increased by $1.6 million or 6.6% in 2009 when compared to 2008. The primary components of other operating expense are marketing expense, professional fees, software licensing and maintenance, cardholder expense and other.

Professional fees for 2009 increased by $296,000 or 9.8% compared to 2008. Professional fees include amounts paid to outside consultants for assistance on projects or initiatives.

Software licensing and maintenance fee expense increased by $309,000 or 12.4% in 2009 over 2008. The increase in 2009 was mainly due to increased licensing fees related to the core operating system and the implementation of new software applications.

Cardholder expenses were up $307,000 or 25.1% for 2009 over 2008, as a result of higher volume of customer transactions.

Additional items contributing to the change in other operating expenses were the following: legal expense (up $253,000), audit and examination expense (up $147,000), education and training (up $115,000), telephone (up $241,000), printing and supplies (down $202,000), and merger related expenses (down $266,000).

The Company s efficiency ratio, defined as operating expense excluding amortization of intangible assets, divided by tax-equivalent net interest income plus noninterest income before securities gains and losses (increase in the cash surrender value of COLI is shown on a tax equivalent basis), improved to 61.2% in 2009, compared to 61.7% in 2008. Tax equivalency was based upon a 40% tax rate. Excluding the tax equivalent adjustments for tax-exempt securities and tax-exempt loans and leases, the efficiency ratio would be 62.3% in 2009 and 63.0% in 2008.

Noncontrolling Interest

Noncontrolling interest expense represents the portion of net income in consolidated majority-owned subsidiaries that is attributable to the minority owners of a subsidiary. The Company had noncontrolling interest expense of $131,000 in 2009, down from $297,000 in the prior year. The noncontrolling interests are mainly in three real estate investment trusts, which are substantially owned by the Company s banking subsidiaries. In 2008, the Company acquired noncumulative redeemable preferred stock of $4.5 million in connection with the acquisition of Sleepy Hollow. This preferred stock was accounted for as a noncontrolling interest on the consolidated financial statements. On October 15, 2008, the Company redeemed all noncumulative redeemable preferred stock acquired in the acquisition of Sleepy Hollow.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. The 2009 provision was $15.4 million, compared to $13.8 million in 2008. The effective tax rate for the Company was 32.6% in 2009 compared to 31.6% in 2008. The increase in the effective rate in 2009 compared to 2008 was primarily the result of a lower proportion of tax advantaged income as a percentage of total pre-tax income.

RESULTS OF OPERATIONS
(Comparison of December 31, 2008 and 2007 results)

General

The Company reported diluted earnings per share of $2.78 in 2008, an increase of 13.5% over diluted earnings per share of $2.45 in 2007. Net income for the year ended December 31, 2008, was $29.8 million, up 13.1% compared to $26.4 million in 2007. Improvement in 2008 results over prior year was largely due to improved net interest margin and growth in earning assets. Both 2008 and 2007 net income included certain nonrecurring items. Net income for 2008 included after-tax income of $983,000 ($1.6 million pre-tax) related to the Visa IPO. This item added $0.09 to 2008 diluted earnings per share. Net income for 2007 included an after-tax charge of $517,000 for the Company s estimated contingent obligation related to VISA USA litigation indemnification and an after-tax charge of $712,000 for reorganization and associated consulting charges related to certain profit improvement initiatives. These two items reduced diluted earnings per share by $0.11 in 2007.

Return on average shareholder s equity was 14.15% in 2008, compared to 13.88% in 2007, while return on average assets was 1.13% in 2008, compared to 1.16% in 2007.

Total revenues, consisting of net interest income and noninterest income, were $136.4 million in 2008, up $18.3 million or 15.5% over 2007. Revenues in 2008 included $1.6 million of income related to the Visa IPO. Total revenues in 2008 benefited from solid growth in net interest income, resulting from lower funding costs and growth in average earning assets. Market interest rates were significantly lower in 2008 than in 2007, affecting both asset yields and funding costs. However, deposit pricing strategies resulted in funding costs decreasing at a faster rate than asset yields. The downward trend in the equities market and overall economy in 2008 had an adverse affect on fee-based businesses, including investment services income. Noninterest income in 2008 benefited from the successful implementation of certain profit improvement initiatives (implemented in 2007), the $1.6 million pre-tax gain related to the Visa IPO, the acquisitions of Sleepy Hollow and a small insurance agency, and gains on sales of available-for-sale securities.

Total assets were up 21.5% to $2.9 billion at December 31, 2008. Asset growth over the previous twelve months included a $377.4 million increase in total loans and leases and a $107.9 million increase in the securities portfolio. The acquisition of Sleepy Hollow, with $269.2 million in total assets at the time of acquisition on May 9, 2008, contributed to the asset growth. Nonperforming assets increased to 0.56% of total assets, up from 0.40% at year-end 2007, driven in part by weak economic conditions.

Segment Reporting

The Banking segment reported net income of $26.0 million in 2008, up $4.4 million or 20.6% from net income of $21.5 million in 2007, driven by strong growth in net interest income. Both 2008 and 2007 had nonrecurring items, which affect the year-over-year comparison of net income. Net income in 2008 included after-tax income of $983,000 related to the Visa IPO. Net income in 2007 included an after-tax charge of $712,000 ($1.2 million pre-tax) in reorganization and associated consulting charges related to certain profit improvement initiatives and an after-tax charge of $517,000 ($862,000 pre-tax) related to certain contingent liabilities associated with the Company s membership in Visa USA. Net interest income in 2008 was $90.2 million, up $16.4 million or 22.3% over 2007, driven by lower funding costs and growth in average earning assets.

The provision for loan and lease losses in 2008 was $5.4 million, compared to $1.5 million in 2007. The increase reflects growth in total loans and leases, an increase in net charge-offs and nonperforming loans, and the impacts of a slowing economy.

Noninterest income of $20.9 million in 2008 was up 9.2% over 2007, mainly a result of the $1.6 million of proceeds from the Visa IPO. Service charges on deposit accounts totaled $10.2 million, a decrease of 2.0% from 2007.

Noninterest expenses totaled $67.7 million in 2008, an increase of $7.3 million or 12.1% over the same period in 2007. The increase over prior year is mainly in salaries and benefit expenses and occupancy expenses, both of which were directly impacted by the Sleepy Hollow acquisition with the addition of five staffed branches.

The Financial Services segment had net income of $3.9 million in 2008, a decrease of $977,000 or 20.2% from net income of $4.8 million in 2007. Noninterest income was $25.8 million in 2008, an increase of $365,000 or 1.4% over the same period in 2007. The downward trend in the equities market and overall economy in 2008 had an adverse affect on fee-based businesses, including investment services income. Noninterest expenses of $20.0 million in 2008 were up $1.8 million or 10.1% over the same period prior year. The increase was mainly in salaries and benefits, reflecting annual merit increases, stock-based and other incentive compensation accruals, and other operating expenses.

Net Interest Income

Table 1 Average Statements of Condition and Net Interest Analysis shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. Taxable-equivalent net interest income for 2008 was $93.2 million, an increase of $16.7 million, or 21.9%, compared to the same period in 2007. The favorable year-over-year comparison primarily resulted from an increase in the average volume of interest-earning assets, and an increase in net interest margin compared to the same period in the prior year. For 2008, average earning assets were up $336.9 million or 16.0%, over the same period in 2007. Contributing to the growth was the acquisition of Sleepy Hollow in May 2008. The taxable-equivalent net interest margin for 2008 of 3.81% was up from 3.63% in 2007. The net interest margin benefited from the decrease in short-term market interest rates during the latter part of 2007 and throughout 2008. The lower short-term market rates led to a 53 basis point decrease in the yield on average earning assets to 5.88% for 2008 compared to 6.41% for 2007; however, the decrease in yield on average earning assets was more than offset by lower funding costs. The average cost of interest-bearing liabilities for 2008 was down 91 basis points to 2.55%, compared to 3.46% for 2007.

Taxable-equivalent interest income was up 6.4% in 2008 over 2007. The growth in taxable-equivalent interest income was primarily a result of higher average loan and investment balances as average yields were lower year-over-year. Average loan balances were up $250.3 million or 18.4% in 2008 over 2007, while the average yield on loans decreased 77 basis points to 6.39%. Loan growth in 2008 included a $110.6 million increase in average commercial real estate loans, $84.5 million increase in average residential real estate loans and a $47.2 million increase in average commercial loans. The decrease in yields on average loans in 2008 compared to 2007 is mainly a result of the prime interest rate reduction of 400 basis points in 2008. Average securities balances were up $74.1 million in 2008 over 2007, while average yields were down 6 basis points.

Interest expense for 2008 was down 13.7% compared to 2007, reflecting lower average rates paid on deposits and borrowings, partially offset by growth in average balances. The average rate paid on interest bearing deposits during 2008 of 2.18% was 110 basis points lower than the average rate paid in 2007. The decrease in the average cost of interest bearing deposits reflects a decrease in the interest rates offered on deposit products due to decreases in average market rates combined with an increase in the relative proportion of lower cost savings and money market deposits. Average interest-bearing deposit balances increased by $194.8 million or 14.1% in 2008 compared to 2007. The majority of the increase was in average interest checking, savings and money market deposit balances, which were up 25.3% to $906.4 million. Average time deposits of $100,000 or more balances were down 7.2% to $282.5 million. Average noninterest bearing deposit balances of $407.3 million were up 14.3% in 2008 over the same period in 2007. Contributing to the growth in average deposit balances was the acquisition of Sleepy Hollow in May 2008. Average other borrowings were up $91.3 million or 90.6% over prior year, while the average cost was down 48 basis points.

Changes in net interest income occur from a combination of changes in the volume of interest-earning assets and interest-bearing liabilities, and in the rate of interest earned or paid on them. *Table 2 Analysis of Changes in Net Interest Income* illustrates changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of the change. The $16.7 million increase in taxable-equivalent net interest income from 2007 to 2008 resulted from an $8.7 million increase in interest income and an $8.0 million decrease in interest expense. An increased volume of interest earning assets, in excess of interest bearing liabilities contributed to a net $12.9 million increase in taxable-equivalent net interest income between 2007 and 2008, while changes in interest rates increased taxable-equivalent net interest income by $3.8 million, resulting in the net increase of $16.7 million from 2007.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $5.4 million in 2008, compared to $1.5 million in 2007. The increase in 2008 over prior year was due to increases in nonperforming loans and leases and net charge-offs, as well as concerns over deteriorating economic conditions and uncertain real estate markets. Nonperforming loans and leases were $16.0 million or 0.88% of total loans and leases at December 31, 2008, compared with $9.3 million or 0.65% of total loans and leases at December 31, 2007. Net charge-offs of $2.8 million in 2008 represented 0.18% of average loans and leases during the period, compared to net charge-offs of $1.3 million in 2007, representing 0.09% of average loans and leases.

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Noninterest Income

Noninterest income accounted for 33.7% of total revenues in 2008, and 37.3% in 2007. The decrease in noninterest income as a percentage of revenues in 2008 compared to 2007 was due to the $16.4 million or 22.1% growth in net interest income outpacing the $2.0 million or 4.5% growth in noninterest income.

Investment services income was $14.2 million in 2008, a decrease of 1.8% from $14.4 million in 2007. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. Equities markets were down significantly in 2008 compared to 2007, which contributed to the decrease in the market value of assets managed by, or in custody of Tompkins. The market value of assets managed by, or in custody of, Tompkins was $2.2 billion at December 31, 2008, down 7.9% from $2.3 billion at December 31, 2007. These figures include $541.1 million and $484.5 million, respectively, of Company-owned securities where TIS is custodian. The Company was successful with business development initiatives and customer retention despite the challenging equities markets in 2008 and the recent turmoil in the financial markets.

Insurance commissions and fees were $11.6 million in 2008, an increase of $561,000 or 5.1% over 2007. The increase in insurance commissions and fees was mainly in health and benefit related insurance products. This product line was started late in the fourth quarter of 2007. Revenues for personal and commercial lines were slightly ahead of prior year. Commissions and fees in 2008 also benefited from the acquisition of a firm that specializes in insurance solutions for investment professionals during 2008.

Service charges on deposit accounts were $10.2 million in 2008, down 2.0% compared to $10.4 million in 2007. The largest component of this category is overdraft fees, which is largely driven by customer activity. Customer activity has been changing over the past several years, with electronic transactions such as debit cards and Internet banking reducing the volume of checks. The Company reviewed and revised the way that it processes these transactions during the second quarter of 2007 to process electronic transactions substantially the same as paper transactions, which had a favorable impact on overdraft income in 2007.

Card services income of $3.3 million in 2008 was down $115,000 or 3.3% from 2007. The primary components of card services income are fees related to debit card transactions and ATM transactions. ATM fee income increased by 17.0% compared to 2007, mainly due to higher volume and increased foreign transaction fees. Debit card income for 2008 was down compared to 2007. The Company introduced a new rewards program in the second quarter of 2008, and the Company s liability under the new rewards program has offset debit card income.

Net mark-to-market losses on securities and borrowings held at fair value totaled $1.2 million in 2008 compared to net mark-to-market losses of $736,000 in 2007. Mark-to-market losses or gains relate to the change in the fair value of securities and borrowings where the Company has elected the fair value option.

The $1.6 million gain on Visa stock redemption relates to the proceeds received from the Company s allocation of the Visa, Inc. initial public offering (the Visa IPO), and consists of a $1.2 million gain on the partial redemption of Visa stock and a $0.4 million partial reversal of a fourth quarter 2007 accrual for indemnification charges. Visa withheld a portion of the shares allocated to its member banks to create an escrow account to cover the costs and liabilities associated with certain litigation for which its member banks are obligated to indemnify Visa. Visa s funding of this escrow account allowed member banks to reverse litigation related accruals made in the fourth quarter of 2007, up to each bank s proportionate membership interest in the $3.0 billion used to fund the escrow account.

Other income increased by $738,000 or 14.6% in 2008 over 2007. The primary components of other income are other service charges, increases in cash surrender value of life insurance, gains on sales of residential mortgage loans and income from miscellaneous equity investments, including the Company s investment in a SBIC. The majority of the increase over prior year was due to higher income on the Company s COLI investment and SBIC investment.

2008 noninterest income includes $1.4 million of net increases in cash surrender value of corporate owned life insurance (COLI), which is up $326,000 or 29.1% compared with 2007. The Company s average investment in COLI was $32.8 million during 2008, compared to $26.5 million during 2007. The Company purchased $3.0 million of additional insurance in the fourth quarter of 2007 and acquired $3.5 million in the acquisition of Sleepy Hollow. Although income associated with the insurance policies is not included in interest income, the COLI produced an annualized tax-equivalent return of 7.35% for 2008, compared to 7.06% for 2007.

For 2008, the Company recognized income of $546,000 related to its SBIC investment, compared with income of $331,000 in 2007.

Net gains on sales of available-for-sale securities of $477,000 in 2008 reflect sales of available-for-sale securities, for which prices were favorably impacted by the Federal Reserve actions to reduce interest rates in 2008. The net gains on sales of available-for-sale securities of $384,000 in 2007 were primarily on the sale of the Company s Mastercard stock that it received as a member bank at the time of Mastercard s initial public offering.

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Noninterest Expense

Noninterest expenses for 2008 were $87.1 million, an increase of 11.5% over noninterest expenses of $78.1 million for 2007. The increase in 2008 over 2007 was primarily in compensation and benefits related expenses, and regulatory agency expense. The acquisition of Sleepy Hollow impacted several noninterest expense categories discussed below.

Personnel-related expense increased by $5.2 million or 11.6% in 2008 over 2007. The acquisition of Sleepy Hollow included the addition of six banking offices, including one limited service office, and 30 full time equivalent employees (FTEs). Year-to-date December 31, 2008 average FTEs of 686 were up from 662 at December 31, 2007. Salaries and wages associated with the increased number of average FTEs, annual salary adjustments and higher incentive compensation accruals, recognizing the Company s improved performance, contributed to the increase over 2007. Personnel-related expense for 2007 included pre-tax severance charges of $740,000 related to reorganization and profit improvement initiatives implemented in 2007.

Expenses related to bank premises and furniture and fixtures increased by $1.1 million or 11.3% for the twelve months ended December 31, 2008 over the same period in 2007. Additions to the Company s branch network, as well as higher real estate taxes and utility costs contributed to the increased expenses for premises and furniture and fixtures year-over-year. The acquisition of Sleepy Hollow in May of 2008 added six banking offices to the Company s branch network.

FDIC insurance expense was up $727,000 or 352.9% in 2008 when compared to 2007. The increase was partially due to higher insurance premiums in 2008. In addition, 2008 expenses benefitted from the use of one-time FDIC assessment credits. These credits reduced 2008 expense by $370,000.

Other operating expenses increased by $1.7 million or 7.5% in 2008 when compared to 2007. The primary components of other operating expense are marketing expense, professional fees, software licensing and maintenance, cardholder expense and other.

Marketing expenses of $3.6 million in 2008 were up 18.9% over 2007. The primary reason for the period over period increase was the expenses for ad campaigns and mailings related to the addition of six new branches in the acquisition of Sleepy Hollow.

Software license and maintenance fee expense increased by $432,000 or 20.9% in 2008 over 2007. The increase in 2008 was mainly due to increased licensing fees related to the core operating system and the implementation of new software applications, including software to increase efficiencies in loan underwriting.

Professional fees for 2008 were down by $247,000 or 7.6% compared to 2007. Professional fees in 2007 included consulting fees of $827,000, related to the implementation of certain profit improvement initiatives in 2007.

Cardholder expenses were up $251,000 or 25.8% for 2008 over 2007, mainly due to the conversion of a new debit and ATM operating system. The new system was implemented in April 2008. In addition, transaction volume was up over prior year.

Also contributing to the increase in other operating expenses were the following: fair value adjustments related to nonmarketable equity investments (up $545,000), merger related expenses (up $274,000), printing and supplies (up $237,000); and telephone (up $129,000).

The Company s efficiency ratio, defined as operating expense excluding amortization of intangible assets, divided by tax-equivalent net interest income plus noninterest income before securities gains and losses (increase in the cash surrender value of COLI is shown on a tax equivalent basis), improved to 61.7% in 2008, compared to 64.1% in 2007. Tax equivalency was based upon a 40% tax rate. Excluding the tax equivalent adjustments for tax-exempt securities and tax-exempt loans and leases, the efficiency ratio would be 63.0% in 2008 and 65.4% in 2007.

Noncontrolling Interest

Noncontrolling interest expense represents the portion of net income in consolidated majority-owned subsidiaries that is attributable to the minority owners of a subsidiary. The Company had noncontrolling interest expense of $297,000 in 2008, up $166,000 compared to prior year. The noncontrolling interests are mainly in three real estate investment trusts, which are substantially owned by the Company s banking subsidiaries. In addition, the Company acquired noncumulative redeemable preferred stock of $4.5 million in connection with the acquisition of Sleepy Hollow. This preferred stock was accounted for as a noncontrolling interest on the consolidated financial statements. On October 15, 2008, the Company redeemed this preferred stock.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. The 2008 provision was $13.8 million, compared to $12.0 million in 2007. The effective tax rate for the Company was 31.6% in 2008 compared to 31.3% in 2007.

FINANCIAL CONDITION

Total assets grew by $285.5 million or 10.0% to $3.2 billion at December 31, 2009, compared to $2.9 billion at December 31, 2008. *Table 3-Balance Sheet Comparisons* below provides a comparison of average and year-end balances of selected balance sheet categories over the past three years, and the change in those balances between 2008 and 2009. Management has focused on growing average earning assets to increase net interest income and offset the negative impact of declining yields on interest-earning assets. Earning asset growth over year-end 2008 included a $97.3 million increase in the total loans and leases, and a $171.5 million increase in securities.

Loans and leases totaled $1.9 billion or 60.7% of total assets at December 31, 2009, compared to $1.8 billion or 63.4% of total assets at December 31, 2008. The 5.4% growth in total loans and leases from year-end 2008 was primarily in commercial and commercial real estate loans. The residential real estate portfolio was in line with year-end 2008, as the Company decided to sell certain loans in the secondary market to FHLMC. A more detailed discussion of the loan portfolio is provided below in this section under the caption Loans and Leases .

Nonperforming loans (loans on nonaccrual, loans past due 90 days or more and still accruing interest, and loans restructured in a troubled debt restructuring) were $34.9 million at December 31, 2009, up from $16.0 million at December 31, 2008. Nonperforming loans represented 1.82% of total loans at December 31, 2009, compared to 0.88% of total loans at December 31, 2008. For 2009, net charge-offs were $3.6 million, up from $2.8 million in the same period of 2008. A more detailed discussion of nonperforming loans and other asset quality measures is provided below in this section under the caption Allowance for Loan and Lease Losses .

Over the past year, there has been significant attention to subprime consumer real estate lending in the media. The Company has not engaged in the origination or purchase of subprime loans as a line of business. As a result, losses in the Company s residential portfolio have been relatively low, totaling $511,000 for the twelve months ended December 31, 2009, and $585,000 for the same period in 2008.

As of December 31, 2009, total securities were $1.0 billion or 31.9% of total assets, compared to $833.8 million or 29.1% of total assets at year-end 2008. The securities portfolio is comprised primarily of mortgage-backed securities, obligations of U.S. Government sponsored entities, and obligations of states and political subdivisions. The Company has no investments in preferred stock of U.S. Government sponsored entities and no investments in pools of Trust Preferred securities. A more detailed discussion of the securities portfolio is provided below in this section under the caption Securities .

Total deposits were $2.4 billion at December 31, 2009, up $305.9 million or 14.3% over December 31, 2008. The growth in total deposits from December 31, 2008 was mainly in money market and savings balances, which were up $189.5 million or 20.7%. Noninterest bearing deposit balances were up $11.1 million or 2.5%. Time deposit balances were up $91.6 million or 13.0%. Other funding sources include Federal funds purchased, securities sold under agreements to repurchase, other borrowings, and trust preferred debentures. These funding sources totaled $426.8 million at December 31, 2009, down $48.2 million or 10.1% from $475.0 million at December 31, 2008. Included in this total are certain borrowings that the Company elected to account for at fair value. As of December 31, 2009, the Company had $15.0 million of borrowings with the FHLB accounted for at fair value, with an aggregate fair value of $16.8 million. During 2009, the Company issued $20.5 million aggregate liquidation amount of 7.0% cumulative trust preferred securities through a newly-formed subsidiary, Tompkins Capital Trust I, a wholly-owned Delaware statutory trust. A more detailed discussion of deposits and borrowings is provided below in this section under the caption Deposits and Other Liabilities . In addition, refer to Note 10 Securities Sold Under Agreements to Repurchase and Federal Funds Purchased , Note 11 Other Borrowings , and Note 12 Trust Preferred Debentures in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report for further details on these funding sources.

Table 3 - Balance Sheet Comparisons

AVERAGE BALANCE SHEET	**As of December 31,**				
				Change (2008 to 2009)	
(in thousands)	**2009**	**2008**	**2007**	**Amount**	**Percentage**
Total assets	**$ 3,009,007**	$ 2,633,020	$ 2,266,224	375,987	14.28%
Earning assets *	**2,801,884**	2,442,503	2,105,581	359,381	14.71%
Total loans and leases, less unearned income and net deferred costs and fees	**1,850,453**	1,612,716	1,362,417	237,737	14.74%
Securities *	**888,468**	790,736	716,624	97,732	12.36%
Core deposits **	**1,674,159**	1,516,226	1,318,859	157,933	10.42%
Time deposits of $100,000 and more	**303,761**	282,547	304,614	21,214	7.51%
Federal funds purchased and securities sold under agreements to repurchase	**190,975**	203,385	199,126	(12,410)	(6.10%)
Other borrowings	**204,467**	192,144	100,824	12,323	6.41%
Shareholders equity	**233,009**	210,785	189,962	22,224	10.54%

ENDING BALANCE SHEET	**As of December 31,**				
				Change (2008 to 2009)	
(in thousands)	**2009**	**2008**	**2007**	**Amount**	**Percentage**
Total assets	**$ 3,153,260**	$ 2,867,722	$ 2,359,459	285,538	9.96%
Earning assets *	**2,922,138**	2,664,650	2,189,920	257,488	9.66%
Total loans and leases, less unearned income and net deferred costs and fees	**1,914,818**	1,817,531	1,440,122	97,288	5.35%
Securities *	**985,503**	820,030	728,206	165,473	20.18%
Core deposits **	**1,725,315**	1,631,354	1,351,412	93,961	5.76%
Time deposits of $100,000 and more	**327,890**	277,847	245,375	50,043	18.01%
Federal funds purchased and securities sold under agreements to repurchase	**192,784**	196,304	195,447	(3,520)	(1.79%)
Other borrowings	**208,965**	274,791	210,862	(65,826)	(23.95%)
Shareholders equity	**245,008**	219,361	198,647	25,647	11.69%

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

*** Core deposits equal total deposits less time deposits of $100,000 and more, brokered deposits, and municipal money market deposits.*

Shareholders Equity

The Consolidated Statements of Changes in Shareholders Equity included in the Consolidated Financial Statements of the Company contained in Part II, Item 8. of this Report, detail the changes in equity capital, including payments to shareholders in the form of cash and stock dividends. The Company continued its long history of increasing cash dividends with a per share increase of 3.3% in 2009, which follows an increase of 6.2% in 2008. Dividends per share amounted to $1.24 in 2009, compared to $1.20 in 2008, and $1.13 in 2007. Dividends per share were retroactively adjusted to reflect a 10% stock dividend paid February 15, 2010. Cash dividends paid represented 41.5%, 42.7%, and 45.6% of after-tax net income in each of 2009, 2008, and 2007, respectively.

Total shareholders equity was up $25.6 million or 11.7% to $245.0 million at December 31, 2009, from $219.4 million at December 31, 2008. The increase was mainly in retained earnings, which increased by $18.6 million to $92.4 million, reflecting net income of $31.8 million less dividend of $13.2 million. Additional paid-in capital increased by $2.7 million, from $152.8 million at December 31, 2008, to $155.6 million at December 31, 2009. The $2.7 million included the following: $952,000 of proceeds from stock option exercises and the related tax benefits of $163,000; $938,000 related to stock-based compensation; $629,000 related to shares issued for dividend reinvestment plans; and $243,000 related to shares issued for director deferred compensation plan. In the fourth quarter of 2009, the Company began to issue shares of the Company s common stock for its dividend reinvestment plan. Previously, the shares were purchased in the open market by the plan. The Company repurchased 5,000 shares of its common stock for $177,000 during the twelve month period ended December 31, 2009.

Accumulated other comprehensive loss decreased by $4.5 million, from a net unrealized loss of $7.6 million at December 31, 2008, to a net unrealized loss of $3.1 million at December 31, 2009. The change resulted from a $3.6 million increase in unrealized gains on available-for-sale securities due to lower market rates, and an $875,000 positive adjustment related to postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company s defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios.

Total shareholders equity was up $20.7 million or 10.4% to $219.4 million at December 31, 2008, from $198.6 million at December 31, 2007. Additional paid-in capital increased by $5.1 million, from $147.7 million at December 31, 2007, to $152.8 million at December 31, 2008, reflecting the effects of the exercise of stock options and stock-based compensation expense. The Company repurchased 1,500 shares of its common stock for $58,000 during the twelve month period ended December 31, 2008. Retained earnings increased $16.5 million from $57.3 million at December 31, 2007, to $73.8 million at December 31, 2008, reflecting net income of $29.8 million less dividends paid of $12.7 million and a cumulative-effect adjustment of $582,000 related to the adoption new authoritative accounting guidance under ASC Topic 715, *Compensation-Retirement Benefits*. Accumulated other comprehensive loss increased by $702,000 from a net unrealized loss of $6.9 million at December 31, 2007, to a net unrealized loss of $7.6 million at December 31, 2008, reflecting an increase in unrealized gains on available-for-sale securities due to lower market rates, offset by amounts recognized in other comprehensive income related to postretirement benefit plans.

On July 22, 2008, the Company s Board of Directors approved a stock repurchase plan (the 2008 Plan). The 2008 Plan authorizes the repurchase of up to 150,000 shares of the Company s outstanding common stock over a two-year period. The Company repurchased 5,000 shares of common stock at an average price of $35.51 under the 2008 Plan during the first quarter of 2009; no shares were repurchased during the remainder of 2009. Since inception of the 2008 Plan, the Company has repurchased 6,500 shares at an average price of $36.21.

During 2009, the Company issued $20.5 million aggregate liquidation amount of 7.0% cumulative trust preferred securities through a newly-formed subsidiary, Tompkins Capital Trust I, a wholly-owned Delaware statutory trust (Tompkins Capital Trust I). The Trust Preferred Securities were offered and sold in reliance upon the exemption from registration provided by Rule 506 of Regulation D of the Securities Act of 1933, as amended (the Securities Act). The proceeds from the issuance of the Trust Preferred Securities, together with the Company s capital contribution of $636,000 to the trust, were used to acquire the Company s Subordinated Debentures that are due concurrently with the Trust Preferred Securities. The net proceeds of the offering are being used to support business growth and for general corporate purposes.

The Trust Preferred Securities have a 30 year maturity, and carry a fixed rate of interest of 7.0%. The Trust Preferred Securities have a liquidation amount of $1,000 per security. The Company has retained the right to redeem the Trust Preferred Securities at par (plus accrued but unpaid interest) at a date which is no earlier than 5 years from the date of issuance. Commencing in 2019, and during specified annual windows thereafter, holders may convert the Trust Preferred Securities into shares of the Company s common stock at a conversion price equal to the greater of (i) $41.35, or (ii) the average closing price of Tompkins Financial Corporation s common stock during the first three months of the year in which the conversion will be completed.

The Company has guaranteed the distributions with respect to, and amounts payable upon liquidation or redemption of, the Trust Preferred Securities on a subordinated basis as and to the extent set forth in the Preferred Securities Guarantee Agreement entered into on April 10, 2009, between the Company and Wilmington Trust Company, as Preferred Guarantee Trustee.

In accordance with the applicable accounting standards related to variable interest entities, the accounts of Tompkins Capital Trust I will not be included in the Company s consolidated financial statements. However, $20.5 million in Tompkins Subordinated Debentures issued to Tompkins Capital Trust I will be included in the Tier 1 capital of the Company for regulatory capital purposes pursuant to regulatory guidelines.

The Company and its subsidiary banks are subject to quantitative capital measures established by regulation to ensure capital adequacy. Consistent with the objective of operating a sound financial organization, the Company and its subsidiary banks maintain capital ratios well above regulatory minimums, as detailed in Note 20 Regulations and Supervision in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report on Form 10-K.

Securities

The Company s securities portfolio (excluding fair value adjustments on available-for-sale securities) at December 31, 2009, was $985.5 million, reflecting an increase of 20.2% from $820.0 million at December 31, 2008. Note 3 Securities in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report, details the types of securities held, the carrying and fair values, and the contractual maturities as of December 31, 2009 and 2008.

The following tables summarize available-for-sale and held-to-maturity securities held by the Company at year end.

Available-for-Sale Securities	**2009**		**2008**		**2007**	
(in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
U.S. Treasury securities	**$ 1,991**	**$ 2,079**	$ 3,102	$ 3,263	$ 0	$ 0
Obligations of U.S. Government sponsored entities	**377,920**	**379,015**	191,435	196,262	180,765	181,622
Obligations of U.S. states and political subdivisions	**61,176**	**63,695**	63,158	63,554	51,852	52,292
Mortgage-backed securities residential	**461,677**	**477,681**	465,612	473,971	381,290	382,225
U.S. Corporate debt securities	**5,032**	**5,136**	2,500	2,500	2,500	2,500
Total debt securities	**907,796**	**927,606**	725,807	739,550	616,407	618,639
Equity securities	**1,164**	**1,164**	1,669	1,669	2,071	2,071
Total available-for-sale securities	**$ 908,960**	**$ 928,770**	$ 727,476	$ 741,219	$ 618,478	$ 620,710

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

Substantially all of the above mortgage-backed securities are residential direct pass through securities or collateralized mortgage obligations issued or backed by Federal sponsored enterprises. Available-for-sale mortgage-backed securities also include non-agency issue mortgage-backed securities, which totaled $12.7 million (amortized cost) at December 31, 2009, $17.3 million (amortized cost) at December 31, 2008, and $10.4 million (amortized cost) at December 31, 2007. During the third quarter of 2009, the Company determined that three non-agency issue mortgage-backed securities were other-than-temporarily impaired based on our analysis of these three securities. As a result, the Company recorded other-than-temporary impairment charges of $2.0 million in the third quarter of 2009 on these investments. The $2.0 million represented the amount by which the cost exceeded the estimated fair value of these securities. The credit loss component of $146,000 was recorded as net other-than-temporary impairment losses in the accompanying consolidated statements of income, while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income (loss) in the accompanying consolidated statements of condition and changes in shareholders equity. The Company reviewed these securities in the fourth quarter of 2009 and determined that no additional other-than-temporary charges were necessary. As of December 31, 2009, the amount by which the cost of these securities exceeded fair was $1.8 million. A continuation or worsening of current economic conditions may result in additional other-than-temporary impairment losses related to these investments.

Held-to-Maturity Securities	**2009**		**2008**		**2007**	
(in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Obligations of U.S. states and political subdivisions	**$ 44,825**	**$ 46,340**	$ 54,453	$ 55,064	$ 49,593	$ 50,297
Total held-to-maturity securities	**$ 44,825**	**$ 46,340**	$ 54,453	$ 55,064	$ 49,593	$ 50,297

The following table summarizes held-for-trading securities held by the Company at year end.

Held-for-Trading Securities		**2009**		**2008**		**2007**
(in thousands)		**Fair Value**		**Fair Value**		**Fair Value**
Obligations of U.S. Government sponsored entities	**$**	**17,986**	$	18,370	$	37,110
Mortgage-backed securities residential		**13,732**	$	19,731		23,025
Total held-for-trading securities	**$**	**31,718**	$	38,101	$	60,135

In the first quarter of 2007, the Company elected to apply the fair value option for certain securities within its available-for-sale portfolio with an aggregate cost basis of $65.9 million and an aggregate book value of $63.4 million as of the January 1, 2007 date of adoption. Included in the $65.9 million were $40.6 million of obligations of U.S. Government sponsored entities (total portfolio of $217.5 million) and $25.3 million of mortgage-backed securities (total portfolio of $349.8 million). The Company selected these securities based upon yield and average remaining life. The securities selected had yields of less than 4.0% and average lives greater than 1.5 years. As a result of the election to early adopt, the cumulative unrealized loss related to these available-for-sale securities of $2.5 million was recorded directly in the Company s financial statements as a cumulative-effect adjustment, net of tax, to retained earnings.

Tompkins subsequently sold the approximately $62.0 million in securities that were carried in the Company s trading portfolio and reinvested the proceeds in trading securities that provide for a higher yield and will reflect an improvement in the Company s liquidity and interest rate risk exposure position. However, while in the aggregate the impacts of the early adoption of the accounting guidelines and related transactions resulted in overall improvement in earnings for accounting purposes, it had no impact on the overall cash proceeds.

As of December 31, 2009, the Company s trading securities totaled $31.7 million compared to $38.1 million as of December 31, 2008. The decrease in trading securities reflects maturities or calls during 2009. The pre-tax mark-to-market gains on trading securities in 2009 were $204,000, compared to pre-tax net mark-to-market gains of $811,000 in 2008 and $612,000 in 2007.

The Company holds non-marketable Federal Home Loan Bank New York (FHLBNY) stock and non-marketable Federal Reserve Bank (FRB) stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company s borrowing levels with the FHLB. Holdings of FHLBNY stock and FRB stock totaled $18.1 million and $1.9 million at December 31, 2009, respectively, $21.0 million and $1.9 million at December 31, 2008, respectively, and $17.6 million and $729,000 at December 31, 2007, respectively. These securities are carried at par, which is also cost. While some Federal Home Loan Banks have stopped paying dividends and repurchasing stock upon reductions in debt levels, the FHLBNY continues to pay dividends and repurchase its stock. As such, the Company has not recognized any credit loss other-than-temporary impairment on its holdings of FHLBNY stock.

Management s policy is to purchase investment grade securities that, on average, have relatively short expected durations. This policy helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital. A large percentage of securities are direct obligations of the Federal government and its agencies. The contractual maturity distribution of debt securities and mortgage-backed securities as of December 31, 2009, along with the weighted average yield of each category, is presented in *Table 4-Maturity Distribution* below. Balances are shown at amortized cost and weighted average yields are calculated on a fully taxable-equivalent basis. Expected maturities will differ from contractual maturities presented in *Table 4-Maturity Distribution* below, because issuers may have the right to call or prepay obligations with or without penalty and mortgage-backed securities will pay throughout the periods prior to contractual maturity.

Table 4 - Maturity Distribution

	As of December 31, 2009			
	Securities Available-for-Sale *		Securities Held-to-Maturity	
(dollar amounts in thousands)	Amount	Yield (FTE)	Amount	Yield (FTE)
U.S. Treasury securities				
Within 1 year	$ 0	0.00%	$ 0	0.00%
Over 1 to 5 years	1,991	2.88%	0	0.00%
Over 5 to 10 years	0	0.00%	0	0.00%
Over 10 years	0	0.00%	0	0.00%
	$ 1,991	2.88%	$ 0	0.00%
Obligations of U.S. Government sponsored entities				
Within 1 year	$ 5,500	3.24%	$ 0	0.00%
Over 1 to 5 years	94,770	2.67%	0	0.00%
Over 5 to 10 years	272,621	3.86%	0	0.00%
Over 10 years	5,029	5.10%	0	0.00%
	$ 377,920	3.57%	$ 0	0.00%
Obligations of U.S. state and political subdivisions				
Within 1 year	$ 5,584	5.31%	$ 17,017	4.56%
Over 1 to 5 years	29,200	5.20%	19,200	5.90%
Over 5 to 10 years	24,113	5.53%	7,131	6.32%
Over 10 years	2,279	6.01%	1,477	7.16%
	$ 61,176	5.37%	$ 44,825	5.50%
Mortgage-backed securities residential				
Within 1 year	$ 0	0.00%	$ 0	0.00%
Over 1 to 5 years	9,025	4.48%	0	0.00%
Over 5 to 10 years	103,065	4.45%	0	0.00%
Over 10 years	349,587	4.82%	0	0.00%
	$ 461,677	4.73%	$ 0	0.00%
Other securities				
Within 1 year	$ 0	0.00%	$ 0	0.00%
Over 1 to 5 years	2,532	4.01%	0	0.00%
Over 5 to 10 years	0	0.00%	0	0.00%
Over 10 years	2,500	3.03%	0	0.00%
Equity securities	1,164	1.35%	0	0.00%
	$ 6,196	3.12%	$ 0	0.00%
Total securities				
Within 1 year	$ 11,084	4.29%	$ 17,017	4.56%

Over 1 to 5 years	137,518	3.31%	19,200	5.90%
Over 5 to 10 years	399,799	4.11%	7,131	6.32%
Over 10 years	359,395	4.82%	1,477	7.16%
Equity securities	1,164	1.35%	0	0.00%
	$ 908,960	4.27%	$ 44,825	5.50%

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

At December 31, 2009, there were no holdings of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of the Company s shareholders equity.

Loans and Leases

Interest and fees earned on loans is the Company s primary source of revenues. Total loans and leases, net of unearned income and net deferred loan fees and costs, grew by $97.3 million or 5.4%, to $1.91 billion at December 31, 2009, from $1.82 billion at December 31, 2008. Loan growth in 2009 was affected by $89.0 million of sales of residential mortgage loans during the year. Demand for residential mortgage loans was strong in 2009, largely driven by the low interest rate environment. The growth in 2008 over 2009 included $151.2 million of loans acquired in connection with the acquisition of Sleepy Hollow in May 2008. As of December 31, 2009, total loans represented 60.7% of total assets compared to 63.4% as of December 31, 2008. *Table 5-Loan and Lease Classification Summary* below details the composition and volume changes in the loan and lease portfolio over the past five years.

Table 5 Loan and Lease Classification Summary

	As of December 31,				
(in thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Residential real estate	**$ 622,942**	$ 625,263	$ 504,353	$ 469,146	$ 475,155
Commercial real estate	**641,737**	571,929	422,279	393,829	347,443
Real estate construction	**58,125**	52,114	43,002	26,130	30,309
Commercial	**494,495**	467,420	381,666	345,194	306,410
Consumer and other	**86,687**	87,998	80,730	82,341	100,249
Leases	**12,821**	14,968	10,832	11,962	14,864
Total loans and leases	**1,916,807**	1,819,692	1,442,862	1,328,602	1,274,430
Less: unearned income and deferred costs and fees	**(1,989)**	(2,161)	(2,740)	(2,304)	(3,081)
Total loans and leases, net of unearned income and deferred costs and fees	**$ 1,914,818**	$ 1,817,531	$ 1,440,122	$ 1,326,298	$ 1,271,349

Residential real estate loans, including home equity loans, of $622.9 million at year-end 2009 decreased by $2.3 million or 0.37% from $625.3 million at year-end 2008, and comprised 32.5% of total loans and leases at December 31, 2009. Residential real estate mortgage loans are generally underwritten in accordance with secondary market guidelines to enhance the liquidity of these generally longer-term assets. As part of its asset/liability management strategy the Company may sell certain residential mortgage loans in the secondary market. The Company generally sells loans without recourse. Loans are generally sold to Federal Home Loan Mortgage Corporation (FHLMC) or State of New York Mortgage Agency (SONYMA). During 2009, 2008, and 2007, the Company sold residential mortgage loans totaling $89.0 million, $11.3 million, and $10.7 million, respectively, and realized gains on these sales of $1.4 million, $105,000, and $159,000, respectively. When residential mortgage loans are sold or securitized, the Company typically retains all servicing, providing the Company with a source of fee income. Residential mortgage loans serviced for others totaled $206.0 million at December 31, 2009, compared to $149.9 million at December 31, 2008. In connection with the loan sales and securitizations in 2009, 2008, and 2007, the Company recorded mortgage-servicing assets of $648,000, $26,000, and $46,000, respectively. Amortization of mortgage servicing amounted to $245,000 in 2009, $117,000 in 2008 and $122,000 in 2007. Capitalized mortgage servicing rights totaled $1.4 million at December 31, 2009, and $961,000 at December 31, 2008, and are reported as intangible assets on the Consolidated Statements of Condition.

Commercial real estate loans increased by $69.8 million, or 12.2%, from $571.9 million at year-end 2008 to $641.7 million at year-end 2009. Commercial real estate loans of $641.7 million represented 33.5% of total loans and leases at December 31, 2009. Commercial loans totaled $494.5 million at December 31, 2009, which is a 5.8% increase from commercial loans of $467.4 million at December 31, 2008. Growth in commercial lending, including commercial real estate, reflects the Company s continued emphasis on commercial lending. Management believes that the Company s community banking strategy provides value to small business customers, while commercial lending products are typically attractive to the Company from a yield and interest rate risk perspective.

The consumer loan portfolio includes personal installment loans, indirect automobile financing, and overdraft lines of credit. The Company faces significant competition from local and national lenders as well as auto finance companies for consumer lending products. Consumer and other loans were $86.7 million at December 31, 2009, down from $88.0 million at December 31, 2008.

The lease portfolio decreased by 14.3% to $12.8 million at December 31, 2009, from $15 million at December 31, 2008. The lease portfolio has traditionally consisted of leases on vehicles for consumers and small businesses. Competition for automobile financing has led to a decline in the consumer lease portfolio over the past several years. Management continues to review leasing opportunities, primarily commercial leasing and municipal leasing. As of December 31, 2009, commercial leases and municipal leases represented 96.1% of total leases, while consumer leases made up the remaining 3.9%. As of December 31, 2008, commercial leases and municipal leases represented 95.7% of total leases, while

consumer leases made up the remaining 4.3%.

The Company s loan and lease customers are located primarily in the New York communities served by its three subsidiary banks.

Other than general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower. Further information on the Company s lending activities, including related party transactions, is provided in Note 5 Loan and Lease Classification Summary and Related Party Transactions in Notes to Consolidated Financial Statements in Part II, Item 7. of this Report.

The Allowance for Loan and Lease Losses

Management reviews the adequacy 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 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 assets, 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 periodic basis.

The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an adequate allowance is maintained. The Company s methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* and includes an estimate of exposure for the following: specifically reviewed and graded loans; historical loss experience by product type; past due and nonperforming loans; and other internal and external factors such as local and regional economic conditions, growth trends, and credit policy and underwriting standards.

At least annually, management reviews all commercial and commercial real estate loans exceeding a certain threshold and assigns a risk rating grade. At least quarterly, management reviews all loans and leases over a certain dollar threshold that are internally risk rated below a predetermined grade, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or discounted cash flows. For internally reviewed commercial and commercial real estate loans that are not impaired but whose internal risk rating is below a certain level, estimated exposures are assigned based upon several factors, including the borrower s financial condition, payment history, collateral adequacy, and business conditions, and historical loss factors.

For commercial loans and commercial mortgage loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical 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 addition to the above components, amounts are maintained based upon management s judgment and assessment of other quantitative and qualitative factors such as regional and local economic conditions, concentrations of credit, industry concerns, adverse market changes in estimated or appraised collateral value, and portfolio growth trends.

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 December 31, 2009, considers the allowance to be adequate, under adversely different conditions or assumptions, the Company would need to increase the allowance.

The allocation of the Company s allowance as of December 31, 2009, and each of the previous four years is illustrated in *Table 6- Allocation of the Allowance for Loan and Lease Losses*, below.

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

	As of December 31,				
(dollar amounts in thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Total loans outstanding at end of year	**$ 1,914,818**	$ 1,817,531	$ 1,440,122	$ 1,326,298	$ 1,271,349
ALLOCATION OF THE ALLOWANCE BY LOAN TYPE:					
Commercial	**$ 7,143**	$ 6,274	$ 6,135	$ 6,308	$ 5,354
Real estate	**14,857**	10,116	6,640	5,609	5,357
Consumer and all other	**2,350**	2,282	1,832	2,236	2,850
Unallocated	**0**	0	0	175	116
Total	**$ 24,350**	$ 18,672	$ 14,607	$ 14,328	$ 13,677
ALLOCATION OF THE ALLOWANCE AS A PERCENTAGE OF TOTAL ALLOWANCE:					
Commercial	**29%**	34%	42%	44%	39%
Real estate	**61%**	54%	45%	39%	39%
Consumer and all other	**10%**	12%	13%	16%	21%
Unallocated	**0%**	0%	0%	1%	1%
Total	**100%**	100%	100%	100%	100%
LOAN AND LEASE TYPES AS A PERCENTAGE OF TOTAL LOANS AND LEASES:					