TOMPKINS FINANCIAL CORP
Form 10-Q
November 09, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from __________ to __________

Commission File Number 1-12709

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

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

Registrant's telephone number, including area code: (607) 273-3210
Former name, former address, and former fiscal year, if changed since last report: NA

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class	Outstanding as of October 31, 2012
Common Stock, $0.10 par value	14,363,157 shares

TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) ASSETS		As of 09/30/2012 (Unaudited)		As of 12/31/2011
Cash and noninterest bearing balances due from banks	$	89,056	$	47,297
Interest bearing balances due from banks		53,610		2,170
Money market funds		0		100
Cash and Cash Equivalents		142,666		49,567
Trading securities, at fair value		17,373		19,598
Available-for-sale securities, at fair value (amortized cost of $1,421,267 and $1,104,853 in 2012 and 2011		1,472,037		1,143,546
Held-to-maturity securities, fair value of $27,963 at September 30, 2012, and $27,255 at December 31, 2011		27,503		26,673
Originated loans and leases, net of unearned income and deferred costs and fees		2,060,539		1,981,849
Less: Allowance for originated loan and lease losses		26,632		27,593
Acquired loans and leases, covered and non-covered		869,211		0
Net Loans and Leases		2,903,118		1,954,256
FDIC indemnification asset		4,385		0
Federal Home Loan Bank stock and Federal Reserve Bank stock		20,700		19,070
Bank premises and equipment, net		53,915		44,712
Corporate owned life insurance		64,364		43,044
Goodwill		95,566		43,898
Other intangible assets, net		19,293		4,096
Accrued interest and other assets		103,866		51,788
Total Assets	$	4,924,786	$	3,400,248
LIABILITIES				
Deposits:				
Interest bearing:				
Checking, savings and money market		2,187,083		1,356,870
Time		1,055,825		687,321
Noninterest bearing		794,736		616,373
Total Deposits		4,037,644		2,660,564
Federal funds purchased and securities sold under agreements to repurchase		206,996		169,090
Other borrowings, including certain amounts at fair value of $11,955 at September 30, 2012 and $12,093 at December 31, 2011		125,461		186,075
Trust preferred debentures		43,651		25,065
Other liabilities		70,084		60,311
Total Liabilities	$	4,483,836	$	3,101,105
EQUITY				
Tompkins Financial Corporation shareholders' equity:				

Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,394,140 at September 30, 2012; and 11,159,466 at December 31, 2011		1,439		1,116
Additional paid-in capital		332,981		206,395
Retained earnings		103,008		96,445
Accumulated other comprehensive income (loss)		4,660		(3,677)
Treasury stock, at cost – 97,596 shares at September 30, 2012, and 95,105 shares at December 31, 2011		(2,688)		(2,588)
Total Tompkins Financial Corporation Shareholders' Equity		439,400		297,691
Noncontrolling interests		1,550		1,452
Total Equity	$	440,950	$	299,143
Total Liabilities and Equity	$	4,924,786	$	3,400,248

See notes to unaudited condensed consolidated financial statements

TOMPKINS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data) (Unaudited)	09/30/2012	09/30/2011	09/30/2012	09/30/2011
INTEREST AND DIVIDEND INCOME				
Loans	$34,003	$26,134	$84,709	$77,718
Due from banks	6	1	14	10
Federal funds sold	0	1	2	6
Trading securities	182	213	569	668
Available-for-sale securities	8,317	7,524	23,016	23,110
Held-to-maturity securities	208	249	658	944
Federal Home Loan Bank stock and Federal Reserve Bank stock	203	212	620	719
Total Interest and Dividend Income	42,919	34,334	109,588	103,175
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	1,043	817	2,497	2,534
Other deposits	2,105	2,449	5,930	7,639
Federal funds purchased and securities sold under agreements to repurchase	1,174	1,204	3,340	3,743
Trust preferred debentures	489	405	1,296	1,197
Other borrowings	1,365	1,546	4,231	4,655
Total Interest Expense	6,176	6,421	17,294	19,768
Net Interest Income	36,743	27,913	92,294	83,407
Less: Provision for loan and lease losses	1,042	4,870	3,178	7,785
Net Interest Income After Provision for Loan and Lease Losses	35,701	23,043	89,116	75,622
NONINTEREST INCOME				
Investment services income	3,614	3,425	10,504	11,090
Insurance commissions and fees	5,786	3,573	13,184	10,406
Service charges on deposit accounts	1,988	2,165	5,366	6,256
Card services income	1,504	1,271	4,353	3,785
Mark-to-market (loss) gain on trading securities	(41)	55	(198)	170
Mark-to-market (loss) gain on liabilities held at fair value	(27)	(461)	138	(488)
Net other-than-temporary impairment losses1	(55)	0	(120)	0
Other income	2,116	1,998	5,151	5,217
Net (loss) gain on securities transactions	(112)	286	822	381
Total Noninterest Income	14,773	12,312	39,200	36,817
NONINTEREST EXPENSES				
Salaries and wages	13,892	11,190	36,273	33,225
Pension and other employee benefits	4,826	3,374	13,248	11,063
Net occupancy expense of premises	2,472	1,721	6,070	5,321
Furniture and fixture expense	1,364	1,088	3,580	3,325
FDIC insurance	759	475	1,841	2,057
Amortization of intangible assets	426	137	684	453
Merger related expenses	13,842	0	14,814	0
Other operating expense	8,613	5,988	22,910	18,908
Total Noninterest Expenses	46,194	23,973	99,420	74,352

Income Before Income Tax Expense	4,280	11,382	28,896	38,087
Income Tax Expense	761	3,490	8,674	11,956
Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation	3,519	7,892	20,222	26,131
Less: Net income attributable to noncontrolling interests	32	33	98	98
Net Income Attributable to Tompkins Financial Corporation	$3,487	$7,859	$20,124	$26,033
Basic Earnings Per Share	$0.26	$0.71	$1.63	$2.37
Diluted Earnings Per Share	$0.25	$0.71	$1.63	$2.36

1 For the three months ended September 30, 2012, other-than-temporary impairment ("OTTI") on securities Available-for-sale totaling $55,000 were recognized, all of which were recognized in noninterest income. For the nine months ended September 30, 2012, OTTI on securities available-for-sale totaling $120,000 were recognized, all of which were recognized in noninterest income.

See notes to unaudited condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
(In thousands) (Unaudited)	09/30/2012	09/30/2011
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 3,519	$ 7,892
Other comprehensive income (loss), net of tax:		
Unrealized gain on available-for-sale securities:		
Net unrealized holding gain on available-for-sale securities arising during the period (net of tax of $2,490 in 2012 and $2,512 in 2011).	3,706	3,772
Reclassification adjustment for net realized loss (gain) on sale included in of available-for-sale securities (net of tax of $45 in 2012 and $(114) in 2011).	67	(172)
Other-than-temporary impairment on available-for-sale securities (net of tax of $22 in 2012 and $0 in 2011)	33	0
Employee benefit plans:		
Net retirement plan gain (net of tax of $245 for 2012 and $81 for 2011).	367	122
Other comprehensive income	4,173	3,722
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	7,692	11,614
Less: Other comprehensive income attributable to noncontrolling interests	(32)	(33)
Total comprehensive income attributable to Tompkins Financial Corporation	$ 7,660	$ 11,581

	Nine Months Ended	
(In thousands) (Unaudited)	09/30/2012	09/30/2011
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$ 20,222	$ 26,131
Other comprehensive income (loss), net of tax:		
Unrealized gain on available-for-sale securities:		
Net unrealized holding gain on available-for-sale securities arising during the period (net of tax of $5,122 in 2012 and $8,595 in 2011).	7,657	12,900
Reclassification adjustment for net realized gain on sale included in of available-for-sale securities (net of tax of $328 in 2012 and $152 in 2011).	(494)	(229)
Other-than-temporary impairment on available-for-sale securities (net of tax of $48 in 2012 and $0 in 2011)	72	0
Employee benefit plans:		
Net retirement plan gain (net of tax of $736 for 2012 and $457 for 2011).	1,102	686

Other comprehensive income		8,337		13,357
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation		28,559		39,488
Less: Other comprehensive income attributable to noncontrolling interests		(98)		(98)
Total comprehensive income attributable to Tompkins Financial Corporation	$	28,461	$	39,390

See accompaning notes to unaudited condensed consolidated financial statements

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

	09/30/2012	09/30/2011
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$20,124	$26,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	3,178	7,785
Depreciation and amortization of premises, equipment, and software	3,810	3,553
Amortization of intangible assets	684	453
Earnings from corporate owned life insurance	(1,246)	(1,118)
Net amortization on securities	8,615	6,446
Other than temporary impairment loss	120	0
Mark-to-market loss (gain) on trading securities	198	(170)
Mark-to-market (gain) loss on liabilities held at fair value	(138)	488
Net gain on securities transactions	(822)	(381)
Net gain on sale of loans	(579)	(378)
Proceeds from sale of loans	25,660	20,727
Loans originated for sale	(24,913)	(19,693)
Net loss (gain) on sale of bank premises and equipment	2	(8)
Stock-based compensation expense	975	998
Increase in accrued interest receivable	(1,381)	(1,204)
Decrease in accrued interest payable	(686)	(417)
Proceeds from maturities and payments of trading securities	1,996	2,530
Contribution to pension plan	(5,000)	(2,750)
Other, net	(6,033)	10,600
Net Cash Provided by Operating Activities	24,564	53,494
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	236,181	274,728
Proceeds from sales of available-for-sale securities	180,545	59,927
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	10,321	33,379
Purchases of available-for-sale securities	(364,721)	(362,934)
Purchases of held-to-maturity securities	(11,155)	(5,763)
Net increase in loans	(62,872)	(49,635)
Net decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	3,121	5,079
Proceeds from sale of bank premises and equipment	42	48
Purchases of bank premises and equipment	(5,021)	(2,607)
Net cash acquired (used) in acquisition	4,289	(243)
Other, net	(748)	(726)
Net Cash Used in Investing Activities	(10,018)	(48,747)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	217,264	218,915
Net decrease in time deposits	(25,419)	(39,114)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(81,784)	(11,666)
Increase in other borrowings	20,000	45,880
Repayment of other borrowings	(80,476)	(152,560)

Cash dividends	(13,561)	(11,416)
Common stock issued	37,978	0
Shares issued for dividend reinvestment plan	939	2,435
Shares issued for employee stock ownership plan	1,037	1,053
Net proceeds from exercise of stock options	2,416	837
Tax benefit from stock option exercises	159	(7)
Net Cash Provided by Financing Activities	78,553	54,357
Net Increase in Cash and Cash Equivalents	93,099	59,104
Cash and cash equivalents at beginning of period	49,567	49,665
Total Cash & Cash Equivalents at End of Period	142,666	108,769

See notes to unaudited condensed consolidated financial statements

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

	09/30/2012	09/30/2011
Supplemental Information:		
Cash paid during the year for - Interest	$17,980	$20,185
Cash paid during the year for - Taxes	13,314	8,123
Transfer of loans to other real estate owned	492	457
Supplemental schedule of non-cash investing activities:		
Acquisitions:		
Fair value of non-cash assets other than goodwill acquired in purchase acquisitions	1,358,544	64
Goodwill related to acquisition - VIST	50,675	0
Goodwill related to acquisition - Olver	993	2,309
Fair value of non-cash liabilities assumed in purchase acquisitions	1,331,196	31
Fair value of shares issued for acquisitions	82,198	2,535

See notes to unaudited condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 2011	$ 1,093	$ 198,114	$ 76,446	$ (1,260)	$ (2,437)	$ 1,452	$ 273,408
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			26,033			98	26,131
Other comprehensive income				13,357			13,357
Total Comprehensive Income							39,488
Cash dividends ($1.04 per share)			(11,416)				(11,416)
Exercise of stock options and related tax benefit (25,757 shares, net)	2	828					830
Stock-based compensation expense		998					998
Shares issued for dividend reinvestment plan (61,262 shares, net)	6	2,429					2,435
Shares issued for employee stock ownership plan (25,139 shares)	3	1,050					1,053
Directors deferred compensation plan ((775) shares, net)		64			(64)		0
Net shares issued related to restricted stock awards (37,725 shares)	4						4
Share issued for purchase acquisition (75,188 shares)	8	2,527					2,535

Forfeiture of restricted shares (600 shares)							
Balances at September 30, 2011	$ 1,116	$ 206,010	$ 91,063	$ 12,097	$ (2,501)	$ 1,550	$ 309,335
Balances at January 1, 2012	$ 1,116	$ 206,395	$ 96,445	$ (3,677)	$ (2,588)	$ 1,452	$ 299,143
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			20,124			98	20,222
Other comprehensive (loss) income				8,337			8,337
Total Comprehensive Income							28,559
Cash dividends ($1.08 per share)			(13,561)				(13,561)
Exercise of stock options and related tax benefit (89,451 shares, net)	9	2,566					2,575
Stock-based compensation expense		975					975
Shares issued for dividend reinvestment plan (23,247 shares, net)	2	937					939
Shares issued for employee stock ownership plan (25,655 shares, net)	2	1,035					1,037
Directors deferred compensation plan (2,491 shares, net)		100			(100)		0
Common stock issued (1,006,250 shares)	101	37,877					37,978
Common stock issued for purchase acquisition (2,093,689 shares)	209	83,096					83,305

Forfeiture of restricted shares (3,618 shares)							
Balances at September 30, 2012	$ 1,439	$ 332,981	$ 103,008	$ 4,660	$ (2,688)	$ 1,550	$ 440,950

See notes to unaudited condensed consolidated financial statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. At September 30, 2012, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac National Bank, VIST Bank and TFA Management, Inc., a wholly owned registered investment advisor ("TFA Management"); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). TFA Management and the trust division of the Trust Company provide a full array of investment services under the Tompkins Financial Advisors division, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

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"), New York Department of Financial Services ("NYDFS"), and the Pennsylvania Department of Banking and Securities.

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

2. Basis of Presentation

The unaudited consolidated financial statements included in this quarterly report do not include all of the information and footnotes required by GAAP for a full year presentation and certain disclosures have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission. In the application of certain accounting policies management is required to make assumptions regarding the effect of matters that are inherently uncertain. These estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues, and expenses in the unaudited condensed consolidated financial statements. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies. The accounting policies that management considers critical in this respect are the determination of the allowance for loan and lease losses, the expenses and liabilities associated with the Company's pension and post-retirement benefits, and the review of its securities portfolio for other than temporary impairment.

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2012. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. In 2012, the Company has adopted accounting policies related to acquired loans (Refer to Note 6 – "Loans and Leases") and the FDIC Indemnification asset (Refer to Note 9 – "FDIC Indemnification Asset Related to Covered Loans") as a result of the VIST

Financial acquisition. Other than these new policies, there have been no significant changes to the Company's accounting policies from those presented in the 2011 Annual Report on Form 10-K. Refer to Note 3- "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.

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

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

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

3. Accounting Standards Updates

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

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 became effective on January 1, 2012, and did not have a significant impact on the Company's financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 became effective on January 1, 2012. With the adoption of ASU 2011-05, the Company's consolidated financial statements now include separate condensed consolidated statements of comprehensive income.

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

ASU 2011-11, "Balance Sheet (Topic 210) - "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. In October 2012, the FASB limited the scope to derivatives, repurchase and reverse purchase agreements, and securities borrowing and lending agreements subject to master netting arrangements or similar agreements. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's financial statements.

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

ASU 2012-02 "Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for the Company beginning January 1, 2013 (early adoption permitted) and is not expected to have a significant impact on the Company's financial statements.

4. Mergers and Acquisitions

On August 1, 2012, Tompkins completed its acquisition of VIST Financial Corp. ("VIST Financial"), a financial holding company headquartered in Wyomissing, Pennsylvania, and parent to VIST Bank, VIST Insurance, LLC ("VIST Insurance"), and VIST Capital Management, LLC ("VIST Capital Management"). On the acquisition date, VIST Financial had $1.4 billion in total assets, which included $889.3 million in loans, and $1.2 billion in deposits. On the acquisition date, VIST Financial was merged into Tompkins. VIST Bank, a Pennsylvania state-chartered commercial bank, became a wholly-owned subsidiary of Tompkins and will continue to operate as a separate subsidiary bank of Tompkins. VIST Insurance was merged into Tompkins Insurance Agencies, Inc., and VIST Capital Management became part of Tompkins Financial Advisors. The acquisition expands the Company's presence into the southeastern region of Pennsylvania.

The acquisition was a stock transaction. Under the terms of the merger agreement, each share of VIST Financial common stock was cancelled and converted into the right to receive 0.3127 shares of Tompkins common stock, with any fractional share entitlement paid in cash, resulting in the Company issuing 2,093,689 shares at a fair value of $82.2 million. The Company also paid $1.2 million to retire outstanding VIST Financial employee stock options; while other VIST Financial employee stock options were converted into options to purchase Tompkins' common stock, with an aggregate fair value of $1.1 million. In addition, immediately prior to the completion of the merger, Tompkins purchased from the United States Department of the Treasury the issued and outstanding shares of VIST Financial Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as well as the warrant to purchase shares of VIST Financial common stock issued in connection with the issuance of the preferred stock (the "TARP Purchase") and any accrued and unpaid dividends for an aggregate purchase price of $26.5 million. The securities purchased in the Troubled Asset Relief Program ("TARP") Purchase were cancelled in connection with the consummation of the merger.

The acquisition was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values as of acquisition date. VIST Financial's assets and liabilities were recorded at their preliminary estimated fair values as of August 1, 2012, the acquisition date, and VIST Financial's results of operations have been included in the Company's Consolidated Statements of Income since that date.

The assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based upon management's best estimates using information available at the date of the acquisition, including the use of third party valuation specialist. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the acquisition. The following table summarizes the estimated fair value of the acquired assets and liabilities.

Consideration Paid (in thousands)		August 1, 2012	
Tompkins common stock issued	$	82,198	
Cash payment for fractional shares		13	
Cash payments for VIST Financial employee stock options		1,236	
Fair value of VIST Financial employee stock options, converted to Tompkins' common stock options		1,107	
Cash payment for VIST Financial TARP, warrants and accrued and unpaid dividends		26,454	
	$	111,008	
Recognized amounts of identifiable assets acquired and liabilities assumed at estimated fair value			
Cash and cash equivalents	$	32,985	
Available-for-sale securities		376,298	
FHLB stock		4,751	
Loans and leases		889,336	
Premises and equipment		7,343	
Identifiable intangible assets		16,017	
Accrued interest receivable and other assets		64,799	
Deposits		(1,185,235	)
Borrowings		(138,263	)
Other liabilities		(7,698	)
Total identifiable assets	$	60,333	

Goodwill	$	50,675

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Loans and leases acquired in the VIST Financial acquisition were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there was no carryover of related allowance for loan and lease losses. The fair values of loans acquired from VIST Financial were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans.

The following is a summary of the loans acquired in the VIST Financial acquisition as of the closing date.

	Acquired Credit Impaired Loans	Acquired Non-Credit Impaired Loans	Total Acquired Loans
Contractually required principal and interest at acquisition	$159,865	$1,058,168	$1,218,033
Contractual cash flows not expected to be collected (non-accretable difference)	59,128	0	59,128
Expected cash flows at acquisition	100,737	1,058,168	1,158,905
Interest component of expected cash flows (accretable difference)	8,425	261,144	269,569
Fair value of acquired loans	92,312	797,024	889,336

The core deposit intangible and customer related intangibles totaled $10.7 million and $5.3 million, respectively and are being amortized over their estimated useful lives of approximately 10 years and 15 years, respectively, using an accelerated method. The goodwill is not being amortized but will be evaluated at least annually for impairment. The goodwill, core deposit intangibles, and customer related intangibles are not deductable for taxes.

The fair values of deposit liabilities with no stated maturities such as checking, money market and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

The fair value of borrowings, which were mainly repurchase agreements with a large money center bank, was determined by discounted cash flow, as well as obtaining quotes from the money center bank. The Company also assumed trust preferred debentures. The fair value of these instruments was estimated by using the income approach whereby the expected cash flows over remaining estimated life are discounted using the Company's credit spread over the current fully indexed yield based on an expectation of future interest rates derived from observed market interest rate curve and volatilities.

Direct costs related to the acquisition were expensed as incurred. During the three and nine months ended September 30, 2012, the Company incurred $13.8 million and $14.8 million, respectively, of merger and acquisition integration-related expenses, which have been separately stated in the Company's Consolidated Statements of Income.

Supplemental Pro Forma Financial Information

The following table presents financial information regarding the former VIST Financial operations included in our Consolidated Statements of Income from the date of the acquisition through September 30, 2012 under the column "Actual from acquisition date through September 30, 2012." In addition, the table provides unaudited condensed pro forma financial information assuming that the VIST Financial acquisition had been completed as of January 1, 2012, for the nine months ended September 30, 2012 and as of January 1, 2011 for the nine months ended September 30,

2011. The table below has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the unaudited proforma information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings or the impact of conforming certain acquire accounting policies to the Company's policies that may have occurred as a result of the integration and consolidation of the acquisition. The pro forma information shown reflects adjustments related to certain purchase accounting fair value adjustments; amortization of core deposit and other intangibles; and related income tax effects.

(in thousands, except for per share data) (Unaudited)	Nine Months Ended Actual 09/30/2012	Pro Forma 09/30/2012	Pro Forma 09/30/2011
Net interest income	$9,848	$115,040	$109,820
Noninterest income	3,124	4,334	48,629
Net income	3,157	36,025	31,849
Earnings per share:			
Basic		2.53	2.27
Diluted		2.51	2.25

In June 2011, Tompkins Insurance acquired all of the outstanding shares of Olver & Associates, Inc. ("Olver"), a property and casualty insurance agency located in Ithaca, New York. As a result of pursuing an available tax election under Internal Revenue Code section 338(h)(10), it was determined that the acquisition qualified for beneficial tax treatment that would enable the tax deductible amortization of the purchase premium, including goodwill. To compensate the Olver shareholders for their consent to make this election, additional consideration of $755,000 and $238,000 were recorded as additional goodwill during the first and second quarters of 2012, respectively.

5. Securities

Available-for-Sale Securities

The following table summarizes available-for-sale securities held by the Company at September 30, 2012:

September 30, 2012 (in thousands)	Amortized Cost1	Available-for-Sale Securities Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$1,003	$11	$0	$1,014
Obligations of U.S. Government sponsored entities	569,993	22,704	94	592,603
Obligations of U.S. states and political subdivisions	82,671	2,562	25	85,208
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	170,436	6,846	295	176,987
U.S. Government sponsored entities	585,396	19,576	854	604,118
Non-U.S. Government agencies or sponsored entities	4,791	223	0	5,014
U.S. corporate debt securities	5,011	120	0	5,131
Total debt securities	1,419,301	52,042	1,268	1,470,075
Equity securities	1,966	0	4	1,962
Total available-for-sale securities	$1,421,267	$52,042	$1,272	$1,472,037

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

The following table summarizes available-for-sale securities held by the Company at December 31, 2011:

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

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

Held-to-Maturity Securities

The following table summarizes held-to-maturity securities held by the Company at September 30, 2012:

		Held-to-Maturity Securities		
September 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Obligations of U.S. states and political subdivisions	$27,503	$460	$0	$27,963
Total held-to-maturity debt securities	$27,503	$460	$0	$27,963

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

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

Realized gains on available-for-sale securities were $251,000 and $1,185,000 in the third quarter and nine months ending September 30, 2012, respectively, and $286,000 and $495,000 in the same periods of 2011; realized losses on available-for-sale securities were $363,000 in the third quarter and nine months ending September 30, 2012, and $0 and $114,000 in the same time periods of 2011. The realized losses on available-for-sale securities were related to a

planned restructuring of the VIST Bank balance sheet post acquisition where securities were sold and the proceeds used to paydown repurchase agreements.

The following table summarizes available-for-sale securities that had unrealized losses at September 30, 2012:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 16,089	$ 94	$ 0	$ 0	$ 16,089	$ 94
Obligations of U.S. states and political subdivisions	9,406	20	794	5	10,200	25
Mortgage-backed securities – issued by						
U.S. Government agencies	26,042	295	0	0	26,042	295
U.S. Government sponsored entities	107,328	854	0	0	107,328	854
Total debt securities	158,865	1,263	794	5	159,659	1,268
Equity securities	6	4	0	0	6	4
Total available-for-sale securities	$ 158,871	$ 1,267	$ 794	$ 5	$ 159,665	$ 1,272

There were no unrealized losses on held-to-maturity securities at September 30, 2012.

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

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 30,831	$ 31	$ 0	$ 0	$ 30,831	$ 31
Obligations of U.S. states and political subdivisions	1,083	8	0	0	1,083	8
Mortgage-backed securities – residential, issued by						
U.S. Government sponsored entities	28,307	58	0	0	28,307	58
Non-U.S. Government agencies or sponsored entities	1,944	172	3,932	286	5,876	458
Total debt securities	62,165	269	3,932	286	66,097	555
Total available-for-sale securities	$ 62,165	$ 269	$ 3,932	$ 286	$ 66,097	$ 555

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

The gross unrealized losses reported at September 30, 2012 and December 31, 2011 for mortgage-backed securities-residential relate to investment securities issued by U.S. government sponsored entities such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, and U.S. government agencies such as Government National Mortgage Association, and non U.S. Government agencies or sponsored entities. Total gross unrealized losses were primarily attributable to changes in interest rates and levels of market liquidity, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities.

The Company does not intend to sell the securities that are in an unrealized loss position and it is not more-likely-than not that the Company will be required to sell these available-for-sale investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of September 30, 2012, and December 31, 2011, management believes the unrealized losses detailed in the tables above are not other-than-temporary.

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

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

- The length of time and the extent to which the fair value has been less than the amortized cost basis;

- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, and protective triggers;

- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

As of September 30, 2012, the Company held five mortgage backed securities, with a fair value of $5.0 million, that were not issued by U.S. Government agencies or U.S. Government sponsored entities. In 2009, the Company determined that three of these non-U.S. Government mortgage backed securities were other-than-temporarily impaired based on an analysis of the above factors for these three securities. As a result, the Company recorded other-than-temporary impairment charges of $2.0 million in 2009 on these investments. The credit loss component of $146,000 was recorded as other-than-temporary impairment losses in the consolidated statements of income, while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income in the condensed consolidated statements of condition and changes in shareholders' equity. In 2010 and 2011, the Company recorded an additional credit loss component of other-than-temporary charge of $34,000 and $65,000, respectively. The Company's review of these securities as of September 30, 2012 determined that an additional credit loss component of other than temporary impairment charge of $55,000 was necessary. As of September 30, 2012, these securities had an unrealized gain of $223,000, which was recognized in other comprehensive income. A continuation or worsening of current economic conditions may result in additional credit loss component of other-than-temporary impairment losses related to these investments.

The following table summarizes the roll-forward of credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

(in thousands)	Three Months Ended 09/30/2012	Three Months Ended 09/30/2011	Nine Months Ended 09/30/2012	Nine Months Ended 09/30/2011
Credit losses at beginning of the period	$310	$180	$245	$180
Credit losses related to securities for which an other-than-temporary impairment was previously recognized	55	0	120	—
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	$365	$180	$365	$180

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

September 30, 2012

(in thousands)	Amortized Cost1	Fair Value
Available-for-sale securities:		
Due in one year or less	$25,005	$25,252
Due after one year through five years	349,249	364,300
Due after five years through ten years	281,384	291,360
Due after ten years	3,040	3,044
Total	658,678	683,956
Mortgage-backed securities	760,623	786,119
Total available-for-sale debt securities	$1,419,301	$1,470,075

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

December 31, 2011

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

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

September 30, 2012

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$16,971	$17,051
Due after one year through five years	7,071	7,337
Due after five years through ten years	2,661	2,775
Due after ten years	800	800
Total held-to-maturity debt securities	$27,503	$27,963

December 31, 2011

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

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock and non-marketable Federal Reserve Bank ("FRB") stock, both of which are required to be held for regulatory purposes and for borrowing

availability. The required investment in FHLBNY stock is tied to the Company’s borrowing levels with the FHLBNY. Holdings of FHBLNY stock and FRB stock totaled $18.6 million and $2.1 million at September 30, 2012, respectively, and $17.0 million and $2.1 million at December 31, 2011, respectively. The quarter-over-quarter increase was related to the FHLBNY stock requirement of VIST Bank. The FHLBNY continues to pay dividends and repurchase its stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY stock.

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

(in thousands)	09/30/2012	12/31/2011
Obligations of U.S. Government sponsored entities	$12,148	$12,693
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	5,225	6,905
Total	$17,373	$19,598

The net (loss) gain on trading account securities, which reflect mark-to-market adjustments, totaled ($41,000) and ($198,000) for the three and nine months ended September 30, 2012, and $55,000 and $170,000 for the three and nine months ended September 30, 2011.

6. Loans and Leases
Loans and Leases at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012			December 31, 2011		
(in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Commercial and industrial						
Agriculture	$ 58,672	$ 13	$ 58,685	$ 67,566	$ 0	$ 67,566
Commercial and industrial other	437,451	86,550	524,001	417,128	0	417,128
Subtotal commercial and industrial	496,123	86,563	582,686	484,694	0	484,694
Commercial real estate						
Construction	37,194	56,844	94,038	47,304	0	47,304
Agriculture	47,745	3,295	51,040	53,071	0	53,071
Commercial real estate other	690,210	399,364	1,089,574	665,859	0	665,859
Subtotal commercial real estate	775,149	459,503	1,234,652	766,234	0	766,234
Residential real estate						
Home equity	158,168	72,063	230,231	161,278	0	161,278
Mortgages	566,344	159,505	725,849	500,034	0	500,034
Subtotal residential real estate	724,512	231,568	956,080	661,312	0	661,312
Consumer and other						
Indirect	28,474	31	28,505	32,787	0	32,787
Consumer and other	32,760	50,442	83,202	30,961	0	30,961
Subtotal consumer and other	61,234	50,473	111,707	63,748	0	63,748
Leases	4,602	78	4,680	6,489	0	6,489
Covered loans	0	41,134	41,134	0	0	0
	2,061,620	869,319	2,930,939	1,982,477	0	1,982,477

Total loans and leases						
Less: unearned income and deferred costs and fees	(1,081)	(108)	(1,189)	(628)	0	(628)
Total loans and leases, net of unearned income and deferred costs and fees	$ 2,060,539	$ 869,211	$ 2,929,750	$ 1,981,849	$ 0	$ 1,981,849

As of September 30, 2012 total loans of $2.9 billion were up 47.8% over year-end 2012, mainly a result of the VIST Financial acquisition, as well as organic growth. Loans acquired in the VIST Financial acquisition totaled $869.2 million at September 30, 2012. The acquired loans were recorded at fair value as of the acquisition date of August 1, 2012, pursuant to the purchase accounting guidelines in FASB ASC 805 – "Fair Value Measurements and Disclosures" (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, "Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality". Refer to table in "Note 4 – Mergers and Acquisitions" for a summary of acquired credit-impaired loans and acquired non-credit impaired loans.

The carrying value of acquired loans acquired and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was $90.3 million at September 30, 2012, as compared to $92.3 million at acquisition date of August 1, 2012; the net reduction reflects payments. Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

There were no material increases or decreases in the expected cash flows between August 1, 2012 (the "acquisition date") and September 30, 2012. The Company recognized $729,000 of interest income on the loans acquired, with evidence of credit deterioration in the period since the acquisition date.

At September 30, 2012, acquired loans included $41.1 million of covered loans. VIST Financial had acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with loss sharing agreement with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if net losses exceed certain levels specified in the loss sharing agreements, 80%. See "Note 9 – FDIC Indemnification Asset Related to Covered Loans" for further discussion of the loss sharing agreements and related FDIC indemnification asset.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. The Company discussed its lending policies and underwriting guidelines for its various lending portfolios in Note 5 – "Loans and Leases" in the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Company reviewed the lending policies of Tompkins and VIST Financial, and adopted a uniform policy for the Company. There were no significant changes to the Company's existing policies, underwriting standards and loan review. The Company's Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

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

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. The Company has determined that it can reasonably estimate future cash flows on our current portfolio of acquired loans that are past due 90 days or more and on which the Company is accruing interest and expect to fully collect the carrying value of the loans net of the allowance for acquired loan losses.

The below table is an age analysis of past due loans, segregated by originated and acquired loan and lease portfolios, and by class of loans, as of September 30, 2012. As of September 30, 2012 there were no nonaccrual loans on the acquired loan and lease portfolio, these loans were recorded at fair value upon acquisition and are considered to be accruing as we can reasonably estimate future cash flows and expect to fully collect the carrying value of these loans.

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing	Nonaccrual
Originated Loans and Leases						
Commercial and industrial						
Agriculture	$ 0	$ 0	$ 58,672	$ 58,672	$ 0	$ 30
Commercial and industrial other	371	4,648	432,432	437,451	0	4,809
Subtotal commercial and industrial	371	4,648	491,104	496,123	0	4,839
Commercial real estate						
Construction	0	8,469	28,725	37,194	0	11,239
Agriculture	183	0	47,562	47,745	0	23
Commercial real estate other	2,759	9,759	677,692	690,210	0	12,954
Subtotal commercial real estate	2,942	18,228	753,979	775,149	0	24,216
Residential real estate						
Home equity	473	2,185	155,510	158,168	121	2,173
Mortgages	4,725	4,932	556,687	566,344	0	5,497
Subtotal residential real estate	5,198	7,117	712,197	724,512	121	7,670
Consumer and other						
Indirect	841	253	27,381	28,474	5	263
Consumer and other	59		32,701	32,760	0	8
Subtotal consumer and other	900	253	60,082	61,234	5	271
Leases	0	0	4,602	4,602	0	0
Total loans and leases	9,412	30,246	2,021,964	2,061,620	126	36,996
Less: unearned income and deferred costs and fees	0	0	0	(1,081)	0	0
Total originated loans and leases, net of unearned income and deferred costs and fees	$ 9,412	$ 30,246	$ 2,021,964	$ 2,060,539	$ 126	$ 36,996
Acquired Loans and Leases						
Commercial and industrial						
Agriculture	$ 0	$ 0	$ 13	$ 13	$ 0	$ 0
Commercial and industrial other	51	1,190	85,309	86,550	1,190	0
Subtotal commercial and industrial	51	1,190	85,322	86,563	1,190	0
Commercial real estate						
Construction	0	9,732	47,112	56,844	9,732	0

Agriculture	0	0	3,295	3,295	0	0
Commercial real estate other	1,917	4,541	392,906	399,364	4,541	0
Subtotal commercial real estate	1,917	14,273	443,313	459,503	14,273	0
Residential real estate						
Home equity	2,275	579	69,209	72,063	579	0
Mortgages	1,597	3,297	154,611	159,505	3,297	0
Subtotal residential real estate	3,872	3,876	223,820	231,568	3,876	0
Consumer and other						
Indirect	0	0	31	31	0	0
Consumer and other	8	0	50,434	50,442	0	0
Subtotal consumer and other	8	0	50,465	50,473	0	0
Leases	0	0	78	78	0	0
Covered loans	669	2,837	37,628	41,134	2,837	0
Total loans and leases	6,517	22,176	840,626	869,319	22,176	0
Less: unearned income and deferred costs and fees	0	0	0	(108)	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$ 6,517	$ 22,176	$ 840,626	$ 869,211	$ 22,176	$ 0

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An age analysis of past due loans, segregated by class of loans, as of December 31, 2011 is provided below.

(in thousands)	30-89 days	90 days or more	Current Loans	Total Loans	90 days and accruing	Nonaccrual
Originated Loans and Leases						
Commercial and industrial						
Agriculture	26	0	67,540	67,566	0	175
Commercial and industrial other	890	155	416,083	417,128	0	6,930
Subtotal commercial and industrial	916	155	483,623	484,694	0	7,105
Commercial real estate						
Construction	102	7,761	39,441	47,304	0	12,958
Agriculture	186	211	52,674	53,071	0	346
Commercial real estate other	4,923	9,449	651,487	665,859	0	13,048
Subtotal commercial real estate	5,211	17,421	743,602	766,234	0	26,352
Residential real estate						
Home equity	1,217	1,232	158,829	161,278	322	1,222
Mortgages	4,808	4,942	490,284	500,034	1,056	4,662
Subtotal residential real estate	6,025	6,174	649,113	661,312	1,378	5,884
Consumer and other						
Indirect	1,009	228	31,550	32,787	2	237
Consumer and other	0	0	30,961	30,961	0	0
Subtotal consumer and other	1,009	228	62,511	63,748	2	237
Leases	10	0	6,479	6,489	0	10
Total loans and leases	13,171	23,978	1,945,328	1,982,477	1,380	39,588
Less: unearned income and deferred costs and fees	0	0	0	(628)	0	0
Total loans and leases, net of unearned income and deferred costs and fees	$ 13,171	$ 23,978	$ 1,945,328	$ 1,981,849	$ 1,380	$ 39,588

As of December 31, 2011 there were no acquired loans and leases.

7. Allowance for Loan and Lease Losses

Originated Loans and Leases

Management reviews the appropriateness of the allowance for loan and lease losses (“allowance”) on a regular basis. Management considers the accounting policy relating to the allowance to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the

material effect that assumptions could have on the Company's results of operations. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company's methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues and allowance allocations are calculated in accordance with ASC Topic 310, Receivables and ASC Topic 450, Contingencies.

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

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

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

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimates. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management's evaluation of the allowance as of September 30, 2012, considers the allowance to be appropriate, under adversely different conditions or assumptions, the Company would need to increase the allowance.

Acquired Loans and Leases
As of September 30, 2012 there was no allowance for loans and lease losses on the acquired loan portfolio. There were also no charge-offs or provision expense related to the acquired loans between acquisition date of August 1, 2012 and September 30, 2012.

Acquired loans accounted for under ASC 310-30

For our acquired loans, our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC 310-20

We establish our allowance for loan losses through a provision for credit losses based upon an evaluation process that is similar to our evaluation process used for originated loans. This evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan loss experience, carrying value of the loans, which includes the remaining net purchase discount or premium, and other factors that warrant recognition in determining our allowance for loan losses.

The following tables detail activity in the allowance for possible loan and lease losses by portfolio segment for the three and nine months ended September 30, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended September 30, 2012

(in thousands)	Commercial and	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total

	Industrial					
Allowance for credit losses:						
Beginning balance	$ 7,807	$ 12,967	$ 4,350	$ 1,720	$ 21	$ 26,865
Charge-offs	(307)	(644)	(427)	(169)	0	(1,547)
Recoveries	86	128	1	57	0	272
Provision	416	(467)	717	396	(20)	1,042
Ending Balance	$ 8,002	$ 11,984	$ 4,641	$ 2,004	$ 1	$ 26,632

Three months ended September 30, 2011

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for credit losses:						
Beginning balance	$ 7,840	$ 14,444	$ 4,425	$ 1,605	$ 47	$ 28,361
Charge-offs	(2)	(5,014)	(308)	(168)	0	(5,492)
Recoveries	14	52	1	72	0	139
Provision	717	4,371	(109)	(101)	(8)	4,870
Ending Balance	$ 8,569	$ 13,853	$ 4,009	$ 1,408	$ 39	$ 27,878

Nine months ended September 30, 2012

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
Allowance for credit losses on originated loan and lease portfolio:						
Beginning balance	$ 8,936	$ 12,662	$ 4,247	$ 1,709	$ 39	$ 27,593
Charge-offs	(888)	(2,332)	(931)	(580)	0	(4,731)
Recoveries	151	166	29	246	0	592
Provision	(197)	1,488	1,296	629	(38)	3,178
Ending Balance	$ 8,002	$ 11,984	$ 4,641	$ 2,004	$ 1	$ 26,632

Nine months ended September 30, 2011

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

At September 30, 2012 and December 31, 2011, the allocation of the allowance for originated loan and lease losses summarized on the basis of the Company’s impairment methodology was as follows:

(in thousands)	Commercial and	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total

	Industrial					
September 30, 2012						
Individually evaluated for impairment	$ 2,137	$ 348	$ 0	$ 0	$ 0	$ 2,485
Collectively evaluated for impairment	5,865	11,636	4,641	2,004	1	24,147
Ending balance	$ 8,002	$ 11,984	$ 4,641	$ 2,004	$ 1	$ 26,632
December 31, 2011						
Individually evaluated for impairment	$ 2,863	$ 667	$ 0	$ 0	$ 0	$ 3,530
Collectively evaluated for impairment	6,073	11,995	4,247	1,709	39	24,063
Ending balance	$ 8,936	$ 12,662	$ 4,247	$ 1,709	$ 39	$ 27,593

The recorded investment in originated loans and leases summarized on the basis of the Company's impairment methodology as of September 30, 2012 and December 31, 2011 was as follows:

(in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Finance Leases	Total
September 30, 2012						
Individually evaluated for impairment	$ 6,264	$ 22,835	$ 484	$ 0	$ 0	$ 29,583
Collectively evaluated for impairment	489,859	752,314	724,028	61,234	4,602	2,032,037
Total	$ 496,123	$ 775,149	$ 724,512	$ 61,234	$ 4,602	$ 2,061,620
December 31, 2011						
Individually evaluated for impairment	$ 10,161	22,150	$ 445	$ 0	$ 0	$ 32,756
Collectively evaluated for impairment	474,533	744,084	660,867	63,748	6,489	1,949,721
Total	$ 484,694	$ 766,234	$ 661,312	$ 63,748	$ 6,489	$ 1,982,477

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans, and all loans restructured in a troubled debt restructuring (TDR). Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserves because of the amount of collateral support with respect to these loans, and previous charge-offs. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis.

Impaired loans are set forth in the tables below as of September 30, 2012 and December 31, 2011.

	09/30/2012			12/31/2011		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans and leases with no related allowance						
Commercial and industrial						
Commercial and industrial other	$ 2,130	$ 2,246	$ 0	$ 2,489	$ 2,915	$ 0

Commercial real estate						
Construction	10,889	17,667	0	9,018	14,628	0
Commercial real estate other	11,598	12,530	0	12,150	12,496	0
Residential real estate						
Residential real estate other	484	484	0	445	445	0
Subtotal	$ 25,101	$ 32,927	$ 0	$ 24,102	$ 30,484	$ 0
Originated loans and leases with related allowance						
Commercial and industrial						
Commercial and industrial other	4,134	4,134	2,137	4,197	4,197	2,113
Commercial real estate						
Construction	0	0	0	3,475	3,475	750
Commercial real estate other	348	348	348	982	982	667
Subtotal	$ 4,482	$ 4,482	$ 2,485	$ 8,654	$ 8,654	$ 3,530
Total	$ 29,583	$ 37,409	$ 2,485	$ 32,756	$ 39,138	$ 3,530

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The average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2012 and 2011 was as follows:

	Three Months Ended 09/30/2012		Three Months Ended 09/30/2011	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	2,339	0	2,978	0
Commercial real estate				
Construction	10,953	0	10,027	0
Commercial real estate other	12,447	0	9,956	0
Residential real estate				
Residential real estate other	486	0	375	0
Subtotal	$26,225	$0	$23,336	$0
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	4,091	0	2,226	0
Commercial real estate				
Commercial real estate other	654	6	1,922	0
Subtotal	$4,745	$6	$4,148	$0
Total	$30,970	$6	$27,484	$0

	Nine Months Ended 09/30/2012		Nine Months Ended 09/30/2011	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated loans and leases with no related allowance				
Commercial and industrial				
Commercial and industrial other	2,347	4	2,875	0
Commercial real estate				
Construction	9,732	0	10,400	0
Commercial real estate other	12,940	0	11,640	24
Residential real estate				
Residential real estate other	461	0	399	0
Subtotal	$25,480	$4	$25,314	$24
Originated loans and leases with related allowance				
Commercial and industrial				
Commercial and industrial other	4,116	0	1,350	0
Commercial real estate				
Construction	869	0	0	0

Commercial real estate other	696	24	864	0
Subtotal	$5,681	$24	$2,214	$0
Total	$31,161	$28	$27,528	$24

Loans are considered modified in a TDR when, due to a borrower's financial difficulties; the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include, among others, an extension for the term of the loan, and granting a period when interest-only payments can be made with the principal payments made over the remaining term of the loan or at maturity. There were four relationships modified as TDRs during the three and nine months ended September 30, 2012, as indicated in the table below.

Troubled Debt Restructuring

September 30, 2012	Three months ended			Nine months ended		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(in thousands)						
Originated loans and leases						
Commercial and industrial						
Commercial and industrial other	2	4,224	4,224	2	4,224	4,224
Commercial real estate						
Residential real estate						
Mortgages	1	146	146	2	208	208
Total	3	$ 4,370	$ 4,370	4	$ 4,432	$ 4,432

A loan that was restructured as a TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. During the three and nine months ended September 30, 2012, there was one loan classified as a TDR, and has since become over 90 days past due, with a balance of $51,000.

The following tables present credit quality indicators (internal risk grade) by class of commercial and industrial loans and commercial real estate loans as of September 30, 2012 and December 31, 2011.

September 30, 2012 (in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Originated Loans and Leases						
Internal risk grade:						
Pass	$ 392,683	$ 58,190	$ 640,583	$ 45,712	$ 20,629	$ 1,157,797
Special Mention	28,050	182	21,906	703	7,757	58,598
Substandard	16,718	300	27,227	1,330	8,808	54,383
Doubtful	0	0	494	0	0	494
Total	$ 437,451	$ 58,672	$ 690,210	$ 47,745	$ 37,194	$ 1,271,272

September 30, 2012 (in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Acquired Loans and Leases						
Internal risk grade:						
Pass	$ 80,990	$ 13	$ 371,697	$ 3,295	$ 44,261	$ 500,256

Special Mention		3,359		0		9,700		0		1,664		14,723
Substandard		2,201		0		17,967		0		10,919		31,087
Total	$	86,550	$	13	$	399,364	$	3,295	$	56,844	$	546,066

December 31, 2011

(in thousands)	Commercial and Industrial Other	Commercial and Industrial Agriculture	Commercial Real Estate Other	Commercial Real Estate Agriculture	Commercial Real Estate Construction	Total
Internal risk grade:						
Pass	$ 377,083	$ 65,795	$ 602,915	$ 50,333	$ 28,232	$ 1,124,358
Special Mention	14,488	1,059	25,743	1,022	9,844	52,156
Substandard	25,557	712	35,707	1,716	9,228	72,920
Doubtful	0	0	1,494	0	0	1,494
Total	$ 417,128	$ 67,566	$ 665,859	$ 53,071	$ 47,304	$ 1,250,928

The following tables present credit quality indicators by class of residential real estate loans and by class of consumer loans. Nonperforming loans include nonaccrual, impaired, and loans 90 days past due and accruing interest. All other loans are considered performing as of September 30, 2012 and December 31, 2011. For purposes of this footnote, acquired loans 90 days or greater past due are considered non-performing.

September 30, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Originated Loans and Leases					
Performing	$155,874	$560,847	$28,206	$32,752	$777,680
Nonperforming	2,294	5,497	268	8	8,066
Total	$158,168	$566,344	$28,474	$32,760	$785,746

September 30, 2012

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Acquired Loans and Leases					
Performing	$ 71,131	$ 155,209	$ 31	$ 50,442	$ 276,813
Nonperforming	932	4,296	0	0	5,228
Total	$ 72,063	$ 159,505	$ 31	$ 50,442	$ 282,041

December 31, 2011

(in thousands)	Residential Home Equity	Residential Mortgages	Consumer Indirect	Consumer Other	Total
Performing	$159,734	$494,316	$32,548	$30,961	$717,559
Nonperforming	1,544	5,718	239	0	7,501
Total	$161,278	$500,034	$32,787	$30,961	$725,060

8. Trust Preferred Debentures

The Company has five unconsolidated subsidiary trusts (“the Trusts”): Tompkins Capital Trust I, Sleepy Hollow Capital Trust I, First Leesport Capital Trust I, Leesport Capital Trust II, and Madison Statutory Trust I. The latter three were acquired in the acquisition of VIST Financial, while Sleepy Hollow Capital Trust I was acquired in a previous acquisition. The Company owns 100% of the common equity of each Trust. The Trusts were formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities to third-party investors and investing

the proceeds from the sale in junior subordinated debt securities (subordinated debt) issued by the Company, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in the Company's financial statements. Distributions on the preferred securities issued by the Trusts are payable quarterly at a rate per annum equal to the interest rate being earned by the Trusts on the debenture held by the Trusts and are recorded as interest expense in the consolidated financial statements.

The preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debt. The subordinated debt, net of the Company's investment in the Trusts, qualifies as Tier 1 capital under the Board of Governors of the Federal Reserve System (FRB) guidelines. The Company has entered into agreements which, when taken collectively, fully and unconditionally guarantee the obligations under the preferred securities subject to the terms of each of the guarantees.

The following table provides information relating to the Trusts as of September 30, 2012:

Description	Issuance Date	Par Amount		Interest Rate	Maturity Date
Tompkins Capital Trust I	April 2009	$	20.5 million	7% fixed	April 2039
Sleepy Hollow Capital Trust I	August 2003	$	4.0 million	3-month LIBOR plus 3.05%	August 2033
First Leesport Capital Trust I	March 2000	$	5.0 million	10.875% fixed	March 2030
Leesport Capital Trust II	September 2002	$	10.0 million	3-month LIBOR plus 3.45%	September 2032
Madison Statutory Trust I	June 2003	$	5.0 million	3-month LIBOR plus 3.10%	June 2033

9. FDIC Indemnification Asset Related to Covered Loans

Certain loans acquired in the VIST Financial acquisition were covered loans with loss share agreements with the FDIC. Under the terms of loss sharing agreements, the FDIC will reimburse the Company for 70 percent of net losses on covered single family assets incurred up to $4.0 million, and 70 percent of net losses on covered commercial assets incurred up to $12.0 million. The FDIC will increase its reimbursement of net losses to 80 percent if net losses exceed the $4.0 million and $12 million thresholds, respectively. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries.

The receivable arising from the loss sharing agreements (referred to as the “FDIC indemnification asset” on our consolidated statements of financial condition) is measured separately from covered loans because the agreements are not contractually part of the covered loans and are not transferable should the Company choose to dispose of the covered loans. As of the acquisition date with VIST Financial, the Company recorded an aggregate FDIC indemnification asset of $4.4 million, consisting of the present value of the expected future cash flows the Company expected to receive from the FDIC under loss sharing agreements. The FDIC indemnification asset is reduced as loss sharing payments are received from the FDIC for losses realized on covered loans. Actual or expected losses in excess of the acquisition date estimates and accretion of the acquisition date present value discount will result in an increase in the FDIC indemnification asset and the immediate recognition of non-interest income in our financial statements.

A decrease in expected losses would generally result in a corresponding decline in the FDIC indemnification asset and the non-accretable difference. Reductions in the FDIC indemnification asset due to actual or expected losses that are less than the acquisition date estimates are recognized prospectively over the shorter of (i) the estimated life of the applicable covered loans or (ii) the term of the loss sharing agreements with the FDIC.

10. Goodwill and Other Intangible Assets

Information regarding the carrying amount and the amortization expense of the Company's acquired intangible assets are disclosed in the tables below.

September 30, 2012	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in thousands)			
Amortized intangible assets:			
Core deposit intangible	$18,774	$7,280	$11,494
Other intangibles	12,875	5,076	7,799
Subtotal amortized intangible assets	31,649	12,356	19,293
Goodwill - Banking segment	68,530	1,723	66,807
Goodwill - Insurance segment	20,964	301	20,663
Goodwill - Wealth management segment	8,096	0	8,096
Subtotal goodwill	97,590	2,024	95,566
Total intangible assets	$129,239	$14,380	$114,859

December 31, 2011	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in thousands)			
Amortized intangible assets:			
Core deposit intangible	$7,891	$6,859	$1,032
Other intangibles	7,626	4,562	3,064
Subtotal amortized intangible assets	15,517	11,421	4,096
Goodwill - Banking segment	25,323	1,723	23,600
Goodwill - Insurance segment	12,588	301	12,287
Goodwill - Wealth management segment	8,011	0	8,011
Subtotal goodwill	45,922	2,024	43,898
Total intangible assets	$61,439	$13,445	$47,994

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012 are provided in the following table.

(in thousands)	Gross Carrying Amount	Net Carrying Amount
Balance as of January 1, 2012	45,922	43,898
Goodwill acquired during the year - VIST	50,675	50,675
Goodwill acquired during the year - Olver	993	993
Balance as of September 30, 2012	$97,590	$95,566

The Company reviews its goodwill and intangible assets annually, on December 31, or more frequently if conditions warrant, for impairment. In testing goodwill for impairment, the Company compares the estimated fair value of each reporting unit to their respective carrying amounts, including goodwill.

Amortization expense related to intangible assets totaled $684,000 for the first nine months of 2012 and $453,000 for the first nine months of 2011. The estimated aggregate future amortization expense for each of the five succeeding fiscal years ended December 31, is as follows:

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Estimated amortization expense:*

For the year ended December 31, 2012	$1,182
For the year ended December 31, 2013	2,150
For the year ended December 31, 2014	2,026
For the year ended December 31, 2015	1,939
For the year ended December 31, 2016	1,831

*Excludes the amortization of mortgage servicing rights. Amortization of mortgage servicing rights was $251,000 and $160,000 for the nine months ended September 30, 2012 and 2011, respectively.

11. Earnings Per Share

Earnings per share in the table below, for the three and nine months period ending September 30, 2012, is calculated under the two-class method as required by ASC Topic 260, Earnings Per Share. ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company has issued restricted stock awards that contain such rights and are therefore considered participating securities. Basic earnings per common share are calculated by dividing net income allocable to common stock by the weighted average number of common shares, excluding participating securities, during the period. Diluted earnings per common share includes the dilutive effect of additional potential shares from stock compensations awards. Earnings per share year-to-date may not equal the sum of the quarterly earnings per share as a result of rounding of average shares.

	Three Months Ended	
(in thousands, except share and per share data)	09/30/2012	09/30/2011
Basic		
Net income available to common shareholders	$ 3,487	$ 7,859
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(12)	(12)
Net earnings allocated to common shareholders	3,475	7,847
Weighted average shares outstanding, including participating securities	13,626,283	11,087,551
Less: average participating securities	(45,512)	(37,720)
Weighted average shares outstanding - Basic	13,580,771	11,049,831
Diluted		
Net earnings allocated to common shareholders	3,475	7,847
Weighted average shares outstanding - Basic	13,580,771	11,049,831
Dilutive effect of common stock options or restricted stock awards	49,693	74,500
Weighted average shares outstanding - Diluted	13,630,464	11,124,331
Basic EPS	0.26	0.71
Diluted EPS	0.25	0.71

The dilutive effect of common stock options or restricted awards calculation for the three months ended September 30, 2012 and 2011 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 717,373 and 755,428 shares, respectively, because the exercise prices were greater than the average market price during these periods.

(in thousands, except share and per share data)	Nine Months Ended 09/30/2012	09/30/2011
Basic		
Net income available to common shareholders	$ 20,124	$ 26,033
Less: dividends and undistributed earnings allocated to unvested restricted stock awards	(81)	(58)
Net earnings allocated to common shareholders	20,043	25,975
Weighted average shares outstanding, including participating securities	12,329,190	10,999,124
Less: average participating securities	(47,578)	(21,678)
Weighted average shares outstanding - Basic	12,281,612	10,977,446
Diluted		
Net earnings allocated to common shareholders	20,043	25,975
Weighted average shares outstanding - Basic	12,281,612	10,977,446
Dilutive effect of common stock options or restricted stock awards	37,929	50,774
Weighted average shares outstanding - Diluted	12,319,541	11,028,220
Basic EPS	1.63	2.37
Diluted EPS	1.63	2.36

The dilutive effect of common stock options or restricted awards calculation for the nine months ended September 30, 2012 and 2011 excludes stock options, stock appreciation rights and restricted stock awards covering an aggregate of 693,309 and 713,354 shares, respectively, because the exercise prices were greater than the average market price during these periods.

12. Employee Benefit Plan

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

Components of Net Period Benefit Cost

	Pension Benefits Three Months Ended		Life and Health Three Months Ended		SERP Benefits Three Months Ended	
(in thousands)	09/30/2012	09/30/2011	09/30/2012	09/30/2011	09/30/2012	09/30/2011
Service cost	$ 680	$ 589	$ 42	$ 22	$ 91	$ 50
Interest cost	680	734	91	95	179	155
Expected return on plan assets for the	(944)	(951)	0	0	0	0

period						
Amortization of transition liability	0	0	17	17	0	0
Amortization of prior service cost	(31)	(31)	4	6	41	25
Amortization of net loss	471	147	18	8	92	33
Net periodic benefit cost	$ 856	$ 488	$ 172	$ 148	$ 403	$ 263

Components of Net Period Benefit Cost

	Pension Benefits Nine Months Ended		Life and Health Nine Months Ended		SERP Benefits Nine Months Ended	
(in thousands)	09/30/2012	09/30/2011	09/30/2012	09/30/2011	09/30/2012	09/30/2011
Service cost	$ 2,040	$ 1,723	$ 127	$ 88	$ 272	$ 150
Interest cost	2,041	2,073	272	285	537	465
Expected return on plan assets for the period	(2,833)	(2,762)	0	0	0	0
Amortization of transition liability	0	0	50	51	0	0
Amortization of prior service cost	(93)	(93)	13	12	124	75
Amortization of net loss	1,412	993	55	9	276	98
Net periodic benefit cost	$ 2,567	$ 1,934	$ 517	$ 445	$ 1,209	$ 788

The Company realized approximately $1.1 million and $686,000, net of tax, as amortization of amounts previously recognized in accumulated other comprehensive income, for the nine months ended September 30, 2012 and 2011, respectively.

The Company is not required to contribute to the pension plan in 2012, but it may make voluntary contributions. The Company did not contribute to the pension plan in the three months ended September 30, 2012. For the nine months ended September 30, 2012, the Company contributed $5.0 million to the pension plan.

13. Stock Plans

Under the Tompkins Financial Corporation 2009 Equity Plan ("2009 Equity Plan"), the Company may grant incentive stock options, non-qualified stock options, stock appreciation rights, shares of restricted stock and restricted stock units covering up to 820,000 common shares to certain officers, employees, and nonemployee directors. Prior to the adoption of the 2009 Equity Plan, the Company had similar stock option plans, which remain in effect solely with respect to unexercised options issued under these plans. The Company granted 71,420 incentive stock options in the third quarter of 2012. These options were granted to VIST employees to replace outstanding and vested VIST employee stock options at the time of acquisition. The Company granted 155,725 equity awards to its employees in the third quarter of 2011. The third quarter 2011 awards included 37,725 shares of restricted stock and 118,000 stock appreciation rights. The Company's practice is to deliver original issue shares of its common stock upon exercise of equity awards rather than treasury shares.

The Company uses the Black-Scholes option-valuation model to determine the fair value of each incentive stock option and stock appreciation right at the date of grant. This valuation model estimates fair value based on the assumptions listed in the table below. The risk-free interest rate is the interest rate available on zero coupon U.S. Treasury instruments with a remaining term equal to the expected term of the share option at the time of grant. The expected dividend yield is based on dividend trends and the market price of the Company's stock price at grant. Volatility is largely based on historical volatility of the Company's stock price. In general, the expected term is based upon historical experience of employee exercises and terminations as well as the vesting term of the grants. For the options granted in 2012, which are solely options granted to VIST employees to replace options outstanding at acquisition date, the expected term considered that the option grants were fully vested and in-the-money. The fair

values of the grants are expensed over the vesting period.

	2012	2011	2010
Weighted per share average fair value at granted date	$ 15.50	$ 9.26	$ 13.12
Risk-free interest rate	0.26 %	1.28 %	2.90 %
Expected dividend yield	3.80 %	4.10 %	3.13 %
Volatility	28.34 %	39.19 %	40.03 %
Expected life (years)	2.00	6.50	6.50

For the three and nine months ended September 30, 2012, stock-based compensation expense was $287,000 and $975,000, respectively, compared to $367,000 and $998,000, respectively, for the same periods in 2011.

The following table presents the activity related to restricted stock awards for the nine months ended September 30, 2012.

	Number of Shares	Weighted Average Exercise Price
Unvested at January 1, 2012	$48,856	$38.14
Vested	(2,112)	0
Forfeited	(3,618)	41.71
Unvested at September 30, 2012	$43,126	$41.66

14. Other Income and Operating Expense

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

	Three Months Ended		Nine Months Ended	
(in thousands)	09/30/2012	09/30/2011	09/30/2012	09/30/2011
Noninterest Income				
Other service charges	$ 824	$ 598	$ 1,948	$ 1,703
Increase in cash surrender value of corporate owned life insurance	429	357	1,246	1,118
Net gain on sale of loans	329	78	579	378
Other income	534	965	1,378	2,018
Total other income	$ 2,116	$ 1,998	$ 5,151	$ 5,217
Noninterest Expenses				
Marketing expense	$ 879	$ 926	$ 3,302	$ 2,709
Professional fees	968	626	2,755	2,072
Legal fees	473	218	806	605
Software licensing and maintenance	1,044	870	2,911	2,735
Cardholder expense	582	502	1,703	1,467
Other expenses	4,667	2,846	11,433	9,320
Total other operating expense	$ 8,613	$ 5,988	$ 22,910	$ 18,908

15. Financial Guarantees

The Company currently does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of September 30, 2012, the Company's maximum potential obligation under standby letters of credit was $67.3 million compared to $55.3 million at December 31, 2011. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate any significant losses as a result of these transactions, and has determined that the fair value of standby letters of credit is not significant.

16. Segment and Related Information

The Company manages its operations through three reportable business segments in accordance with the standards set forth in FASB ASC 280, "Segment Reporting": (i) banking ("Banking"), (ii) insurance ("Tompkins Insurance Agencies, Inc.") and (iii) wealth management ("Tompkins Financial Advisors"). The Company's insurance services and wealth management services are managed separately from the Bank.

Banking

The Banking segment is primarily comprised of the four banking subsidiaries: Tompkins Trust Company, a commercial bank with 15 banking offices operated in Ithaca, NY and surrounding communities, The Bank of Castile, a commercial bank with 15 banking offices conducting operations in the towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State, Mahopac National Bank, a commercial bank operating 15 full-service banking offices and one limited service office in the counties north of New York City, and VIST Bank, a banking organization containing 20 banking offices headquartered and operating in the areas surrounding southeastern Pennsylvania.

Insurance

The Company provides property and casualty insurance services and employee benefits consulting through Tompkins Insurance Agencies, Inc, a 100% wholly-owned subsidiary of the Company, headquartered in Batavia, New York. Tompkins Insurance is an independent insurance agency, representing many major insurance carriers and provides employee benefit consulting to employers in Western and Central New York, assisting them with their medical, group life insurance and group disability insurance. Recently, through the acquisition of VIST Financial, Tompkins Insurance was consolidated with VIST Insurance, a full service insurance agency offering a similar array of insurance products as Tompkins Insurance in southeastern Pennsylvania.

Wealth Management

The Wealth Management segment is organized under the Tompkins Financial Advisors brand name consisting of services and products offered through Tompkins Investment Services ("TIS"), a division of Tompkins Trust Company, and TFA Management. Tompkins Financial Advisors offers a comprehensive suite of financial services to customers, including trust and estate services, investment management and financial and insurance planning for individuals, corporate executives, small business owners and high net worth individuals. Recently, through the acquisition of VIST Financial, VIST Capital Management, LLC was added into Tompkins Financial Advisors brand, offering a complimentary assortment of full service investment advisory and brokerage services for individual financial planning, investments and corporate and small business pension and retirement planning solutions. Tompkins Financial Advisors has offices in each of the Company's four subsidiary banks.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the Company's consolidated results is shown in the following table. Investment in subsidiaries is netted out of the presentations below. The "Intercompany" column identifies the intercompany activities of revenues, expenses and other assets between the banking insurance and wealth management services segments. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies in the 2011 Annual Report on Form 10-K.

As of and for the three months ended September 30, 2012

(in thousands)	Banking	Insurance	Wealth Management	Intercompany & Merger	Consolidated
Interest income	$ 42,864	$ 2	$ 66	$ (13)	$ 42,919
Interest expense	6,178	11	0	(13)	6,176
Net interest income	36,686	(9)	66	0	36,743
Provision for loan and lease losses	1,042	0	0	0	1,042
Noninterest income	5,645	5,665	3,792	(329)	14,773
Noninterest expense1	25,400	4,359	2,922	13,513	46,194
Income before income tax expense	15,889	1,297	936	(13,842)	4,280
Income tax expense	5,393	517	317	(5,466)	761
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	10,496	780	619	(8,376)	3,519
Less: Net income attributable to noncontrolling interests	32	0	0	0	32
Net Income attributable to Tompkins Financial Corporation	$ 10,464	$ 780	$ 619	$ (8,376)	$ 3,487
Depreciation and amortization	$ 1,304	$ 53	$ 37	$ 0	$ 1,394
Assets	4,885,127	31,426	12,052	(3,819)	4,924,786
Goodwill	66,807	20,663	8,096	0	95,566
Other intangibles, net	12,785	5,823	685	0	19,293
Net loans and leases	2,903,118	0	0	0	2,903,118
Deposits	406	0	0	(3,426)	439
Tompkins Financial Corporation Shareholders' equity	406,327	23,839	9,234	0	439,400

1 Merger and acquisition integration related expenses of $13.8 million were deducted from banking segment holding company expenses and reclassified to Intercompany/Merger column to reflect the non-operating costs from the VIST Financial acquisition in August 2012 and provide a more accurate representation of segment performance. Income taxes have been adjusted in the banking segment on a weighted average rate.

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

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 34,241	$ 2	$ 66	$ 25	$ 34,334
Interest expense	6,396	0	0	25	6,421
Net interest income	27,845	2	66	0	27,913
Provision for loan and lease losses	4,870	0	0	0	4,870
Noninterest income	5,402	3,458	3,763	(311)	12,312
Noninterest expense	18,734	2,614	2,936	(311)	23,973
Income before income tax expense	9,643	846	893	0	11,382

Income tax expense	2,839	343	308	0	3,490
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	6,804	503	585	0	7,892
Less: Net income attributable to noncontrolling interests	33	0	0	0	33
Net Income attributable to Tompkins Financial Corporation	$ 6,771	$ 503	$ 585	$ 0	$ 7,859
Depreciation and amortization	$ 1,104	$ 43	$ 30	$ 0	$ 1,177
Assets	3,332,350	18,575	12,474	(4,382)	3,359,017
Goodwill	23,600	12,287	8,071	0	43,958
Other intangibles, net	2,587	1,176	555	0	4,318
Net loans and leases	1,923,720	0	0	0	1,923,720
Deposits	2,679,675	0	0	(4,001)	2,675,674
Tompkins Financial Corporation Shareholders' equity	284,705	14,817	9,813	0	309,335

For the nine months ended September 30, 2012

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 109,408	$ 6	$ 191	$ (17)	$ 109,588
Interest expense	17,300	11	0	(17)	17,294
Net interest income	92,108	(5)	191	0	92,294
Provision for loan and lease losses	3,178	0	0	0	3,178
Noninterest income	16,257	12,746	11,211	(1,014)	39,200
Noninterest expense1	66,447	9,877	9,296	13,800	99,420
Income before income tax expense	38,740	2,864	2,106	(14,814)	28,896
Income tax expense	13,156	1,135	683	(6,300)	8,674
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	25,584	1,729	1,423	(8,514)	20,222
Less: Net income attributable to noncontrolling interests	98	0	0	0	98
Net Income attributable to Tompkins Financial Corporation	$ 25,486	$ 1,729	$ 1,423	$ (8,514)	$ 20,124
Depreciation and amortization	$ 3,565	$ 137	$ 108	$ 0	$ 3,810

1 Merger and acquisition integration related expenses of $14.8 million were deducted from banking segment holding company expenses and reclassified to Intercompany/Merger column to reflect the non-operating costs from the VIST Financial acquisition in August 2012 and provide a more accurate representation of segment performance. Income taxes have been adjusted in the banking segment on a weighted average rate.

For the nine months ended September 30, 2011

(in thousands)	Banking	Insurance	Wealth Management	Intercompany	Consolidated
Interest income	$ 102,974	$ 8	$ 201	$ (8)	$ 103,175
Interest expense	19,775	1	0	(8)	19,768
Net interest income	83,199	7	201	0	83,407
Provision for loan and lease losses	7,785	0	0	0	7,785
Noninterest income	15,974	9,645	12,160	(962)	36,817
Noninterest expense	58,274	7,513	9,527	(962)	74,352
Income before income tax expense	33,114	2,139	2,834	0	38,087
Income tax expense	10,156	837	963	0	11,956
Net Income attributable to noncontrolling interests and Tompkins Financial Corporation	22,958	1,302	1,871	0	26,131
Less: Net income attributable to noncontrolling interests	98	0	0	0	98
Net Income attributable to Tompkins Financial Corporation	$ 22,860	$ 1,302	$ 1,871	$ 0	$ 26,033

Depreciation and amortization	$ 3,328	$ 133	$ 92	$ 0	$ 3,553

17. Fair Value

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

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

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

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, segregated by the level of valuation inputs within the fair value hierarchy used to measure fair value.

Recurring Fair Value Measurements
September 30, 2012

(in thousands)	Fair Value 09/30/2012	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$ 12,148	$ 12,148	$ 0	$ 0
Mortgage-backed securities – residential				
U.S. Government sponsored entities	5,225	5,225	0	0
Available-for-sale securities				
U.S. Treasury securities	1,014	1,014	0	0
Obligations of U.S. Government sponsored entities	592,603	0	592,603	0
Obligations of U.S. states and political subdivisions	85,208	0	85,208	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	176,987	0	176,987	0
U.S. Government sponsored entities	604,118	0	604,118	0
Non-U.S. Government agencies or sponsored entities	5,014	0	5,014	0
U.S. corporate debt securities	5,131	0	5,131	0
Equity securities	1,962	0	996	966
Borrowings				
Other borrowings	11,955	0	11,955	0

Recurring Fair Value Measurements
December 31, 2011

(in thousands)	Fair Value 12/31/2011	(Level 1)	(Level 2)	(Level 3)
Trading securities				
Obligations of U.S. Government sponsored entities	$ 12,693	$ 12,693	$ 0	$ 0
Mortgage-backed securities – residential				
U.S. Government sponsored entities	6,905	6,905	0	0
Available-for-sale securities				
U.S. Treasury securities	2,070	2,070	0	0
Obligations of U.S. Government sponsored entities	422,590	0	422,590	0
Obligations of U.S. states and political subdivisions	59,653	0	59,653	0
Mortgage-backed securities – residential, issued by:				
U.S. Government agencies	129,773	0	129,773	0
U.S. Government sponsored entities	517,378	0	517,378	0
Non-U.S. Government agencies or sponsored entities	5,876	0	5,876	0
U.S. corporate debt securities	5,183	0	5,183	0
Equity securities	1,023	0	0	1,023
Borrowings				
Other borrowings	12,093	0	12,093	0

There were no transfers between Levels 1 and 2 for the three and nine months ended September 30, 2012.

Change in the fair value of available-for-sale securities valued using significant unobservable inputs (Level 3), between January 1, 2012 and September 30, 2012, from $1.0 million to $966,000 is due to securities which were redeemed during the quarter.

The Company determines fair value for its trading securities using independently quoted market prices. The Company determines fair value for its available-for-sale securities using an independent bond pricing service for identical assets or very similar securities. The pricing service uses a variety of techniques to determine fair value, including market maker bids, quotes and pricing models. Inputs to the model include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. Based on the inputs used by our independent pricing services, we identify the appropriate level within the fair value hierarchy to report these fair values.

Fair values of borrowings are estimated using Level 2 inputs based upon observable market data. The Company determines fair value for its borrowings using a discounted cash flow technique based upon expected cash flows and current spreads on FHLB advances with the same structure and terms. The Company also receives pricing information from third parties, including the FHLB. The pricing obtained is considered representative of the transfer price if the liabilities were assumed by a third party. The Company’s potential credit risk did not have a material impact on the quoted settlement prices used in measuring the fair value of the FHLB borrowings at September 30, 2012.

Certain assets are measured at fair value on a nonrecurring basis. For the Company, these include loans held for sale, collateral dependent impaired loans, and other real estate owned ("OREO"). During the third quarter of 2012, certain collateral dependent impaired loans were remeasured and reported at fair value through a specific valuation allowance for loan and lease losses based upon the fair value of the underlying collateral.   Collateral values are estimated using Level 2 inputs based upon observable market data. In addition to collateral dependent impaired loans, certain other real estate owned were remeasured and reported at fair value based upon the fair value of the underlying collateral. The fair values of other real estate owned are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. In general, the fair values of other real estate owned are based upon appraisals, with discounts made to reflect estimated costs to sell the real estate. Upon initial recognition, fair value write-downs on other real estate owned are taken through a charge-off to the allowance for loan and lease losses.   Subsequent fair value write-downs on other real estate owned are reported in other noninterest expense.

Non-Recurring Fair Value Measurements
Three months ended September 30, 2012

(In thousands)	Fair Value	(Level 1)	(Level 2)	(Level 3)	Total gain (loss)
Collateral dependent impaired loans1	$ 4,426	$ 0	$ 4,426	$ 0	$ 0
Other real estate owned2	2,872	0	2,872	0	17

1 Collateral-dependent impaired loans held at September30, 2012 that had write-downs in fair value or whose specific reserve changed during the third quarter 2012.
2 There were no OREO properties held at September 30, 2012 had write-downs during the third quarter of 2012.

Non-Recurring Fair Value Measurements
Three months ended September 30, 2011

(In thousands)	Fair Value	(Level 1)	(Level 2)	(Level 3)	Total gain (loss)
Collateral dependent impaired loans1	$ 12,722	$ 0	$ 12,722	$ 0	$ 0
Other real estate owned2	614	0	0	0	(129)

1 Collateral-dependent impaired loans held at September 30, 2011 that had write-downs in fair value or whose specific reserve changed during the third quarter 2011.
2 Two OREO properties held at September 30, 2011 had write-downs during the third quarter of 2011.

Non-Recurring Fair Value Measurements
Nine months ended September 30, 2012

(In thousands)	Fair Value	(Level 1)	(Level 2)	(Level 3)	Total gain (loss)
Collateral dependent impaired loans1	$10,626	$0	$10,626	$0	$0
Other real estate owned2	4,675	0	4,675	0	(205)

1 Collateral-dependent impaired loans held at September30, 2012 that had write-downs in fair value or whose specific reserve changed during the nine months ended 2012.
2 Five OREO properties held at September 30, 2012 had write-downs during the nine months ended September 30, 2012.

Non-Recurring Fair Value Measurements
Nine months ended September 30, 2011

(In thousands)	Fair Value	(Level 1)	(Level 2)	(Level 3)	Total gain (loss)
Collateral dependent impaired loans1	$ 21,218	$ 0	$21,218	$0	$0
Other real estate owned2	1,633	0	0	0	(279)

1 Collateral-dependent impaired loans held at September 30, 2011 that had write-downs in fair value or whose specific reserve changed during the nine months ended 2011.
2 Six OREO properties held at September 30, 2011 had write-downs during the nine months ended September 30, 2011.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2012 and December 31, 2011. The carrying amounts shown in the table are included in the Consolidated Statements of Condition under the indicated captions.

The fair value estimates, methods and assumptions set forth below for the Company's financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and do not always incorporate the exit-price concept of fair value prescribed by ASC Topic 820-10 and should be read in conjunction with the financial statements and notes included in this Report.

Estimated Fair Value of Financial Instruments
September 30, 2012

(in thousands)	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$142,666	$142,666	$142,666	$0	$0
Securities - held to maturity	27,503	27,963	0	27,963	0
FHLB and FRB stock	20,700	20,700	0	20,700	0
Accrued interest receivable	18,775	18,775	0	18,775	0
Loans/leases, net	2,903,118	2,993,154	0	0	2,993,154
Financial Liabilities:					
Time deposits	$1,055,825	$1,063,588	$0	$1,063,588	$0
Other deposits	2,981,819	2,981,819	0	2,981,819	0
Fed funds purchased and securities sold under agreements to repurchase	206,996	211,711	0	211,711	0
Other borrowings	113,466	123,861	0	123,861	0
Accrued interest payable	3,164	3,164	0	3,164	0
Trust preferred debentures	43,651	48,632	0	48,632	0

Estimated Fair Value of Financial Instruments
December 31, 2011

(in thousands)	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	$49,567	$49,567
Securities - held to maturity	26,673	27,255
FHLB and FRB stock	19,070	19,070
Accrued interest receivable	12,420	12,420
Loans/leases, net	1,954,256	2,003,257
Financial Liabilities:		
Time deposits	$687,321	$690,480
Other deposits	1,973,243	1,973,243
Fed funds purchased and securities sold under agreements to repurchase	169,090	179,840
Other borrowings	173,982	188,062
Accrued interest payable	1,354	1,354
Trust preferred debentures	25,065	25,314

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

CASH AND CASH EQUIVALENTS: The carrying amounts reported in the Consolidated Statements of Condition for cash, noninterest-bearing deposits, money market funds, and Federal funds sold approximate the fair value of those assets.

SECURITIES: Fair values for U.S. Treasury securities are based on quoted market prices. Fair values for obligations of U.S. government sponsored entities, mortgage-backed securities-residential, obligations of U.S. states and political subdivisions, and U.S. corporate debt securities are based on quoted market prices, where available, as provided by third party pricing vendors. If quoted market prices were not available, fair values are based on quoted market prices of comparable instruments in active markets and/or based upon matrix pricing methodology, which uses comprehensive interest rate tables to determine market price, movement and yield relationships. These securities are reviewed periodically to determine if there are any events or changes in circumstances that would adversely affect their value.

LOANS AND LEASES: The fair values of residential loans are estimated using discounted cash flow analyses, based upon available market benchmarks for rates and prepayment assumptions. The fair values of commercial and consumer loans are estimated using discounted cash flow analyses, based upon interest rates currently offered for loans and leases with similar terms and credit quality. The fair value of loans held for sale are determined based upon contractual prices for loans with similar characteristics.

FHLB AND FRB STOCK: The carrying amount of FHLB and FRB stock approximates fair value. If the stock is redeemed, the Company will receive an amount equal to the par value of the stock. For miscellaneous equity securities, carrying value is cost.

ACCRUED INTEREST RECEIVABLE AND ACCRUED INTEREST PAYABLE: The carrying amount of these short term instruments approximate fair value.

DEPOSITS: The fair values disclosed for noninterest bearing accounts and accounts with no stated maturities are equal to the amount payable on demand at the reporting date. The fair value of time deposits is based upon discounted cash flow analyses using rates offered for FHLB advances, which is the Company's primary alternative source of funds.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE: The carrying amounts of repurchase agreements and other short-term borrowings approximate their fair values. Fair values of long-term borrowings are estimated using a discounted cash flow approach, based on current market rates for similar borrowings. For securities sold under agreements to repurchase where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

OTHER BORROWINGS: The fair values of other borrowings are estimated using discounted cash flow analysis, discounted at the Company's current incremental borrowing rate for similar borrowing arrangements. For other borrowings where the Company has elected the fair value option, the Company also receives pricing information from third parties, including the FHLB.

TRUST PREFERRED DEBENTURES: The fair value of the trust preferred debentures has been estimated using a discounted cash flow analysis which uses a discount factor of a market spread over current interest rates for similar instruments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS

Corporate Overview and Strategic Initiatives

Tompkins Financial Corporation ("Tompkins" or the "Company") is a registered financial holding company incorporated in 1995 under the laws of the State of New York and its common stock is listed on the NYSE MKT LLC (Symbol: TMP). Tompkins is headquartered at The Commons, Ithaca, New York. The Company is a locally-oriented, community-based financial services organization that offers a full array of financial products and services, including commercial and consumer banking, leasing, trust and investment services, financial planning and wealth management, insurance and brokerage services. At September 30, 2012, Tompkins subsidiaries included: four wholly-owned community banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac National Bank and VIST Bank; a wholly-owned registered investment advisor subsidiary, TFA Management, Inc. ("TFA Management"), previously known as AM&M Financial Services, Inc.; and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). TFA Management and the trust division of the Trust Company provide a full suite of investment services under the Tompkins Financial Advisors division, including investment management, trust and estate, financial and tax planning as well as life, disability and long term care insurance services. Unless the context otherwise requires, the term "Company" refers collectively to Tompkins Financial Corporation and its subsidiaries.

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. During the second quarter of 2012, the Company completed a successful capital raise through a registered public offering of shares of its common stock. The Company believes that this capital raise helped position the Company for future growth, including its recently completed acquisition of VIST Financial Corp. ("VIST Financial"), described below. After transaction costs, net proceeds from the capital raise were approximately $38.0 million, and resulted in the issuance of 1,006,250 shares of Tompkins common stock on April 3, 2012.

Recent Acquisitions

On August 1, 2012, the Company completed its acquisition of VIST Financial pursuant to that certain Agreement and Plan of Merger dated January 25, 2012 (the "Agreement and Plan of Merger"), under which VIST Financial merged with and into a wholly-owned subsidiary of Tompkins, whereupon the separate corporate existence of VIST Financial ceased and the merger subsidiary survived (the "Merger"). Immediately after the Merger, the merger subsidiary was merged with and into Tompkins, with Tompkins being the corporation surviving that merger. As a result, VIST Bank, a Pennsylvania state-chartered commercial bank and a wholly-owned subsidiary of VIST Financial, became a wholly-owned subsidiary of Tompkins and it continues to operate as a separate subsidiary bank of Tompkins.

Pursuant to the Agreement and Plan of Merger, each share of VIST Financial common stock was cancelled and converted into the right to receive 0.3127 shares of Tompkins common stock, with any fractional share entitlement paid in cash. In addition, immediately prior to the completion of the Merger, Tompkins purchased from the United States Department of the Treasury ("Treasury") the issued and outstanding shares of VIST Financial Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as well as the warrant to purchase shares of VIST Financial common stock issued in connection with the issuance of the preferred stock (collectively, the "TARP Purchase"), for an aggregate purchase price of $26.5 million. The securities purchased in the TARP Purchase were cancelled in connection with the consummation of the Merger.

In June 2011, Tompkins Insurance acquired all of the outstanding shares of Olver & Associates, Inc. ("Olver"), a property and casualty agency located in Ithaca, New York. As a result of pursuing an available tax election under Internal Revenue Code section 338(h)(10), it was determined that the acquisition qualified for beneficial tax treatment that would enable the tax deductible amortization of the purchase premium, including goodwill. To compensate the Olver shareholders for their consent to make this election, additional consideration of $755,000 and $238,000 were recorded as additional goodwill during the first and second quarters of 2012, respectively.

Business Segments
The Company has identified three business segments, banking, insurance and wealth management. Insurance services activities include the results of the Company's property and casualty insurance services and employee benefits consulting operations. Wealth management activities include the results of the Company's trust, financial planning, wealth management services and risk management operations. All other activities are considered banking. Information about the Company's business segments is included in Note 16 "Segment and Related Information," in the Notes to Unaudited Consolidated Financial Statements contained in Part I of this Quarterly Report on Form 10-Q.

Business Overview
Banking services consist primarily of attracting deposits from the areas served by the Company's banking offices and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases. The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, and concentrations of credit, loan delinquencies, and nonperforming and potential problem loans.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. These residential real estate loans are generally sold without recourse and in accordance with standard secondary market loan sale agreements. The Company primarily sells loans to the Federal Home Loan Mortgage Corporation, and retains servicing rights on the sold loans. These residential real estate loans are subject to normal representations and warranties, including representations and warranties related to gross fraud and incompetence. The Company has not had to repurchase any loans as a result of these representations and warranties. The Company reviews the risks in residential real estate lending related to representations and warranties, title issues, and servicing. The Company determined that these risks are immaterial and do not require any reserves on the Company's statements of condition.

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.

Wealth management consists of providing trust, financial planning, wealth management services and risk management operations to individuals and businesses in the Company's market areas. In 2010, the Company unified the branding

of its trust and investment services businesses and began marketing these services under the name “Tompkins Financial Advisors”.   Tompkins Financial Advisors has office locations at all four of the Company’s subsidiary banks.

Insurance services provide property and casualty insurance services, employee benefit consulting, and life, long-term care and disability insurance. Tompkins Insurance is headquartered in Batavia, New York, and offers property and casualty insurance to individuals and businesses located primarily in Western New York. Over the past eleven years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company’s banking subsidiaries and successfully consolidated them into Tompkins Insurance. Tompkins Insurance offers services to customers of the Company’s banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York and two stand-alone offices in Tompkins County, New York.

Competition
Competition for commercial banking and other financial services is strong in the Company's market areas. Competition includes other commercial banks, savings and loan associations, credit unions, finance companies, Internet-based financial services companies, mutual funds, insurance companies, brokerage and investment companies, and other financial intermediaries. The Company differentiates itself from its competitors through its full complement of banking and related financial services, and through its community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized banking services.

Regulation
Banking, insurance services and wealth management are highly regulated. As a financial holding company with four community banks and an investment advisor, the Company and its subsidiaries are subject to examination and regulation by the Federal Reserve Board ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), the New York State Department of Financial Services and the Pennsylvania Department of Banking. Additionally, the Company is subject to examination and regulation from the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority.

Other Factors Affecting Performance
Other external factors affecting the Company's operating results are market rates of interest, the condition of financial markets, and both national and regional economic conditions. The low market interest rates continue to put pressure on the Company's net interest margin. The Company has offset some of this pressure with strategic deposit pricing and growth in average earning assets. Weak economic conditions over the past several years have contributed to increases in the Company's past due loans and leases, nonperforming assets, and net loan and lease losses, as well as decreases in certain fee-based products and services. Although nonperforming loans and leases and criticized and classified loans continue to be higher than historical levels, the Company has seen some signs of improving economic conditions within the market areas in which it operates, which have contributed to improvement in its credit quality metrics in recent quarters including decreases in the level of internally classified assets and nonperforming assets. With the strength of the economic recovery uncertain, there is no assurance that these conditions may not adversely affect the credit quality of the Company's loans and leases, results of operations, and financial condition going forward. Refer to the section captioned "Financial Condition- Allowance for Loan and Lease Losses" below for further details on asset quality.

OTHER IMPORTANT INFORMATION

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three months and nine months ended September 30, 2012. It should be read in conjunction with the Company's Audited Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and the Unaudited Consolidated Financial Statements and notes thereto included in Part I of this Quarterly Report on Form 10-Q.

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 Quarterly Report on Form 10-Q 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 such 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, insurance companies, bank holding companies and/or financial holding companies, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses, and other factors discussed elsewhere in this Quarterly Report on Form 10-Q and in other reports we file with the SEC, in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011. 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
The accounting and reporting policies followed by the Company conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry. In the course of normal business activity, management must select and apply many accounting policies and methodologies and make estimates and assumptions that lead to the financial results presented in the Company's consolidated financial statements and accompanying notes. There are uncertainties inherent in making these estimates and assumptions, which could materially affect the Company's results of operations and financial position.

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

For additional information on critical accounting policies and to gain a greater understanding of how the Company's financial performance is reported, refer to Note 1 – "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, and the section captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes in the Company's application of critical accounting policies since December 31, 2011. Refer to Note 3 – "Accounting Standards Updates" in the Notes to Unaudited Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for a discussion of recent accounting updates.

In this Report there are comparisons of the Company's performance to that of a peer group. Unless otherwise stated, this peer group is comprised of the group of 89 domestic bank holding companies with $3 billion to $10 billion in total assets as defined in the Federal Reserve's "Bank Holding Company Performance Report" for June 30, 2012 (most recent report available).

OVERVIEW

Net income for the third quarter was $3.5 million, or $0.25 diluted earnings per share, compared to $7.9 million, or $0.71 diluted earnings per share for the same period in 2011. Net income for the third quarter 2012 was reduced by after-tax merger related expenses of $8.4 million. Net income for the first nine months of 2012 was $20.1 million, or $1.63 diluted earnings per share, compared to $26.0 million or $2.36 diluted earnings per share in the first nine months of 2011. Net income for the first nine months of 2012 was reduced by after-tax merger expense of $9.2 million.

Return on average equity was 3.38% for the quarter, compared to 10.29% in the third quarter of 2011. Return on average assets was 0.31% for the quarter compared to 0.95% in the third quarter of 2011. Operating return on shareholders' tangible equity was 15.2% for the quarter, compared to 12.4% for the same period in 2011.

The following table summarizes our results of operations for the periods indicated on a GAAP basis and on an operating (non-GAAP) basis for the periods indicated. Our operating results exclude the merger and acquisition integration expenses and VISA adjustment. The Company believes this non-GAAP measure provides a meaningful comparison of our underlying operational performance and facilitates managements' and investors' assessments of business and performance trends in comparison to others in the financial services industry. In addition the Company

believes the exclusion of the nonoperating items from our performance enables management and investors to perform a more effective evaluation and comparison of our results and to assess performance in relation to our ongoing operations (in thousands). These non-GAAP financial measures should not be considered in isolation or as a measure of the Company's profitability or liquidity; they are in addition to, and are not a substitute for, financial measures under GAAP. Net operating income and adjusted diluted earnings per share as presented herein may be different from non-GAAP financial measures used by other companies, and may not be comparable to similarly titled measures reported by other companies. Further, the Company may utilize other measures to illustrate performance in the future. Non-GAAP financial measures have limitations since they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP.

	Three months ended		Nine months ended	
	09/30/2012	09/30/2011	09/30/2012	09/30/2011
Net Income (GAAP)	$ 3,487	$ 7,859	$ 20,124	$ 26,033
Diluted earnings per share (GAAP)	0.25	0.71	1.63	2.36
Adjustments for non-operating income and expense, net of tax:				
Reversal of VISA Covered Litigation accrual	0	0	(243)	0
Merger and acquisition integration related expenses	8,424	0	9,202	0
Total adjustments, net of tax	8,424			