

TOMPKINS FINANCIAL CORP
Form 10-K
March 16, 2009

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

FORM 10-K

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

For the fiscal year ended **December 31, 2008**

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

For the transition period from _____ to _____
Commission File Number **1-12709**

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

16-1482357

(I.R.S. Employer Identification No.)

The Commons, P.O. Box 460, Ithaca, New York

(Address of principal executive offices)

14851

(Zip Code)

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

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

Common Stock (\$.10 Par Value Per Share)

NYSE-AMEX

(Title of class)

(Name of exchange on which traded)

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

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

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

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

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

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

Large Accelerated Filer Accelerated Filer Nonaccelerated Filer Smaller Reporting Company

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

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The aggregate market value of the registrant's voting stock held by non-affiliates was \$298,241,998 on June 30, 2008, based on the closing sales price of a share of the registrant's common stock, \$.10 par value (the Common Stock), as reported on the NYSE-AMEX, on such date.

The number of shares of the registrant's Common Stock outstanding as of February 23, 2009, was 9,703,497 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2009 Annual Meeting of stockholders to be held on May 11, 2009, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Form 10-K where indicated.

TOMPKINS FINANCIAL CORPORATION

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2008

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PART I

Item 1. Business

The disclosures set forth in this Item 1. Business are qualified by the section captioned Forward-Looking Statements in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report and other cautionary statements set forth elsewhere in this Report.

General

Tompkins Financial Corporation, (Tompkins or the Company) is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. The Company conducts its business through its three wholly-owned banking subsidiaries, Tompkins Trust Company (the Trust Company), The Bank of Castile and The Mahopac National Bank (Mahopac National Bank), through its wholly-owned insurance subsidiary, Tompkins Insurance Agencies, Inc. (Tompkins Insurance), and through its wholly-owned financial planning, wealth management and broker-dealer subsidiary, AM&M Financial Services, Inc. (AM&M). Unless the context otherwise requires, the term Company refers to Tompkins Financial Corporation and its subsidiaries. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the NYSE-AMEX under the Symbol TMP.

Tompkins was organized in 1995, under the laws of the State of New York, as a bank holding company for the Trust Company, a commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. Information relating to revenues, profit and loss, and total assets for the Company's two business segments - banking and financial services - is incorporated herein by reference to Part II, Item 8. of this Report.

Recent Acquisitions

On May 9, 2008, the Company acquired control of Sleepy Hollow Bancorp, Inc., (Sleepy Hollow), a privately held bank holding company located in Sleepy Hollow, New York. The outstanding shares of common stock of Sleepy Hollow were cancelled and exchanged for the right to receive the merger consideration totaling \$30.2 million. The cost of the Sleepy Hollow acquisition was approximately \$30.5 million, including acquisition related costs of approximately \$234,000. Upon completion of the Sleepy Hollow acquisition, Sleepy Hollow Bank, the wholly-owned subsidiary of Sleepy Hollow, was merged into Mahopac National Bank, and its five full service offices and one limited service office, all in Westchester County, New York, became offices of Mahopac National Bank. Additional information on recent acquisitions is provided in Note 2 Mergers and Acquisitions in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Narrative Description of Business

Information about the Company's business segments is included in Note 20 Segment and Related Information in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company has identified two business segments, banking and financial services. Financial services activities consist of the results of the Company's trust, financial planning and wealth management, broker-dealer services, and risk management operations. All other activities are considered banking.

Banking services consist primarily of attracting deposits from the areas served by the Company's banking subsidiaries - 45 banking offices and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans, and leases in those same areas. Residential real estate mortgage loans are generally underwritten in accordance with Federal Home Loan Mortgage Corporation (FHLMC) guidelines, which enhance the liquidity of these lending products. The Company's subsidiary banks have sold residential mortgage loans to FHLMC over the past several years to manage exposure to changing interest rates and to take advantage of favorable market conditions. The Company's subsidiary banks retain the servicing of the loans sold to FHLMC and record a servicing asset at the time of sale. For additional details on loan sales, refer to Note 5 Loan and Lease Classification Summary and Related Party Transactions in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Policies and procedures are reviewed on a regular basis. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. The Company has an independent loan review process that reviews and validates the risk identification and assessment made by the lenders and credit personnel. The results of these reviews are presented to the Board of Directors of each of the Company's banking subsidiaries, and the Company's Audit Committee.

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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

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agreements to repurchase, and cash flow from lending and investing activities. Tompkins provides a variety of financial services to individuals and small business customers. Some of the traditional banking services and financial services are detailed below.

Commercial Services

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

Retail Services

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

Securities Portfolio

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

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

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (SFAS 159) effective January 1, 2008. With the adoption of SFAS 159, the Company elected to account for certain securities and certain borrowings at fair value, with unrealized gains or losses included in earnings. Refer to Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for additional details.

Trust and Investment Management Services

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

Broker-Dealer Services

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

Insurance Services

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

Subsidiaries

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The Company operates three banking subsidiaries, an insurance agency subsidiary, and a financial planning, wealth management, and broker-dealer subsidiary in New York. The Company's subsidiary banks operate 45 offices, including 3 limited-service offices, serving communities in New York. The decision to operate as three locally managed community banks reflects management's commitment to community banking as a business strategy. For Tompkins, personal delivery of high quality services, a commitment to the communities in which we operate, and the convergence of a single-source financial service provider characterize management's community banking approach. The combined resources of the Tompkins organization provides increased capacity for growth and the greater capital resources necessary to make investments in technology and services. Tompkins has developed several specialized

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financial services that are now available in markets served by all three subsidiary banks. These services include trust and investment services, insurance, leasing, card services, Internet banking, and remote deposit services.

Tompkins Trust Company (the Trust Company)

The Trust Company is a New York State-chartered commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. The Trust Company operates 15 banking offices, including 2 limited-service banking offices in the counties of Tompkins, Cortland, Cayuga and Schuyler, New York. The Trust Company's largest market area is Tompkins County, which has a population of approximately 100,000. Education plays a significant role in the Tompkins County economy with Cornell University and Ithaca College being two of the county's major employers. The negative trends affecting the national economy have had an impact on the markets served by the Trust Company, as evidenced by an increase in the unemployment rate. Nevertheless, trends for unemployment and housing compare favorably to New York State and national trends. The Trust Company has a full-service office in Cortland, New York and a full-service office in Auburn, New York. Both of these offices are located in counties contiguous to Tompkins County.

The Bank of Castile (The Bank of Castile)

The Bank of Castile is a New York State-chartered bank and conducts its operations through its 15 banking offices, in towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State. The main business office for The Bank of Castile is located in Batavia, New York and is shared with Tompkins Insurance. The Bank of Castile serves a five-county market, much of which is rural in nature, but also includes Monroe County, where the city of Rochester is located. The population of the counties served by The Bank of Castile, other than Monroe, is approximately 209,000. While economic growth has been relatively flat in The Bank of Castile's market area, recent turbulence experienced by many financial industry competitors has provided continued opportunities for growth.

The Mahopac National Bank (Mahopac National Bank)

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

Putnam County has a population of approximately 101,000 and is about 60 miles north of Manhattan. Dutchess County has a population of approximately 295,000, and Westchester County has a population of approximately 949,000. All three counties have seen an increase in the unemployment rate as a result of the downturn in the State and national economies. Given the proximities of these counties to New York City, the significant layoffs at financial firms and large corporations are likely to have an impact on the local economies, the extent of which is difficult to estimate. The recent turbulence experienced by many financial industry competitors has also provided continued opportunities for growth.

Tompkins Insurance Agencies, Inc. (Tompkins Insurance)

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

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

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

Competition

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

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

Supervision and Regulation

Regulatory Agencies

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

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

Share Repurchases and Dividends

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

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

Liability of Commonly Controlled Institutions

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

Intercompany Transactions

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

Capital Adequacy

The Federal Reserve Board, the OCC and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking institutions. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier I capital and total

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capital to risk-weighted assets. For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in one of three tiers, depending upon type:

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

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

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

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

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

For further information concerning the regulatory capital requirements, actual capital amounts and the ratios of Tompkins and its bank subsidiaries, see the discussion in Note 18 Regulations and Supervision in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Deposit Insurance

Historically, all deposit accounts of the Company's subsidiary banks were insured by the Deposit Insurance Fund (DIF), generally in amounts up to \$100,000 per depositor. Legislation, discussed below, was passed in 2006 that increased insurance coverage for certain self-directed retirement accounts to \$250,000 and indexed insurance levels for inflation. On October 3, 2008, the maximum amount insured under FDIC insurance was temporarily increased from \$100,000 to \$250,000 per insured depositor through December 31, 2009. This increase was part of the Emergency Economic Stabilization Act of 2008. In November 2008, Tompkins elected to participate in the FDIC's Temporary Liquidity Guarantee Program. Under this program, all noninterest bearing transaction accounts at Tompkins with balances in excess of \$250,000 will also be fully insured through December 31, 2009. For this additional insurance coverage, Tompkins pays a fee of 10 basis points per quarter on amounts in covered accounts exceeding \$250,000.

On December 16, 2008, the Board of Directors of the Federal Deposit Insurance Corporation voted to adopt a final rule increasing risk-based assessment rates uniformly by 7 basis points (7 cents for every \$100 of deposits), on an annual basis, for the first quarter of 2009. This increase is a response to higher levels of bank failures that occurred in 2008. The assessment increase creates a path for the DIF to return to its statutorily mandated level. Under the final rule, risk-based rates would range between 12 and 50 basis points (annualized) for the first quarter 2009 assessment. Most institutions would be charged between 12 and 14 basis points. In October, the FDIC also proposed changes to take effect beginning in the second quarter of 2009 that would make deposit insurance assessments fairer by requiring riskier institutions to pay a larger share.

On February 27, 2009, the FDIC approved an interim rule for a one-time special assessment of \$0.20 per \$100.0 in domestic deposits to restore the DIF. The assessment would be payable on September 30, 2009. The Chairman of the Committee on Banking, Housing, and Urban Affairs recently introduced legislation, The Depositor Protection Act of 2009, which would increase the FDIC's borrowing authority with the U.S. Treasury to \$100.0 billion from \$30.0 billion. The FDIC has indicated that this increased borrowing authority would give it the flexibility to reduce the size of the special assessment. Based upon deposit balances as of December 31, 2008, the Company estimated that the \$0.20 per \$100.0 assessment would result in additional assessments of approximately \$4.2 million. There has been discussion on reducing the one-time special assessment from 20 basis points to 10 basis points.

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

The Reform Act provided for a one-time assessment credit for eligible insured depository institutions (those institutions that were in existence on December 31, 1996 and paid a deposit insurance assessment prior to that date, or are a successor to any such institution). The credit was to be

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used to offset up to 100% of the 2007 DIF assessment, and if not completely used in 2007, was to be applied to not more than 90% of each of the aggregate 2008, 2009 and 2010 DIF assessments. The Company's one-time historical assessment credit was \$1.0 million, of which \$370,000 and \$657,000 was used to offset the Federal deposit insurance assessments in 2008 and 2007, respectively. FDIC insurance expense totaled \$627,445 in 2008 and \$13,776 in 2007.

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In addition to the risk-based deposit insurance assessments, FDIC insurance expense also includes additional assessments imposed by the Financing Corporation, a separate U.S. government agency affiliated with the FDIC, on insured deposits to pay for the interest cost of Financing Corporation bonds. The Company paid Financing Corporation assessments of \$218,000 in 2008, \$206,000 in 2007, and \$227,000 in 2006, which are included in other expense.

Depositor Preference

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

Community Reinvestment Act

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

Sarbanes-Oxley Act of 2002

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

The USA Patriot Act

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

The Emergency Economic Stabilization Act of 2008

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

The FDIC also announced the Temporary Liquidity Guarantee Program (TLGP), which temporarily guarantees the senior debt of all FDIC-insured institutions and certain holding companies, as well as deposits in noninterest bearing transaction deposit accounts, for those institutions and holding companies who did not elect to opt out of the program. In November 2008, Tompkins elected to participate in the TLGP. Under this program, all noninterest bearing transaction accounts at Tompkins with balances in excess of \$250,000 will also be fully insured through December 31, 2009. For this additional insurance coverage, Tompkins pays a fee of 10 basis points per quarter on amounts in covered accounts exceeding \$250,000. Tompkins elected to not participate in the unsecured senior debt guarantee component of the TLGP, as the Company has not issued any unsecured senior debt.

Financial Privacy

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

vendors.

Office of Foreign Assets Control Regulation

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

Consumer Protection Laws

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

Other Initiatives

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

Employees

At December 31, 2008, the Company employed 734 employees, approximately 86 of whom were part-time. No employees are covered by a collective bargaining agreement and the Company believes its employee relations are excellent.

Available Information

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

Item 1A. Risk Factors

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

Economic Conditions / Financial Markets

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

The financial services industry is facing unprecedented challenges in the face of the current national and global economic crisis. Since December 2007, the United States has been in a recession. Overall market conditions in 2008 included a deepened downturn in national, international, state and local economies, volatile energy prices, weakened housing markets with falling home prices and rising foreclosures, rising unemployment, difficulties in financial and credit markets, slowdown in consumer spending, a decrease in consumer confidence, slumping auto sales, and overall weaknesses in the financial condition of auto makers. The weakened housing market, rising foreclosures and rising unemployment have

contributed to significant write-downs of asset values by financial institutions.

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In 2008, the U.S. government, the Federal Reserve and other regulators have taken numerous steps to increase liquidity and to restore investor confidence; however, there continues to be pressure on asset values and liquidity and a general lack of confidence in the financial markets. As such, the followings risks are associated with economic conditions:

A further downturn in the housing markets and continued pressure on real estate values may result in higher delinquencies, foreclosures, and charge-offs, which would negatively affect the Company's financial condition and results of operations.

A continued rise in unemployment may result in lower demand for the Company's products and services.

Weak equities markets and declining stock market prices may result in lower fee income from the Company's financial services segment.

An increase in bank failures may result in additional increases in FDIC premiums as well as additional banking regulations, which would negatively affect the Company's results of operations.

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

Interest Rate Risk

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

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

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

Credit Risk

The Company's business of originating and underwriting loans involves credit risk, which is the risk of loss of principal or interest because borrowers, guarantors and related parties fail to perform in accordance with the terms of their loan agreements. An increase in nonperforming loans and/or net charge-offs could result in additional provisions for possible loan and lease losses, which could have a material effect on the Company's financial condition and results of operations. The Company has adopted comprehensive credit policies, underwriting standards and loan review procedures and maintains an allowance for loan and lease losses to mitigate credit losses. The Company continually monitors asset quality and reviews the adequacy of its allowance for loan and lease losses on a regular basis to ensure that the allowance is adequate to cover the estimated loss exposure in its portfolio. Management believes that it has established policies and procedures that are appropriate to mitigate the risk of loss. Nonetheless, these policies and procedures may not prevent unexpected losses that could have a material adverse effect on the Company's business, financial condition, results of operations, or liquidity.

As of December 31, 2008, residential real estate loans represented approximately 34.7% of the Company's loan portfolio. In light of the Company's underwriting standards, historical experience, and current trends within the residential portfolio, these types of loans are generally viewed as having less risk of default than commercial or commercial real estate loans. See Part II, Item 7, Loans and Leases and The Allowance for Loan and Lease Losses of this Report for further discussion of the lending portfolio and the allowance for loan and lease losses.

Government Laws and Regulations

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The Company is subject to extensive state and federal laws and regulations, supervision, and legislation that affect how it conducts its business. The majority of these laws and regulations are for the protection of consumers, depositors and the deposit insurance funds. The regulations influence such things as the Company's lending practices, capital structure, investment practices, and dividend policy.

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Given the current unfavorable and uncertain conditions in the economy and financial markets, it is likely that there will be significant changes to the regulatory environment for the banking and financial services industry. Any changes to state and federal banking laws and regulations may negatively impact the Company's ability to expand services and to increase shareholder value. There can also be significant cost related to compliance with various laws and regulations. The Company has established an extensive internal control structure to ensure compliance with governing laws and regulations, including those related to financial reporting. Refer to "Supervision and Regulation" for additional information on laws and regulations.

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

The Company is subject to state and federal tax laws and regulations. Changes to these regulations could impact future tax expense and the value of deferred tax assets.

Competition

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

Operational Risk

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

Technological Development and Changes

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

Integration of Acquisitions

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The following table provides information relating to the Company's facilities:

Location	Facility Type	Square Feet	Owned/Leased*
110 N. Tioga St., The Commons Ithaca, NY	Trust Company Main Office	23,900	Owned
119 E. Seneca Street Ithaca, NY	Trust Company Trust and Investment Services	18,550	Owned
121 E. Seneca Street Ithaca, NY	Tompkins Financial Corporation/Trust Company Administration and Executive Offices	18,900	Owned
215 E. State St., The Commons Rothschilds Building Ithaca, NY	Tompkins Financial Corporation/Trust Company Operations and Data Processing	24,989	Leased
86 North Street Auburn, NY	Trust Company Auburn Office	4,600	Owned
905 Hanshaw Road Ithaca, NY	Trust Company Community Corners Office	790	Leased
Cornell Bookstore Central Avenue Cornell University, Ithaca, NY	Trust Company Cornell Campus Office	400	Leased
33 Clinton Avenue Cortland, NY	Trust Company Cortland Office	1,900	Leased
139 N. Street Extension Dryden, NY	Trust Company Dryden Office	2,250	Owned
1020 Ellis Hollow Road Ithaca, NY	Trust Company East Hill Plaza Office	650	Leased
2230 N. Triphammer Road Ithaca, NY	Trust Company Kendal Office (Part-time office)	204	Leased
100 Main Street Odessa, NY	Trust Company Odessa Office	3,115	Owned
775 S. Meadow Street Ithaca, NY	Trust Company Plaza Office	2,280	Owned
116 E. Seneca Street Ithaca, NY	Trust Company Seneca Street Drive-In Office	775	Owned
2251 N. Triphammer Road Ithaca, NY	Trust Company Triphammer Road Office	3,000	Leased
2 W. Main Street Trumansburg, NY	Trust Company Trumansburg Office	2,720	Owned
701 W. Seneca Street Ithaca, NY	Trust Company West End Office	2,150	Owned
1051 Craft Road Ithaca, NY	Tompkins Insurance Ithaca Office	7,541	Owned

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Location	Facility Type	Square Feet	Owned/Leased*
832 Hanshaw Road Ithaca, NY	Tompkins Financial Center Trust Company/Tompkins Insurance/Tompkins Investment Services	5,200	Leased
90 Main Street Batavia, NY	Trust Company Administrative Office for Bank of Castile and Tompkins Insurance	18,000	Owned
50 N. Main Street Castile, NY	The Bank of Castile Castile/Main Office	6,662	Owned
604 W. Main Street Arcade, NY	The Bank of Castile Arcade Office	4,662	Owned
263 E. Main Street Avon, NY	The Bank of Castile Avon Office	3,303	Owned
408 E. Main Street Batavia, NY	The Bank of Castile Batavia Office	3,496	Owned
358 W. Main Street Batavia, NY	The Bank of Castile Batavia Drive-In Office	1,050	Owned
3155 State Street Caledonia, NY	The Bank of Castile Caledonia Office	4,680	Owned
3252 Chili Avenue Chili, NY	The Bank of Castile Chili Office	4,000	Owned
1 Main Street Gainesville, NY	The Bank of Castile Gainesville Office	1,448	Owned
11 South Street Geneseo, NY	The Bank of Castile Geneseo Office	9,700	Owned
724 Long Pond Road Greece, NY	The Bank of Castile Greece Office	6,500	Owned
29 Main Street LeRoy, NY	The Bank of Castile LeRoy Office	3,084	Owned