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TOMPKINS FINANCIAL CORP
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

Commission File Number 1-12709

TOMPKINS
FINANCIAL [LOGO]

Tompkins Financial Corporation
(Exact name of registrant as specified in its charter)
New York 16-1482357
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

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

Registrant's former name (if changed since last report): Tompkins Trustco, Inc.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No .

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

Class	Outstanding as of October 30, 2007
Common Stock, \$.10 par value	9,556,786 shares

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TOMPKINS FINANCIAL CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TOMPKINS FINANCIAL CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CONDITION
 (In thousands, except share data) (Unaudited)

ASSETS	As of 09/30/2007
Cash and noninterest bearing balances due from banks	\$ 56
Interest bearing balances due from banks	2
Federal funds sold	
Trading securities, at fair value	66
Available-for-sale securities, at fair value	634
Held-to-maturity securities, fair value of \$50,780 at September 30, 2007, and \$59,606 at December 31, 2006	50
Loans and leases, net of unearned income and deferred costs and fees	1,383
Less: Allowance for loan/lease losses	14

Net Loans/Leases	1,369
Bank premises and equipment, net	44
Corporate owned life insurance	26
Goodwill	21
Other intangible assets	3
Accrued interest and other assets	40

Total Assets	\$ 2,316
=====	
LIABILITIES, MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Interest bearing:	
Checking, savings and money market	\$ 750
Time	609
Noninterest bearing	365

Total Deposits	1,725
Federal funds purchased and securities sold under agreements to repurchase (\$15,257 valued at fair value at September 30, 2007)	196
Other borrowings (\$10,410 valued at fair value at September 30, 2007)	148
Other liabilities	55

Total Liabilities	\$ 2,125

Minority interest in consolidated subsidiaries	1
Shareholders' equity:	
Common Stock - par value \$.10 per share: Authorized 15,000,000 shares; Issued: 9,612,681 at September 30, 2007; and 9,889,569 at December 31, 2006	
Additional paid-in capital	147
Retained earnings	52
Accumulated other comprehensive loss	(9)

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Treasury stock, at cost - 69,272 shares at September 30, 2007,
and 64,418 shares at December 31, 2006

		Total Shareholders' Equity	\$	189

		Total Liabilities, Minority Interest in Consolidated Subsidiaries and Shareholders' Equity	\$	2,316
		=====		

See accompanying notes to unaudited condensed consolidated financial statements.

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data) (Unaudited)

	Three months ended		
	09/30/2007	09/30/2006	09/
	-----	-----	---
INTEREST AND DIVIDEND INCOME			
Loans	\$ 24,644	\$ 22,798	\$
Due from banks	29	8	
Federal funds sold	14	0	
Trading securities	813	0	
Available-for-sale securities	7,227	7,281	
Held-to-maturity securities	497	632	

Total Interest and Dividend Income	33,224	30,719	

INTEREST EXPENSE			
Deposits:			
Time certificates of deposits of \$100,000 or more	3,204	3,064	
Other deposits	7,786	6,677	
Federal funds purchased and securities sold under agreements to repurchase	2,066	1,482	
Other borrowings	1,665	1,392	

Total Interest Expense	14,721	12,615	

Net Interest Income	18,503	18,104	

Less: Provision for loan/lease losses	387	482	

Net Interest Income After Provision for Loan/Lease Losses	18,116	17,622	

NONINTEREST INCOME			
Investment services income	3,621	3,173	
Insurance commissions and fees	2,910	2,568	
Service charges on deposit accounts	2,789	2,030	
Card services income	884	746	
Other service charges	631	651	
Mark-to-market gain on trading securities	346	0	

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Mark-to-market loss on liabilities held at fair value	(644)	0
Increase in cash surrender value of corporate owned life insurance	302	276
Life insurance proceeds	0	0
Gains on sale of loans	54	40
Other income	408	477
Net gain on sale of available-for-sale securities	283	0

Total Noninterest Income	11,584	9,961

NONINTEREST EXPENSES		
Salary and wages	9,045	8,265
Pension and other employee benefits	2,598	2,074
Net occupancy expense of bank premises	1,484	1,239
Furniture and fixture expense	949	885
Marketing expense	568	648
Professional fees	925	392
Software licenses and maintenance	552	459
Cardholder expense	241	289
Amortization of intangible assets	155	183
Other operating expense	3,182	3,026

Total Noninterest Expenses	19,699	17,460

Income Before Income Tax Expense and Minority Interest in Consolidated Subsidiaries	10,001	10,123

Minority interest in consolidated subsidiaries	33	33
Income Tax Expense	3,163	3,287
=====		
Net Income	\$ 6,805	\$ 6,803
=====		
Basic Earnings Per Share	\$ 0.71	\$ 0.69
=====		
Diluted Earnings Per Share	\$ 0.70	\$ 0.68
=====		

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

OPERATING ACTIVITIES

Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Provision for loan/lease losses
Depreciation and amortization premises, equipment, and software
Amortization of intangible assets
Earnings from corporate owned life insurance
Net amortization on securities
Mark-to-market gain on trading securities

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Mark-to-market loss on liabilities held at fair value
Net realized gain on available-for-sale securities
Net gain on sale of loans
Proceeds from sale of loans
Loans originated for sale
Net loss (gain) on sale of bank premises and equipment
Stock-based compensation expense
Increase in accrued interest receivable
(Decrease) increase in accrued interest payable
Proceeds from sales of trading securities
Purchases of trading securities
Payments/maturities from trading securities
Other, net

Net Cash Provided by Operating Activities

INVESTING ACTIVITIES

Proceeds from maturities of available-for-sale securities
Proceeds from sales of available-for-sale securities
Proceeds from maturities of held-to-maturity securities
Purchases of available-for-sale securities
Purchases of held-to-maturity securities
Net increase in loans
Proceeds from sale of bank premises and equipment
Purchases of bank premises and equipment
Net cash used in acquisitions
Other, net

Net Cash Used in Investing Activities

FINANCING ACTIVITIES

Net increase in demand, money market, and savings deposits
Net decrease in time deposits
Net increase in securities sold under agreements
 to repurchase and Federal funds purchased
Increase in other borrowings
Repayment of other borrowings
Cash dividends
Cash paid in lieu of fractional shares - 10% stock dividend
Common stock repurchased and returned to unissued status
Net proceeds from exercise of stock options
Tax benefit from stock options exercises

Net Cash Provided by Financing Activities

Net Increase in Cash and Cash Equivalents
Cash and cash equivalents at beginning of period

Total Cash & Cash Equivalents at End of Period
=====

Supplemental Information:

Cash paid during the year for - Interest
Cash paid during the year for - Taxes
Non-cash investing and financing activities:
Fair value of non-cash assets acquired in purchase acquisitions
Fair value of liabilities assumed in purchase acquisitions
Fair value of shares issued for acquisitions
Securities purchased not yet settled
Transfer of available-for-sale securities to trading securities with adoption of SFAS No. 159

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See accompanying notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except share data) (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumul Othe Comprehe Loss
Balances at January 1, 2006	\$ 900	\$ 118,663	\$ 69,228	(\$
Comprehensive Income:				
Net Income			19,979	
Other comprehensive loss				
Total Comprehensive Income				
Cash dividends (\$0.85 per share)			(8,370)	
Exercise of stock options and related tax benefit (70,825 shares, net)	7	1,652		
Common stock repurchased and returned to unissued status (224,070 shares)	(23)	(9,238)		
Effect of 10% stock dividend	91	41,158	(41,249)	
Cash paid in lieu of fractional shares (262 shares)			(10)	
Directors deferred compensation plan (6,574 shares, net)		189		
Stock-based compensation expense		542		
Shares issued for purchase acquisition (77,155 shares)	7	2,746		
Balances at September 30, 2006	\$ 982	\$ 155,712	\$ 39,578	(\$
Balances at January 1, 2007	\$ 989	\$ 158,203	\$ 44,429	(\$1
Comprehensive Income:				
Net Income			18,946	
Other comprehensive loss				
Total Comprehensive Income				
Cash dividends (\$0.92 per share)			(8,964)	
Exercise of stock options and related tax benefit (29,399 shares, net)	3	497		
Common stock repurchased and returned to unissued status (309,099 shares)	(31)	(11,938)		
Directors deferred compensation plan (4,854 shares, net)		200		

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Stock-based compensation expense	525	
Cumulative effect adjustment - adoption of SFAS 159		(1,522)
Shares issued for purchase acquisition (2,812 shares)	11	

Balances at September 30, 2007	\$	961	\$	147,498	\$	52,889	(\$
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See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Headquartered in Ithaca, New York, Tompkins Financial Corporation ("Tompkins" or the "Company") is registered as a financial holding company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company conducts its business through its (i) three wholly-owned banking subsidiaries, Tompkins Trust Company, The Bank of Castile and The Mahopac National Bank ("Mahopac National Bank"), its (ii) wholly-owned insurance subsidiary, Tompkins Insurance Agencies, Inc., and its (iii) wholly-owned investment services subsidiary, AM&M Financial Services, Inc. ("AM&M"). AM&M has three operating companies: (1) AM&M Planners, Inc., which provides fee based financial planning and wealth management services for corporate executives, small business owners, and high net worth individuals; (2) Ensemble Financial Services, Inc., an independent broker-dealer and 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. 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 American Stock Exchange under the Symbol "TMP."

2. Basis of Presentation

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

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, 2007. The unaudited condensed consolidated financial statements should be read in

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conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. The Company elected to early adopt Statement of Financial Accounting Standards ("SFAS") No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and SFAS No. 157, Fair Value Measurements, effective January 1, 2007. Other than the adoption of these two accounting pronouncements, there have been no significant changes to the Company's accounting policies from those presented in the 2006 Annual Report on Form 10-K.

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 period's consolidated financial statements are reclassified when necessary to conform to the current period's presentation. All significant intercompany balances and transactions are eliminated in consolidation.

3. Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities -- Including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. SFAS 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Company elected to early adopt SFAS 159, effective January 1, 2007, and also apply the provisions of SFAS 157 Fair Value Measurements ("SFAS 157").

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In the first quarter of 2007, the Company elected to apply the fair value option for certain securities within its available-for-sale portfolio with an aggregate cost basis of \$65.9 million and an aggregate book value of \$63.4 million as of the January 1, 2007 date of adoption. Included in the \$65.9 million were \$40.6 million of U.S. Government agencies (total portfolio of \$217.5 million) and \$25.3 million of mortgage-backed securities (total portfolio of \$349.8 million). The Company selected these securities based upon yield and average remaining life. The securities selected had yields of less than 4.0% and average lives greater than 1.5 years. As a result of the election to early adopt, the cumulative unrealized loss related to these available-for-sale securities of \$2.5 million was recorded directly in the Company's financial statements as a cumulative-effect adjustment, net of tax, to retained earnings. This net of tax amount of \$1.5 million was previously included within accumulated other comprehensive loss as of December 31, 2006, based on the Company's ability and intent to hold these securities to recovery. The Company changed its intent with respect to these securities to enable the Company to record the losses directly to retained earnings rather than current income based on the transition provided and after evaluating various alternative investments that could have improved returns and met certain liquidity objectives that more closely match the Company's needs. At March 31, 2007, these securities were reported as trading

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securities on the Company's Consolidated Statements of Condition. The Company recognized a pre-tax gain of approximately \$452,000 in the first quarter of 2007, representing the change in fair value of these securities since adoption of SFAS 159 on January 1, 2007.

In April 2007, Tompkins initiated a securities portfolio restructuring transaction whereby it sold the approximately \$62.0 million in securities that were carried in the Company's trading portfolio subsequent to the adoption of SFAS 159. During the second quarter, the Company realized a pre-tax loss of approximately \$198,000 on these \$62.0 million of securities, reflecting changes in fair value. Proceeds from the sale were reinvested in securities that provide for a higher yield for accounting purposes that will reflect an improvement in the Company's liquidity and interest rate risk exposure position, although no change in cash yield received. As of September 30, 2007, the Company's trading securities totaled \$66.3 million. The trading revenues related to the \$66.3 million of trading securities held at September 30, 2007 were \$346,000 and \$43,000 for the three and nine months ended September 30, 2007, respectively. These mark-to-market adjustments are reflected in the Company's Consolidated Statements of Income in "Mark-to-Market Gain (Loss) on Trading Securities."

The Company determines fair value for its trading securities using independently quoted market prices. Interest income on trading securities is recognized when earned and included on the Company's Consolidated Statements of Income in "Interest and Dividend Income Trading Securities."

During the second quarter of 2007, the Company elected to apply the fair value option for approximately \$25.0 million of borrowings incurred during the quarter. The borrowings are with the Federal Home Loan Bank of New York ("FHLB") and include: a \$10.0 million, 10-year fixed convertible advance at 5.183%, convertible at the end of 3 years; a \$10.0 million, 3-year repo convertible advance at 5.046%, convertible at the end of 1 year; and a \$5.0 million, 7-year repo convertible advance at 4.715%, convertible at the end of 3 years. The Company borrowed a total of \$65.0 million in term advances and \$15.0 million in repurchase agreements with the FHLB during the second quarter. The \$25.0 million identified for fair value were selected because their durations were similar to the durations of trading securities. As of September 30, 2007, the aggregate fair value of the \$25.0 million of FHLB advances was approximately \$25.7 million. For the three and nine months ended September 30, 2007, the fair value of these borrowings decreased by \$644,000 and \$667,000, respectively. These changes in fair value are included on the Company's Consolidated Statements of Income in "Mark-to-Market (Loss) Gain on Liabilities Held at Fair Value."

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 for the three months ended September 30, 2007. Interest expense on these borrowings is accrued and included on the Company's Consolidated Statements of Income in "Interest Expense Federal Funds Purchased and Securities Sold Under Agreements to Repurchase" and "Interest Expense Other Borrowings."

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS

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157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS

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157, fair value measurements are disclosed by level within that hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company elected to adopt SFAS 157 effective January 1, 2007.

Fair Value Measurements at September 30,				
(In thousands)	Carrying Value 09/30/07	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant O Observable In	(Leve
Trading securities	\$ 66,340	\$ 66,340	\$	
Available-for-sale securities	634,353	566,173		66
Borrowings	25,667	0		25

The change in the book value of the \$2.1 million of available-for-sale securities valued using significant unobservable inputs (Level 3), between January 1, 2007 and September 30, 2007 was immaterial in relation to the total market value of available-for-sale securities.

In July 2006, FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also establishes a two-step evaluation process for tax positions, recognition and measurement. For recognition, a determination is made whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, it is measured and recognized in the financial statements as the largest amount of tax benefit that is greater than 50% likely of being realized. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized or, continue to be recognized, upon adoption of this Interpretation. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company's adoption of FIN 48 on January 1, 2007, did not have a material impact on the consolidated financial position, results of operations or cash flows.

As of September 30, 2007 and January 1, 2007, the Company did not have any significant unrecognized tax benefits. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income. The amount of interest and penalties for the three months and nine months ended September 30, 2007 was immaterial. The tax years open to examination by Federal taxing authorities are 2003 through 2006,

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and the tax years open to State taxing authorities are 2004 through 2006.

In September 2006, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 or Accounting Principles Board Opinion ("APB") No. 12, "Omnibus Opinion -- 1967." The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The provisions of Issue 06-04 should be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. The Company is reviewing the impact of adopting the provisions of Issue 06-04 on the Company's financial position or results of operations.

In September 2006, the EITF also reached a final consensus on Issue 06-05, Accounting for Purchases of Life Insurance -- Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4. The consensus concludes that in determining the amount that could be realized under an insurance contract accounted for under FASB Technical Bulletin No. 85-4, "Accounting for Purchases of Life Insurance," the policyholder should (1) consider any additional amounts included in the contractual terms of the policy; (2) assume the surrender value on a individual-life by individual-life policy basis; and (3) not discount the cash surrender value component of the amount that could be realized when contractual restrictions on the ability to surrender a policy exist. Issue 06-05 is effective for fiscal years beginning after

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December 15, 2006. The consensus in Issue 06-05 should be adopted through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earning as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. At September 30, 2007, the Company had bank owned life insurance policies with a carrying value of \$26.6 million. The Company's adoption of the provisions of Issue 06-05 did not have a material effect on the Company's financial position or results of operations.

4. Earnings Per Share

The Company follows the provisions of SFAS No. 128, Earnings Per Share ("EPS"). A computation of Basic EPS and Diluted EPS for the three- and nine-month periods ending September 30, 2007, and 2006 is presented in the table below.

Three months ended September 30, 2007 (in thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)
---	---------------------------	--

Basic EPS:

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Income available to holders of common stock	\$	6,805	9,62
Effect of dilutive securities:			
Stock options			5
Shares issuable as contingent considerations			1
Diluted EPS:			
Income available to holders of common stock plus assumed conversions	\$	6,805	9,69
=====			

The effect of dilutive securities calculation for the three-month period ended September 30, 2007, excludes stock options covering 477,650 shares of common stock because they are anti-dilutive.

Three months ended September 30, 2006 (In thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)	

Basic EPS:			
Income available to holders of common stock	\$	6,803	9,81
Effect of dilutive securities:			
Stock options			12
Shares issuable as contingent considerations			1
Diluted EPS:			
Income available to holders of common stock plus assumed conversions	\$	6,803	9,96
=====			

The effect of dilutive securities calculation for the three-month period ended September 30, 2006, excludes stock options covering 265,747 shares of common stock because they are anti-dilutive.

Nine months ended September 30, 2007 (In thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)	

Basic EPS:			
Income available to holders of common stock	\$	18,946	9,74
Effect of dilutive securities:			
Stock options			7
Shares issuable as contingent considerations			
Diluted EPS:			
Income available to holders of common stock plus assumed conversions	\$	18,946	9,82

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The effect of dilutive securities calculation for the nine-month period ended September 30, 2007, excludes stock options of 289,294 because they are anti-dilutive.

Nine months ended September 30, 2006 (In thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)

Basic EPS:		
Income available to holders of common stock	\$ 19,979	9,87
Effect of dilutive securities:		
Stock options		12
Shares issuable as contingent considerations		
Diluted EPS:		
Income available to holders of common stock plus assumed conversions	\$ 19,979	10,00
=====		

The effect of dilutive securities calculation for the nine-month period ended September 30, 2006 excludes stock options of 282,982 because they are anti-dilutive.

5. Comprehensive Income

(In thousands)	Three months ended	
	09/30/2007	09/30/2006

Net income	\$ 6,805	\$ 6,803

Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains arising during period	4,467	5,753
Memo: Pre-tax net unrealized holding gain	7,445	9,588
Reclassification adjustment for (gains) losses included in net income	(170)	0
Memo: Pre-tax net realized gain	(283)	0
Employee benefit plans:		
Amortization of previously recorded benefit plan amounts	109	0
Memo: Pre-tax amounts	180	0

Other comprehensive income	4,406	5,753

Total comprehensive income	\$ 11,211	\$ 12,556
=====		

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6. Employee Benefit Plans

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: the service cost and interest cost; the expected return on plan assets for the period; the amortization of the unrecognized transitional obligation or transition asset; and the amounts of recognized gains and losses, prior service cost recognized, and gain or loss recognized due to settlement or curtailment.

Components of Net Period Benefit Cost

(In thousands)	Pension Benefits		Life and Health	
	Three months ended		Three months ended	
	09/30/2007	09/30/2006	09/30/2007	09/30/2006
Service cost	\$ 468	\$ 395	\$ 30	\$
Interest cost	512	466	76	
Expected return on plan assets for the period	(721)	(689)	0	
Amortization of transition liability	0	0	17	
Amortization of prior service cost	(27)	(27)	0	
Amortization of net loss	144	179	0	
Net periodic benefit cost	\$ 376	\$ 324	\$ 123	\$

(In thousands)	Pension Benefits		Life and Health	
	Nine months ended		Nine months ended	
	09/30/2007	09/30/2006	09/30/2007	09/30/2006
Service cost	\$ 1,404	\$ 1,185	\$ 90	\$
Interest cost	1,537	1,398	229	1
Expected return on plan assets for the period	(2,164)	(2,067)	0	
Amortization of transition liability	0	0	51	
Amortization of prior service cost	(80)	(81)	0	
Amortization of net loss	433	536	0	
Net periodic benefit cost	\$ 1,130	\$ 971	\$ 370	\$ 2

The Company realized approximately \$325,000 net of tax, for the nine months ended September 30, 2007, as amortization of amounts previously recognized in accumulated other comprehensive income.

The Company previously disclosed in its audited consolidated financial statements for the year ended December 31, 2006, contained in the Company's Annual Report on Form 10-K, that although the Company is not required to contribute to the pension plan in 2007, it may voluntarily contribute to the pension plan in 2007. There was no contribution to the pension plan through the first nine months of 2007.

7. Financial Guarantees

Financial Accounting Standards Board ("FASB") Interpretation No. 45 (FIN No. 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34 requires certain disclosures and potential liability recognition for the fair value at issuance of guarantees that fall within its scope. Based upon management's interpretation of FIN No. 45, the Company currently does not issue any guarantees that would require liability recognition under FIN No. 45, 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, 2007, the Company's maximum potential obligation under standby letters of credit was \$52.3 million. 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.

8. Segment and Related Information

The Company manages its operations through two business segments: banking and financial services. Financial services activities consist of the results of the Company's trust, wealth and risk management operations. All other activities, including holding company activities, are considered banking. The Company accounts for intercompany fees and services at an estimated fair value according to regulatory requirements for the services provided. Intercompany items relate primarily to the use of human resources, information systems, accounting and marketing services provided by any of the Banks and the holding company. All other accounting policies are the same as those described in the summary of significant accounting policies.

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

As of and for the three months ended September 30, 2007

(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	\$ 33,154	\$ 89	\$ (19)	\$ 33,224
Interest expense	14,738	2	(19)	14,721
Net interest income	18,416	87	0	18,503
Provision for loan losses	387	0	0	387
Noninterest income	5,215	6,543	(174)	11,584
Noninterest expense	15,404	4,469	(174)	19,699
Income before income taxes	7,840	2,161	0	10,001

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Minority interest	33	0	0	33
Provision for income taxes	2,398	765	0	3,163
Net Income	\$ 5,409	\$ 1,396	\$ 0	\$ 6,805

Depreciation and amortization	\$ 1,026	\$ 57	\$ 0	\$ 1,083
Assets	2,293,779	26,014	(2,931)	2,316,862
Goodwill	5,377	15,994	0	21,371
Other intangibles	1,430	2,253	0	3,683
Loans, net	1,366,089	3,429	0	1,369,518
Deposits	1,727,326	955	(2,553)	1,725,728
Equity	169,166	20,642	0	189,808

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As of and for the three months ended September 30, 2006

(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	\$ 30,640	\$ 81	\$ (2)	\$ 30,719
Interest expense	12,614	3	(2)	12,615
Net interest income	18,026	78	0	18,104
Provision for loan losses	482	0	0	482
Noninterest income	4,231	5,800	(70)	9,961
Noninterest expense	13,565	3,965	(70)	17,460
Income before income taxes	8,210	1,913	0	10,123
Minority interest	33	0	0	33
Provision for income taxes	2,574	713	0	3,287
Net Income	\$ 5,603	\$ 1,200	\$ 0	\$ 6,803

Depreciation and amortization	\$ 950	\$ 58	\$ 0	\$ 1,008
Assets	2,158,374	22,775	(1,454)	2,179,695
Goodwill	5,377	12,082	0	17,459
Other intangibles	1,757	1,484	0	3,241
Loans, net	1,268,736	3,828	0	1,272,564
Deposits	1,701,385	3,468	(1,414)	1,703,439
Equity	173,008	15,920	0	188,928

For the nine months ended September 30, 2007

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(in thousands)	Banking	Financial Services	Intercompany	Consolidated
Interest income	\$ 98,100	\$ 245	\$ (37)	\$ 98,308
Interest expense	43,782	8	(37)	43,753
Net interest income	54,318	237	0	54,555
Provision for loan losses	1,050	0	0	1,050
Noninterest income	14,119	19,019	(310)	32,828
Noninterest expense	45,330	13,449	(310)	58,469
Income before income taxes	20,057	5,808	0	27,864
Minority interest	98	0	0	98
Provision for income taxes	6,732	2,088	0	8,820
Net Income	\$ 15,227	\$ 3,719	\$ 0	\$ 18,946
Depreciation and amortization	\$ 3,104	\$ 175	\$ 0	\$ 3,279

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For the nine months ended September 30, 200

(in thousands)	Banking	Financial Services	Intercompany	Con
Interest income	\$ 89,252	\$ 233	\$ (5)	\$
Interest expense	34,584	9	(5)	
Net interest income	54,668	224	0	
Provision for loan losses	1,015	0	0	
Noninterest income	12,951	16,189	(162)	
Noninterest expense	42,688	11,333	(162)	
Income before income taxes	23,916	5,080	0	
Minority interest	98	0	0	
Provision for income taxes	7,236	1,683	0	
Net Income	\$ 16,582	\$ 3,399	\$ 0	\$
Depreciation and amortization	\$ 2,896	\$ 162	\$ 0	\$

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

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BUSINESS

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 American Stock Exchange (Symbol: TMP). Tompkins is headquartered at The Commons, Ithaca, New York. Tompkins is the corporate parent of three community banks; Tompkins Trust Company ("Trust Company"), The Bank of Castile and The Mahopac National Bank ("Mahopac National Bank"); an insurance agency, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"); and a fee-based financial planning and wealth management firm, AM&M Financial Services, Inc. ("AM&M"). Unless the context otherwise requires, the term "Company" refers collectively to Tompkins Financial Corporation and its subsidiaries.

The Company has identified two business segments, banking and financial services. Financial services activities include the results of the Company's trust, financial planning, wealth management and broker-dealer services, risk management, and insurance agency operations. All other activities are considered banking. Information about the Company's business segments is included in Note 8, "Segment and Other Related Information," in Notes to Unaudited Condensed Consolidated Financial Statements.

Banking services consist primarily of attracting deposits from the areas served by the community bank subsidiaries' 39 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 principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan/lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities.

The Company provides trust and investment services through Tompkins Investment Services ("TIS"), a division of Trust Company, and investment services through AM&M. TIS, 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. TIS also expanded its retail brokerage services in 2006. AM&M provides fee-based financial planning for small business owners, professionals and corporate executives and other individuals with complex financial needs. AM&M also provides wealth management services and operates a broker-dealer subsidiary, which is an outsourcing company for financial planners and investment advisors.

The Company provides property and casualty insurance services through Tompkins Insurance and life, long-term care and disability insurance through AM&M. Tompkins Insurance is headquartered in Batavia, New York, and offers property and casualty insurance to individuals and businesses primarily in Western 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 five stand-alone

offices in Western New York, and two stand-alone offices in Tompkins County. AM&M operates a subsidiary that creates customized risk management plans using

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life, disability and long-term care insurance products.

AM&M is headquartered in Pittsford, New York and offers fee-based financial planning 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 leading outsourcing company for financial planners and investment advisors; and (3) Ensemble Risk Solutions, Inc., which creates customized risk management plans using life, disability and long-term care insurance products.

The banking industry is highly competitive, as deregulation has opened the industry to nontraditional commercial banking companies. Competition for commercial banking and other financial services is strong in the Company's market area. 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. Banking and financial services are also highly regulated. As a financial holding company of three community banks, the Company is subject to examination and regulation by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of Currency, and the New York State Banking Department. Additionally, the Company is subject to examination and regulation from the New York State Insurance Department, the Securities and Exchange Commission and the National Association of Securities Dealers.

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. Trends in market interest rates and competitive pressures have been challenging for the banking subsidiaries over the past several years. Growth in loans and deposits as well as continued efforts to expand fee-based businesses have helped to offset the pressures of the current interest rate environment. The Company's community bank subsidiaries operate, in the aggregate, 39 banking offices, including one limited-service office, serving communities in many upstate New York markets. Economic climates in these markets vary by region.

The following discussion is intended to provide an understanding of the consolidated financial condition and results of operations of the Company for the three and nine months ended September 30, 2007. 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, 2006, and the unaudited condensed consolidated financial statements and notes included elsewhere in 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

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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; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; and financial resources in the amounts, at the times and on the terms required to support the Company's future businesses. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, including interest rate and currency exchange rate fluctuations, and other factors.

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Critical Accounting Policies

In the course of the Company's normal business activity, management must select and apply many accounting policies and methodologies that lead to the financial results presented in the consolidated financial statements of the Company. Some of these policies are more critical than others. Management considers the accounting policy relating to the allowance for loan/lease losses (reserve) to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates can have on the Company's results of operations.

The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to ensure that an adequate reserve is maintained. The methodology includes an estimate of exposure for the following: specifically reviewed and graded loans, historical loss experience by product type, past due and nonperforming loans, and other internal and external factors such as local and regional economic conditions, growth trends, and credit policy and underwriting standards. The methodology includes a review of loans considered impaired in accordance with the Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan, as well as other commercial loans and commercial mortgage loans that are evaluated using an internal rating system. An estimated exposure amount is assigned to these internally reviewed credits based upon a review of the borrower's financial condition, payment history, collateral adequacy, and business conditions. For commercial loans and commercial mortgage loans not specifically reviewed, and for more homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical loss experience as well as past due status. Lastly, additional allowances are maintained based upon management judgment and assessment of other quantitative and qualitative factors such as regional and local economic conditions and portfolio growth trends.

Since the methodology is based upon historical experience and trends, as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, and changes in local property values. While management's evaluation of the allowance for loan/lease losses as of September 30, 2007, considers the allowance to be adequate, under adversely different

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conditions or assumptions, the Company would need to increase the allowance.

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

All accounting policies are important and the reader of the Company's financial statements should review these policies, described in Note 1 to the notes to consolidated financial statements to the Company's audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, to gain a greater understanding of how the Company's financial performance is reported.

OVERVIEW

Net income for the third quarter of 2007 was \$6.8 million or \$0.70 per diluted share compared to \$6.8 million or \$0.68 per diluted share for the third quarter of 2006, and \$6.4 million or \$0.65 per diluted share for the second quarter of 2007. For the first nine months of 2007, net income was \$18.9 million or \$1.93 per diluted share, down from \$20.0 million or \$2.00 per diluted share for the first nine months of 2006. The decrease in year-to-date September 30, 2007 net income is mainly a result of lower net interest income and higher noninterest expenses, partially offset by an increase in noninterest income. 2007 noninterest expenses included approximately \$1.2 million (pre-tax) of reorganization, severance and associated consulting charges recognized in the third quarter related to profit improvement initiatives. Earnings per share benefited from the repurchase of common shares made under the Company's previously announced program. The Company repurchased 96,820 shares during the third quarter of 2007 at an average price of \$37.57 per shares, and 309,099 shares during the first nine months of 2007 at an average price of \$38.73 per share.

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Return on average assets (ROA) for the quarter ended September 30, 2007, was 1.19% compared to 1.26% for the quarter ended September 30, 2006. Return on average shareholders' equity (ROE) for the third quarter of 2007 was 14.56%, compared to 14.73% for the same period in 2006. For the nine month period ended September 30, 2007, ROA was 1.13%, compared to 1.26% for the same period prior year. ROE for the nine months ended September 30, 2007 was 13.51%, compared to 14.62% for the nine months ended September 30, 2006. The decrease in ROA and ROE reflects flat quarterly net income and lower year-to-date net income coupled with an increase in average assets and average equity for the three and nine months ended September 30, 2007 compared to the same periods in 2006.

Total revenues, consisting of net interest income and noninterest income, were \$30.1 million in the third quarter of 2007 and \$87.4 million in the first nine months of 2007, up 7.2% and 4.2%, respectively, over the comparable periods in 2006. Both periods benefited from growth in noninterest income, while the quarterly comparison also benefited from higher net interest income. Net interest income for the third quarter of 2007, was up 2.2% over the same period prior year and up 0.07% over the second quarter of 2007. For the year-to-date September 30, 2007 net interest income was down \$337,000 or 0.6% compared to the same period in 2006. Net interest income continues to be constrained by a

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challenging interest rate environment that has existed for the past several years. The flat to inverted yield curve has contributed to funding costs increasing faster than asset yields. The net interest margin for the third quarter was down from the same period prior year, and the second quarter of 2007.

Noninterest income was up 16.3% for the quarter and 13.3% for the first nine months of 2007 over the same periods in 2006, with growth in all major fee based products and services. The growth in noninterest income reflects the successful expansion of retail brokerage services, insurance agency acquisitions, and implementation of certain profit improvement initiatives. Noninterest income also includes net trading revenues, which represent the change in fair value of securities designated as trading securities with the adoption of SFAS 159, and gains on the sale of mastercard stock. Partially offsetting these positive factors are mark-to-market losses on the Company's \$25.0 million of Federal Home Loan Bank borrowings for which it elected the fair value option for in the second quarter of 2007. For additional information on the adoption of SFAS 159, refer to Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements.

Noninterest expenses were up 12.8% for the quarter and 8.6% for the first nine months of 2007 over the same periods in 2006. During the third quarter of 2007, the Company recognized \$1.2 million in pre-tax reorganization and associated consulting charges related to profit improvement initiatives. Compensation and benefits related expenses, premises and fixed asset expenses, and professional fees were all up over prior year, and impacted by business expansion initiatives that included insurance agency acquisitions, expansion of retail brokerage services, and the expansion of banking offices.

RESULTS OF OPERATIONS

Net Interest Income

The following table shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. Taxable-equivalent net interest income increased by \$318,000, or 1.7% and decreased by \$689,000, or 1.2% for the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006. The Company's taxable-equivalent net interest income benefited from growth in average earnings assets for the three and nine months ended September 30, 2007, over the same periods in 2006; however, offsetting this benefit has been a narrower net interest margin as increases in funding costs have outpaced improvements in asset yields. The taxable-equivalent net interest margin for the third quarter of 2007 of 3.61% was down from the 3.75% for the third quarter of 2006, and down from 3.66% for the second quarter of 2007. For the nine months ended September 30, 2007, the taxable-equivalent net interest margin was 3.61%, down from 3.87% for the same period in 2006. The interest rate environment has been challenging over the past few years with short-term rates rising and long-term rate remaining flat or declining. The resulting flat or inverted yield curve contributed to funding costs rising at a faster rate than asset yields.

The Company has been able to offset the impact of the margin compression on quarterly net interest income by growing average earning assets and average noninterest-bearing deposits. The average volume of earning assets for the third quarter of 2007 increased \$111.9 million or 5.6% compared to the third quarter of 2006. For the first nine months of 2007, the average volume of earning assets increased \$115.1 million or 5.8% over same period in 2006. The average volume of noninterest-bearing deposits for the third quarter of 2007 increased \$20.8 million or 6.1% compared to the third quarter of 2006. For the first nine months of 2007, the average volume of noninterest-bearing deposits increased \$15.1 million 4.5% over same period in 2006.

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Taxable-equivalent interest income was up 7.7% for the third quarter and 9.3% for the year-to-date 2007, over the comparable periods in 2006. The growth in taxable-equivalent interest income was primarily a result of higher average loan volumes and improved yields on the Company's securities portfolio. Average loan balances are up 8.6% quarter-to-date and 7.1% year-to-date over the same periods in 2006. Loan growth was seen in commercial, commercial real estate and residential real estate loans. The decrease in average consumer loan balances is mainly due to the sale of the Company's credit card portfolio in the fourth quarter of 2006. For the three and nine months ended September 30, 2007, the average yield on loans and leases decreased by 3 basis points and increased by 12 basis points, respectively, compared to the same periods in 2006. The positive year-to-date comparison reflects the benefit of higher interest rates as the prime interest rate increased 50 basis points in the first quarter of 2006 and 50 basis points in the second quarter of 2006. The 50 basis point decrease in the prime rate to 7.75% in September 2007, contributed to the flat quarter-over-quarter comparison and will place some pressure on asset yields going forward. Average yields on securities were also up for the quarter and year-to-date 2007 over the corresponding periods in 2006, while average balances were flat for the quarter and up year-to-date over the same periods in 2006. The average yield on securities was up 31 basis points in the third quarter and 29 basis points year-to-date 2007 over the same periods prior year.

Interest expense was up 16.7% for the third quarter and 26.5% for the year-to-date 2007 over the comparable periods in 2006, reflecting both higher rates paid on deposits and borrowings as well as higher volumes. The rise in short-term market rates during 2006 and competitive market conditions have contributed to higher funding costs. The average rate paid on deposits for the three and nine months ended September 30, 2007 were 3.24% and 3.32%, respectively, up 30 basis points and 58 basis points over the same periods in 2006. Average interest-bearing deposits increased by \$31.2 million or 2.4% and by \$53.1 million or 4.0% for the three and nine months ended September 30, 2007, respectively, compared to the same periods of 2006. The majority of the growth in year-to-date average deposit balances from 2006 was in time deposits, which generally have higher rates than other interest bearing deposit products. Year-to-date 2007 average time deposit balances are up \$43.3 million, or 6.8% from 2006. Average deposit balances for the quarter reflected an increase of \$22.2 million or 3.1% in interest checking, money market, and savings balances and an increase of \$20.8 million or 6.1% in noninterest bearing checking balances, while time deposits were down \$9.5 million or 1.6% from the same quarter last year. Average balances of securities sold under agreements to repurchase are also up for both the quarter and year-to-date, to partially fund loan growth. Quarter-to-date 2007 other borrowings were up \$17.3 million or 15.4% from the third quarter of 2006.

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Average Consolidated Balance Sheet and Net Interest Analysis

	Quarter Ended Sept-07		Year to Date Period Ended Sept-07	
(Dollar amounts in thousands)	Average Balance (QTD)	Average Interest Yield/Rate	Average Balance (YTD)	Average Interest Yield/R

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ASSETS

Interest-earning assets

Interest-bearing balances due from banks	\$ 3,236	\$ 29	3.56%	\$ 5,378	\$ 183	4.
Securities (1)						
U.S. Government Securities	524,500	6,259	4.74%	531,137	18,966	4.
Trading Securities	62,745	813	5.14%	58,334	1,989	4.
State and municipal (2)	101,596	1,552	6.06%	103,600	4,710	6.
Other Securities (2)	33,247	484	5.78%	36,436	1,635	6.

Total securities	722,088	9,108	5.01%	729,507	27,300	5.
Federal Funds Sold	1,026	14	5.41%	5,508	217	5.
Loans, net of unearned income (3)						
Real Estate	939,039	16,049	6.79%	916,906	46,721	6.
Commercial Loans (2)	340,320	6,978	8.13%	339,519	20,889	8.
Consumer Loans	83,543	1,498	7.11%	81,988	4,340	7.
Direct Lease Financing	9,713	147	6.00%	9,984	482	6.

Total loans, net of unearned income	1,371,615	24,672	7.14%	1,348,397	72,432	7.

Total interest-earning assets	2,097,965	33,823	6.40%	2,088,790	100,132	6.

Other assets	161,836			159,798		

Total assets	\$ 2,259,801			\$ 2,248,588		
	=====					

LIABILITIES & SHAREHOLDERS' EQUITY

Deposits

Interest-bearing deposits						
Interest bearing checking, savings, & money market	726,668	3,728	2.04%	711,288	10,416	1.
Time Dep > \$100,000	266,345	3,204	4.77%	319,370	11,748	4.
Time Dep <\$100,000	344,338	3,945	4.55%	346,153	11,870	4.5
Brokered Time Dep <\$100,000	9,100	112	4.88%	16,773	622	4.

Total interest-bearing deposits	1,346,451	10,989	3.24%	1,393,584	34,656	3.
Federal funds purchased & securities sold under agreements to repurchase	198,700	2,066	4.13%	198,067	6,066	4.
Other borrowings	129,503	1,665	5.10%	84,366	3,031	4.

Total interest-bearing liabilities	1,674,654	14,720	3.49%	1,676,017	43,753	3.
Noninterest bearing deposits	364,352			350,834		
Accrued expenses and other liabilities	33,939			32,701		

Total liabilities	2,072,945			2,059,552		
Minority Interest	1,472			1,474		
Shareholders' equity	185,384			187,559		

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Total liabilities and shareholders' equity	\$ 2,259,801		\$ 2,248,588	
Interest rate spread		2.91%		2.
Net interest income/margin on earning assets	\$ 19,103	3.61%	\$ 56,379	3.
Tax Equivalent Adjustment	(600)		(1,824)	
Net interest income per consolidated financial statements	\$ 18,503		\$ 54,555	

- (1) Average balances and yields exclude unrealized gains and losses on available-for-sale securities.
- (2) Interest income includes the effects of taxable-equivalent adjustments using a blended Federal and State income tax rate of 40% to increase tax exempt interest income to a taxable-equivalent basis.
- (3) Nonaccrual loans are included in the average loans totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2006.

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Provision for Loan/Lease Losses

The provision for loan/lease losses represents management's estimate of the expense necessary to maintain the allowance for loan/lease losses at an adequate level. The provision for loan and lease losses was \$387,000 and \$1.1 million for the three and nine months ended September 30, 2007, compared to \$482,000 and \$1.0 million for the same periods in 2006. The allowance for loan/lease losses, as a percentage of period end loans was 1.04% at September 30, 2007, compared to 1.10% at September 30, 2006. Refer to the section captioned "Allowance for Loan/Lease Losses and Nonperforming Assets" elsewhere in this discussion for further details on the allowance for loan/lease losses.

Noninterest Income

Management considers noninterest income an important driver of long-term revenue growth and a way to reduce earnings volatility that may result from changes in general market interest rates. Noninterest income for the three months ended September 30, 2007, was \$11.6 million, an increase of 16.3% from the same period in 2006. Year-to-date 2007, noninterest income was \$32.8 million, up 13.3% over the same period in 2006. Noninterest income represented 38.5% of third quarter total revenues and 37.6% of year-to-date total revenues, compared to 35.5% and 34.6%, respectively, for the same periods in 2006. The primary components of noninterest income are fees from investment services, insurance commissions and fees, service charges on deposit accounts, and card services income. These categories were all up in the third quarter and year-to-date over the comparable periods in 2006. Changes in the components of noninterest income are discussed below.

Investment services income was \$3.6 million in the third quarter of 2007, up 14.1% over the same period in 2006. For the first nine months of 2007, investment services income was \$10.6 million, an increase of 16.4% over the same period in 2006. Investment services reflects income from Tompkins Investment Services ("TIS"), a division within Tompkins Trust Company, and AM&M. Investment services income includes: trust services, financial planning, wealth management services, and brokerage related services. TIS generates fee income through

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managing trust and investment relationships, managing estates, providing custody services, and managing investments in employee benefits plans. TIS also oversees retail brokerage activities in the Company's banking offices. TIS revenues for the three and nine months ended September 30, 2007, increased by \$360,000 or 23.6% and \$812,000 or 17.8%, respectively, as compared to the same periods in 2006. The increase in revenues was a result of favorable equity markets, new account generation and some revisions to the fee schedules. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market has a considerable impact on fee income. The market value of assets managed by, or in custody of, TIS was \$1.7 billion at September 30, 2007, up 5.7% from \$1.6 billion at September 30, 2006. These figures include \$484.1 million and \$495.0 million, respectively, of Company-owned securities of which TIS is custodian. Trends for new business in trust and investment services remain positive.

AM&M provides fee-based financial planning services, wealth management services, and brokerage services to independent financial planners and investment advisors. AM&M revenues increased by \$88,000 or 5.3% and by \$689,000 or 15.1% for the three and nine months ended September 30, 2007, compared to the same periods in 2006, driven by growth in wealth management business and brokerage services. The market value of assets under management by AM&M was \$532.2 million at September 30, 2007, up 24.0% from \$429.3 million at September 30, 2006.

Insurance commissions and fees for the three and nine months ended September 30, 2007, increased by \$342,000 or 13.3% and \$1.4 million or 19.9%, respectively, as compared to the same periods in 2006. Revenue growth was in both commercial and personal business lines. Tompkins Insurance acquired four insurance agencies in 2006, which contributed to the year-over-year growth in revenues.

Service charges on deposit accounts for the three and nine months ended September 30, 2007, increased by \$759,000 or 37.4% and \$1.5 million or 24.8%, respectively, as compared to the same periods in 2006. The largest component of this category is overdraft fees, which is largely driven by customer activity. Customer activity has been changing over the past several years, with electronic transactions such as debit cards and Internet banking reducing the volume of checks. The Company reviewed and revised the way that it processes these transactions during the second quarter to process electronic transactions substantially the same as paper transactions, which has had a favorable impact on overdraft income.

Card services income for the three and nine months ended September 30, 2007, increased by \$138,000 or 18.5% and \$443,000 or 20.7%, respectively, as compared to the same periods in 2006. The increase is mainly due to an increase in interchange income as a result of increased transactional volume from debit cards in 2007 over 2006.

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Trading revenues for the three and nine months ended September 30, 2007, were \$346,000 and \$221,000, respectively. There was no trading activity in 2006. Trading revenues relate to the change in the fair value of securities designated as trading that were positively affected by lower interest rates during the quarter. The Company designated approximately \$62.0 million of securities as trading in the first quarter of 2007 with the adoption of SFAS 159, effective January 1, 2007. The Company recognized a pre-tax gain of approximately \$452,000 in the first quarter of 2007, representing the change in fair value of securities identified as trading securities between the adoption of SFAS 159 on January 1, 2007 and March 31, 2007. In April 2007, the Company initiated a securities portfolio restructuring transaction and sold the \$62.0 million of trading securities and subsequently reinvested the majority of the proceeds in

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securities designated as trading securities.

For the three and nine months ended September 30, 2007, the Company had mark-to-market losses of \$644,000, and \$667,000, respectively, reflecting the change in fair value on the \$25.0 million of FHLB borrowings that the Company selected the fair value option for in the second quarter of 2007.

Noninterest income for the third quarter of 2007 includes \$302,000 of income relating to increases in the cash surrender value of corporate owned life insurance (COLI). This compares to \$276,000 for the same period in 2006. For the year-to-date period COLI related income was \$858,000 compared to \$846,000 for the same period in 2006. The COLI relates to life insurance policies covering certain executive officers of the Company. The Company's average investment in COLI was \$26.6 million for the three-month period ended September 30, 2007, compared to \$25.2 million for the same period in 2006. Although income associated with the insurance policies is not included in interest income, the COLI produced a tax-equivalent return of 7.33% for the first nine months of 2007, compared to 7.06% for the same period in 2006. For the year-to-date periods end September 30, 2006, the Company recognized \$685,000 in proceeds from death benefits on corporate owned life insurance.

The net gain on sale of available-for-sale securities of \$283,000 for the third quarter of 2007, was primarily on the sale of the Company's Mastercard stock that it received as a member bank at the time of Mastercard's initial public offering.

Other income decreased by \$69,000 or 14.5% and by \$250,000 or 22.2% for the three and nine months ended September 30, 2007, respectively, from the same period prior year. The decrease was mainly a result of lower income related to the Company's investment in a Small Business Investment Company.

Noninterest Expenses

Total noninterest expenses increased 12.8% to \$19.7 million for the three months ended September 30, 2007, compared to \$17.5 million for the same period in 2006, and increased 8.6% to \$58.5 million for the nine months ended September 30, 2007, from \$53.9 million for the same period in 2006. During the third quarter the company recognized \$1.2 million in pre-tax reorganization and associated consulting charges related to profit improvement initiatives. The increase in 2007 over 2006 was primarily in compensation and benefits related expenses, premises and fixed asset expenses, and professional fees, which were all impacted by business expansion initiatives that included insurance agency acquisitions, expansion of retail brokerage services, and the expansion of banking offices. Changes in the components of noninterest expense are discussed below.

Personnel-related expense increased by \$1.3 million or 12.6% and by \$2.8 million or 8.8% for the three and nine-month periods ended September 30, 2007. Contributing to the increase is the previously mentioned charges related to the reorganization and profit improvement initiatives. In the third quarter of 2007, the Company recognized \$740,000 pre-tax of severance charges related to these initiatives. Actual full time equivalent employees (FTEs) totaled 644 at September 30, 2007 compared to 664 at June 30, 2007, and 669 at September 30, 2006. Year-to-date September 30, 2007 average FTE of 663 were up from 652 at September 30, 2006. The increase in average FTEs is a result of the staffing requirements at the Company's newer offices and four insurance agency acquisitions by Tompkins Insurance in 2006. In addition to the salaries and wages associated with the increased number of average FTEs, annual salary adjustments also contributed to the increase in 2007 over 2006. Employee benefit related expenses including pension, 401-K, health insurance, and postretirement healthcare were also up over the same periods in 2006.

Expenses related to bank premises and furniture and fixtures increased by

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\$309,000 or 14.5% and by \$1.0 million or 15.7% for the three and nine month periods ended September 30, 2007. Additions to the Company's branch network, insurance agency acquisitions, as well as higher real estate taxes, insurance and utility costs contributed to the increased expenses for premises and furniture and fixtures year-over-year.

Professional fees increased by \$533,000 or 136.0% for the third quarter and by \$1.2 million or 111.5% for the nine months ended September 30, 2007, as compared to the same periods last year. In the first quarter of 2007, the Company engaged a consulting group to assist management in continuing to identify and implement profit improvement initiatives designed to

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reduce expenses and increase revenue. Implementation of certain initiatives took place in the second quarter and management is encouraged by the preliminary results of this effort. Consulting fees related to profit improvement initiatives were \$447,000 in the third quarter and \$827,000 year-to-date 2007. The Company began to see benefits from these initiatives in the second and third quarters, and expects these initiatives to have a positive impact on financial results in the fourth quarter of 2007 and future periods.

Cardholder expenses were down \$48,000 or 16.6% and \$227,000 or 23.7% for the three and nine months ended September 30, 2007, driven by the fourth quarter 2006 sale of the Company's credit card portfolio.

Other operating expenses increased by \$156,000 or 5.2% and decreased by \$128,000 or 1.3% for the three and nine months ended September 30, 2007, respectively. Contributing to the decrease in other operating expenses was a decrease in donation expenses in 2007, compared to 2006, which included a \$300,000 contribution to Tompkins County Trust Company Charitable Fund in the second quarter of 2006.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. The provision for the three months ended September 30, 2007, was \$3.2 million, compared to \$3.3 million for the same period in 2006. For the year-to-date period ended September 30, 2007, the provision was \$8.8 million compared to \$8.9 million for the same period in 2006. The Company's effective tax rate for the third quarter of 2007 was 31.6%, compared to 32.4% for the same period in 2006. For the nine months ended September 30, 2007, the effective tax rate was 31.5% compared to 30.7% for the comparable prior year period. The recognition of \$685,000 of life insurance proceeds in the second quarter of 2006 contributed to the lower effective rate in 2006 compared with 2007.

FINANCIAL CONDITION

Total assets were \$2.3 billion at September 30, 2007, up 4.8% over December 31, 2006, and up 6.3% over September 30, 2006. Asset growth over year-end 2006 included a \$57.6 million increase in the total loans and leases, a \$36.9 million increase in securities, and a \$8.2 million increase in cash and equivalents. The growth in total loans and leases, which represented a 4.4% increase from year-end 2006, was primarily in commercial and residential real estate loans; the consumer and leasing portfolios were down from year-end 2006. Total securities were up 5.2% compared to year-end 2006, primarily in mortgage-backed securities issued by U.S. Government agencies. The Company's decision to early adopt SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, effective January 1, 2007, resulted in transfer of securities from the available-for-sale portfolio to the trading portfolio. As of September 30, 2007, the trading portfolio totaled \$66.3 million. For the three and nine months ended September 30, 2007, revenues related to the securities trading portfolio

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were \$346,000 and \$221,000, respectively.

Total deposits were \$1.7 billion at September 30, 2007, up about 1.0% from year-end 2006, and up \$22.3 million or 1.3% from September 30, 2006. The growth in total deposits since September 30, 2006 was in money market and savings balances and noninterest bearing balances, which are up 3.1% and 6.7%, respectively, from September 30, 2006. Time deposit balances have decreased 8.9% from year-end 2006 and 3.6% from quarter-end September 30, 2006, primarily due to lower municipal time deposits and brokered time deposits. Other borrowings increased \$62.3 million from year-end 2006 to \$148.2 million at September 30, 2007 as the Company used borrowings with the Federal Home Loan Bank (FHLB) to support asset growth as an alternative to higher cost wholesale deposits. During the second quarter of 2007, the Company elected the fair value option for \$25.0 million of FHLB borrowings incurred during the quarter. As of September 30, 2007, the fair value of these borrowings was about \$667,000 lower than the book value.

Nonperforming loans were \$8.4 million at September 30, 2007, up from \$3.8 million at September 30, 2006. The increase is mainly due to the addition of a single \$3.7 million nonperforming commercial relationship in the first quarter of 2007, of which approximately \$3.3 million is 90% guaranteed by a government agency. For the three months and nine months ended September 30, 2007, net charge-offs were \$334,000, and \$968,000, respectively, up from \$72,000 and \$572,000 in the same periods of 2006.

There has been significant attention to subprime consumer real estate lending in the media. The Company has not engaged in the origination or purchase of subprime loans as a line of business and residential loan charge-offs amount to only \$98,000 for the current year-to-date compared to \$40,000 for the same period in 2006.

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Capital

Total shareholders' equity totaled \$189.8 million at September 30, 2007, an increase of \$188,000 from December 31, 2006. Additional paid-in capital decreased by \$10.7 million, from \$158.2 million at December 31, 2006, to \$147.5 million at September 30, 2007, reflecting the effects of repurchases of the Company's common stock, which were partially offset by the exercise of stock options and stock-based compensation expense. The Company repurchased 309,099 shares of its common stock for \$12.0 million during the nine month period ended September 30, 2007. Retained earnings increased \$8.5 million from \$44.4 million at December 31, 2006, to \$52.9 million at September 30, 2007, reflecting net income of \$18.9 million less dividends paid of \$9.0 million and a cumulative-effect adjustment of \$1.5 million related to the adoption of SFAS 159. Accumulated other comprehensive loss decreased by nearly \$2.7 million between December 31, 2006 and September 30, 2007, reflecting the effects of the adoption of SFAS 159, an decrease in unrealized losses on available-for-sale securities due to lower market rates, and amounts recognized in other comprehensive income related to postretirement benefit plans. The early adoption of SFAS 159 required that any cumulative unrealized losses or gains related to securities where the fair value option was elected be included in the cumulative-effect adjustment, net of tax.

Cash dividends paid in the first nine months of 2007 totaled approximately \$9.0 million, representing 47.3% of year-to-date earnings. Cash dividends of \$0.92 per share paid during the first nine months of 2007 were up 8.2% over cash dividends of \$0.85 per share paid in the first nine months of 2006.

On July 18, 2006, the Company's Board of Directors approved a stock repurchase

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plan (the "2006 Plan"). The 2006 Plan authorizes the repurchase of up to 450,000 additional shares of the Company's outstanding common stock over a two-year period. During the first nine months of 2007, the Company repurchased 309,099 shares at an average cost of \$38.73. As of September 30, 2007, the Company has repurchased 397,327 shares under the 2006 Plan at an average cost of \$39.80 per share.

The Company and its banking subsidiaries are subject to various regulatory capital requirements administered by Federal banking agencies. Management believes the Company and its subsidiaries meet all capital adequacy requirements to which they are subject. The table below reflects the Company's capital position at September 30, 2007, compared to the regulatory capital requirements for "well capitalized" institutions.

REGULATORY CAPITAL ANALYSIS - September 30, 2007

(Dollar amounts in thousands)	Actual		Well Capitalized Requirement	
	Amount	Ratio	Amount	Ratio
Total Capital (to risk weighted assets)	\$191,713	12.4%	\$155,085	10.0%
Tier I Capital (to risk weighted assets)	\$177,169	11.4%	\$ 93,051	6.0%
Tier I Capital (to average assets)	\$177,169	7.9%	\$112,024	5.0%

As illustrated above, the Company's capital ratios on September 30, 2007, remain well above the minimum requirement for well capitalized institutions. As of September 30, 2007, the capital ratios for each of the Company's subsidiary banks also exceeded the minimum levels required to be considered well capitalized.

Allowance for Loan/Lease Losses and Nonperforming Assets

Management reviews the adequacy of the allowance for loan/lease losses (the "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 Company's portfolio and the material effect that assumption could have on the Company's results of operations. Factors considered in determining the adequacy of the allowance and the related provision include: management's approach to granting new credit; the ongoing monitoring of existing credits by the internal and external loan review functions; the growth and composition of the loan and lease portfolio; the level and trend of market interest rates; comments received during the course of regulatory examinations; current local economic conditions; past due and nonperforming loan statistics; estimated collateral values; and an historical review of loan and lease loss experience. Based upon consideration of the above factors, management believes that the allowance is adequate to provide for the risk of loss inherent in the current loan and lease portfolio. Activity in the Company's allowance for loan/lease losses during the first nine months of 2007 and 2006 is illustrated in the table below.

ANALYSIS OF THE ALLOWANCE FOR LOAN/LEASE LOSSES (In thousands)

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	September 30, 2007	Septem
Average Loans and Leases Outstanding Year to Date	\$1,348,398	
Beginning Balance	14,328	
Provision for loan/lease losses	1,050	
Loans charged off	(1,356)	
Loan recoveries	388	
Net charge-offs	(968)	
Ending Balance	\$ 14,410	

The allowance represented 1.04% of total loans and leases outstanding at September 30, 2007, down from 1.10% at September 30, 2006. The allowance coverage of nonperforming loans (loans past due 90 days and accruing, nonaccrual loans, and restructured troubled debt) decreased from 3.7 times at September 30, 2006, to 1.7 times at September 30, 2007. The decrease in this ratio is mainly due to the addition of one large commercial relationship totaling \$3.7 million in nonperforming assets at June 30, 2007. Approximately \$3.3 million of this relationship has a 90% guarantee of a U.S. government agency.

The level of nonperforming assets at September 30, 2007, and 2006, is illustrated in the table below. Nonperforming assets of \$8.7 million as of September 30, 2007, were up \$4.6 million from nonperforming assets of \$4.2 million as of September 30, 2006. Nonperforming assets represented 0.38% of total assets at September 30, 2007, compared to 0.19% at September 30, 2006. Approximately \$3.5 million of nonperforming loans at September 30, 2007, were secured by U.S. government guarantees, while \$247,000 were secured by one-to-four family residential properties.

NONPERFORMING ASSETS (In thousands)

	September 30, 2007	Septem
Nonaccrual loans and leases	\$ 7,869	
Loans past due 90 days and accruing	370	
Troubled debt restructuring not included above	150	
Total nonperforming loans	8,389	
Other real estate, net of allowances	345	
Total nonperforming assets	\$ 8,734	
Total nonperforming loans/leases as a percent of total loans/leases	0.61%	
Total nonperforming assets as a percentage of total assets	0.38%	

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Potential problem loans/leases are loans/leases that are currently performing, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in disclosure of such loans/leases as nonperforming at some time in the future. Management considers loans/leases classified as Substandard that continue to accrue interest to be potential problem loans/leases. At September 30, 2007, the Company's internal loan review function had identified 31 commercial relationships totaling \$11.0 million, which it has classified as Substandard, which continue to accrue interest. As of December 31, 2006, the Company's internal loan review function had classified 25 commercial relationships as Substandard totaling \$19.7 million, which continue to accrue interest. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in aggregate, give management reason to believe that the current risk exposure on these loans is not significant. At September 30, 2007, approximately \$454,000 of these loans were backed by guarantees of U.S. government agencies. While in a performing status as of September 30, 2007, these loans exhibit certain risk factors, which have the potential to cause them to become nonperforming in the future. Accordingly, management's attention is focused on these credits, which are reviewed at least quarterly. The decrease in the dollar amount of commercial relationships classified as Substandard and still accruing between December 31, 2006 and September 30, 2007 was mainly due to three commercial relationships totaling \$7.2 million that were classified as Substandard and accruing at December 31, 2006, and Substandard and nonaccruing at September 30, 2007.

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Deposits and Other Liabilities

Total deposits of \$1.7 billion at September 30, 2007 were up \$16.3 million or about 1.0% from December 31, 2006 and up \$22.3 million or 1.3% from September 30, 2006. The increase over September 30, 2006 was mainly in interest-checking, savings and money market balances, which were up \$22.4 million or 3.1%, and non interest bearing checking accounts, which were up \$22.9 million or 6.7%. Between year-end 2006 and September 30, 2007, municipal time deposits of \$100,000 or more decreased by \$62.2 million or 39.6%, while interest-checking, savings and money markets increased by approximately \$69.8 million or 10.3%. The decrease in municipal deposit balances was mainly due to two large time deposits that were deposited in the first quarter for a short time period.

The Company's primary funding source is core deposits, defined as total deposits less time deposits of \$100,000 or more, brokered time deposits, and municipal money market deposits. Core deposits increased 6.0% from year-end 2006 to \$1.4 billion at September 30, 2007 and represented 64.5% of total liabilities.

Non-core funding sources for the Company totaled \$699.8 million at September 30, 2007, down from \$717.4 million at December 31, 2006. Non-core funding at September 30, 2007 included municipal deposits, time deposits of \$100,000 or more, term advances and securities sold under agreements to repurchase ("repurchase agreements") with the Federal Home Loan Bank ("FHLB"), and retail repurchase agreements. The decrease in non-core funding between December 31, 2006, and September 30, 2007 was concentrated in municipal time deposits which were down \$62.2 million to \$94.8 million at September 30, 2007. This decline was offset somewhat by the increase in other borrowings, mainly term advances with the FHLB.

The Company's liability for repurchase agreements amounted to \$196.1 million at September 30, 2007, which is up from \$191.5 million at December 31, 2006. Included in repurchase agreements at September 30, 2007, were \$127.3 million in

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FHLB repurchase agreements and \$68.8 million in retail repurchase agreements. Retail repurchase agreements are arrangements with local customers of the Company, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date. Included in the \$127.3 million of repurchase agreements with the FHLB are \$115.0 million that have call dates between 2007 and 2017 and are callable if certain conditions are met.

At September 30, 2007, other borrowings of \$148.2 million were predominately term advances with the FHLB. The increase in other borrowings from a year-end 2006 balance of \$85.9 million included \$91.0 million of term advances, offset by the paydown of \$28.0 million of overnight borrowings with the FHLB. Included in the \$135.0 million in term advances with the FHLB are \$129.0 million of advances that have call dates between 2007 and 2017 and are callable if certain conditions are met, and \$12.5 million of overnight borrowings.

As mentioned elsewhere in this report, the Company elected to apply the fair value option for approximately \$25.0 million of borrowings incurred during the second quarter of 2007. The borrowings are with the FHLB of New York and include: a \$10.0 million, 10-year fixed convertible advance at 5.183%, convertible at the end of 3-years; a \$10.0 million, 3-year repo convertible advance at 5.046%, convertible at the end of 1-year; and a \$5.0 million, 7-year repo convertible advance at 4.715%, convertible at the end of 3-years. As of September 30, 2007, the aggregate fair value of the \$25.0 million of FHLB advances was approximately \$25.7 million, reflecting a decrease in fair value of about \$667,000.

Liquidity

The objective of liquidity management is to ensure the availability of adequate funding sources to satisfy the demand for credit, deposit withdrawals, and business investment opportunities. The Company's large, stable core deposit base and strong capital position are the foundation for the Company's liquidity position. The Company uses a variety of resources to meet its liquidity needs, which include deposits, cash and cash equivalents, short-term investments, cash flow from lending and investing activities, repurchase agreements, and borrowings. The Company may also use borrowings as part of a growth strategy. Asset and liability positions are monitored primarily through Asset/Liability Management Committees of the Company's subsidiary banks individually and on a combined basis. These Committees review periodic reports on the liquidity and interest rate sensitivity positions. Comparisons with industry and peer groups are also monitored. The Company's strong reputation in the communities it serves, along with its strong financial condition, provide access to numerous sources of liquidity as described below. Management believes these diverse liquidity sources provide sufficient means to meet all demands on the Company's liquidity that are reasonably likely to occur.

Core deposits are a primary and low cost funding source obtained primarily through the Company's branch network. Core deposits totaled \$1.4 billion at September 30, 2007, up \$77.5 million or 6.0% from year-end 2006, and \$65.3 million or 5.0% from September 30, 2006. Core deposits represented 79.4% of total deposits and 64.5% of total liabilities at September 30, 2007, compared to 74.3% of total deposits and 62.9% of total liabilities at December 31, 2006.

In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of \$100,000 or more, brokered time deposits, municipal money market accounts, securities sold under agreements to repurchase and term advances from the FHLB. Rates and terms are the primary determinants of the mix of these funding

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sources. Non-core funding sources, as a percentage of total liabilities, were 32.9% at September 30, 2007, down from 35.5% at December 31, 2006. Time deposits of \$100,000 or more were down \$59.2 million or 8.9% from year-end 2006 to September 30, 2007, while FHLB advances were up \$80.9 million or 60.7%. The decrease in the time deposits of \$100,000 or more was primarily a result of a decrease in municipal deposits, which are somewhat seasonal.

Cash and cash equivalents totaled \$59.1 million as of September 30, 2007, up from \$52.2 million at December 31, 2006. Short-term investments, consisting of securities due in one year or less, increased from \$49.1 million at December 31, 2006, to \$76.0 million on September 30, 2007. The Company also has \$66.3 million of securities designated as trading securities. The Company pledges securities as collateral for certain non-core funding sources. Securities carried at \$584.0 million at December 31, 2006, and \$541.8 million at September 30, 2007, were pledged as collateral for public deposits or other borrowings, and pledged or sold under agreements to repurchase. Pledged securities represented 72.1% of total securities as of September 30, 2007, compared to 79.5% as of December 31, 2006.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were \$343.3 million at September 30, 2007 compared with \$352.4 million at December 31, 2006. Outstanding principle balances of residential mortgage loans, consumer loans, and leases totaled approximately \$588.9 million at June 30, 2007 as compared to \$563.4 million at December 31, 2006. Aggregate amortization from monthly payments on these assets provides significant additional cash flow to the Company.

Liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At September 30, 2007, the unused borrowing capacity on established lines with the FHLB was \$410.9 million. As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets to secure additional borrowings from the FHLB. At September 30, 2007, total unencumbered residential mortgage loans of the Company were \$199.2 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

The Company has not identified any trends or circumstances that are reasonably likely to result in material increases or decreases in liquidity in the near term.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk is the primary market risk category associated with the Company's operations. Interest rate risk refers to the volatility of earnings caused by changes in interest rates. 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. The simulation models are used to estimate the potential effect of interest rate shifts on net interest income for future periods. Each quarter the 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 considers strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. The Company does not use derivatives, such as interest rate swaps, to manage its interest rate risk exposure.

The Company's Board of Directors has set a policy that interest rate risk

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exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 200 basis point parallel change in rates. Based upon the simulation analysis performed as of September 30, 2007, a 200 basis point parallel upward shift in interest rates over a one-year time frame would result in a one-year decline from the base case in net interest income of approximately 1.4%, while a 200 basis point parallel decline in interest rates over a one-year period would result in a decrease from the base case in net interest income of 3.5%. This simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The negative exposure in a rising rate environment is mainly driven by the repricing assumptions of the Company's core deposit base and the lag in the repricing of the Company's adjustable rate assets. Longer-term, the impact of a rising rate environment is positive as the asset base continues to reset at higher levels, while the repricing of the rate sensitive liabilities moderates. The negative exposure in the 200 basis point decline scenario results from the Company's assets repricing downward more rapidly than the rates on the Company's interest-bearing liabilities, mainly deposits. In a downward rate environment, the model assumes prepayment speeds accelerate, resulting in loans repricing more rapidly than liabilities. A

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base case simulation, assuming no change in rates and no balance sheet growth projects improved net interest income of approximately 6.4% over the next twelve months.

Although the simulation model is useful in identifying potential exposure to interest rate movements, actual results may differ from those modeled as the repricing, maturity, and prepayment characteristics of financial instruments may change to a different degree than modeled. In addition, the model does not reflect actions that management may employ to manage its interest rate risk exposure. The Company's current liquidity profile, capital position, and growth prospects offer management a level of flexibility to take actions that could offset some of the negative effects of unfavorable movements in interest rates. Management believes the current exposure to changes in interest rates is not significant in relation to the earnings and capital strength of the Company.

The table below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of September 30, 2007. The analysis reflects sensitivity to rising interest rates in all repricing intervals shown.

Condensed Static Gap - September 30, 2007

(Dollar amounts in thousands)	Total	Repricing Intervals	
		0-3 months	3-6 months
Interest-earning assets	\$ 2,141,870	\$ 505,378	\$ 177,946
Interest-bearing liabilities	1,704,923	703,665	160,332
Net gap position		(198,287)	17,614
Net gap position as a percentage of total assets		(8.56%)	0.76%

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2007. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Report on Form 10-Q the Company's disclosure controls and procedures were effective in providing reasonable assurance that any information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that material information relating to the Company and its subsidiaries is made known to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's first quarter ended September 30, 2007, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There has not been any material change in the risk factors disclosure from that contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table includes all Company repurchases made on a monthly basis during the period covered by this Quarterly Report on Form 10-Q, including those made pursuant to publicly announced plans or programs.

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)
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July 1, 2007 through July 31, 2007	40,050	\$	37.23	38,451
August 1, 2007 through August 31, 2007	6,905		32.22	6,617
September 1, 2007 through September 30, 2007	51,752		38.59	51,752

Total	98,707	\$	37.59	96,820

On July 19, 2006, the Company announced that the Company's Board of Directors approved, on July 18, 2006, a stock repurchase plan (the "2006 Plan") to replace the expired 2004 Plan. The 2006 Plan authorizes the repurchase of up to 450,000 shares of the Company's outstanding common stock over a two-year period.

Included above are 1,599 shares purchased in July 2007 at an average cost of \$38.45 and 288 shares purchased in August 2007 at an average cost of \$39.73 by the trustee of the rabbi trust established by the Company under the Company's Stock Retainer Plan For Eligible Directors of Tompkins Financial Corporation, and Participating Subsidiaries and were part of the director deferred compensation under that plan. Shares purchased under the rabbi trust are not part of the Board approved stock repurchase plan.

Recent Sales of Unregistered Securities

The Company issued 29,944 of Tompkins common stock during the second quarter of 2007 related to the first quarter 2006 acquisition of AM&M, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities

None

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Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of Principal Executive Officer and required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).

31.2 Certification of Principal Financial Officer and required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).

32.1 Certification of Principal Executive Officer and required by

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Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350 (filed herewith)

32.2 Certification of Principal Financial Officer and required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350 (filed herewith)

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 5, 2007

TOMPKINS FINANCIAL CORPORATION

By: /S/ Stephen S. Romaine

Stephen S. Romaine
President and
Chief Executive Officer
(Principal Executive Officer)

By: /S/ Francis M. Fetsko

Francis M. Fetsko
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description	Pa
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