TOMPKINS FINANCIAL CORP
Form 10-Q
August 09, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to ______

Commission File Number 1-12709

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

New York	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
Former name, former address, former fiscal year, if changed since last report: NA

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

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

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

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

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

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

Class	Outstanding as of July 28, 2011
Common Stock, $0.10 par value	10,831,415 shares

TOMPKINS FINANCIAL CORPORATION

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except share and per share data) (Unaudited) ASSETS	As of 06/30/2011	As of 12/31/2010
Cash and noninterest bearing balances due from banks	$49,576	$47,339
Interest bearing balances due from banks	1,803	2,226
Money market funds	100	100
Cash and Cash Equivalents	51,479	49,665
Trading securities, at fair value	21,102	22,837
Available-for-sale securities, at fair value	1,087,700	1,039,608
Held-to-maturity securities, fair value of $30,439 at June 30, 2011, and $56,064 at December 31, 2010	29,761	54,973
Loans and leases, net of unearned income and deferred costs and fees	1,920,716	1,910,358
Less: Allowance for loan and lease losses	28,361	27,832
Net Loans and Leases	1,892,355	1,882,526
Federal Home Loan Bank stock and Federal Reserve Bank stock	18,800	21,985
Bank premises and equipment, net	44,749	46,103
Corporate owned life insurance	42,299	40,024
Goodwill	44,032	41,649
Other intangible assets, net	4,470	4,207
Accrued interest and other assets	50,851	56,766
Total Assets	$3,287,598	$3,260,343
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	1,320,669	1,230,815
Time	715,062	741,829
Noninterest bearing	536,277	523,229
Total Deposits	2,572,008	2,495,873
Federal funds purchased and securities sold under agreements to repurchase	178,545	183,609
Other borrowings, including certain amounts at fair value of $11,656 at June 30, 2011 and $11,629 at December 31, 2010	172,643	244,193
Trust preferred debentures	25,062	25,060
Other liabilities	39,280	38,200
Total Liabilities	$2,987,538	$2,986,935
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 11,087,804 at June 30, 2011; and 10,934,385 at December 31, 2010	1,109	1,093
Additional paid-in capital	204,284	198,114
Retained earnings	87,188	76,446
Accumulated other comprehensive income (loss)	8,375	(1,260)

Treasury stock, at cost – 90,588 shares at June 30, 2011, and 92,025 shares at December 31, 2010	(2,413)	(2,437)
Total Tompkins Financial Corporation Shareholders’ Equity	298,543	271,956
Noncontrolling interests	1,517	1,452
Total Equity	$300,060	$273,408
Total Liabilities and Equity	$3,287,598	$3,260,343

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
(In thousands, except per share data) (Unaudited)	06/30/2011	06/30/2010	06/30/2011	06/30/2010
INTEREST AND DIVIDEND INCOME				
Loans	$25,883	$26,750	$51,584	$53,369
Due from banks	4	10	9	22
Federal funds sold	1	6	5	9
Trading securities	220	278	455	588
Available-for-sale securities	7,896	8,794	15,583	17,793
Held-to-maturity securities	331	394	696	802
Federal Home Loan Bank stock and Federal Reserve Bank stock	219	218	509	501
Total Interest and Dividend Income	34,554	36,450	68,841	73,084
INTEREST EXPENSE				
Time certificates of deposits of $100,000 or more	868	1,146	1,717	2,324
Other deposits	2,565	3,502	5,190	7,329
Federal funds purchased and securities sold under agreements to repurchase	1,248	1,308	2,540	2,733
Trust preferred debentures	388	436	792	803
Other borrowings	1,533	1,952	3,108	3,845
Total Interest Expense	6,602	8,344	13,347	17,034
Net Interest Income	27,952	28,106	55,494	56,050
Less: Provision for loan and lease losses	1,005	1,408	2,915	3,591
Net Interest Income After Provision for Loan and Lease Losses	26,947	26,698	52,579	52,459
NONINTEREST INCOME				
Investment services income	3,825	3,604	7,665	7,341
Insurance commissions and fees	3,459	3,191	6,833	6,357
Service charges on deposit accounts	2,107	2,430	4,091	4,487
Card services income	1,269	1,067	2,514	2,041
Mark-to-market gain on trading securities	165	291	115	381
Mark-to-market loss on liabilities held at fair value	(202)	(490)	(27)	(618)
Other income	1,390	1,180	3,219	2,486
Net gain on securities transactions	0	58	95	176
Total Noninterest Income	12,013	11,331	24,505	22,651
NONINTEREST EXPENSES				
Salaries and wages	11,211	10,669	22,036	21,008
Pension and other employee benefits	3,657	3,442	7,688	7,354
Net occupancy expense of premises	1,706	1,725	3,601	3,606
Furniture and fixture expense	1,199	1,143	2,237	2,326
FDIC insurance	531	857	1,582	1,769
Amortization of intangible assets	146	199	316	401
Other operating expense	6,713	6,481	12,920	12,547
Total Noninterest Expenses	25,163	24,516	50,380	49,011
Income Before Income Tax Expense	13,797	13,513	26,704	26,099
Income Tax Expense	4,364	4,447	8,466	8,585
	9,433	9,066	18,238	17,514

Net Income attributable to Noncontrolling Interests and Tompkins Financial Corporation				
Less: Net income attributable to noncontrolling interests	33	33	65	65
Net Income Attributable to Tompkins Financial Corporation	$9,400	$9,033	$18,173	$17,449
Basic Earnings Per Share	$0.86	$0.84	$1.66	$1.62
Diluted Earnings Per Share	$0.85	$0.83	$1.65	$1.61

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

	06/30/2011	06/30/2010
OPERATING ACTIVITIES		
Net income attributable to Tompkins Financial Corporation	$18,173	$17,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,915	3,591
Depreciation and amortization of premises, equipment, and software	2,375	2,353
Amortization of intangible assets	316	401
Earnings from corporate owned life insurance	(761)	(711)
Net amortization on securities	4,045	1,669
Mark-to-market gain on trading securities	(115)	(381)
Mark-to-market loss on liabilities held at fair value	27	618
Net gain on available-for-sale securities	(95)	(176)
Net gain on sale of loans	(300)	(339)
Proceeds from sale of loans	15,932	18,598
Loans originated for sale	(14,396)	(17,859)
Net gain on sale of bank premises and equipment	(6)	(37)
Stock-based compensation expense	631	569
(Increase) decrease in accrued interest receivable	(605)	1,084
Decrease in accrued interest payable	(367)	(440)
Proceeds from maturities and payments of trading securities	1,818	5,097
Contribution to pension plan	(2,750)	0
Other, net	4,623	8,741
Net Cash Provided by Operating Activities	31,460	40,227
INVESTING ACTIVITIES		
Proceeds from maturities, calls and principal paydowns of available-for-sale securities	189,113	192,315
Proceeds from sales of available-for-sale securities	34,019	13,755
Proceeds from maturities, calls and principal paydowns of held-to-maturity securities	28,668	13,608
Purchases of available-for-sale securities	(260,039)	(219,690)
Purchases of held-to-maturity securities	(3,445)	(10,037)
Net (increase) decrease in loans	(13,980)	12,703
Net decrease in Federal Home Loan Bank stock and Federal Reserve Bank stock	3,185	711
Proceeds from sale of bank premises and equipment	46	43
Purchases of bank premises and equipment	(1,405)	(2,233)
Net cash used in acquisitions	(243)	0
Other, net	(672)	(1,739)
Net Cash Used in Investing Activities	(24,753)	(564)
FINANCING ACTIVITIES		
Net increase in demand, money market, and savings deposits	102,902	27,174
Net decrease in time deposits	(26,767)	(6,815)
Net decrease in Federal funds purchases and securities sold under agreements to repurchase	(5,064)	(17,576)
Increase in other borrowings	45,880	0
Repayment of other borrowings	(117,457)	(19,894)
Cash dividends	(7,431)	(6,989)
Cash paid in lieu of fractional shares - 10% stock dividend	0	(7)
Shares issued for dividend reinvestment plan	1,258	1,294

Shares issued for employee stock ownership plan	1,053	1,278
Net proceeds from exercise of stock options	740	853
Tax benefit from stock option exercises	(7)	111
Net Cash Provided by Financing Activities	(4,893)	(20,571)
Net Increase in Cash and Cash Equivalents	1,814	19,092
Cash and cash equivalents at beginning of period	49,665	45,462
Total Cash & Cash Equivalents at End of Period	51,479	64,554
Supplemental Information:		
Cash paid during the year for - Interest	$13,714	$17,474
Cash paid during the year for - Taxes	3,744	8,405
Transfer of loans to other real estate owned	0	1,639
Non-cash investing and financing activities:		
Fair value of non-cash assets other than goodwill acquired in purchase acquisitions	64	0
Fair value of liabilities assumed in purchase acquisition	31	0
Goodwill related to acquisition	2,382	0
Fair value of shares issued for acquisition	2,535	0

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interests	Total
Balances at January 1, 2010	$978	$155,589	$92,402	$(3,087)	$(2,326)	$1,452	$245,008
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			17,449			65	17,514
Other comprehensive income				9,052			9,052
Total Comprehensive Income							26,566
Cash dividends ($0.65 per share)			(6,989)				(6,989)
Exercise of stock options and related tax benefit (34,733 shares, net)	5	959					964
Effect of 10% stock dividend (988,664 shares)1	98	35,301	(35,399)				0
Cash paid in lieu of fractional shares			(7)				(7)
Stock-based compensation expense		569					569
Shares issued for dividend reinvestment plan (31,027 shares)	3	1,291					1,294
Shares issued for employee stock ownership plan (34,436 shares)	3	1,275					1,278
Directors deferred compensation plan ((823) shares)		41			(41)		0
Forfeiture of restricted shares ((330) shares)							
Balances at June 30, 2010	$1,087	$195,025	$67,456	$5,965	$(2,367)	$1,517	$268,683
Balances at January 1, 2011	$1,093	$198,114	$76,446	$(1,260)	$(2,437)	$1,452	$273,408
Net income attributable to noncontrolling interests and Tompkins Financial Corporation			18,173			65	18,238
Other comprehensive income				9,635			9,635
Total Comprehensive Income							27,873
Cash dividends ($0.68 per share)			(7,431)				(7,431)
Exercise of stock options and related tax benefit (22,459 shares, net)	2	731					733
Stock-based compensation expense		631					631
Shares issued for dividend reinvestment plan (31,293 shares)	3	1,255					1,258
Shares issued for employee stock ownership plan (25,139 shares)	3	1,050					1,053
Directors deferred compensation plan ((1,437) shares)		(24)			24		0
Stock issued for purchase acquisition (75,188 shares)	8	2,527					2,535
Forfeiture of restricted shares ((660) shares)							
Balances at June 30, 2011	$1,109	$204,284	$87,188	$8,375	$(2,413)	$1,517	$300,060

1 Included in the shares issued for the 10% stock dividend in 2010 were treasury shares of 3,264, and director deferred compensation plan shares of 4,260.

Cash dividends per share have been retroactively adjusted to reflect 10% stock dividend paid on February 15, 2010.

See notes to consolidated financial statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

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

2. Basis of Presentation

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

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2011. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes to the Company's accounting policies from those presented in the 2010 Annual Report on Form 10-K. Refer to Note 3- "Accounting Standards Updates" of this Report for a discussion of recently issued accounting guidelines.

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

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

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

3. Accounting Standards Updates

ASU No. 2010-20, "Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company's financial statements beginning on January 1, 2011, and are disclosed in Note 5 "Loans and Leases".

ASU No. 2010-28, "Intangibles—Goodwill and Other (Topic 350)—When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 became effective for the Company on January 1, 2011 and did not have a significant impact on the Company's financial statements.

ASU No. 2011-02, "Receivables (Topic 310): A Creditor's Determination of whether a Restructuring Is a Troubled Debt Restructuring". ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 will be effective for the Company on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. The Company is currently evaluating the impact of adopting ASU 2011-02 on the Company's financial statements.

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

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

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

ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

4. Securities

Available-for-Sale Securities
The following table summarizes available-for-sale securities held by the Company at June 30, 2011:

	Available-for-Sale Securities			
June 30, 2011 (in thousands)	Amortized Cost1	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$2,032	$74	$0	$2,106
Obligations of U.S. Government sponsored entities	351,158	11,454	41	362,571
Obligations of U.S. states and political subdivisions	53,874	2,379	0	56,253
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	137,705	5,651	0	143,356
U.S. Government sponsored entities	491,433	18,315	0	509,748
Non-U.S. Government agencies or sponsored entities	7,873	8	451	7,430
U.S. corporate debt securities	5,021	193	0	5,214
Total debt securities	1,049,096	38,074	492	1,086,678
Equity securities	1,022	0	0	1,022
Total available-for-sale securities	$1,050,118	$38,074	$492	$1,087,700

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

The following table summarizes available-for-sale securities held by the Company at December 31, 2010:

	Available-for-Sale Securities			
December 31, 2010 (in thousands)	Amortized Cost1	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$2,043	$86	$0	$2,129
Obligations of U.S. Government sponsored entities	402,057	7,372	1,989	407,440
Obligations of U.S. states and political subdivisions	60,707	2,339	9	63,037
Mortgage-backed securities – residential, issued by				
U.S. Government agencies	143,319	3,233	539	146,013
U.S. Government sponsored entities	393,331	13,568	1,421	405,478
Non-U.S. Government agencies or sponsored entities	9,636	3	356	9,283
U.S. corporate debt securities	5,024	179	0	5,203
Total debt securities	1,016,117	26,780	4,314	1,038,583
Equity securities	1,025	0	0	1,025
Total available-for-sale securities	$1,017,142	$26,780	$4,314	$1,039,608

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

Held-to-Maturity Securities
The following table summarizes held-to-maturity securities held by the Company at June 30, 2011:

June 30, 2011	Held-to-Maturity Securities			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. states and political subdivisions	$29,761	$678	$0	$30,439

Total held-to-maturity debt securities	$29,761	$678	$0	$30,439

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The following table summarizes held-to-maturity securities held by the Company at December 31, 2010:

December 31, 2010	Held-to-Maturity Securities			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. states and political subdivisions	$54,973	$1,155	$64	$56,064
Total held-to-maturity debt securities	$54,973	$1,155	$64	$56,064

Realized gains on available-for-sale securities were $0 and $209,000 in the second quarter and six months ending June 30, 2011, respectively, and $58,000 and $176,000 in the same periods of 2010; realized losses on available-for-sale securities were $0 and $114,000 in the second quarter and six months ending June 30, 2011, respectively, and $0 in the same time periods of 2010.

The following table summarizes available-for-sale securities that had unrealized losses at June 30, 2011:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$16,299	$41	$0	$0	$16,299	$41
Mortgage-backed securities – residential, issued by						
Non-U.S. Government agencies or sponsored entities	2,291	195	4,486	256	6,777	451
Total available-for-sale securities	$18,590	$236	$4,486	$256	$23,076	$492

As of June 30, 2011, there were no held-to-maturity securities with unrealized losses.

The following table summarizes available-for-sale securities that had unrealized losses at December 31, 2010:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government sponsored entities	$93,167	$1,989	$0	$0	$93,167	$1,989
Obligations of U.S. states and political subdivisions	1,771	9	0	0	1,771	9
Mortgage-backed securities – residential, issued by						
U.S. Government agencies	44,288	539	0	0	44,288	539
U.S. Government sponsored entities	119,102	1,421	0	0	119,102	1,421
	0	0	8,343	356	8,343	356

Non-U.S. Government agencies or sponsored entities						
Total available-for-sale securities	$258,328	$3,958	$8,343	$356	$266,671	$4,314

The following table summarizes held-to-maturity securities that had unrealized losses at December 31, 2010:

	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. states and political subdivisons	$14,947	$63	$14	$1	$14,961	$64
Total held-to-maturity securities	$14,947	$63	$14	$1	$14,961	$64

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

The Company does not intend to sell the securities that are in an unrealized loss position and it is not more-likely-than not that the Company will be required to sell these available for sale investment securities, before recovery of their amortized cost basis, which may be at maturity. Accordingly, as of June 30, 2011, and December 31, 2010, management believes the unrealized losses detailed in the tables above are not other-than-temporary.

Ongoing Assessment of Other-Than-Temporary Impairment

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

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

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, and protective triggers;
- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

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

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

As of June 30, 2011, the Company held five mortgage backed securities, with a fair value of $7.4 million, that were not issued by U.S. Government agencies or U.S. Government sponsored entities. In 2009, the Company determined that three of these non-U.S. Government mortgage backed securities were other-than-temporarily impaired based on an analysis of the above factors for these three securities. As a result, the Company recorded other-than-temporary impairment charges of $2.0 million in 2009 on these investments. The credit loss component of $146,000 was recorded as other-than-temporary impairment losses in the consolidated statement of income, while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income in the consolidated statements of condition and changes in shareholders' equity. In 2010 the Company recorded an additional credit loss component of other-than-temporary charge of $34,000. The Company's review of these securities as of June 30, 2011 determined that no additional impairment charges were necessary. As of June 30, 2011, the carrying value of these securities exceeded their fair value by $443,000. A continuation or worsening of current economic conditions may result in additional credit loss component of other-than-temporary impairment losses related to these investments.

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

	Three Months Ended	
(in thousands)	06/30/2011	06/30/2010
Credit losses at beginning of the period	$180	$146
Credit losses related to securities for which an other-than-temporary impairment was not previously recognized	0	0
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized in other comprehensive income	$180	$146

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

June 30, 2011		
(in thousands)	Amortized Cost1	Fair Value
Available-for-sale securities:		
Due in one year or less	$7,729	$7,841
Due after one year through five years	274,247	283,797
Due after five years through ten years	120,948	125,100
Due after ten years	9,160	9,406
Total	412,084	426,144
Mortgage-backed securities	637,011	660,534
Total available-for-sale debt securities	$1,049,095	$1,086,678

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

December 31, 2010		
(in thousands)	Amortized Cost1	Fair Value
Available-for-sale securities:		
Due in one year or less	$7,770	$7,867
Due after one year through five years	309,193	312,952
Due after five years through ten years	143,682	147,546
Due after ten years	9,186	9,444
Total	469,831	477,809
Mortgage-backed securities	546,286	560,774
Total available-for-sale debt securities	$1,016,117	$1,038,583

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

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June 30, 2011

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$13,592	$13,650
Due after one year through five years	11,507	11,989
Due after five years through ten years	3,630	3,768
Due after ten years	1,032	1,032
Total held-to-maturity debt securities	$29,761	$30,439

December 31, 2010

(in thousands)	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$34,645	$34,692
Due after one year through five years	15,378	16,157
Due after five years through ten years	3,765	4,024
Due after ten years	1,185	1,191
Total held-to-maturity debt securities	$54,973	$56,064

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock and non-marketable Federal Reserve Bank ("FRB") stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLBNY stock is tied to the Company's borrowing levels with the FHLBNY. Holdings of FHBLNY stock and FRB stock totaled $16.7 million and $2.1 million at June 30, 2011, respectively, and $19.9 million and $2.1 million at December 31, 2010, respectively. The FHLBNY continues to pay dividends and repurchase its stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY stock.

Trading Securities

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

(in thousands)	06/30/2011	12/31/2010
Obligations of U.S. Government sponsored entities	$12,967	$13,139
Mortgage-backed securities – residential, issued by U.S. Government sponsored entities	8,135	9,698
Total	$21,102	$22,837

The net gain on trading account securities, which reflects mark-to-market adjustments, totaled $165,000 and $115,000 for the three and six months ended June 30, 2011, respectively, and $291,000 and $381,000 for the three and six months ended June 30, 2010, respectively.

5. Loans and Leases

Loans and Leases at June 30, 2011, and December 31, 2010 were as follows:

(in thousands)	06/30/2011	12/31/2010
Commercial and industrial		
Agriculture	$54,700	$65,918
Commercial and industrial other	393,669	409,432
Subtotal commercial and industrial	448,369	475,350
Commercial real estate		
Construction	45,617	58,519
Agriculture	49,159	48,485
Commercial real estate other	666,523	619,458
Subtotal commercial real estate	761,299	726,462
Residential real estate		
Home equity	160,437	164,765
Mortgages	476,747	462,032
Subtotal residential real estate	637,184	626,797
Consumer and other		
Indirect	36,334	41,668
Consumer and other	31,375	31,757
Subtotal consumer and other	67,709	73,425
Leases	7,850	9,949
Total loans and leases	1,922,411	1,911,983
Less: unearned income and deferred costs and fees	(1,695)	(1,625)
Total loans and leases, net of unearned income and deferred costs and fees	$1,920,716	$1,910,358