TOMPKINS FINANCIAL CORP
Form 10-K
March 17, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2013**

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

For the transition period from ____________ to ____________

Commission File Number 1-12709

Tompkins Financial Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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 (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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

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

Large Accelerated Filer Accelerated Filer Nonaccelerated Filer Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates was $568,312,000 on June 28, 2013, based on the closing sales price of a share of the registrant's common stock, $.10 par value (the "Common Stock"), as reported on the NYSE MKT LLC, on such date.

The number of shares of the registrant's Common Stock outstanding as of March 6, 2014, was 14,811,411 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2014 Annual Meeting of stockholders, to be held on May 12, 2014, are incorporated by reference into Part III of this Form 10-K where indicated.

TOMPKINS FINANCIAL CORPORATION

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2013

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PART I

Item 1. Business

The disclosures set forth in this Item1. Business are qualified by the section captioned "Forward-Looking Statements" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report and other cautionary statements set forth elsewhere in this Report.

General

Tompkins Financial Corporation ("Tompkins" or the "Company") is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. At December 31, 2013, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac Bank ("formerly known as Mahopac National Bank"), and VIST Bank; a wholly owned registered investment advisor, TFA Management, Inc. ("TFA Management", formerly known as AM&M Financial Services, Inc.); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). TFA Management and the trust division of the Trust Company provide a full array of investment services under the trade name of Tompkins Financial Advisors, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. The Company's principal offices are located at The Commons, Ithaca, New York, 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

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

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

or have potential for improved profitability through financial management, economies of scale and expanded services. The Company has pursued acquisition opportunities in the past, and continues to review new opportunities.

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

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

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

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

In June 2011, Tompkins Insurance acquired all of the outstanding shares of Olver & Associates, Inc., ("Olver"), a property and casualty insurance agency located in Ithaca, New York. The two principal officers and staff continued with Tompkins Insurance Agencies after the acquisition. The acquisition-date fair value of the consideration paid was $3.2 million and included $250,000 of cash and 75,188 shares of Tompkins' common stock. As a result of pursuing an available tax election under Internal Revenue Code section 338(h)(10), it was determined that the acquisition qualified for beneficial tax treatment that would enable the tax deductible amortization of the purchase premium, including goodwill. To compensate the Olver shareholders for their consent to make this election, additional consideration of $755,000 and $238,000 were recorded as additional goodwill during the first and second quarters of 2012, respectively.

Additional information on acquisitions is provided in "Note 2 Mergers and Acquisitions" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report.

Although Tompkins is a corporate entity, legally separate and distinct from its affiliates, bank holding companies such as Tompkins are generally required to act as a source of financial strength for their banking subsidiaries. Tompkins' principal source of income is dividends from its subsidiaries. There are certain regulatory restrictions on the extent to which these subsidiaries can pay dividends or otherwise supply funds to Tompkins. See the section "Supervision and Regulation" for further details.

Narrative Description of Business

Information about the Company's business segments are included in "Note 23 Segment and Related Information" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company has identified three business segments, consisting of banking, insurance and wealth management. The number of reportable segments was increased from two to three segments in the third quarter of 2012. At that time, the Company determined that a change in its reportable business segments was warranted due to the VIST acquisition, on August 1, 2012. The acquisition included VIST Insurance which nearly doubled annual insurance revenues of Tompkins Insurance when compared to pre-acquisition results. Consequently, insurance revenues exceeded the quantitative thresholds set forth in ASC 280-10-50-12 for identifying reportable segments. As such, management determined that it was appropriate to report Insurance and Wealth Management as separate business segments. Previously, these two reportable business segments were reported as a single Financial Services segment. The prior year information contained within this report has been restated to reflect the change from two to three reportable business segments. The sum of the Insurance and Wealth

Management segments is equal to the historic Financial Services segment. Wealth management consists of the results of the Company's trust, financial planning, wealth management services, and broker-dealer services offered through Tompkins Financial Advisors. The insurance segment reflects the results of Tompkins Insurance. All other activities are considered banking.

Banking services consist primarily of attracting deposits from the areas served by the Company's four banking subsidiaries' 66 banking offices, (46 offices in New York and 20 offices in Pennsylvania) and using those deposits to originate a variety of commercial loans, agricultural loans, consumer loans, real estate loans, and leases in those same areas. The Company's lending function is managed within the guidelines of a comprehensive Board-approved lending policy. Policies and procedures are reviewed on a regular basis. Reporting systems are in place to provide management with ongoing information related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. The Company has an independent third party loan review process that reviews and validates the risk identification and assessment made by the lenders and credit personnel. The results of these reviews are presented to the Board of Directors of each of the Company's banking subsidiaries, and the Company's Audit Committee.

The Company maintains a portfolio of securities such as obligations of U.S. government agencies and U.S. government sponsored entities, obligations of states and political subdivisions thereof, and equity securities. Management typically invests in securities with short to intermediate average lives in order to better match the interest rate sensitivities of its assets and liabilities. Investment decisions are made within policy guidelines established by the Company's Board of Directors. The investment policy is based on the asset/liability management goals of the Company, and is monitored by the Company's Asset/Liability Management Committee. The intent of the policy is to establish a portfolio of high quality diversified securities, which optimizes net interest income within safety and liquidity limits deemed acceptable by the Asset/Liability Management Committee.

Insurance services include property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. Tompkins Insurance is headquartered in Batavia, New York. Over the past twelve years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company's banking subsidiaries and successfully consolidated them into Tompkins Insurance. The VIST Financial acquisition, which included VIST Insurance, nearly doubled the Company's annual insurance revenues. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York, two stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

Wealth management services consists of investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. Wealth management services is under the trade name Tompkins Financial Advisors. Tompkins Financial Advisors has office locations at all four of the Company's subsidiary banks.

The Company's principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan and lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities.

Tompkins provides a variety of financial services to individuals and small business customers. Some of the traditional services are detailed below.

Commercial Services

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

Retail Services

The Company's subsidiary banks provide a variety of retail banking services including checking accounts, savings accounts, time deposits, IRA products, brokerage services, residential mortgage loans, personal loans, home equity loans, credit cards, debit cards and safe deposit services. Retail services are accessible through a variety of delivery systems including branch facilities, ATMs, voice response, Mobile banking, Internet banking, and remote deposit services.

Trust and Investment Management Services

The Company offers a comprehensive suite of financial services to customers, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services. These services are offered by TFA Management, Inc. and the trust division of Tompkins Trust Company, using the joint trade name of Tompkins Financial Advisors. Tompkins Financial Advisors has office locations at all four of the Company's subsidiary banks. The August 1, 2012 VIST acquisition included VIST Capital Management, which became part of Tompkins Financial Advisors.

Insurance Services

The Company provides property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance through Tompkins Insurance.

Subsidiaries

The Company operates four banking subsidiaries, an insurance agency subsidiary, and a financial planning, wealth management, and broker-dealer subsidiary in New York. In addition, the Company also owns 100% of the common stock of Tompkins Capital Trust I, Sleepy Hollow Capital Trust I, Leesport Capital Trust II, and Madison Statutory Trust I. The Company's banking subsidiaries operate 66 offices, including 3 limited-service offices, with 46 banking offices located in New York and 20 banking offices located in southeastern Pennsylvania. The decision to operate as four locally managed community banks reflects management's commitment to community banking as a business strategy. For Tompkins, personal delivery of high quality services, a commitment to the communities in which we operate, and the convergence of a single-source financial service provider characterize management's community banking approach. The combined resources of the Tompkins organization provides increased capacity for growth and the greater capital resources necessary to make investments in technology and services. Tompkins has a comprehensive suite of products and services that are now available in the markets served by all four banking subsidiaries. These services include trust and investment services, insurance, leasing, card services, Internet banking, and remote deposit services.

Tompkins Trust Company (the "Trust Company")

The Trust Company is a New York State-chartered commercial bank that has operated in Ithaca, New York and surrounding communities since 1836. The Trust Company operates 15 banking offices, including 2 limited-service banking offices in the counties of Tompkins, Cortland, Cayuga and Schuyler, New York. The Trust Company's largest market area is Tompkins County, which has a population of approximately 103,000. Education plays a significant role in the Tompkins County economy with Cornell University and Ithaca College being two of the county's major employers. The Trust Company has a full-service office in Cortland, New York and a full-service office in Auburn, New York. Both of these offices are located in counties contiguous to Tompkins County. As of December 31, 2013, Trust Company had total assets of $1.6 billion, total loans of $909.2 million and total deposits of $1.3 billion.

The Bank of Castile

The Bank of Castile is a New York State-chartered commercial bank and conducts its operations through its 16 banking offices, in towns situated in and around the areas commonly known as the Letchworth State Park area and the Genesee Valley region of New York State. The main business office for The Bank of Castile is located in Batavia, New York and is shared with Tompkins Insurance. The Bank of Castile serves a five-county market, much of which is rural in nature, but also includes Monroe County (population approximately 748,000), where the city of Rochester is located. The population of the counties served by The Bank of Castile, other than Monroe, is approximately 210,000. The Bank of Castile's lending portfolio includes loans to the agricultural industry. As of December 31, 2013, The Bank of Castile had total assets of $1.1 billion, total loans of $759.3 million and total deposits of $916.4 million.

Mahopac Bank (formerly known as Mahopac National Bank)

On December 31, 2013, Mahopac Bank converted its charter from a national charter to a New York State charter. Mahopac Bank is a commercial bank that operates 15 banking offices, including 1 limited-service office in counties north of New York City. The 15 banking offices include 5 full-service offices in Putnam County, New York, 3 full-service offices in Dutchess County, New York, and 6 full-service offices, and 1 limited-service office in Westchester County, New York.

Putnam County has a population of approximately 100,000 and is about 60 miles north of Manhattan. Dutchess County has a population of approximately 297,000, and Westchester County has a population of approximately 962,000. As of December 31, 2013, Mahopac Bank had total assets of $990.2 million, total loans of $645.4 million and total deposits of $776.2 million.

VIST Bank

VIST Bank is a full service Pennsylvania State-charted commercial bank that was acquired as part of the VIST acquisition in August 2012. VIST Bank operates 20 banking offices in Pennsylvania, including 12 offices in Berks County, 5 offices in Montgomery County, 1 office in Philadelphia County, 1 office in Delaware County and 1 office

in Schuylkill County. The population of the counties served by VIST Bank is Philadelphia 1.5 million, Montgomery 808,000, Delaware 561,000, Berks 413,000 and Schuykill 147,000. The main office is located in Wyomissing, Pennsylvania. As of December 31, 2013, VIST Bank had total assets of $1.3 billion, total loans of $880.4 million and total deposits of $991.5 billion.

Tompkins Insurance Agencies, Inc. ("Tompkins Insurance")

Tompkins Insurance is headquartered in Batavia, New York. Insurance services include property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. Over the past twelve years, Tompkins Insurance has acquired smaller insurance agencies in the market areas serviced by the Company's banking subsidiaries and successfully consolidated them into Tompkins Insurance. In June 2011, Tompkins Insurance acquired all the outstanding shares of Olver & Associates, Inc., ("Olver"), a property and casualty insurance agency located in Ithaca, New York. The August 1, 2012 VIST Financial acquisition, which included VIST Insurance (now merged with and into Tompkins Insurance), nearly doubled the Company's annual insurance revenues. Tompkins Insurance offers services to customers of the Company's banking subsidiaries by sharing offices with The Bank of Castile, Trust Company, and VIST Bank. In addition to these shared offices, Tompkins Insurance has five stand-alone offices in Western New York and two stand-alone offices in Tompkins County, New York and one stand-alone office in Montgomery County, Pennsylvania.

TFA Management, Inc. ("TFA Management" formerly known as AM&M Financial Services, Inc. ("AM&M"))

TFA Management is headquartered in Pittsford, New York and offers financial services through three operating companies: (1) TFA Wealth Management, Inc. (formerly known as 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) Tompkins Risk Solutions, Inc. (formerly known as Ensemble Risk Solutions, Inc.), which creates customized risk management plans using life, disability and long-term care insurance products.

Tompkins Capital Trust I

Tompkins Capital Trust I is a Delaware statutory business trust formed in 2009. In 2009, Tompkins Capital Trust I issued $20.5 million of trust preferred securities and lent the proceeds to the Company to support business growth and for general corporate purposes. The Company guarantees, on a subordinated basis, payments of distributions on the trust preferred securities and payments on the redemption of the trust preferred securities. In accordance with the applicable accounting standards related to variable interest entities, the accounts of Tompkins Capital Trust I are not included in the Company's consolidated financial statements. However, the $20.5 million of fixed rate (7%) trust preferred securities issued by Tompkins Capital Trust I are included in the Tier 1 capital of the Company for regulatory capital purposes pursuant to regulatory guidelines.

Sleepy Hollow Capital Trust I

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

Leesport Capital Trust II

Leesport Capital Trust II, a Delaware statutory business trust, was formed on September 26, 2002 and issued $10.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.45%. The Company assumed the rights and obligations of VIST Financial pertaining to the Leesport Capital Trust II through the Company's acquisition of VIST Financial in August 2012. On September 8, 2013, the Company redeemed all of these securities, and the trust was subsequently dissolved.

Madison Statutory Trust I

Madison Statutory Trust I, a Connecticut statutory business trust was formed on June 26, 2003, issued $5.0 million of mandatory redeemable capital securities carrying a floating interest rate of three month LIBOR plus 3.10%. VIST Financial assumed Madison Statutory Trust I pursuant to the purchase of Madison Bancshares Group, Ltd on October 1, 2004. The Company assumed the rights and obligations of VIST Financial pertaining to the Madison Statutory Trust I through the Company's acquisition of VIST Financial in August 2012.

For additional details on the above capital trusts refer to "Note 12 - Trust Preferred Debentures" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Competition

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

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

Supervision and Regulation

Regulatory Agencies

As a registered financial holding company, the Company is regulated under the Bank Holding Company Act of 1956 ("BHC Act"), as amended and is subject to examination and comprehensive regulation by the Federal Reserve Board ("FRB"). The Company is also subject to the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to disclosure and regulatory requirements under the Securities Act of 1933, as amended, and the Securities Act of 1934, as amended. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP" and is subject to the rules of the NYSE MKT LLC for listed companies.

The Company's banking subsidiaries are subject to examination and comprehensive regulation by various regulatory authorities, including the Federal Deposit Insurance Corporation ("FDIC"), the New York State Department of Financial Services ("NYSDFS"), and the Pennsylvania Department of Banking and Securities ("PDBS"). Each of these agencies issues regulations and requires the filing of reports describing the activities and financial condition of the entities under its jurisdiction. Likewise, such agencies conduct examinations on a recurring basis to evaluate the safety and soundness of the institutions, and to test compliance with various regulatory requirements, including: consumer protection, privacy, fair lending, the Community Reinvestment Act, the Bank Secrecy Act, sales of non-deposit investments, electronic data processing, and trust department activities. Prior to December 31, 2013, the Company's banking subsidiary, Mahopac Bank, had the Office of the Comptroller of the Currency ("OCC") as its primary regulator and was thus subject to examination by the OCC. On December 31, 2013, Mahopac Bank became a New York State chartered bank. As a result, all four of the Company's banking subsidiaries are now state chartered banks. The NYSDFS and the FDIC are now the primary regulators of Mahopac Bank and Mahopac Bank will no longer be regulated by the OCC.

The Company's wealth management subsidiary is subject to examination and regulation by various regulatory agencies, including the SEC and the Financial Industry Regulatory Authority ("FINRA"). The trust division of Tompkins Trust Company is subject to examination and comprehensive regulation by the FDIC and NYSDFS.

The Company's insurance subsidiary is subject to examination and regulation by the NYSDFS and the Pennsylvania Insurance Department.

Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States. Many of the Dodd-Frank Act's provisions are subject to final rulemaking by the U.S. financial regulatory agencies, and the implications of the Dodd-Frank Act for the Company's businesses will depend to a large extent on how such rules are adopted and implemented by the primary U.S. financial regulatory agencies. The Company continues to analyze the impact of rules adopted under the Dodd-Frank Act, on the Company's businesses. However, the full impact will not be known until the rules, and other regulatory initiatives that overlap with the rules are finalized and their combined impacts can be understood. Because the Company has total consolidated assets of less than $50 billion, the Company will be exempt from certain provisions of the Dodd-Frank Act which pertain only to larger institutions.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Beginning in the second quarter of 2011, assessments are based on average consolidated total assets less average Tier 1 capital and certain allowable deductions of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor retroactive to January 1, 2009. The legislation also requires that publicly traded companies give shareholders a non-binding vote on executive compensation and "golden parachute" payments, and authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act also directs

the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded. The Dodd-Frank Act established a new Bureau of Consumer Financial Protection ("CFPB") with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets.

In addition, the Dodd-Frank Act, among other things:

- weakened the federal preemption rules that have been applicable for national banks and gives state attorneys general the ability to enforce federal consumer protection laws;
- amended the Electronic Fund Transfer Act ("EFTA") which resulted in, among other things, the Federal Reserve Board issuing rules aimed at limiting debit-card interchange fees;
- applied the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies;
- provided for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more and increased the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35%;
- imposed comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;
- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- provided mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and
- created the Financial Stability Oversight Council, which will recommend to the FRB rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule." On December 10, 2013, the federal banking regulators and the SEC adopted final rules to implement the Volcker Rule. Although the Volcker Rule became effective on July 21, 2012 and the final rules are effective April 1, 2014, in connection with the adoption of the final rules on December 10, 2013 by the responsible agencies, the Federal Reserve issued an order extending the period during which institutions have to conform their activities and investments to the requirements of the Volcker Rule to July 21, 2015. The Company does not currently anticipate that the Volker Rule will have a material effect on the Company because it does not engage in the prohibited activities.

Bank Holding Company Regulation

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board), without prior approval of the FRB. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed." A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the section captioned "Capital Adequacy and Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. A financial holding company's status will also depend upon it maintaining its status as "well capitalized" and "well managed' under applicable FRB regulations. If a financial holding company ceases to meet these capital and management requirements, the FRB's regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the holding company's depository institutions. Bank holding companies and banks must also be both well capitalized and well managed in

order to acquire banks located outside their home state.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act ("CRA"). See the section captioned "Community Reinvestment Act" included elsewhere in this item.

The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Share Repurchases and Dividends

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

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

Transactions with Affiliates and Other Related Parties

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

The Company’s authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O as promulgated by the FRB. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank’s capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank’s board of directors.

Mergers and Acquisitions

The BHC Act, the Bank Merger Act and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Bank Merger Act, the prior approval of the FRB or other appropriate bank regulatory authority is required for a member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the CRA (see the section captioned “Community Reinvestment Act” included elsewhere in this item) and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Support of Subsidiary Banks

The Dodd-Frank Act codifies the FRB’s longstanding policy of requiring bank holding companies to act as a source of financial and managerial strength to their subsidiary banks, as a statutory requirement. Under this requirement, Tompkins is expected to commit resources to support its banking subsidiaries, including at times when it may not be advantageous for Tompkins to do so. Any capital loans by a bank holding company to any of its subsidiary banks are subordinated in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority

of payment.

Liability of Commonly Controlled Institutions

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

Capital Adequacy

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

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

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

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

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

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

In July 2013, the FRB approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including Tompkins, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee’s 2004 “Basel II” capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies’ rules. The Basel III Capital Rules are effective for Tompkins on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”), (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

When fully phased in on January 1, 2019, the Basel III Capital Rules will require Tompkins to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The Basel III Capital Rules also provides for a "countercyclical capital buffer" that is applicable to only certain covered institutions and is not expected to have any current applicability to Tompkins.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Basel III Capital Rules impose stricter regulatory capital deductions from and adjustments to capital, with most deductions and adjustments taken against CET1 capital. These include, for example, the requirement that (i) mortgage servicing assets, net of associated deferred tax liabilities; (ii) deferred tax assets, which cannot be realized through net operating loss carrybacks, net of any relative valuation allowances and net of deferred tax liabilities; and (iii) significant investments (i.e. 10% or more ownership) in unconsolidated financial institutions be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% to CET1. Under the Basel III Capital Rule, the effect of certain accumulated other comprehensive items are not excluded, which could result in significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio. Based on the Company's asset size, we have a one-time option of deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations.

The Basel III Proposal also requires the phase-out of certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies in equal installments between 2013 and 2016. Trust preferred securities no longer included in Tier 1 capital may nonetheless be included as a component of Tier 2 capital. However, because the trust preferred securities of Tompkins Capital Trust I were issued prior to May 19, 2010, and because Tompkins' total consolidated assets were less than $15.0 billion as of December 31, 2009, our trust preferred securities are permanently grandfathered under the final rule and may continue to be included as Tier 1 capital.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter ending on January 1, 2018). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Standardized Approach Proposal would expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories, including many residential mortgages and certain commercial real estate. Specifics include, among other things:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.
- For residential mortgage exposures, the current approach of a 50% risk weight for high-quality seasoned mortgages and a 100% risk-weight for all other mortgages is replaced with a risk weight of between 35% and 200% depending upon the mortgage's loan-to-value ratio and whether the mortgage is a "category 1" or "category 2" residential mortgage exposure (based on eight criteria that include the term, use of negative amortization, balloon payments and certain rate increases).
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.
- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).
- Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.
- Providing for a 100% risk weight for claims on securities firms.
- Eliminating the current 50% cap on the risk weight for OTC derivatives.

The Company has conducted a pro forma analysis of the application of these new capital requirements as of December 31, 2013 and determined that the Company and its banking subsidiaries meet all these new requirements, including the full capital conservation buffer, and would remain well-capitalized if these new requirements had been in effect on that date.

During the first quarter of 2010, the OCC notified the Company that it was requiring Mahopac National Bank, to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac exceeded these minimum requirements through December 2012 and was notified in the first quarter of 2013, by the OCC, that it was no longer requiring Mahopac to maintain the higher capital ratios agreed to in 2010.

For further information concerning the regulatory capital requirements, actual capital amounts and the ratios of Tompkins and its bank subsidiaries, see the discussion in “Note 21 - Regulations and Supervision” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Liquidity Requirements

The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio (“LCR”) and a net stable funding ratio (“NSFR”). The purpose of the LCR is to ensure that banks and their holding companies maintain adequate unencumbered, high quality liquid assets to meet liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a “final text,” it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks. In June 2011, the federal banking agencies adopted a rule applicable to only large, internationally active banks requiring their risk-based capital to meet the higher of the minimum requirements under the advanced approaches or under the risk-based capital rules generally applicable to United States banks. In November 2013, the United States banking agencies published proposed rules establishing various liquidity requirements for entities with total consolidated assets of $50 billion or more.

Deposit Insurance

Substantially all of the deposits of the Company banking subsidiaries are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance to $250,000 per deposit category, per depositor, per institution retroactive to January 1, 2008.

The Company’s banking subsidiaries pay deposit insurance premiums to the FDIC based on assessment rates established by the FDIC. The assessment rates are based upon the risk the institution poses to the Deposit Insurance

Fund, or DIF. Under this assessment system, risk is defined and measured using an institution's supervisory ratings with other risk measures, including financial ratios. The current total base assessment rates on an annualized basis range from 2.5 basis points for certain "well-capitalized," "well-managed" banks, with the highest ratings, to 45 basis points for institutions posing the most risk to the DIF. The FDIC may raise or lower these assessment rates on a quarterly basis based on various factors to achieve a reserve ratio, which the Dodd-Frank Act has mandated to be no less than 1.35 percent of insured deposits. In 2011, the FDIC redefined the deposit insurance assessment base to equal average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act.

FDIC insurance expense totaled $3.2 million, $2.7 million and $2.5 million in 2013, 2012 and 2011, respectively. The increase in 2012 from 2011 was due to the VIST acquisition. FDIC insurance expense includes deposit insurance assessments, assessments related to participation in the Temporary Liquidity Guaranty Program ("TLGP") program, and Financing Corporation ("FICO") assessments related to outstanding FICO bonds. FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation. The Company paid FICO assessments of $286,000 in 2013, $251,000 in 2012 and $230,000 in 2011.

Depositor Preference

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

Community Reinvestment Act

The Company’s subsidiary banks are subject to the Community Reinvestment Act (“CRA”) and to certain fair lending and reporting requirements that relate to home mortgage lending. The CRA requires the federal banking regulators to assess the record of a financial institution in meeting the credit needs of the local communities, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of the bank. The federal agencies consider an institution’s performance under the CRA in evaluating applications for mergers and acquisitions, and new offices. The ratings assigned by the federal agencies are publicly disclosed. As of December 31, 2013 the Company’s subsidiary banks all had ratings of satisfactory or better.

Sarbanes-Oxley Act of 2002

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

The USA Patriot Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”) imposes obligations on financial institutions, including banks and broker-dealer subsidiaries to implement policies, procedures and controls which are reasonably designed to detect and report instances of money laundering and the financing of terrorism. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Financial Privacy

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

Office of Foreign Assets Control Regulation

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

Consumer Protection Laws

In connection with their lending and leasing activities, the Company’s banking subsidiaries are subject to a number of federal and state laws designed to protect borrowers and promote lending. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transaction Act of 2003, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and similar laws at the State level.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”) to centralize responsibility for consumer financial protection. The CFPB is responsible for implementing, examining and enforcing compliance with consumer protection laws. The CFPB has examination authority over all banks and savings associations with more than $10 billion in assets. For banks and savings associations less than $10 billion, the CFPB provides the prudential regulators with consumer compliance examination authority.

On January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the “QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of “qualified mortgage” are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a “qualified mortgage” incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. The QM Rule became effective January 10, 2014.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as the Company, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which the Company may structure compensation for its executives.

In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Management believes the current and past compensation practices of the Company do not encourage excessive risk taking or undermine the safety and soundness of the organization.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Other Legislative Initiatives

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

Employees

At December 31, 2013, the Company had 989 employees, approximately 129 of whom were part-time. No employees are covered by a collective bargaining agreement and the Company believes its employee relations are excellent.

Available Information

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

Item 1A. Risk Factors

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

Risks Related to the Company’s Business

Repayment of the Company’s commercial business loans is often dependent on the cash flows of the borrower, which may be difficult to predict, and the collateral securing these loans may fluctuate in value.

The Company offers different types of commercial loans to a variety of businesses. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values. As such, declines in real estate valuations in the Company’s market area would lower the value of the collateral securing these loans. The Company’s commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower, with liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. The borrowers’ cash flow may be difficult to predict, and collateral securing these loans may fluctuate in value. The repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment. As of December 31, 2013, commercial and commercial real estate loans totaled $2.2 billion or 68.2% of total loans.

As part of the Company’s commercial business lending activities, the Company originates agricultural loans, consisting of agricultural real estate loans and agricultural operating loans. As of December 31, 2013, $130.6 million or 4.1% of the Company’s total loan portfolio consisted of agriculturally-related loans, including $55.8 million in agricultural real estate loans and $74.8 million in agricultural operating loans. Payments on agricultural loans, primarily dairy loans, are dependent on the profitable operation or management of the related farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields, declines in market prices for agricultural products and the impact of governmental regulations and subsidies. Many farms are dependent upon a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower’s ability to repay the loan may be impaired. While agricultural operating loans are generally secured by a blanket lien on the farm’s operating assets, any repossessed collateral in respect of a defaulted loan may not provide an adequate source of repayment of the outstanding balance.

Declines in asset values may result in impairment charges and may adversely affect the value of the Company's investments, financial performance, and capital.

A majority of the Company's investment portfolio is comprised of securities which are collateralized by residential mortgages. These residential mortgage-backed securities include securities of U.S. government agencies, U.S. government-sponsored entities, and private-label collateralized mortgage obligations ("CMOs"). The Company's securities portfolio also includes obligations of U.S. government-sponsored entities, obligations of states and political subdivisions thereof, U.S. corporate debt securities and equity securities. A more detailed discussion of the investment portfolio, including types of securities held, the carrying and fair values, and contractual maturities is provided in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report. The fair value of investments may be affected by factors other than the underlying performance of the issuer or composition of the obligations themselves, such as rating downgrades, adverse changes in the business climate and a lack of liquidity for resale of certain investment securities. The Company periodically, but not less than quarterly, evaluates investments and other assets for impairment indicators. Under U.S. generally accepted accounting principles, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings to the extent the impairment is related to credit losses. The amount of the impairment related to other non-credit related factors for available-for-sale securities is recognized 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 fair value of certain investments in the Company's securities portfolio, and the amount of any recorded charges for other-than-temporary impairment ("OTTI") during the most recent fiscal year, are discussed in Part II, Item 8 of this Report on Form 10-K. Given the market conditions and the significant judgments involved, there is risk that further declines in fair value may occur and additional OTTI charges may be recorded in earnings in future periods.

As of December 31, 2013, the Company has $108.4 million of goodwill and other intangible assets. The Company is required to test our goodwill for impairment on a periodic basis. A significant decline in the Company's expected future cash flows, a significant adverse change in business climate, slower growth rates or a significant and sustained decline in the price of the Company's common stock, may necessitate taking charges in the future related to the impairment of the Company's goodwill and intangible assets. If an impairment determination is made in a future reporting period, the Company's earnings and the book value of these intangible assets would be reduced by the amount of the impairment.

The Company may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of counterparty relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry. The most important counterparty for the Company, in terms of liquidity, is the Federal Home Loan Bank of New York ("FHLBNY"). The Company also has a relationship with the Federal Home Loan Bank of Pittsburgh ("FHLBPITT"). The Company uses FHLBNY as its primary source of overnight funds and also has long-term advances and repurchase agreements with FHLBNY. The Company has placed sufficient collateral in the form of commercial and residential real estate loans at FHLBNY. In addition, the Company is required to hold stock in FHLBNY and FHLBPITT. The amount of borrowed funds and repurchase agreements with the FHLBNY and FHLBPITT, and the amount of FHLBNY and FHLBPITT stock held by the Company, at its most recent fiscal year end are discussed in Part II, Item 8 of this Report on Form 10-K.

There are 12 branches of the FHLB, including New York and Pittsburgh. The FHLBNY and the FHLBPITT are jointly and severally liable along with the other Federal Home Loan Banks for the consolidated obligations issued on behalf of the Federal Home Loan Banks through the Office of Finance. Dividends on, redemption of, or repurchase of shares of the FHLBNY's or FHLBPITT's capital stock cannot occur unless the principal and interest due on all consolidated obligations have been paid in full. If another Federal Home Loan Bank were to default on its obligation to pay principal or interest on any consolidated obligations, the Federal Home Loan Finance Agency (the "Finance Agency") may allocate the outstanding liability among one or more of the remaining Federal Home Loan Banks on a pro rata basis or on any other basis the Finance Agency may determine. As a result, the FHLBNY's or FHLBPITT's ability to pay dividends on, to redeem, or to repurchase shares of capital stock could be affected by the financial condition of one or more of the other Federal Home Loan Banks. However, no Federal Home Loan Bank has ever defaulted on its debt since the FHLB System was established in 1932.

Systemic weakness in the FHLB could result in higher costs of FHLB borrowings, reduced value of FHLB stock, and increased demand for alternative sources of liquidity that are more expensive, such as brokered time deposits, the discount window at the Federal Reserve, or lines of credit with correspondent banks.

The Company relies on cash dividends from its subsidiaries to fund its operations, and payment of those dividends could be discontinued at any time.

The Company is a financial holding company whose principal assets and sources of income are its wholly-owned subsidiaries. The Company is a separate and distinct legal entity from its subsidiaries, and therefore the Company relies primarily on dividends from these banking and other subsidiaries to meet its obligations and to provide funds for the payment of dividends to the Company's shareholders, to the extent declared by the Company's board of directors. Various federal and state laws and regulations limit the amount of dividends that a bank may pay to its parent company and impose regulatory capital and liquidity requirements on the Company and its banking subsidiaries. In addition, as discussed in greater detail in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report, during the first quarter of 2010 the OCC notified the Company that it was requiring Mahopac Bank to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations, which could limit that subsidiary's ability to pay dividends to the Company. The OCC notified the Company in the first quarter of 2013 that it was no longer requiring Mahopac Bank to maintain these certain minimum capital ratios. Further, as a holding company, the Company's right to participate in a distribution of assets upon the liquidation or reorganization of a subsidiary is subject to the prior claims of the subsidiary's creditors (including, in the case of the Company's banking subsidiaries, the banks' depositors). If the Company were unable to receive dividends from its subsidiaries it would materially and adversely affects the Company's liquidity and its ability to service its debt, pay its other obligations, or pay cash dividends on its common or preferred stock.

The Company’s business may be adversely affected by conditions in the financial markets and local and national economies.

General economic conditions impact the banking and financial services industry. The Company’s financial performance generally, and in particular, the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of collateral securing these loans, is highly dependent upon the business environment in the markets where the Company operates. Although the Company serves numerous market areas within New York State and Pennsylvania, the Company is still dependent on the economic conditions of these two states. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the services offered by the Company’s three business segments. From late-2007 through mid-2009, the U.S. economy was in recession. Although there has been gradual improvement in the U.S. economy since then as evidenced by a rebound in the housing market, lower unemployment and higher equities markets, economic growth has been uneven and unemployment levels are higher than historical levels. A downturn in the economy or financial markets could adversely affect the credit quality of the Company’s loan portfolio, results of operations and financial condition.

Economic downturns could affect the volume of income and demand for fee-based services. Revenues from the trust and wealth management businesses are dependent on the level of assets under management. Market volatility that leads customers to pull money out of the market or lower equity and bond prices can reduce the Company’s asset under management and thereby decrease revenues.

The Company is subject to interest rate risk.

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

The Company manages interest rate risk using an income simulation to measure interest rate risk inherent in its on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the potential effect of interest rate shifts on net interest income for future periods. Each quarter the Company’s Asset/Liability Management

Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within Board-approved levels. The Committee also discusses strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. In addition, the Company has focused on expanding its fee-based business to help mitigate its exposure to fluctuations in interest rates, and the impact on the Company's earnings.

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

The Company is subject to liquidity risk.

Liquidity risk refers to the Company's ability to ensure sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demand for loans and deposits withdrawals, funding operating costs, and for other corporate purposes. In addition to cash flow and short-term investments, the Company obtains funding through deposits and various short-term and long-term wholesale borrowings, including Federal funds purchased and securities sold under agreements to repurchase, brokered certificates of deposit, and borrowings from the Federal Home Loan Bank of New York ("FHLBNY") and Federal Home Loan Bank of Pittsburgh ("FHLBPITT") and others. The Company also maintains available lines of credit with the FHLBNY and FHLBPITT that are secured by loans. Management closely monitors its liquidity position for compliance with internal policies and is comfortable that available sources of liquidity are adequate to meet funding needs in the normal course of business.

The Company operates in a highly regulated environment and may be adversely impacted by changes in laws and regulations.

The Company is subject to extensive state and federal laws and regulations, supervision, and legislation that affect how it conducts its business. The majority of these laws and regulations are for the protection of consumers, depositors and the deposit insurance funds. The regulations influence such things as the Company's lending practices, capital structure, investment practices, and dividend policy. The Dodd-Frank Act, enacted in July 2010, represents a comprehensive overhaul of the financial services industry in the United States and requires federal agencies to implement many new rules. Many parts of the Dodd-Frank Act are now in effect, while others depend on rules that have yet to be adopted or implemented. Reforms, both under the Dodd-Frank Act and otherwise, will have a significant effect on the entire financial services industry. Although it is difficult to predict the magnitude and extent of these effects, compliance with new regulations and other initiatives will likely negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis. Any new regulatory requirements or changes to existing requirements could require changes to the Company's businesses, result in increased compliance costs and affect the profitability of such businesses. The Company has established an extensive internal control structure to ensure compliance with governing laws and regulations, including those related to financial reporting. Refer to "Supervision and Regulation" for additional information on laws and regulations.

As discussed above under the "Supervision and Regulation" section, Basel III and the Dodd-Frank Act require the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank holding companies. Under the legislation, the federal banking agencies are required to develop capital requirements that address systemically-risky activities. The capital rules must address, at a minimum, risks arising from significant volumes of activity in derivatives, securities products, financial guarantees, securities borrowing and lending and repurchase agreements; concentrations in assets for which reported values are based on models; and concentrations in market share for any activity that would substantially disrupt financial markets if the institutions were forced to unexpectedly cease the activity. These requirements, and any other new regulations, could adversely affect the Company's ability to pay dividends, or could require it to reduce business levels or to raise capital, including in ways that may adversely affect its results of operations or financial condition.

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

The Company operates in a highly competitive industry and market areas.

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

The Company's information systems may experience an interruption or breach in security.

The Company is subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. The Company depends upon data processing, software, communication, and information exchanged on a variety of computing platforms and networks and over the Internet. Despite instituted safeguards, the Company cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and the Company could be exposed to claims from customers. Any of these results could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. The Company maintains a system of internal controls to mitigate against such occurrences, periodically performs disaster recovery testing on key systems, and maintains insurance coverage for exposures that are insurable. The Company regularly tests internal controls to ensure that they are appropriate and functioning as designed. In addition, risk management is responsible for establishing compliance program standards and policies, performing risk assessments on the business lines' adherence to laws, regulations and internal policies and procedures, and the regular monitoring of significant operating risks.

The Company is subject to the risks presented by acquisitions, including the 2012 acquisition of VIST Financial.

The Company's strategic initiatives include diversification within its markets, growth of its fee-based businesses, and growth internally and through acquisitions of financial institutions, branches, and financial services businesses. As such, the Company from time to time considers acquiring banks, thrift institutions, branch offices of banks or thrift institutions, or other businesses within markets currently served by the Company or in other locations that would complement the Company's business or its geographic reach. The Company generally targets merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The August 1, 2012 acquisition of VIST Financial, as well as any other future acquisitions, will be accompanied by the risks commonly encountered in acquisitions. These risks include among other things: the difficulty of integrating operations and personnel, the potential disruption of our ongoing business, the inability of management to maximize financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with employees and customers as a result of changes in ownership and management. Further, the asset quality or other financial characteristics of an acquired company may deteriorate after the acquisition agreement is signed or after the acquisition closes. As of December 31, 2013, the Company's loan portfolio included $667.0 million of acquired loans or 20.9% of total loans and leases. This portfolio was not underwritten by the Company at origination and is therefore not necessarily reflective of our historical credit risk experience. The Company performed extensive credit due diligence prior to the VIST Financial acquisition and marked loans to fair value upon acquisition, with such fair valuation considering expected credit losses that existed at the time of acquisition. In addition, the Company evaluates the expected cash flows on these loans quarterly. However, there is a risk that credit losses could be larger than currently anticipated, thus adversely impacting the Company's earnings.

The Company's operations rely on certain external vendors

The Company relies on certain external vendors to provide products and services necessary to maintain day-to-day operations of the Company. Accordingly, the Company's operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The Company has controls around contracts and vendor management to manage risks associated with using external vendors. Nevertheless, the failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to the Company's operations, which could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

Risks Associated with the Company's Common Stock

The Company’s stock price maybe volatile.

The Company’s stock price can fluctuate widely in response to a variety of factors, including: actual or anticipated variations in our operating results; recommendations by securities analysts; significant acquisitions or business combinations; operating and stock price performance of other companies that investors deem comparable to Tompkins; new technology used, or services offered by our competitors; news reports relating to trends, concerns and other issues in the financial services industry; and changes in government regulations. Other factors, including general market fluctuations, industry-wide factors and economic and general political conditions and events, including terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, may adversely affect the Company’s stock price even though they do not directly pertain to the Company’s operating results.

The trading volume in our common stock is less than that of other larger financial services companies, which may adversely affect the price of our common stock.

The Company’s common stock is traded on the NYSE MKT LLC. The trading volume in the Company’s common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of the Company’s common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

An investment in our common stock is not an insured deposit.

The Company’s common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company’s common stock is inherently risky for the reasons described in this “Risk Factors” section and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company’s common stock, you may lose some or all of your investment.

Dividend Payments

Holders of Tompkins’ common stock are only entitled to receive such dividends as its board of directors may declare out of funds legally available for such payments. While Tompkins has a long history of paying dividends on its common stock, Tompkins is not required to pay dividends on its common stock and could reduce or eliminate its common stock dividend in the future. This could adversely affect the market price of Tompkins’ common stock. Also, Tompkins is a bank holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company’s executive offices are located at 110 North Tioga Street, Ithaca, New York. The Company’s banking subsidiaries have 66 branch offices, of which 29 are owned and 37 are leased at market rates. The Company’s insurance subsidiary has 5 stand-alone offices, of which 3 are owned by the Company and 2 are leased at market rents. The Company’s wealth management and financial planning subsidiary has 1 office, which it leases at a market rent, other locations are shared with the Company’s subsidiaries. Management believes the current facilities are suitable for their present and intended purposes. For additional information about the Company’s facilities, including rental expenses, see “Note 8 Premises and Equipment” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Item 3. Legal Proceedings

The Company is subject to various claims and legal actions that arise in the ordinary course of conducting business. Management does not expect the ultimate disposition of these matters to have a material adverse impact on the Company's financial statements.

Item 4. Mine Safety Disclosures

Not applicable

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Executive Officers of the Registrant

The information concerning the Company's executive officers is provided below as of March 1, 2014.

Name	Age	Title	Year Joined Company
Stephen S. Romaine	49	President and CEO	January 2000
James W. Fulmer	62	Vice Chairman of the Board	January 2000
Stephen M. Angelis	53	Executive Vice President	February 2014
David S. Boyce	47	Executive Vice President	January 2001
Francis M. Fetsko	49	Executive Vice President and CFO	October 1996
Scott L. Gruber	57	Executive Vice President	April 2013
Gregory J. Hartz	53	Executive Vice President	August 2002
Gerald J. Klein, Jr.	55	Executive Vice President	January 2000
Rosemary G. Hyland	63	Senior Vice President of Human Resources	May 2000
Susan M. Valenti	59	Senior Vice President of Corporate Marketing	March 2012

Business Experience of the Executive Officers:

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

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

Stephen M. Angelis joined Tompkins in February 2014 as Executive Vice President of the Company, and President of Tompkins Financial Advisors. Prior to joining Tompkins, he spent 25 years at various financial institutions, most

recently at GAN Investments in Columbus, Ohio. From 2010-2011, he served as Senior Vice President of Sales & Marketing for Equity Trust Company, and from 2006-2009, as Vice President, National Sales Manager, Nationwide Retirement Solutions, at Nationwide Financial Corp.

David S. Boyce has been employed by the Company since January 2001 and was promoted to Executive Vice President in April 2004. He was appointed President and Chief Executive Officer of Tompkins Insurance Agencies in 2002. He has been employed by Tompkins Insurance Agencies and a predecessor company to Tompkins Insurance Agencies for 23 years.

Francis M. Fetsko has been employed by the Company since 1996, and has served as Chief Financial Officer since December 2000. He also serves as the Chief Financial Officer for the Company's four banking subsidiaries. In July 2003, he was promoted to Executive Vice President and he assumed the additional role of Chief Operating Officer in April 2012.

Scott L. Gruber has been employed by the Company since April 2013 and was appointed President & COO of VIST Bank and Executive Vice President of the Company effective April 30, 2013. He was appointed President & CEO of VIST Bank effective January 1, 2014, upon the retirement of Robert D. Davis on December 31, 2013. Mr. Gruber brings more than thirty years of banking experience to his position at VIST Bank. He spent the last sixteen years at National Penn Bank, most recently as Group Executive Vice President where he led the Corporate Banking team. Prior to that, Mr. Gruber was President of the Central Region leading the commercial and retail banking business.

Gregory J. Hartz has been employed by the Company since 2002 and was appointed President and Chief Executive Officer of Tompkins Trust Company and Executive Vice President of the Company effective January 1, 2007. He is also the President of TFA Management, Inc. Previously, he was Senior Vice President of Tompkins Trust Company, with responsibility for Tompkins Investment Services. Mr. Hartz serves on the Board of Independent Bankers Association of New York State, currently serving as its Chairman.

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

Rosemary G. Hyland has been employed by the Company since May 2000. She currently serves as Senior Vice President, Director of Human Resources which also includes the Company's Learning & Development function. Prior to this assignment she served in several other roles as SVP, Learning & Development, Administrative Services Division Manager and Human Resources Director for Mahopac Bank.

Susan M. Valenti joined Tompkins in March of 2012 as Senior Vice President, Corporate Marketing. Prior to joining the Company, Susan spent 23 years at JPMorgan Chase working in a variety of marketing roles, most recently as Vice President of Chase Private Client Marketing Executive. Prior to that time she was Vice President, Retail Rebranding Project Lead and led the rebranding of The Bank of New York branches and Bank One to Chase.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price and Dividend Information

The Company's common stock is traded under the symbol "TMP" on the NYSE MKT LLC (the "Exchange"). The high and low closing sale prices, which represent actual transactions as quoted on the Exchange, of the Company's common stock for each quarterly period in 2012 and 2013 are presented below. The per share dividends paid by the Company in each quarterly period in 2012 and 2013 and the payment dates of these dividends are also presented below.

		Market Price		Cash Dividends	
		High	Low	Amount	Date Paid
2012	1st Quarter	$43.13	$38.90	$0.36	2/15/12
	2nd Quarter	40.69	35.82	0.36	5/15/12
	3rd Quarter	42.52	37.30	0.36	8/15/12
	4th Quarter	41.67	36.85	0.38	11/15/12
2013	1st Quarter	$42.59	$40.28	$0.38	2/15/13

2nd Quarter	45.33	39.86	0.38	5/15/13
3rd Quarter	49.40	42.54	0.38	8/15/13
4th Quarter	51.61	43.52	0.40	11/15/13

As of February 12, 2014, there were approximately 3,637 holders of record of the Company’s common stock.

The Company’s ability to pay dividends is generally limited to earnings from the prior year, although retained earnings and dividends from its subsidiaries may also be used to pay dividends under certain circumstances. The Company’s primary source of funds to pay for shareholder dividends is receipt of dividends from its subsidiaries. Future dividend payments to the Company by its subsidiaries will be dependent on a number of factors, including the earnings and financial condition of each subsidiary, and are subject to the regulatory limitations discussed in “Note 21 Regulations and Supervision” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The following table reflects all Company repurchases, including those made pursuant to publicly announced plans or programs during the quarter ended December 31, 2013.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number (or Approximate Dollar Value)of Shares that May Yet Be Purchased Under the Plans or Programs (d)
October 1, 2013 through October 31, 2013	1,593	$ 44.76	0	0
November 1, 2013 through November 30, 2013	574	$ 48.10	0	0
December 1, 2013 through December 31, 2013	0	$ 0.00	0	0
Total	2,167	$ 45.64	0	0

Included above are 1,593 shares purchased in October 2013, at an average cost of $44.76, and 574 shares purchased in November 2013, at an average cost of $48.10 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.

On October 25, 2011, the Company's Board of Directors authorized a share repurchase plan for the Company to repurchase up to 335,000 shares of the Company's common stock over a 24 month period. The plan expired in October 2013 and no shares were repurchased under the plan.

Recent Sales of Unregistered Securities

None.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans is provided in Part III, “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Report.

Performance Graph

The following graph compares the Company’s cumulative total stockholder return since December 31, 2008, with (1) the total return index for the NASDAQ Composite and (2) the total return index for SNL Bank Index. The graph assumes $100.00 was invested on December 31, 2008, in the Company’s common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

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

	Period Ending					
Index	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Tompkins Financial Corporation	100.00	72.05	79.28	80.74	86.23	115.75
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
SNL Bank	100.00	98.97	110.90	85.88	115.90	159.12

Item 6. Selected Financial Data

The following consolidated selected financial data is taken from the Company's audited financial statements as of and for the five years ended December 31, 2013. The following selected financial data should be read in conjunction with the consolidated financial statements and the notes thereto in Part II, Item 8. of this Report. All of the Company's acquisitions during the five year period were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included in the Company's results of operations since their respective acquisition dates.

	Year ended December 31				
(in thousands except per share data)	2013	**2012** [1]	**2011**	**2010**	**2009**
FINANCIAL STATEMENT HIGHLIGHTS					
Assets	$5,003,039	$4,837,197	$3,400,248	$3,260,343	$3,153,260
Total loans	3,194,284	2,954,610	1,981,849	1,910,358	1,914,818
Deposits	3,947,216	3,950,169	2,660,564	2,495,873	2,439,864
Other borrowings	331,531	111,848	186,075	244,193	208,956
Shareholders' equity	457,939	441,360	299,143	273,408	245,008
Interest and dividend income	185,104	158,356	137,088	144,062	146,795
Interest expense	23,975	24,213	25,682	32,287	39,758
Net interest income	161,129	134,143	111,406	111,775	107,037
Provision for loan and lease losses	6,161	8,837	8,945	8,507	9,288
Net gains on securities transactions	599	324	396	178	348
Net income attributable to Tompkins Financial Corporation	50,856	31,285	35,419	33,831	31,831
PER SHARE INFORMATION[2]					
Basic earnings per share	3.48	2.44	3.21	3.13	2.98
Diluted earnings per share	3.46	2.43	3.20	3.11	2.96
Adjusted diluted earnings per share[3]	3.36	3.16	3.21	3.11	2.96
Cash dividends per share	1.54	1.46	1.40	1.33	1.24
Book value per share	31.05	30.67	26.89	25.09	22.87
Tangible book value[4]	23.70	22.96	22.58	20.88	18.53
SELECTED RATIOS					
Return on average assets	1.03 %	0.76 %	1.07 %	1.06 %	1.06 %
Return on average equity	11.47 %	8.30 %	12.02 %	12.72 %	13.66 %
Average shareholders' equity to average assets	9.00 %	9.21 %	8.94 %	8.33 %	7.74 %
Dividend payout ratio	44.25 %	59.84 %	43.61 %	42.49 %	41.61 %
OTHER SELECTED DATA (in whole numbers, unless otherwise noted)					
Employees (average full-time equivalent)	989	839	719	726	720
Banking offices	66	66	45	45	45
Bank access centers (ATMs)	84	83	63	69	67
Trust and investment services assets under management, or custody (in	$3,443,636	$3,240,782	$2,780,622	$2,859,725	$2,542,792

thousands)

[1] *Includes the impact of the acquisition of VIST Financial on August 1, 2012.*
[2] *Per share data has been retroactively adjusted to reflect a 10% stock dividend paid on February 15, 2010.*
[3] *Adjusted diluted earnings per share reflects adjustments made for certain nonrecurring items, including merger and integration expenses. Adjustments for 2013 included a $(846,000) after-tax gain on the redemption of trust preferred stock and a $(771,000) after-tax gain on an IRA conversion. Also, in 2013, 2012 and 2011, after-tax merger related expenses totaled $140,000, $9.7 million and $152,000, respectively. There was also an after-tax VISA accrual adjustment of $243,000 in 2012. There were no merger related expenses in prior years. Adjusted diluted earnings per share is a non-GAAP measure that management believes provides management and investors with information that is useful in understanding the Company's financial performance*

and condition.

[4] *Tangible common equity is used to calculate tangible book value per share and excludes goodwill and other intangibles of $108.4 million in 2013, $110.9 million in 2012, $48.0 million in 2011, $45.9 million in 2010, and $46.5 million in 2009. This is a non-GAAP measure that management believes provides management and investors with information that is useful in understanding the Company's financial performance and condition.*

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Company and its operating subsidiaries for the periods shown. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with other sections of this Report on Form 10-K, including Part I, "Item 1. Business," Part II, "Item 6. Selected Financial Data," and Part II, "Item 8. Financial Statements and Supplementary Data."

Overview

Tompkins Financial Corporation ("Tompkins" or the "Company"), is headquartered in Ithaca, New York and is registered as a Financial Holding Company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company is a locally oriented, community-based financial services organization that offers a full array of products and services, including commercial and consumer banking, leasing, trust and investment management, financial planning and wealth management, insurance, and brokerage services. At December 31, 2013, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile, Mahopac Bank (formerly known as Mahopac National Bank), and VIST Bank; a wholly owned registered investment advisor, TFA Management, Inc. ("TFA Management", formerly known as AM&M Financial Services, Inc.); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). Tompkins Insurance provides property and casualty insurance, employee benefit consulting, and life, long-term care and disability insurance. TFA Management and the trust division of the Trust Company provide a full array of investment services under the trade name of Tompkins Financial Advisors, including investment management, trust and estate, financial and tax planning as well as life, disability and long-term care insurance services.

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

Forward-Looking Statements

The Company is making this statement in order to satisfy the “Safe Harbor” provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Report on Form 10-K that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management’s expectations and beliefs concerning future events impacting the Company and are subject to certain uncertainties and factors relating to the Company’s operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed and/or implied by forward-looking statements. The following factors, in addition to those listed as Risk Factors in Item 1.A are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market and regulatory conditions; the development of an interest rate environment that may adversely affect the Company’s interest rate spread, other income or cash flow anticipated from the Company’s operations, investment and/or lending activities; changes in laws and regulations affecting banks, bank holding companies and/or financial holding companies, such as the Dodd-Frank Act and Basel III; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; and financial resources in the amounts, at the times and on the terms required to support the Company’s future businesses. In addition, such forward-looking statements could be affected by general industry and market conditions and growth rates, general economic and political conditions, including interest rate and currency exchange rate fluctuations, and other factors.

Critical Accounting Policies

In the course of normal business activity, management must select and apply many accounting policies and methodologies and make estimates and assumptions that lead to the financial results presented in the Company's consolidated financial statements and accompanying notes. There are uncertainties inherent in making these estimates and assumptions, which could materially affect our results of operations and financial position.

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

Management considers the accounting policy relating to the allowance to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates can have on the Company's results of operations.

The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company's methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* and includes allowance allocations calculated in accordance with Accounting Standards Codification ("ASC") Topic 310, *Receivables*, and allowance allocations calculated in accordance with ASC Topic 450 *Contingencies.* The Company's methodology for determining the allowance for loan and lease losses focuses on our annual, or more often if necessary, ongoing reviews of larger individual loans and leases, historical net charge-offs, delinquencies in the loan and lease portfolio, the level of impaired and nonperforming loans values of underlying loan and lease collateral, the overall risk characteristics of the portfolios, changes in character or size of the portfolios, geographic location, current economic conditions, changes in capabilities and experience of lending management and staff, and other relevant factors. The various factors used in the methodologies are reviewed on a quarterly basis.

Since the methodology is based upon historical experience, market trends, and management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, changes in interest rates, concentration of risk, declines in local property values, and the view of regulatory authorities towards loan classifications. Management believes that the allowance is appropriate given the inherent risk of loss in the loan and

lease portfolios, as of December 31, 2013. Under different conditions or assumptions, the Company may need to adjust the allowance. Refer to the section captioned “Allowance for Loan and Lease Losses” elsewhere in this discussion for further details on the Company’s methodology and allowance.

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

Another critical accounting policy is the policy for reviewing available-for-sale securities and held-to-maturity securities to determine if declines in fair value below amortized cost are other-than-temporary as required by FASB ASC Topic 320, *Investments – Debt and Equity Securities.* When other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security and whether it is more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. In estimating other-than-temporary impairment losses, management considers, among other factors, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, underlying collateral of the security, and the structure of the security.

Another critical accounting policy is the policy for acquired loans. Acquired loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate. Subsequent to the acquisition of acquired impaired loans, GAAP requires the continued estimation of expected cash flows to be received. This estimation requires numerous assumptions, interpretations and judgments using internal and third-party credit quality information. Changes in expected cash flows could result in the recognition of impairment through provision for credit losses.

For acquired loans that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for loan losses for the non-impaired acquired loans is similar to originated loans.

All accounting policies are important and the reader of the financial statements should review these policies, described in “Note 1 Summary of Significant Accounting Policies” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Form 10-K, to gain a better understanding of how the Company’s financial performance is reported.

Results of Operations

(Comparison of December 31, 2013 and 2012 results)

General

The Company reported diluted earnings per share of $3.46 in 2013, an increase of 42.4% from diluted earnings per share of $2.43 in 2012. Net income attributable to Tompkins Financial Corporation for the year ended December 31, 2013, was $50.9 million, up 62.6% compared to $31.3 million in 2012. The increased earnings in 2013 was primarily due to the full years’ benefit of the VIST acquisition in 2013 results (compared to five months in 2012), coupled with the $9.7 million ($0.76 diluted per share) in after-tax merger and acquisition integration related expenses included in 2012 results.

In addition to earnings per share, key performance measurements for the Company include return on average shareholders’ equity (ROE) and return on average assets (ROA). ROE was 11.47% in 2013, compared to 8.30% in 2012, while ROA was 1.03% in 2013 and 0.76% in 2012. The increase was primarily due to the $9.7 million in

after-tax merger related expenses being recorded in 2012. Tompkins' 2013 ROE and ROA were in the 73rd percentile for ROE and the 53rd percentile for ROA of its peer group. The peer group is derived from the Federal Reserve Board and represents banks and bank holding companies with assets between $3.0 billion and $10.0 billion. The comparative peer group ratios are as of December 31, 2013, the most recent data available from the Federal Reserve Board.

The Company's net operating income available to common shareholders (non-GAAP) in 2013 amounted to $49.0 million or $3.36 diluted per share compared to $40.6 million or $3.16 per diluted share in 2012. Operating (non-GAAP) net income for 2013 excludes $846,000 in an after-tax gain on the redemption of trust preferred debentures, $771,000 in after-tax gain on a deposit conversion and $140,000 in after-tax merger related expenses. Operating (non-GAAP) net income for 2012 excludes $9.7 million in after-tax merger and acquisition integration related expenses and $243,000 in after-tax accrual reversals related to the Company's accrual for potential VISA litigation.

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

Operating (non-GAAP) Net Income

(in thousands, except per share data)	**As of December 31,**	
	2013	2012
Net income attributable to Tompkins Financial Corporation	$50,856	$31,285
Less: dividends and undistributed earnings allocated to unvested stock awards	(418)	(115)
Net income available to common shareholders (GAAP)	50,438	31,170
Diluted earnings per share (GAAP)	3.46	2.43
Adjustments for non-operating income and expense,		

net of tax:		
Reversal of VISA Covered Litigation accrual	0	(243)
Merger and acquisition integration related expenses	140	9,664
Gain on redemption of trust preferred	(846)	0
Gain on IRA conversion	(771)	0
Total adjustments, net of tax	(1,477)	9,421
Net operating income available to common shareholders (Non-GAAP)	48,961	40,591
Adjusted diluted earnings per share (Non-GAAP)	3.36	3.16

Operating Return on Tangible Equity (non-GAAP)

	As of December 31,	
(in thousands)	**2013**	2012

Net income attributable to Tompkins Financial Corporation	$50,856	$31,285
Adjustments for non-operating income and expense, net of tax:		
Reversal of VISA Covered Litigation accrual	0	(243)
Merger and acquisition integration related expenses	140	9,664
Gain on redemption of trust preferred	(846)	0
Gain on IRA conversion	(771)	0
Total adjustments, net of tax	(1,477)	9,421
Net operating income (Non-GAAP)	49,379	40,706
Amortization of intangibles, net of tax	1,318	758
Adjusted net operating income	50,697	41,464
Average total shareholders' equity	443,565	376,890
Average goodwill and intangibles	109,676	76,146
Average shareholders' tangible equity (Non-GAAP)	333,889	300,744
Adjusted operating return on average tangible shareholders' equity (Non-GAAP)	15.18 %	13.79 %

Operating Return on Tangible Assets (non-GAAP)

	As of December 31,	
(in thousands)	2013	2012
Adjusted net operating income	$50,697	$41,464
Average total assets	4,928,499	4,092,473
Average goodwill and intangibles	109,676	76,146
Average tangible assets	4,818,823	4,016,327
Adjusted operating return on average tangible shareholders' assets	1.05 %	1.03 %

Segment Reporting

The Company operates in three business segments: banking, insurance and wealth management. Insurance is comprised of property and casualty insurance services and employee benefit consulting operated under the Tompkins Insurance Agencies, Inc. subsidiary. Wealth management activities include the results of the Company’s trust, financial planning, and wealth management services, and risk management operations organized under the Tompkins Financial Advisors brand. All other activities are considered banking. For additional financial information on the Company’s segments, refer to “Note 23 – Segment and Related Information” in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

Banking Segment

The Banking segment reported net income of $45.2 million for the year ending December 31, 2013, representing a $7.4 million or 19.7% increase compared to 2012, driven mainly by growth in net interest income. Net interest income increased $27.0 million in 2013, up 20.2% versus 2012, due primarily to the acquisition of VIST Financial in the third quarter of 2012. Interest income rose $26.8 million or 17.0%, while interest expense declined $238,000 or 1.0% compared to the same period last year. An applicable income tax adjustment was applied to the results on a weighted average basis to compensate for the removal of the merger costs. All associated segment results have been reconciled to their corresponding consolidated financial statement amounts (see “Note 23 – Segment and Related Information” in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for additional details).

The provision for loan and lease losses was $6.2 million in 2013, compared to $8.8 million in the prior year.

Noninterest income grew $5.5 million or 24.6% in 2013 from 2012. The main contributors to the improvement were a $1.4 million pre-tax gain on the redemption of a Trust Preferred debenture acquired as part of the VIST acquisition, a $1.3 million pre-tax gain related to an IRA deposit account conversion, a $1.2 million or 19.7% increase in card services income, and a $1.1 million or 14.2% increase in service charges on deposit accounts. These were partially offset by an increase in losses on mark to market trading securities of $206,000 or 62.0%.

Noninterest expenses increased $23.2 million or 24.0% in 2013from the same period in 2012 primarily due to salaries and facilities costs associated with the integration of VIST Bank into the organization.

Insurance Segment

The Insurance segment reported net income of $3.2 million, up $829,000 or 35.3% from 2012. The primary reason for the increase in net income is the addition of VIST Insurance in the operating results of the Company for a full year in

2013 versus five months in 2012. VIST Insurance was consolidated into Tompkins Insurance at acquisition.

Noninterest income increased $8.8 million or 46.3% over the prior year. Revenues from all three of the Company's primary insurance product lines: commercial, personal and health and benefit insurance increased over the prior year. Insurance commissions increased $8.6 million or 45.8% compared to the previous year.

Noninterest expense increased $7.4 million in 2013, up 49.1% compared to 2012. Increases in salaries and benefits costs, associated with merit increases and additional headcount due to the VIST acquisition, contributed to most of the noninterest expense variance for the current year. In addition, other contributors to the increase in expense included a $260,000 increase in amortization of intangible assets, and a $235,000 increase in expense for commissions paid.

Wealth Management Segment

The Wealth Management segment reported net income of $2.5 million for the twelve month period ending December 31, 2013, an increase of $143,000 or 6.0% compared to 2012. Included in the Wealth Management segment for 2013 are the operating results of VIST Capital Management, LLC, which became part of Tompkins Financial Advisors in August 2012. The market value of assets under management at December 31, 2013, totaled $3.4 billion, an increase of 6.3% compared to year-end 2012.

Net Interest Income

Net interest income is the Company's largest source of revenue, representing 69.7% of total revenues for the twelve months ended December 31, 2013, and 71.0% of total revenues for the twelve months ended December 31, 2012. Net interest income was up in 2013 over 2012; however, the growth in noninterest income, the other component of revenues, exceeded the growth in net interest income, resulting in the decrease in the ratio in 2013 compared to 2012. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The Company's net interest income over the past several years benefitted from steady growth in average earning assets. For 2013 and 2012, the Company's net interest income also benefitted from accretable yield attributable to loans acquired with evidence of credit deterioration and accounted for in accordance with ASC Topic 310-30. The historically low interest rate has resulted in lower asset yields and lower funding costs in 2013 compared to 2012. The Company has been able to lessen the impact of lower asset yields with growth in average earning assets as well as increasing the loan portfolio as a percentage of average earning assets. The Company has also been able to reduce its funding costs by growing its deposit base, including the balances of noninterest bearing deposits, and replacing maturing FHLB borrowing funds with lower cost funding.

Table 1 – Average Statements of Condition and Net Interest Analysis shows average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each. The taxable equivalent net interest margin was 3.65% in 2013, which is unchanged from 2012. Taxable-equivalent net interest income for 2013 was $164.9 million, which is up 20.4% compared to 2012. Taxable-equivalent net interest income was positively impacted by growth in average interest-earning assets and lower funding costs; however, these positives were partially offset by the decrease in average interest-earning asset yields. The acquisition of VIST Financial on August 31, 2012, contributed significantly to the increase in average interest-earning assets and net interest income in 2013 over 2012. In addition, net interest income benefitted from approximately $8.9 million in accretable yield attributable to loans acquired with evidence of credit deterioration and accounted for in accordance with ASC Topic 310-30.

The increase in taxable-equivalent interest income was the result of the $767.2 million or 20.4% increase in average interest- earning assets in 2013 over 2012 average interest-earning assets. The increase in average earning assets was mainly a result of the $1.3 billion in earning assets acquired in the VIST acquisition in August 2012 as well as organic loan growth in 2013. These two factors resulted in a greater proportion of interest earning assets invested in higher yielding loans. Average loan balances in 2013 were up $671.4 million or 28.2% over 2012, while average securities balances in 2013 were up $113.4 million or 8.5% over 2012. Average loan balances and average securities balances represented 67.5% and 31.9% of average earning assets for the twelve months ended December 31, 2013 compared to 63.4% and 35.4%, respectively, for the same period in 2012. The average yield on loans during 2013 was 5.03%, down 24 basis points from an average yield of 5.27% during 2012. During 2013 the average yield on securities was 2.39% during, down 22 basis point from an average yield of 2.61% reported for 2012.

Interest expense for 2013 was down $238,000 or 1.0% compared to 2012 despite a $642.3 million or 21.7% increase in average interest bearing liabilities. The decrease in interest expense reflects lower average rates paid on deposits and borrowings during 2013 when compared to 2012 and growth in noninterest bearing deposit balances. The average rate paid on interest-bearing deposits during 2013 of 0.40% was 7 basis points lower than the average rate paid in 2012. The decrease in the average cost of interest-bearing deposits reflects a decrease in the interest rates offered on deposit products due to decreases in average market rates combined with an increase in the relative proportion of lower cost savings and money market deposits. Average interest-bearing deposit balances increased by $567.0 million or 21.8% in 2013 compared to 2012, with the majority of the growth in interest-bearing checking, savings and money market balances. Average time deposit balances were up in 2013 compared to 2012, but decreased as a percentage of average interest bearing deposits from 32.6% in 2012 to 29.7% in 2013. Average noninterest bearing deposit balances in 2013 were up $125.1 million or 18.4% over 2012, some of the increase was attributable to the $129.5 million in noninterest bearing deposits acquired with VIST Bank at acquisition. The increase in average other borrowings in 2013 compared to 2012 was mainly in overnight borrowings with the FHLB, which contributed to the decrease in average funding cost in 2013.

Table 1 - Average Statements of Condition and Net Interest Analysis

	For the year ended December 31,								
	2013			**2012**			**2011**		
(dollar amounts in thousands)	Average Balance (YTD)	Interest	Average Yield/Rate	Average Balance (YTD)	Interest	Average Yield/Rate	Average Balance (YTD)	Interest	Average Yield/Rate
ASSETS									
Interest-earning assets									
Interest-bearing balances due from banks	$2,005	$10	0.50%	$21,442	$33	0.15%	$12,717	$12	0.09%
Money market funds	—	—	0.00%	18	—	0.00%	100	—	0.00%
Securities[1]									
U.S. Government securities	1,326,999	28,817	2.17%	1,205,759	28,546	2.37%	969,303	27,504	2.84%
Trading securities	14,188	589	4.15%	18,162	744	4.10%	21,262	873	4.11%
State and municipal[2]	95,276	4,893	5.14%	95,095	4,946	5.20%	95,039	5,143	5.41%
Other securities[2]	7,714	265	3.44%	11,766	544	4.62%	13,971	648	4.64%
Total securities	1,444,177	34,564	2.39%	1,330,782	34,780	2.61%	1,099,575	34,168	3.11%
Federal Funds Sold	—	—	0.00%	1,837	2	0.11%	5,837	7	0.12%
FHLBNY and FRB stock	22,153	749	3.38%	18,479	824	4.46%	17,992	910	5.06%
Total loans and leases, net of unearned income[2,3]	3,053,538	153,569	5.03%	2,382,109	125,541	5.27%	1,928,540	104,548	5.42%
Total interest-earning assets	4,521,873	188,892	4.18%	3,754,667	161,180	4.29%	3,064,761	139,645	4.56%
Other assets	406,626			337,806			230,221		
Total assets	4,928,499			4,092,473			3,294,982		
LIABILITIES & EQUITY									
Deposits									
Interest-bearing deposits									
	2,224,028	4,938	0.22%	1,750,444	4,854	0.28%	1,350,659	4,741	0.35%

Interest bearing checking, savings, & money market									
Time deposits	939,630	7,827	0.83%	846,166	7,377	0.87%	717,514	8,346	1.16%
Total interest-bearing deposits	3,163,658	12,765	0.40%	2,596,610	12,231	0.47%	2,068,173	13,087	0.63%
Federal funds purchased & securities sold under agreements to repurchase	177,784	3,749	2.11%	200,906	4,451	2.22%	173,692	4,872	2.80%
Other borrowings	222,345	4,862	2.19%	132,746	5,437	4.10%	155,650	6,143	3.95%
Trust preferred debentures	41,643	2,599	6.24%	32,835	2,094	6.38%	25,062	1,580	6.30%
Total interest-bearing liabilities	3,605,430	23,975	0.67%	2,963,097	24,213	0.82%	2,422,577	25,682	1.06%
Noninterest bearing deposits	806,387			681,260			539,917		
Accrued expenses and other liabilities	73,117			71,226			37,868		
Total liabilities	4,484,934			3,715,583			3,000,362		
Tompkins Financial Corporation Shareholders' equity	442,054			375,378			292,845		
Noncontrolling interest	1,511			1,512			1,775		
Total equity	443,565			376,890			294,620		
Total liabilities and equity	$4,928,499			$4,092,473			$3,294,982		
Interest rate spread			3.51%			3.48%			3.50%
Net interest income/margin on earning assets		164,917	3.65%		136,967	3.65%		113,963	3.72%
Tax Equivalent Adjustment		(3,788)			(2,824)			(2,557)	
Net interest income per consolidated		$161,129			$134,143			$111,406	

financial statements

[1] *Average balances and yields on available-for-sale securities are based on historical amortized cost*

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

[3] *Nonaccrual loans are included in the average asset totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 of the Company's condensed consolidated financial statements included in Part 1 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2013.*

Table 2 - Analysis of Changes in Net Interest Income

(in thousands)(taxable equivalent)	2013 vs. 2012 Increase (Decrease) Due to Change in Average			2012 vs. 2011 Increase (Decrease) Due to Change in Average		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
INTEREST INCOME:						
Certificates of deposit, other banks	$(30)	$ 7	$(23)	$11	$ 10	$21
Federal funds sold	(1)	(1)	(2)	(4)	(1)	(5)
Investments						
Taxable	(319)	(168)	(487)	5,818	(5,009)	809
Tax-exempt	2,752	(2,481)	271	3	(200)	(197)
FHLB and FRB stock	144	(219)	(75)	25	(111)	(86)
Loans, net:	33,764	(5,736)	28,028	22,823	(1,830)	20,993
Total interest income	$36,310	$ (8,598)	$27,712	$28,676	$ (7,141)	$21,535
INTEREST EXPENSE:						
Interest-bearing deposits:						
Interest checking, savings and money market	1,182	(1,098)	84	1,231	(1,118)	113
Time	895	(445)	450	1,275	(2,244)	(969)
Federal funds purchased and securities sold under agreements to repurchase	(500)	(202)	(702)	695	(1,116)	(421)
Other borrowings	3,364	(3,434)	(70)	(435)	243	(192)
Total interest expense	$4,941	$ (5,179)	$(238)	$2,766	$ (4,235)	$(1,469)
Net interest income	$31,369	$ (3,419)	$27,950	$25,910	$ (2,906)	$23,004

Changes in net interest income occur from a combination of changes in the volume of interest-earning assets and interest-bearing liabilities, and in the rate of interest earned or paid on them. The above table illustrates changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of the change. In 2013, net interest income increased by $28.0 million, resulting from a $27.7 million increase in interest income and a $238,000 decrease in interest expense. Growth in average balances on interest-earnings assets contributed $36.1 million to the increase in interest income, while the lower yields offset this growth by $8.6 million. The decrease in interest expense is due to lower rates paid on interest bearing liabilities, partially offset by growth in average balances.

Provision for Loan and Lease Losses

The provision for loan and lease losses represents management’s estimate of the expense necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses was $6.2 million in

2013, compared to $8.8 million in 2012. Net loan charge-offs of $2.8 million in 2013 were down from $11.8 million in 2012. Included in 2012 was one commercial loan charge-off of approximately $4.2 million that was partially reserved for in prior periods. The Company has seen improvement in credit quality metrics over the past several quarters and current levels of nonperforming loans and criticized and classified loans are down from prior year end. See the section captioned “The Allowance for Loan and Lease Losses” included within “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition” of this Report for further analysis of the Company’s allowance for loan and lease losses.

Noninterest Income

	Year ended December 31,		
(in thousands)	2013	2012	2011
Insurance commissions and fees	$27,916	$19,421	$13,542
Investment services	15,109	14,340	14,287
Service charges on deposit accounts	8,495	7,441	8,491
Card services	7,216	6,030	5,060
Net mark-to-market gains (losses)	17	(86)	(402)
Net other-than-temporary impairment losses	0	(196)	(65)
Other income	10,546	7,534	6,705
Net gain on securities transactions	599	324	396
Total	$69,898	$54,808	$48,014

Noninterest income is a significant source of income for the Company, representing 30.3% of total revenues in 2013, and 29.0% in 2012, and is an important factor in the Company's results of operations. Noninterest income increased 27.5% over 2012. The year-over-year changes in the various noninterest categories are discussed in more detail below.

Insurance commissions and fees increased $8.5 million or 43.7% over 2012. Revenues for commercial insurance lines, personal insurance lines, and health and benefit related insurance products were all up for the year compared to the same period in 2012. The majority of the increase in revenue is attributable to a full years' benefit of the acquisition of VIST Insurance, which closed in the third quarter of 2012.

Investment services income in 2013 increased by $769,000 or 5.4% over 2012. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. With fees largely based on the market value and the mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. The market value of assets managed by, or in custody of, Tompkins was $3.4 billion at December 31, 2013, and $3.2 billion at December 31, 2012. These figures include $906.8 million in 2013 and $931.6 million in 2012, of Company-owned securities where Tompkins Trust Company serves as custodian. The increase in fair value of assets also reflects successful business development initiatives resulting in customer retention and the impact of the VIST Financial acquisition.

Service charges on deposit accounts were up $1.1 million or 14.2%, compared to 2012. The largest component of this category is overdraft fees, which is largely driven by customer activity. The increase over the prior year is primarily due to the addition of VIST Bank. However, all four of the Company's banking subsidiaries reported an increase in service charges on deposit accounts for 2013 as compared to the same period in 2012.

Card services income increased $1.2 million or 19.7% over the same period in 2012. The primary components of card services income are fees related to debit card transactions and ATM usage. The increase was concentrated in debit card income and was largely due to the acquisition of VIST Bank. In addition, there were accrual adjustments related to a card reward program to reflect an actual redemption rate on program incentives, lower than management's original estimates. Favorable trends in the number of cards issued and transaction volume have been partially offset by lower interchange fees as a result of regulatory changes.

Net mark-to-market gains on securities and borrowings held at fair value were $17,000 in 2013, compared to net losses of $86,000 reported in 2012. Mark-to-market losses or gains relate to the change in the fair value of securities and borrowings where the Company has elected the fair value option. The year- over-year gains (losses) are mainly attributed to changes in market interest rates.

The Company recognized $599,000 of gains on sales/calls of available-for-sale securities in 2013, compared to $324,000 of gains in 2012. Sales of available-for-sale securities are generally the result of general portfolio maintenance and interest rate risk management. The gains recognized in 2013, included $94,000 of gains related to the sale of three non-agency bonds, which had previously been determined to be other-than-temporarily impaired.

Other income increased $3.0 million or 40.0% when compared to 2012. The significant components of other income are other service charges, increases in cash surrender value of corporate owned life insurance (“COLI”), gains on the sales of residential mortgage loans, FDIC indemnification asset accretion and income from miscellaneous equity investments, including the Company’s investment in a Small Business Investment Company (“SBIC”). Other income for 2013 included a pre-tax gain of $1.4 million on the redemption of a Trust Preferred debenture acquired as part of the VIST Financial acquisition and a pre-tax $1.3 million gain associated with certain deposit accounts that were converted to alternative products during the fourth quarter of 2013. Most other income categories were up in 2013 over 2012 due to the VIST Financial acquisition. Other income in 2012 included $405,000 in pre-tax income related to the reversal of an accrued liability related to the settlement of litigation between VISA Inc. and certain merchants.

For 2013, the Company had net losses of $133,000 on loan sales compared with net gains of $885,000 for 2012. Gains and losses on loan sales are included in other income on the consolidated statements of income. The net loss of $133,000 in 2013 included a net loss of $434,000 on the sale of certain commercial loans acquired in the VIST acquisition as well as net gains of $301,000 on sales of residential mortgage loans. The gains in 2012 were on sales of residential mortgage loans. The decrease in gains on sale of residential mortgage loans is mainly due to lower sales volumes, reflecting a decision to hold certain loans in the portfolio rather than sell them in the secondary market. To manage interest rate risk exposures, the Company from time to time sells certain fixed rate loan originations that have rates below or maturities greater than the standards set by the Company’s Asset/Liability Committee for loans held in the portfolio.

Noninterest Expense

	Year ended December 31,		
(in thousands)	2013	2012	2011
Salaries and wages	$67,200	$51,700	$44,140
Pension and other employee benefits	22,164	18,075	14,275
Net occupancy expense of premises	11,757	8,969	7,117
Furniture and fixture expense	5,701	4,996	4,463
FDIC insurance	3,214	2,685	2,527
Amortization of intangible assets	2,197	1,264	589
Merger and integration related expense	228	15,584	174
Other	40,641	34,335	25,267
Total	$153,102	$137,608	$98,552

Noninterest expenses of $153.1 million were up $15.5 million or 11.3% over 2012. The year-over-year increase was largely the result of the operations of VIST Financial. Changes in various components of noninterest expense are discussed below.

Salaries and wages and pension and other employee benefit expenses increased $19.6 million or 28.1% over 2012. For 2013, salaries and wages were up $15.5 million or 30.0% over the prior year. The increase is mainly a result of the additional employees acquired in the VIST Financial acquisition. In addition, annual merit increases and higher

accruals for incentive compensation and business development activities contributed to the increase over prior year. Pension and other employee benefits were up $4.1 million or 22.6% over 2012, mainly a result of the VIST Financial acquisition. Other employee benefits include healthcare insurance, dental insurance and 401(k) plan and these expenses were up over prior year as a result of additional employees as well as high premiums for healthcare.

Net occupancy expense increased $2.8 million or 31.1% in 2013 over 2012, mainly a result of the VIST Financial acquisition.

Other operating expenses of $40.6 million, increased by $6.3 million or 18.4% compared to 2012. The primary components of other operating expenses in 2013 are technology expense ($6.1 million), marketing expense ($5.0 million), professional fees ($5.7 million), cardholder expense ($3.4 million) and other miscellaneous expense ($20.5 million). These expense categories were all up over 2012, mainly a result of the VIST acquisition and having a full year of VIST operations in 2013 compared to only five months in 2012. Other miscellaneous expense in 2013 included legal ($2.4 million); travel and meetings ($1.6 million); postage and courier ($1.5 million); telephone ($1.2 million); audit and examinations ($1.1 million); other real estate owned ($861,000); and investment tax credit amortization ($795,000).

The Company's efficiency ratio, defined as operating expense excluding amortization of intangible assets, divided by tax-equivalent net interest income plus noninterest income before securities gains and losses (increase in the cash surrender value of COLI is shown on a tax equivalent basis) was 64.0% in 2013, compared to 62.7% in 2012. Tax equivalency was based upon a 40% tax rate. Excluding the tax equivalent adjustments for tax-exempt securities and tax-exempt loans and leases, the efficiency ratio would be 65.0% in 2013 and 63.4% in 2012.

Noncontrolling Interests

Net income attributable to noncontrolling interests represents the portion of net income in consolidated majority-owned subsidiaries that is attributable to the minority owners of a subsidiary. The Company had net income attributable to noncontrolling interests of $131,000 in 2013 and 2012. The noncontrolling interests relate to three real estate investment trusts, which are substantially owned by the Company's banking subsidiaries.

Income Tax Expense

The provision for income taxes provides for Federal, New York State and Pennsylvania State income taxes. The 2013 provision was $20.8 million. The effective tax rate for the Company was 29.0% in 2013, up from 26.2% in 2012. The effective rates differ from the U.S. statutory rate of 35.0% during the comparable periods primarily due to the effect of tax-exempt income from loans and securities, life insurance assets, and investments in tax credits.

Results of Operations

(Comparison of December 31, 2012 and 2011 results)

General

The Company reported diluted earnings per share of $2.43 in 2012, a decrease of 24.1% from diluted earnings per share of $3.20 in 2011. Net income attributable to Tompkins Financial Corporation for the year ended December 31, 2012, was $31.3 million, down 11.7% compared to $35.4 million in 2011. The decline in 2012 is primarily due to the $9.7 million ($0.76 diluted per share) in after-tax merger and acquisition integration related expenses included in 2012 results, compared to $152,000 ($0.01 diluted per share) in after-tax merger expenses in 2011 results; as well as an increase in the weighted average shares outstanding.

The Company's return on equity was 8.30% in 2012, compared to 12.02% in 2011, while return on assets was 0.76% in 2012 and 1.07% in 2011. The decrease is primarily due to the $9.7 million in after-tax merger related expenses being recorded in 2012.

The Company's operating (non-GAAP) net income in 2012 amounted to $40.6 million or $3.16 diluted per share compared to $35.5 million or $3.21 per diluted share in 2011. Operating (non-GAAP) net income for 2012 excludes $9.7 million in after-tax merger and acquisition integration related expenses and $243,000, after-tax, in accrual reversals related to the Company's accrual for potential VISA litigation. Operating (non-GAAP) net income for 2011 excludes $152,000 in after-tax merger and acquisition integration related expenses.

Segment Reporting

Banking Segment

The Banking segment reported net income of $37.7 million for the year ending December 31, 2012, representing a $6.2 million or 19.8% increase compared to 2011, driven mainly by growth in net interest income. Net interest income increased $22.8 million in 2012, up 20.5% versus 2011, due primarily to the acquisition of VIST Financial in the third quarter of 2012. Interest income rose $21.3 million or 15.6%, while interest expense declined $1.5 million or 5.7% compared to the same period in 2011.

The provision for loan and lease losses was $8.8 million in 2012, compared to $8.9 million in the prior year.

Noninterest income grew $1.3 million or 6.0% in 2012 from 2011. The main contributors to the improvement were an increase in card services income of $970,000 or 19.2%, a $604,000 or 74.3% increase in loan related fees and a pre-tax $405,000 accrual reversal of a liability associated with obligations to share in certain VISA litigation. The VISA accrual reversal was attributed to VISA's public announcement of sufficient reserves to cover estimated litigation settlement costs. Card services income rose as a result of an increase in debit card transaction volumes and the expiration of associated reward program incentives. Service charges on deposit accounts were down $1.1 million or 12.4% in 2012 compared to 2011. The decrease was mainly a result of lower overdraft fee revenue reflecting regulatory changes.

Noninterest expenses increased $19.2 million or 24.8% from the same period in 2011 primarily due salaries and facilities costs associated with the integration of VIST Bank into the organization. Increases in salaries and other benefits, including annual merit increases, occupancy and equipment costs, cardholder expenses and the amortization of intangibles related to the VIST Financial acquisition more than offset decreases in incentive compensation.

Insurance Segment

The Insurance segment reported net income of $2.4 million; up $743,000 or 46.2% from 2011. The primary reason for the increase in net income is the addition of VIST Insurance in the operating results of the Company as a result of the VIST Financial acquisition.

Noninterest income increased $6.2 million or 48.7% over 2011. Revenues from all three of the Company's primary insurance product lines: commercial, personal and health and benefit insurance increased over 2011. Insurance commissions increased $6.2 million or 48.7% compared to the previous year.

Noninterest expense increased $5.0 million in 2012, up 49.2% compared to 2011. Increases in salaries and benefits costs, associated with merit increases and additional headcount contributed to most of the noninterest expense variance for the current year. In addition, other contributors to the increase in expense included a $247,000 increase in amortization of intangible assets, and a $230,000 increase in expense for commissions paid.

Wealth Management Segment

The Wealth Management segment reported net income of $2.4 million for the period ending December 31, 2012, an increase of $75,000 or 3.2% compared to 2011. Included in the 2012 results for the Wealth Management segment are the operating results of VIST Capital Management, LLC, which became part of Tompkins Financial Advisors.

Noninterest income improved $275,000 or 1.8% over prior year due primarily to trust services and brokerage income, which increased $962,000 and $296,000, respectively over the prior year. These increases offset declines associated with the Company's decision to stop providing services to external broker dealer relationships in the third quarter of 2011. The market value of assets under management at December 31, 2012, totaled $3.2 billion, an increase of 16.5% compared to year-end 2011. Assets under management of VIST Capital Management were $139.8 million at the time of acquisition on August 1, 2012.

Noninterest expenses increased $175,000, or 1.4% over 2011, due primarily to changes in formulas for incentive compensation, additional headcount related to the VIST acquisition, and higher professional fees.

Net Interest Income

Net interest income is the Company’s largest source of revenue, representing 71.0% of total revenues for the twelve months ended December 31, 2012, and 69.9% of total revenues for the twelve months ended December 31, 2011. Net interest income is dependent on the volume and composition of interest earning assets and interest-bearing liabilities and the level of market interest rates. The Company’s net interest income over the past several years benefitted from steady growth in average earning assets. However, with deposit rates at low levels, the downward pricing of these liabilities had slowed, while interest earning assets continued to reprice downward at a steady rate. That contributed to a decrease in net interest margin for the twelve months ended December 31, 2012, compared to the same period in 2011. The taxable equivalent net interest margin of 3.65% for 2012 was below the 3.72% level for 2011.

Taxable-equivalent interest income increased by 15.4% in 2012 compared to 2011. The increase in taxable-equivalent interest income was the result of the increase in average interest-earning assets year-over-year, mainly a result of the VIST Financial acquisition, as well as organic growth. For 2012, average interest-earning assets were up $689.9 million or 22.5%, with the acquisition of VIST Financial contributing $1.3 billion of interest-earning assets at the time of acquisition. Between 2011 and 2012 the average yields on interest-earning assets decreased by 27 basis points. The yield on average interest-earning assets was impacted by the low rate environment as well as growth in lower yielding securities instead of loans as a result of soft loan demand. Furthermore, the purchase accounting impact to earning assets acquired from VIST Bank resulted in reduced yields on these acquired assets. Average loan balances in 2012 were up $453.6 million or 23.5% over 2011, while the average yield on loans decreased 15 basis points to 5.27%. At the time of acquisition, VIST Bank’s loan portfolio totaled $889.3 million. Average securities balances in 2012 were up $231.2 million over 2011 and had an average yield of 2.61% in 2012 compared to an average yield of 3.11% in 2011. During 2012, cash flow from securities maturities and prepayments had been reinvested at lower yields as a result of the decrease in market interest rates.

Interest expense for 2012 was down $1.5 million or 5.7% compared to 2011, despite a $540.5 million or 22.3% increase in average interest bearing liabilities. The decrease in interest expense reflects lower average rates paid on deposits and borrowings, a lower average volume of borrowings and growth in noninterest bearing deposit balances. The average rate paid on interest-bearing deposits during 2012 of 0.47% was 16 basis points lower than the average rate paid in 2011. The decrease in the average cost of interest-bearing deposits reflects a decrease in the interest rates offered on deposit products due to decreases in average market rates combined with an increase in the relative proportion of lower cost savings and money market deposits. Average interest-bearing deposit balances increased by $528.4 million or 25.6% in 2012 compared to 2011. At the time of acquisition, VIST Bank had total deposits of $1.2 billion. The remainder of the increase was in average interest bearing checking, savings and money market deposit balances. Average noninterest bearing deposit balances in 2012 were up $141.3 million or 26.2% 2011. At the time of acquisition, VIST Bank had noninterest bearing deposit balances of $129.5 million.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $8.8 million in 2012, compared to $8.9 million in 2011. Net loan charge-offs of $11.8 million in 2012 were up from $9.2 million in 2011, and included one commercial loan charge-off of approximately $4.2 million in the fourth quarter of 2012 that was partially reserved for in prior periods. The Company reported improved credit quality metrics over the past several quarters and current levels of nonperforming loans and criticized and classified loans were down from 2011.

Noninterest Income

Noninterest income represented 29.0% of total revenues in 2012, and 30.1% in 2011, and was an important factor in the Company's results of operations. Noninterest income increased 14.2% over 2011. The year-over-year changes in the various noninterest categories are discussed in more detail below.

Insurance commissions and fees increased $5.9 million or 43.4% over 2011. Revenues for commercial insurance lines, personal insurance lines, and health and benefit related insurance products were all up for the year compared to the same period in 2011. The majority of the increase in revenue was attributable to the August 1, 2012 acquisition of VIST Insurance. The VIST Financial acquisition added about $1.5 million of commercial lines revenue, $697,000 of personal lines revenue, and $2.5 million in health and benefit revenues in 2012. In addition, 2012 was also the first full year which included business resulting from the Olver acquisition which closed in the second quarter of 2011.

Investment services income in 2012 was relatively flat compared to the same period in 2011. Increases in trust and wealth management fees were mainly offset by lower brokerage fees and commissions. In 2011, the Company discontinued providing broker dealer services to third party representatives, which resulted in lower commissions. Investment services income includes trust services, financial planning, wealth management services, and brokerage related services. With fees largely based on the market value and the mix of assets managed, volatility in the equity and bond markets impacts the market value of assets and the related investment fees. The market value of assets managed by, or in custody of, Tompkins was $3.2 billion at December 31, 2012, and $2.7 billion in 2011. These figures include $931.6 million in 2012 and $974.3 million in 2011, of Company-owned securities where Tompkins Investment Services serves as custodian.

Service charges on deposit accounts were down $1.1 million or 12.4%, compared to 2011. The largest component of this category was overdraft fees, which was largely driven by customer activity. The Company implemented changes to its transaction processing as required by the Dodd-Frank Act, which negatively impacted overdraft revenue.

Card services income increased $970,000 or 19.2% over the same period in 2011. The primary components of card services income were fees related to debit card transactions and ATM usage. Debit card income and fees associated with debit card transactions increased by 25.9% compared to 2011. The increase was mainly due to an increase in the number of cards issued, higher transaction volumes contributing to additional interchange income, and an accrual adjustment related to a card reward program to reflect an actual redemption rate on program incentives, lower than management's original estimates. Furthermore, $529,000 of the card services income increase was attributed to VIST Bank.

Net mark-to-market losses on securities and borrowings held at fair value were down $316,000 compared to losses reported in 2011. Mark-to-market losses or gains relate to the change in the fair value of securities and borrowings where the Company had elected the fair value option. The year-over-year losses were mainly attributed to changes in market interest rates.

Other income increased $829,000 or 12.4% when compared to 2011. The primary components of other income were other service charges, increases in cash surrender value of life insurance, gains on sales of residential mortgage loans, and other miscellaneous income, which included income from miscellaneous equity investments, including the Company's investment in Small Business Investment Companies ("SBIC").

Other service charge income, included in other income on the consolidated statements of income, was up compared to 2011 by $762,000, mainly as a result of the VIST Bank acquisition, which contributed $739,000.

Net gains on sale of loans, included in other income on the consolidated statements of income, of $885,000 in 2012 were up by $389,000 or 78.3% compared to 2011. The increase in gains in 2012 compared to 2011 was attributable to the VIST acquisition. VIST Bank had $524,000 of gains on sales of loans since acquisition. To manage interest rate risk exposures, the Company from time to time will sell certain fixed rate residential mortgage loan originations that have rates below or maturities greater than the standards set by the Company's Asset/Liability Committee for loans held in the portfolio.

Increases in the value of Corporate Owned Life Insurance ("COLI") net of mortality expenses, included in other income on the consolidated statements of income, were $1.7 million in 2012, up $212,000 or 14.1% over 2011. COLI relates to life insurance policies covering certain senior officers of the Company and its subsidiaries. The Company's average investment in COLI was $65.1 million at December 31, 2012, and $41.6 million during the same period in 2011.

Other miscellaneous income in 2012 also included approximately $755,000 in nonrecurring income attributable to a merchant servicing contract bonus of $350,000 and a $405,000 reversal of a liability that was previously established to cover the Company's potential obligation to share in certain VISA litigations. During the second quarter of 2012, VISA reached a settlement with certain merchants.

Noninterest Expense

Noninterest expenses of $137.6 million were up $39.1 million or 39.6% over 2011. This increase was largely the result of the VIST Financial merger and acquisition integration related pre-tax expenses, which were $15.6 million and $174,000, for 2012 and 2011, respectively. VIST Financial contributed $13.1 million in noninterest expense 2012. Changes in various components of noninterest expense are discussed below.

Total personnel-related expenses increased by $11.3 million or 19.4% in 2012 over 2011. Salaries and wages increased by $7.6 million or 17.1% in 2012 when compared to 2011. The increase was primarily related to VIST Financial, which added $3.3 million of additional expense over 2011; also contributing to the increase were annual merit increases as well as increases in incentive compensation expense and stock-based compensation expense. Total pension and other employee benefit expense increased by $3.8 million or 26.6% compared to 2011. The increase was mainly related to VIST Financial, which added $948,000 of additional expense over 2011, along with increases in pension and health insurance expense.

Net occupancy expense increased by $1.9 million or 26.0% in 2012 over 2011; VIST Financial contributed $1.5 million in additional net occupancy expense in 2012.

Other operating expenses of $34.3 million, increased by $9.1 million or 35.9% compared to 2011. The primary components of other operating expenses in 2012 were technology expense ($5.3 million), marketing expense ($4.1 million), professional fees ($4.1 million), software licensing and maintenance ($4.0 million), cardholder expense ($2.4 million) and other miscellaneous expense ($18.5 million). Other miscellaneous expense in 2012 included investment tax credit amortization ($2.2 million); postage and courier ($1.4 million); legal ($1.4 million); travel and meetings ($1.2 million); other real estate owned ($1.1 million); and telephone ($1.0 million). VIST Financial contributed $6.2 million in other operating expense in 2012.

The Company's efficiency ratio, defined as operating expense excluding amortization of intangible assets, divided by tax-equivalent net interest income plus noninterest income before securities gains and losses (increase in the cash surrender value of COLI is shown on a tax equivalent basis), was 62.7% in 2012, compared to 60.3% in 2011. Tax equivalency was based upon a 40% tax rate. Excluding the tax equivalent adjustments for tax-exempt securities and tax-exempt loans and leases, the efficiency ratio would be 63.4% in 2012 and 61.4% in 2011.

Noncontrolling Interests

The Company had net income attributable to noncontrolling interests of $131,000 in 2012 and 2011. The noncontrolling interests relate to three real estate investment trusts, which are substantially owned by the Company's banking subsidiaries.

Income Tax Expense

The provision for income taxes provides for Federal, New York State income taxes. The 2012 provision was $11.1 million. The effective tax rate for the Company was 26.2% in 2012, down from 31.6% in 2011. The decrease in the effective rate in 2012 was primarily a result of investments in low income housing and historic tax credits and an increase in tax exempt income.

FINANCIAL CONDITION

Total assets, at December 31, 2013, grew by $165.8 million or 3.4% compared to the previous year-end. The growth was mainly in loans, which were up $239.7 million or 8.1% over year-end 2012.

As of December 31, 2013, total securities comprised 27.7% of total assets, compared to 29.6% of total assets at year-end 2012. The decrease in the percentage from year-end 2012 and year-end 2013 was partially a result of using securities cash flow to support loan growth. The securities portfolio contains primarily mortgage-backed securities, obligations of U.S. Government sponsored entities, and obligations of states and political subdivisions. The Company has no investments in preferred stock of U.S. Government sponsored entities and no investments in pools of trust preferred securities. A more detailed discussion of the securities portfolio is provided below in this section under the caption “Securities”.

Loans and leases were 63.8% of total assets at December 31, 2013, compared to 61.1% of total assets at December 31, 2012. A more detailed discussion of the loan portfolio is provided below in this section under the caption “Loans and Leases”.

Total deposits decreased slightly (less than 1.0%) compared to December 31, 2012, as increases in interest bearing checking, savings, and money market balances of $46.2 million or 2.2% and increases in noninterest bearing deposits of $59.0 million or 7.1% were offset by a $108.2 million or 11.1% decrease in time deposits. Other borrowings, consisting mainly of short term advances with the FHLB, were up $219.7 million or 196.4% from December 31, 2012. A more detailed discussion of deposits and borrowings is provided below in this section under the caption “Deposits and Other Liabilities”.

Shareholders’ Equity

The Consolidated Statements of Changes in Shareholders’ Equity included in the Consolidated Financial Statements of the Company contained in Part II, Item 8. of this Report, detail the changes in equity capital. Total shareholders’ equity was up $16.6 million or 3.7% to $457.9 million at December 31, 2013, from $441.4 million at December 31, 2012. Additional paid-in capital increased by $11.4 million, from $334.7 million at December 31, 2012, to $346.1 million at December 31, 2013. The $11.4 million increase included the following: $5.0 million of proceeds from stock option exercises and the related tax benefits; $1.4 million related to stock-based compensation; $4.0 million related to shares issued for dividend reinvestment plans; $715,000 related to shares issued for the employee stock ownership plan; and $284,000 related to shares issued for director deferred compensation plan. Retained earnings increased by $28.4 million, reflecting net income of $50.9 million less dividends of $22.5 million.

Accumulated other comprehensive loss increased from a net unrealized loss of $2.1 million at December 31, 2012 to a net unrealized loss of $25.1 million at December 31, 2013; reflecting a $34.7 million increase in unrealized loss on available-for-sale securities due to market rates, and an $11.7 million increase in unrealized gains associated with postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company’s defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage capital ratios.

Total shareholders’ equity was up $142.2 million or 47.5% to $441.4 million at December 31, 2012, from $299.1 million at December 31, 2011 mainly as a result of the stock issued as part of the VIST acquisition, a capital raise completed in the second quarter of 2012 and net income. Additional paid-in capital increased by $128.3 million, from $206.4 million at December 31, 2011, to $334.6 million at December 31, 2012. The $128.3 million included the following: the issuance of $83.1 million in common stock for the acquisition of VIST Financial; the net $37.9 million capital raise completed in the second quarter of 2012; $2.8 million of proceeds from stock option exercises and the related tax benefits; $1.3 million related to stock-based compensation; $1.9 million related to shares issued under dividend reinvestment plans; $1.0 million related to shares issued under the employee stock ownership plan; and $199,000 related to shares issued under the director deferred compensation plan. Retained earnings increased by $12.3 million, reflecting net income of $31.3 million less dividends of $19.0 million.

Accumulated other comprehensive loss decreased from a net unrealized loss of $3.7 million at December 31, 2011 to a net unrealized loss of $2.1 million at December 31, 2012; reflecting a $3.1 million increase in unrealized gains on available-for-sale securities due to lower market rates, and an $1.6 million loss associated with postretirement benefit plans. Under regulatory requirements, amounts reported as accumulated other comprehensive income/loss related to net unrealized gain or loss on available-for-sale securities and the funded status of the Company’s defined benefit post-retirement benefit plans do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage capital ratios.

The Company continued its long history of increasing cash dividends with a per share increase of 5.5% in 2013, which follows an increase of 4.3% in 2012. Dividends per share amounted to $1.54 in 2013, compared to $1.46 in 2012, and $1.40 in 2011. Cash dividends paid represented 44.2%, 60.8%, and 43.5% of after-tax net income in each of 2013, 2012, and 2011, respectively.

On October 25, 2011, the Company's Board of Directors authorized a new stock repurchase plan for the Company to repurchase up to 335,000 shares of the Company's common stock. Purchases may be made on the open market or in privately negotiated transactions over 24 months. The 24 month period ended October 25, 2013 and no shares were purchased under the plan.

The Company and its subsidiary banks are subject to quantitative capital measures established by regulation to ensure capital adequacy. Consistent with the objective of operating a sound financial organization, the Company and its subsidiary banks maintain capital ratios well above regulatory minimums and meet the requirements to be considered well-capitalized under the regulatory guidelines.

During the first quarter of 2010, the Comptroller of the Currency ("OCC") notified the Company that it was requiring Mahopac Bank, one of the Company's four banking subsidiaries, to maintain certain minimum capital ratios at levels higher than those otherwise required by applicable regulations. Mahopac has exceeded these minimum requirements since the time of the notification and was notified by the OCC during the first quarter of 2013 that it was no longer requiring Mahopac to maintain the higher capital ratios agreed to in 2010.

As of December 31, 2013, the capital ratios for the Company's other four subsidiary banks exceeded the minimum levels required to be considered well capitalized. Additional information on the Company's capital ratios and regulatory requirements is provided in "Note 21 - Regulations and Supervision" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report on Form 10-K.

Securities

The Company maintains a portfolio of securities such as U.S. Treasuries, U.S. government sponsored entities securities, U.S. government agencies, non-U.S. Government agencies or sponsored entities mortgage-backed securities, obligations of states and political subdivisions thereof and equity securities. Management typically invests in securities with short to intermediate average lives in order to better match the interest rate sensitivities of its assets and liabilities. Investment decisions are made within policy guidelines established by the Company's Board of Directors. The investment policy established by the Company's Board of Directors is based on the asset/liability management goals of the Company, and is monitored by the Company's Asset/Liability Management Committee. The

intent of the policy is to establish a portfolio of high quality diversified securities, which optimizes net interest income within safety and liquidity limits deemed acceptable by the Asset/Liability Management Committee.

The Company classifies its securities at date of purchase as available-for-sale, held-to-maturity or trading. Securities, other than certain obligations of states and political subdivisions thereof, are generally classified as available-for-sale. Securities available-for-sale may be used to enhance total return, provide additional liquidity, or reduce interest rate risk. The held-to-maturity portfolio consists solely of obligations of state and political subdivisions. The securities in the trading portfolio reflect those securities that the Company elects to account for at fair value, with the adoption of ASC Topic 825,

Financial Instrument.

The Company's securities portfolio at December 31, 2013 totaled $1.38 billion compared to $1.43 billion at December 31, 2012. The fair value of the available-for-sale portfolio, the held-to-maturity portfolio, and the trading portfolio decreased from year end 2012. The decrease in the available-for-sale portfolio was mainly due to decreases in obligations of U.S. government sponsored entities and obligations of U.S. states and political subdivisions offset by an increase in mortgage-backed securities issued by U.S. Government sponsored entities. In addition, fair values decreased between year end 2012 and year end 2013 as a result of changes in market interest rates. The decrease in the held-to-maturity portfolio was due to maturities and calls during the year. The tables below show the composition of the securities portfolios as of the past three year ends. Additional information on the securities portfolio is available in "Note 3 Securities" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report, which details the types of securities held, the carrying and fair values, and the contractual maturities as of December 31, 2013 and 2012.

Available-for-Sale Securities	2013		2012		2011	
(in thousands)	**Amortized Cost**[1]	Fair Value	**Amortized Cost**[1]	Fair Value	**Amortized Cost**[1]	Fair Value
U.S. Treasury securities	$0	$0	$1,001	$1,004	$2,020	$2,070
Obligations of U.S. Government sponsored entities	558,130	556,345	570,871	593,778	408,958	422,590
Obligations of U.S. states and political subdivisions	68,216	67,962	76,803	79,056	56,939	59,653
Mortgage-backed securities - residential, issued by						
U.S. Government agencies	147,766	146,678	162,853	167,667	123,426	129,773
U.S. Government sponsored entities	587,843	577,472	526,364	540,355	501,136	517,378
Non-U.S. Government agencies or sponsored entities	306	311	4,457	4,354	6,334	5,876
U.S. corporate debt securities	5,000	4,633	5,009	5,083	5,017	5,183
Total debt securities	1,367,261	1,353,401	1,347,358	1,391,297	1,103,830	1,142,523
Equity securities	1,475	1,410	2,058	2,043	1,023	1,023
Total available-for-sale securities	$1,368,736	$1,354,811	$1,349,416	$1,393,340	$1,104,853	$1,143,546

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

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

Held-to-Maturity Securities	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. states and political subdivisions	$18,980	$19,625	$24,062	$25,163	$26,673	$27,255
Total held-to-maturity securities	$18,980	$19,625	$24,062	$25,163	$26,673	$27,255

Trading Securities	2013 Fair Value	2012 Fair Value	2011 Fair Value
Obligations of U.S. Government sponsored entities	$8,275	$11,860	$12,693
Mortgage-backed securities-residential issued by U.S. Government sponsored entities	2,716	4,590	6,905
Total trading securities	$10,991	$16,450	$19,598

The decrease in trading securities reflects principal repayments and maturities received during 2013. The pre-tax mark-to-market losses on trading securities in 2013 were $538,000 and $332,000 in 2012, compared to pre-tax net mark-to-market gains of $62,000 in 2011.

Quarterly, the Company evaluates all investment securities with a fair value less than amortized cost to identify any other-than-temporary impairment as defined under generally accepted accounting principles. During 2013, the Company sold three non-U.S. Government agencies or sponsored entities mortgage backed securities for a gain of approximately $94,000. Prior to 2013, these non-U.S. Government agencies or sponsored entities mortgage backed securities were determined to be other-than-temporarily impaired and the Company did recognize net credit impairment charges to earnings of $441,000 over the life of these securities. Also during 2013, one non-U.S. Government agencies or sponsored entities mortgage backed security was repaid in full. The Company did not recognize any net credit impairment charge to earnings in 2013.

The Company uses a two step modeling approach to analyze each non-agency CMO issue to determine whether or not the current unrealized losses are due to credit impairment and therefore other-than-temporarily impaired ("OTTI"). Step one in the modeling process applies default and severity credit vectors to each security based on current credit data detailing delinquency, bankruptcy, foreclosure and real estate owned (REO) performance. The results of the credit vector analysis are compared to the security's current credit support coverage to determine if the security has adequate collateral support. If the security's current credit support coverage falls below certain predetermined levels, step two is utilized. In step two, the Company uses a third party to assist in calculating the present value of current estimated cash flows to ensure there are no adverse changes in cash flows during the quarter leading to an other-than-temporary-impairment. Management's assumptions used in step two include default and severity vectors and prepayment assumptions along with various other criteria including: percent decline in fair value; credit rating downgrades; probability of repayment of amounts due, credit support and changes in average life. As a result of the modeling process, the Company does not consider its one remaining non-agency CMO's to be other-than-temporarily impaired at December 31, 2013. Future changes in interest rates or the credit quality and credit support of the underlying issuers may reduce the market value of these and other securities. If such decline is determined to be other than temporary, the Company will record the necessary charge to earnings and/or accumulated other comprehensive income to reduce the securities to their then current fair value.

The Company also holds non-marketable Federal Home Loan Bank New York ("FHLBNY") stock, non-marketable Federal Home Loan Bank Pittsburgh ("FHLBPITT") stock and non-marketable Atlantic Central Bankers Bank stock, all of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLB stock is tied to the Company's borrowing levels with the FHLB. Holdings of FHLBNY stock, FHLBPITT stock and ACBB stock totaled $17.2 million, $7.7 million and $95,000 at December 31, 2013, respectively. These securities are carried at par, which is also cost. The FHLBNY and FHLBPITT continue to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLBNY and FHLBPITT stock. On December 31, 2013, the entire $2.1 million of the Company's Federal Reserve Bank stock was redeemed. The redemption was due to the conversion of Mahopac Bank from a nationally-chartered bank and a member of the Federal Reserve to a New York State-chartered bank and not a member of the Federal Reserve. At December 31, 2012, the Company's holdings of FHLBNY stock, FHLBPITT stock, and FRB stock totaled $13.2 million, $4.1 million, and $2.1 million, respectively.

Management's policy is to purchase investment grade securities that, on average, have relatively short expected durations. This policy helps mitigate interest rate risk and provides sources of liquidity without significant risk to capital. The contractual maturity distribution of debt securities and mortgage-backed securities as of December 31, 2013, along with the weighted average yield of each category, is presented in *Table 3-Maturity Distribution* below. Balances are shown at amortized cost and weighted average yields are calculated on a fully taxable-equivalent basis. Expected maturities will differ from contractual maturities presented in *Table 3-Maturity Distribution* below, because issuers may have the right to call or prepay obligations with or without penalty and mortgage-backed securities will pay throughout the periods prior to contractual maturity.

Table 3 - Maturity Distribution

	As of December 31, 2013			
	Securities Available-for-Sale *		Securities Held-to-Maturity	
(dollar amounts in thousands)	Amount	Yield (FTE)	Amount	Yield (FTE)
U.S. Treasury securities				
Obligations of U.S. Government sponsored entities				
Within 1 year	$15,503	2.53 %	$0	0.00 %
Over 1 to 5 years	240,648	2.47 %	0	0.00 %
Over 5 to 10 years	301,979	1.81 %	0	0.00 %
	$558,130	2.11 %	$0	0.00 %
Obligations of U.S. state and political subdivisions				
Within 1 year	$7,593	5.37 %	$10,952	3.90 %
Over 1 to 5 years	22,905	4.80 %	5,636	7.17 %
Over 5 to 10 years	11,266	4.65 %	1,878	7.52 %
Over 10 years	26,452	5.37 %	514	8.14 %
	$68,216	5.06 %	$18,980	5.34 %
Mortgage-backed securities - residential				
Within 1 year	$57	3.30 %	$0	0.00 %
Over 1 to 5 years	6,580	5.05 %	0	0.00 %
Over 5 to 10 years	137,104	2.94 %	0	0.00 %
Over 10 years	592,174	2.37 %	0	0.00 %
	$735,915	2.50 %	$0	0.00 %
Other securities				
Within 1 year	$2,500	4.05 %	$0	0.00 %
Over 10 years	2,500	3.03 %	0	0.00 %
Equity securities	1,475	2.31 %	0	0.00 %
	$6,475	3.26 %	$0	0.00 %
Total securities				
Within 1 year	$25,653	3.52 %	$10,952	3.90 %
Over 1 to 5 years	270,133	2.73 %	5,636	7.17 %
Over 5 to 10 years	450,349	2.25 %	1,878	7.52 %
Over 10 years	621,126	2.50 %	514	8.14 %
Equity securities	1,475	2.31 %	0	0.00 %
	$1,368,736	2.48 %	$18,980	5.34 %

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

The average taxable-equivalent yield on the securities portfolio was 2.39% in 2013 compared to 2.61% in 2012 and 3.11% in 2011. The decrease in yields was primarily a result of the reinvestment of proceeds from principal repayments and maturities at lower market rates.

At December 31, 2013, there were no holdings of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of the Company's shareholders' equity.

Loans and Leases

Table 4 Composition of Loan and Lease Portfolio

Originated Loans and Leases	**As of December 31,**				
(in thousands)	2013	2012	2011	2010	2009
Commercial and industrial					
Agriculture	$74,788	$77,777	$67,566	$65,918	$71,480
Commercial and industrial other	562,439	446,876	417,128	409,432	423,015
Subtotal commercial and industrial	637,227	524,653	484,694	475,350	494,495
Commercial real estate					
Construction	46,441	41,605	47,304	58,519	55,626
Agriculture	52,627	48,309	53,071	48,485	40,516
Commercial real estate other	903,320	722,273	665,859	619,458	601,221
Subtotal commercial real estate	1,002,388	812,187	766,234	726,462	697,363
Residential real estate					
Home equity	171,809	159,720	161,278	164,765	166,618
Mortgages	658,966	573,861	500,034	462,032	458,823
Subtotal residential real estate	830,775	733,581	661,312	626,797	625,441
Consumer and other					
Indirect	21,202	26,679	32,787	41,668	51,363
Consumer and other	32,312	32,251	30,961	31,757	35,324
Subtotal consumer and other	53,514	58,930	63,748	73,425	86,687
Leases	5,563	4,618	6,489	9,949	12,821
Total loans and leases	2,529,467	2,133,969	1,982,477	1,911,983	1,916,807
Less: unearned income and deferred costs and fees	(2,223)	(863)	(628)	(1,625)	(1,989)
Total originated loans and leases, net of unearned income and deferred costs and fees	$2,527,244	$2,133,106	$1,981,849	$1,910,358	$1,914,818
Acquired Loans					
Commercial and industrial					
Commercial and industrial other	128,503	167,427	0	0	0
Subtotal commercial and industrial	128,503	167,427	0	0	0
Commercial real estate					
Construction	39,353	43,074	0	0	0
Agriculture	3,135	3,247	0	0	0
Commercial real estate other	366,438	445,359	0	0	0
Subtotal commercial real estate	408,926	491,680	0	0	0
Residential real estate					

Home equity	67,183	81,657	0	0	0
Mortgages	35,336	41,618	0	0	0
Subtotal residential real estate	102,519	123,275	0	0	0
Consumer and other					
Indirect	5	24	0	0	0
Consumer and other	1,219	1,498	0	0	0
Subtotal consumer and other	1,224	1,522	0	0	0
Covered loans	25,868	37,600	0	0	0
Total loans and leases	667,040	821,504	0	0	0
Total acquired loans and leases, net of unearned income and deferred costs and fees	$667,040	821,504	$0	$0	$0

The Company did not have any acquired loans accounted for in accordance with ASC Topic 805 for the years ended December 31, 2011, 2010 and 2009.

Total loans and leases of $3.2 billion at December 31, 2013 were up $239.7 million or 8.1% from December 31, 2012. The growth was mainly due to organic loan growth. On August 1, 2012, the Company acquired $889.3 million of loans in the VIST Financial acquisition. These loans are shown in the table under the acquired loan and lease heading. All other loans, including loans originated by VIST Bank since acquisition date of August 1, 2012, are considered originated loans. Originated loan balances at December 31, 2013 are up 18.5% over year-end 2012. The increase in originated loans was in commercial, commercial real estate and residential real estate loans; consumer loans were down compared to the prior year. As of December 31, 2013 total loans and leases represented 63.8% of total assets compared to 61.1% of total assets at December 31, 2012.

Residential real estate loans, including home equity loans, of $933.3 million at December 31, 2013 increased by $76.4 million or 8.9% from $856.9 million at year-end 2012, and comprised 29.2% of total loans and leases at December 31, 2013. The growth in residential real estate loan balances reflects higher origination volumes due to the low interest rate environment as well as a decision to retain certain residential mortgages in portfolio rather than sell them in the secondary market due to interest rate considerations. The Company's Asset/Liability Committee meets regularly and establishes standards for selling and retaining residential real estate mortgage originations.

Prior to August 2012, residential mortgage loans were generally sold to Federal Home Loan Mortgage Corporation ("FHLMC") or State of New York Mortgage Agency ("SONYMA"). With the acquisition to VIST on August 1, 2012, the Company also sells loans to other third parties, including money center banks. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. These residential real estate loans also are subject to customary representations and warranties made by the Company, including representations and warranties related to gross incompetence and fraud. The Company has not had to repurchase any loans as a result of these general representations and warranties. While in the past in rare circumstances the Company agreed to sell residential real estate loans with recourse, the Company has not done so in the past several years and the amount of such loans included on the Company's balance sheet at December 31, 2013 was insignificant. The Company has never had to repurchase a loan sold with recourse.

During 2013, 2012, and 2011, the Company sold residential mortgage loans totaling $13.6 million, $37.5 million, and $26.6 million, respectively, and realized net gains on these sales of $301,000, $885,000, and $496,000, respectively. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreement. When residential mortgage loans are sold to FHLMC or SONYMA, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2013, 2012, and 2011, the Company recorded mortgage-servicing assets of $85,000, $123,000, and $176,000, respectively.

The Company has not originated any hybrid loans, such as payment option ARMs. The Company underwrites residential real estate loans in accordance with secondary market standards in effect at the time of origination, including loan-to-value ("LTV") and documentation requirements. The Company does not underwrite low or reduced documentation loans other than those that meet secondary market standards for low or reduced documentation loans. In those instances, W-2's and paystubs are used instead of sending Verification of Employment forms to employers to

verify income and bank deposit statements are used instead of Verification of Deposit forms mailed to financial institutions to verify deposit balances.

Commercial real estate loans totaled $1.4 billion at December 31, 2013; an increase of $107.4 million compared to December 31, 2012, and represented 44.2% of total loans and leases at December 31, 2013, up from 44.1% at December 31, 2012.

Commercial and industrial loans totaled $765.7 million at December 31, 2013, which is an increase of $73.7 million from $692.1 million reported as of December 31, 2012. As of December 31, 2013, agriculturally-related loans totaled $130.6 million or 4.1% of total loans and leases compared to $129.3 million or 4.4% of total loans and leases at December 31, 2012. Agriculturally-related loans include loans to dairy farms and cash and vegetable crop farms. Agriculturally related loans are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral, personal guarantees, and government related guarantees. Agriculturally-related loans are generally secured by the assets or property being financed or other business assets such as accounts receivable, livestock, equipment or commodities/crops.

The consumer loan portfolio includes personal installment loans, indirect automobile financing, and overdraft lines of credit. Consumer and other loans were $54.7 million at December 31, 2013, compared to $60.5 million at December 31, 2012. The originated consumer and other loan portfolio at December 31, 2013 was down 9.2% from year-end 2012, mainly in the indirect auto loan category as a result of increased auto lending competition.

The lease portfolio increased by 20.5% to $5.6 million at December 31, 2013 from $4.6 million at December 31, 2012. The lease portfolio has traditionally consisted of leases on vehicles for consumers and small businesses. More aggressive competition for automobile financing has led to a decline in the consumer lease portfolio over the past several years. Management continues to review leasing opportunities, primarily commercial leasing and municipal leasing. As of December 31, 2013, commercial leases and municipal leases represented 100.0% of total leases.

Acquired loans were recorded at fair value pursuant to the purchase accounting guidelines in FASB ASC 805 – "Fair Value Measurements and Disclosures" (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). At acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, "Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality".

The carrying value of loans acquired from VIST and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was $46.8 million at December 31, 2013, compared to $80.2 million at December 31, 2012. Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

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

The carrying value of loans not exhibiting evidence of credit impairment at the time of the acquisition (i.e. loans outside of the scope of ASC 310-30) was $620.2 million at December 31, 2013 as compared to $741.3 million at December 31, 2012. The fair value of the acquired loans not exhibiting evidence of credit impairment was determined by projecting contractual cash flows discounted at risk-adjusted interest rates.

The carrying value of the acquired loans reflects management's best estimate of the amount to be realized from the acquired loan and lease portfolios. However, the amounts the Company actually realizes on these loans could differ materially from the carrying value reflected in these financial statements, based upon the timing of collections on the acquired loans in future periods, underlying collateral values and the ability of borrowers to continue to make payments.

Purchased performing loans were recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. Such estimated credit losses are recorded as an accretable discount in a manner similar to purchased impaired loans. The fair value discount other than for credit loss is accreted as an adjustment to yield over the estimated lives of the loans. Interest is accrued daily on

the outstanding principal balances of purchased performing loans. Fair value adjustments are also accreted into income over the estimated lives of the loans on a level yield basis.

At December 31, 2013, acquired loans included $25.9 million of covered loans as compared to $37.6 million of covered loans at the prior year-end. VIST Financial had acquired these loans in an FDIC assisted transaction in the fourth quarter of 2010. In accordance with loss sharing agreements with the FDIC, certain losses and expenses relating to covered loans may be reimbursed by the FDIC at 70% or, if certain levels of reimbursement are reached, 80%. See Note 6 – “FDIC Indemnification Asset Related to Covered Loans” in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report on Form 10-K.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures. The Company reviewed the lending policies of Tompkins and VIST Financial, and adopted a uniform policy for the Company. There were no significant changes to the Company’s existing policies, underwriting standards and loan review. The Company’s Board of Directors approves the lending policies at least annually. The Company recognizes that exceptions to policy guidelines may occasionally occur and has established procedures for approving exceptions to these policy guidelines. Management has also implemented reporting systems to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans.

The Company's loan and lease customers are located primarily in the New York and Pennsylvania communities served by its four subsidiary banks. Although operating in numerous communities in New York State and Pennsylvania, the Company is still dependent on the general economic conditions of these states. Other than geographic and general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

Analysis of Past Due and Nonperforming Loans	As of December 31,				
(dollar amounts in thousands)	2013	2012	2011	2010	2009
Loans 90 days past due and accruing					
Commercial and industrial	$0	$0	$0	$842	$294
Commercial real estate	161	0	0	0	0
Residential real estate	446	257	1,378	368	75
Consumer and other	0	0	2	0	0
Leases	0	0	0	7	0
Total loans 90 days past due and accruing	607	257	1,380	1,217	369
Nonaccrual loans					
Commercial and industrial	1,679	1,340	7,105	7,271	7,334
Commercial real estate	23,364	25,014	26,352	24,791	16,664
Residential real estate	13,086	11,084	5,884	9,111	7,070
Consumer and other	254	302	237	309	193
Leases	0	0	10	19	28
Total nonaccrual loans	38,383	37,740	39,588	41,501	31,289
Troubled debt restructurings not included above	45	1,532	428	2,564	3,265
Total nonperforming loans and leases	39,035	39,529	41,396	45,282	34,923
Other real estate owned	4,253	4,862	1,334	1,255	299
Total nonperforming assets	$43,288	$44,391	$42,730	$46,537	$35,222
Total nonperforming loans and leases as a percentage of total loans and leases	1.22 %	1.34 %	2.09 %	2.37 %	1.82 %
Total nonperforming assets as a percentage of total assets	0.87 %	0.92 %	1.26 %	1.43 %	1.12 %
Allowance as a percentage of nonperforming loans and leases	71.65 %	62.34 %	66.65 %	61.46 %	69.72 %

* The 2013 and 2012 columns in the above table excludes $7.0 million and $18.7 million, respectively, of acquired loans that are 90 days past due and accruing interest. These loans were originally recorded at fair value on the acquisition date of August 1, 2012. These loans are considered to be accruing as we can reasonably estimate future cash flows on these acquired loans and we expect to fully collect the carrying value of these loans. Therefore, we are accreting the difference between the carrying value of these loans and their expected cash flows into interest income.

The level of nonperforming assets at the past five year ends is illustrated in the table above. In general, nonperforming assets increased in 2009 and 2010, reflective of weak economic conditions which began in 2008. The Company has seen the level of nonperforming assets remain flat over the past few years. Nonperforming assets at year-end 2013 are down 2.5% from year-end 2012. While certain economic indicators have started to show signs of improvement there is much debate over the strength and sustainability of the upturn and weaknesses remain such as higher than normal unemployment. The Company has seen some improvement in the financial conditions of many of the Company's

commercial and agricultural customers. The Company's ratio of nonperforming assets to total assets continues to compare favorably to its peer group's most recent ratio of 1.69% at December 31, 2013. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion.

Nonperforming loans at December 31, 2013 were down $494,000 or 1.2% from December 31, 2012. Nonperforming loans represented 1.22% of total loans at December 31, 2013, compared to 1.34% of total loans at December 31, 2012, and 2.09% of total loans at December 30, 2011. A breakdown of nonperforming loans by portfolio segment is shown above. Loans secured by commercial real estate represent 59.9% of total nonperforming loans at December 31, 2013. Included in this category are two relationships with an aggregate balance of $9.6 million at December 31, 2013 and $10.0 million at December 31, 2012. These relationships are considered impaired and have been written down to fair value. The increase in residential real estate nonaccrual loans reflects the impact of the weakness in the economy and real estate markets. Nonperforming residential real estate loans represent 1.4% of total residential real estate loans at December 31, 2013.

Loans are considered modified in a troubled debt restructuring (“TDR”) when, due to a borrower’s financial difficulties; the Company makes a concession(s) to the borrower that it would not otherwise consider. When modifications are provided for reasons other than as a result of the financial distress of the borrower, these loans are not classified as TDRs or impaired. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the following categories: “loans 90 days past due and accruing”, “nonaccrual loans”, or “troubled debt restructurings not included above”. Loans in the latter category include loans that meet the definition of a TDR but are performing in accordance with the modified terms and have shown a satisfactory period of repayment (generally six consecutive months) and where full collection of all is reasonably assured. The TDR amount of $1.5 million at December 31, 2012, consisted of two commercial relationships where three loans were modified with concessions granted due to the stressed financial condition of the borrower. By the end of 2013, this relationship was no longer classified as a TDR as it had been performing for a year and it yields a market rate of interest. At December 31, 2013 the Company had $7.2 million in TDRs, which were included in nonaccrual loans in the table above.

In general, the Company places a loan on nonaccrual status if principal or interest payments becomes 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when called for by regulatory requirements. Although in nonaccrual status, the Company may continue to receive payments on these loans. These payments are generally recorded as a reduction to principal and interest income is recorded only after principal recovery is reasonably assured. The difference between the interest income that would have been recorded if these loans and leases had been paid in accordance with their original terms and the interest income that was recorded for the year ended December 31, 2013, was $1.2 million. The amount for the year ended December 31, 2012, was $1.7 million and $2.7 million for December 31, 2011. The Company had no material commitments to make additional advances to borrowers with nonperforming loans.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans consist of our non-homogenous nonaccrual loans and loans that are 90 days or more past due. Specific reserves on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs, and such impaired amounts are generally charged off.

The Company’s recorded investment in originated loans and leases that are considered impaired totaled $22.2 million at December 31, 2013, and $24.7 million at December 31, 2012. At December 31, 2013 and 2012, the $22.2 million and $24.7 million, respectively, did not have any specific reserve allocations. The majority of impaired loans are collateral dependent impaired loans that have limited exposure or require limited specific reserves because of the amount of collateral support with respect to these loans or the loans have been written down to fair value. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured. In these cases, interest is recognized on a cash basis. There was no interest income recognized on impaired loans and leases, all collected in cash, for 2013, 2012 and 2011.

The ratio of the allowance to nonperforming loans (loans past due 90 days and accruing, nonaccrual loans and restructured troubled debt) was 71.7% at December 31, 2013, compared to 62.3% at December 31, 2012. The Company’s ratio is below our peer group ratio of 116.75% as of December 31, 2013. The Company’s nonperforming loans are mostly made up of collateral dependent impaired loans requiring little to no specific allowance due to the level of collateral available with respect to these loans and/or previous charge-offs.

Management reviews the loan portfolio continuously for evidence of potential problem loans and leases. Potential problem loans and leases are loans and leases that are currently performing in accordance with contractual terms, 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 such loans and leases becoming nonperforming at some time in the future. Management considers loans and leases classified as Substandard, which continue to accrue interest, to be potential problem loans and leases. The Company, through its credit administration function, identified 50 commercial relationships from the originated portfolio and 29 commercial relationships from the acquired portfolio totaling $14.5 million and $11.5 million, respectively at December 31, 2013 that were potential problem loans.

At December 31, 2012 there were 42 relationships totaling $25.4 million in the originated portfolio and 49 relationships totaling $30.2 million in the acquired portfolio that were considered potential problem loans. Of the 50 commercial relationships from the originated portfolio, there are 3 relationships that equaled or exceeded $1.0 million, which in aggregate totaled $6.5 million. Of the 29 commercial relationships from the acquired loan portfolio, there are 2 relationships that equaled or exceeded $1.0 million, which in aggregate totaled $4.1 million. Although the Company had seen an increase in potential problem loans due to weak economic conditions over the past several years, the asset quality metrics showed improvement during 2013. The decrease in the dollar volume of potential problem loans since year-end 2012 was mainly due to the upgrade of several large commercial credits to a risk grading better than Substandard as well as the charge off of a certain credit. The Company continues to monitor these relationships, however, management cannot predict the extent to which continued weak economic conditions or other factors may further impact borrowers. 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 the aggregate, give management reason to believe that the current risk exposure on these loans does not warrant accounting for these loans as nonperforming. However, these loans do exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management’s attention is focused on these credits, which are reviewed on at least a quarterly basis.

The Allowance for Loan and Lease Losses

<u>Originated loans and leases</u>

Management reviews the appropriateness of the allowance for loan and lease losses ("allowance") on a regular basis. Management considers the accounting policy relating to the allowance to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that assumptions could have on the Company's results of operations. The Company has developed a methodology to measure the amount of estimated loan loss exposure inherent in the loan portfolio to assure that an appropriate allowance is maintained. The Company's methodology is based upon guidance provided in SEC Staff Accounting Bulletin No. 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* and allowance allocations are calculated in accordance with ASC Topic 310, *Receivables* and ASC Topic 450, *Contingencies*.

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

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

At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $500,000 that are internally risk rated 6 or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans and leases considered impaired, estimated exposure amounts are based upon collateral values or discounted cash flows. For commercial loans, commercial mortgage

loans, and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management’s judgment of the effects of current economic conditions on portfolio performance.

Since the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. Based on its evaluation of the allowance as of December 31, 2013, management considers the allowance to be appropriate. Under adversely or positively different conditions or assumptions, the Company would need to increase or decrease the allowance.

The allocation of the Company's allowance as of December 31, 2013, and each of the previous four years is illustrated in *Table 5- Allocation of the Allowance for Loan and Lease Losses*, below.

Acquired Loans and Leases

As part of our determination of the fair value of our acquired loans at the time of acquisition, the Company established a credit mark to provide for future losses in our acquired loan portfolio. There was no allowance for loan losses carried over from the acquired company. To the extent that credit quality deteriorates subsequent to acquisition, such deterioration would result in the establishment of an allowance for the acquired loan portfolio.

Acquired loans accounted for under ASC 310-30

Acquired loans were accounted for under ASC 310-30, and our allowance for loan losses is estimated based upon our expected cash flows for these loans. To the extent that we experience a deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

Acquired loans accounted for under ASC 310-20

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

Table 5 - Allocation of the Allowance for Originated and Acquired Loan and Lease Losses

	As of December 31,				
(in thousands)	2013	2012	2011	2010	2009
Originated loans outstanding at end of year	$2,527,244	$2,133,106	$1,981,849	$1,910,358	$1,914,818
Allocation of the originated allowance by originated loan type:					

Commercial and industrial	$8,406	$7,533	$8,936	$7,824	$7,304
Commercial real estate	10,459	10,184	12,662	14,445	11,119
Residential real estate	5,771	4,981	4,247	3,526	3,616
Consumer and other	2,059	1,940	1,709	1,976	2,230
Leases	5	5	39	61	81
Total	$26,700	$24,643	$27,593	$27,832	$24,350

Allocation of the originated allowance as a percentage of total originated allowance:					
Commercial and industrial	31 %	31 %	32 %	28 %	30 %
Commercial real estate	39 %	41 %	46 %	52 %	46 %
Residential real estate	22 %	20 %	16 %	13 %	15 %
Consumer and other	8 %	8 %	6 %	7 %	9 %
Leases	0 %	0 %	0 %	0 %	0 %
Total	100 %	100 %	100 %	100 %	100 %
Loan and lease types as a percentage of total originated loans and leases:					
Commercial and industrial	25 %	24 %	24 %	25 %	26 %
Commercial real estate	40 %	39 %	39 %	38 %	36 %
Residential real estate	33 %	33 %	33 %	32 %	32 %
Consumer and other	2 %	4 %	3 %	4 %	5 %
Leases	0 %	0 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %	100 %

(in thousands)	As of December 31, 2013	2012	2011	2010	2009
Acquired loans outstanding at end of year	$667,040	$821,504	$ 0	$ 0	$ 0
Allocation of the acquired allowance by originated loan type:					
Commercial and industrial	$168	$0	$ 0	$ 0	$ 0
Commercial real estate	770	0	0	0	0
Residential real estate	274	0	0	0	0
Consumer and other	58	0	0	0	0
Total	$1,270	$0	$ 0	$ 0	$ 0
Allocation of the acquired allowance as a percentage of total acquired allowance:					
Commercial and industrial	13 %	0 %	0 %	0 %	0 %
Commercial real estate	61 %	0 %	0 %	0 %	0 %
Residential real estate	22 %	0 %	0 %	0 %	0 %
Consumer and other	5 %	0 %	0 %	0 %	0 %
Total	100 %	0 %	0 %	0 %	0 %
Loan and lease types as a percentage of total acquired loans and leases:					
Commercial and industrial	19 %	20 %	0 %	0 %	0 %
Commercial real estate	61 %	60 %	0 %	0 %	0 %
Residential real estate	15 %	15 %	0 %	0 %	0 %
Consumer and other	1 %	1 %	0 %	0 %	0 %
Covered	4 %	4 %	0 %	0 %	0 %
Total	100 %	100 %	0 %	0 %	0 %

The above tables provide, as of the dates indicated, an allocation of the allowance for probable and inherent loan losses by loan type. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

The five year trend in the allowance is shown above. The allowance increased steadily between 2007 and 2010 consistent with deterioration in asset quality measures, including: higher levels of net charge-offs, internally-classified commercial and commercial real estate loans, and nonperforming loans and leases; weak economic conditions; soft real estate markets; and growth in the loan portfolio. With economic conditions stabilizing and gradually improving, asset quality measures have improved over the past few years. As of December 31, 2013, the total allowance for loan and lease losses was approximately $28.0 million, which is up $3.3 million from year-end 2012. Both the allowance for originated loans and allowance for acquired loans were up over year-end 2012.

The increase in the allowance for originated loans in 2013 over 2012 was mainly due to 18.5% growth in the originated portfolio. The growth was in commercial and industrial, commercial real estate, and residential real estate loans, which contributed to increase in the reserve allocations for each of these portfolios in 2013 over 2012. Asset

quality metrics improved in the originated portfolio with decreases in total nonperforming originated loans and leases, net charge-offs of originated loans and leases and originated loans internally-classified Special Mention and Substandard at December 31, 2013 compared to December 31, 2012. The amount of originated loans internally-classified Special Mention, Substandard and Doubtful totaled $77.4 million at December 31, 2013 compared to $101.4 million at December 31, 2012 and $126.6 million at December 31, 2011. Gross charge-offs in the originated portfolio totaled $4.3 million in 2013, down from $12.5 million in 2012. In addition to growth in the originated residential portfolio between year-end 2013 and 2012, the increase in the allocation for residential real estate reflects an uptick in nonperforming residential real estate loans over the past two years.

The increase in the allowance for acquired loans and leases reflects deterioration in specific loans during 2013. The amount of acquired loans internally-classified as Special Mention and Substandard at December 31, 2013 were down from December 31, 2012, reflecting charge-offs, successful workouts and related paydowns, and the sale of $5.5 million of commercial loans and commercial real estate loans during 2013.

The level of future charge-offs is dependent upon a variety of factors such as national and local economic conditions, trends in various industries, underwriting characteristics, and conditions unique to each borrower. Given uncertainties surrounding these factors, it is difficult to estimate future losses.

Table 6 - Analysis of the Allowance for Originated and Acquired Loan and Lease Losses

	December 31,				
(in thousands)	2013	2012	2011	2010	2009
Average originated loans outstanding during year	$2,307,493	$2,301,901	$1,928,540	$1,897,983	$1,850,453
Balance of allowance at beginning of year	24,643	27,593	27,832	24,350	18,672
Originated loans charged-off:					
Commercial and industrial	1,605	5,328	2,403	3,265	1,653
Commercial real estate	651	3,977	4,488	1,167	558
Residential real estate	752	2,390	2,730	791	828
Consumer and other	1,282	826	608	912	1,195
Leases	0	0	3	0	0
Total loans charged-off	$4,290	$12,521	$10,232	$6,135	$4,234
Recoveries of originated loans previously charged-off:					
Commercial and industrial	4,162	198	424	464	305
Commercial real estate	718	200	280	225	27
Residential real estate	48	30	33	85	24
Consumer and other	419	306	311	336	268
Total loans recovered	$5,347	$734	$1,048	$1,110	$624
Net loans (recovered) charged-off	(1,057)	11,787	9,184	5,025	3,610
Additions to allowance charged to operations	1,000	8,837	8,945	8,507	9,288
Balance of originated allowance at end of year	$26,700	$24,643	$27,593	$27,832	$24,350
Originated allowance as a percentage of originated loans and leases outstanding	1.06%	1.16%	1.39%	1.46%	1.27%
Net (recoveries) charge-offs as a percentage of average originated loans and leases outstanding during the year	(0.05%)	0.51%	0.48%	0.26%	0.20%

	December 31,				
(in thousands)	2013	2012	2011	2010	2009
Average acquired loans outstanding during year	$746,045	$80,208	$0	$0	$0

Acquired loans charged-off:					
Commercial and industrial	2,991	0	0	0	0
Commercial real estate	179	0	0	0	0
Residential real estate	696	0	0	0	0
Consumer and other	25	0	0	0	0
Total loans charged-off	$3,891	$0	$0	$0	$0
Recoveries of acquired loans previously charged-off:					
Net loans charged-off	3,891	0	0	0	0
Additions to allowance charged to operations	5,161	0	0	0	0
Balance of acquired allowance at end of year	$1,270	$0	$0	$0	$0
Acquired allowance as a percentage of acquired loans outstanding	0.17 %	0.00 %	0.00%	0.00%	0.00%
Net charge-offs as a percentage of average acquired loans and leases outstanding during the year	0.52 %	0.00 %	0.00%	0.00%	0.00%
Total net charge-offs as a percentage of average total loans and leases outstanding during the year	0.09 %	0.49 %	0.48%	0.26%	0.20%

The provision for loan and lease losses represents management's estimate of the expense necessary to maintain the allowance for loan and lease losses at an appropriate level. The provision for loan and lease losses was $6.2 million in 2013, compared to $8.8 million in 2012. The provision for originated loans and leases was $1.0 million in 2013, down from $8.8 million in 2012. The decrease in provision for originated loans reflects improved asset quality measures and the loan recoveries of $5.3 million in 2013, resulting in net recoveries for the year of $1.1 million. The recoveries were mainly related to one large commercial relationship that was charged off in 2012. The provision for acquired loans and leases was $5.2 million in 2013; there was no provision for acquired loans in 2012. The provision was driven by the $3.9 million in net charge-offs in 2013 as well as deterioration in expected cash flows on some acquired loans subsequent to the acquisition of the loans. Of the $3.9 million of charge-offs, approximately $3.0 million was related to one large commercial relationship that was written down to fair value in the second quarter of 2013.

For 2013, net charge-offs totaled $2.8 million or 0.09% of average total loans and leases compared to net charge-offs of $11.8 million or 0.49% of average total loans and leases. The most recent peer ratio is 0.29%. The peer data is from the Federal Reserve Board and represents banks or bank holding companies with assets between $3.0 billion and $10.0 billion. The peer ratio is as of December 31, 2013, the most recent data available from the Federal Reserve Board.

The ratio of the allowance for originated loan and lease losses as a percentage of total loans decreased 10 basis points from 1.16% at year-end 2012 to 1.06% at year-end 2013, which is reflective of the improvement in the level of loans internally classified Special Mention, Substandard and Doubtful and nonperforming loans and leases. Management believes that, based upon its evaluation as of December 31, 2013, the allowance is appropriate.

Deposits and Other Liabilities

Total deposits of $3.9 billion at December 31, 2013, were flat compared to year-end 2012. Noninterest bearing deposits and interest checking, savings and money market balances grew $59.0 million and $46.2 million, respectively over year end 2012 but were offset by a $108.2 million decline in total time deposits. The low interest rate environment has caused a shift in customer savings trends, as time deposits have continued to decline, while noninterest-bearing deposits and savings deposits have increased.

The most significant source of funding for the Company is core deposits. Prior to December 31, 2011, the Company defined core deposits as total deposits less time deposits of $100,000 or more, brokered deposits and municipal money market deposits. A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") made permanent an increase in the maximum amount of FDIC deposit insurance for financial institutions to $250,000 per depositor. Effective December 31, 2011, as a result of this change the Company defines core deposits as total deposits less time deposits of $250,000 or more (formerly $100,000), brokered deposits and municipal money market deposits.

Core deposits grew by $42.4 million or 1.3% to $3.3 billion at year-end 2013 from $3.2 billion at year-end 2012. Core deposits represented 83.4% of total deposits at December 31, 2013, compared to 82.2% of total deposits at December 31, 2012.

Municipal money market accounts increased by $34.9 million or 8.2% to $459.4 million at year-end 2013 from $424.5 million at year-end 2012. In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and into the winter months from tax deposits and receive an additional inflow at the end of March from the electronic deposit of state funds.

Table 1-Average Statements of Condition and Net Interest Analysis shows the average balance and average rate paid on the Company’s primary deposit categories for the years ended December 31, 2013, 2012, and 2011. Average interest-bearing deposits were up 21.8% in 2013 over 2012. The average cost of interest-bearing deposits decreased to 0.40% for 2013 from 0.47% in 2012. A maturity schedule of time deposits outstanding at December 31, 2013, is included in “Note 9 Deposits” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

The Company uses both retail and wholesale 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. Retail repurchase agreements totaled $55.3 million at December 31, 2013, and $65.4 million at December 31, 2012. Management generally views local repurchase agreements as an alternative to large time deposits. The Company’s wholesale repurchase agreements amounted to $112.4 million at December 31, 2013, and $148.5 million at December 31, 2012. At December 31, 2013, the wholesale repurchase agreements included $80.0 million with the FHLB and $32.4 million with a large financial institution. Refer to “Note 10 Federal Funds Purchased and Securities Sold Under Agreements to Repurchase” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company’s repurchase agreements.

The Company’s other borrowings totaled $331.5 million at year-end 2013, up $219.7 million or 196.4% from $111.8 million at year-end 2012. The increase in borrowings was regulated by investment cashflows in order to fund earning loan growth. The $331.5 million in borrowings at December 31, 2013, included $215.7 million in overnight advances, $101.3 million in term advances and a $14.5 million advance from a bank. Of the $101.3 million of the FHLB term advances at year-end 2013, $81.3 million are due over one year and have a weighted average rate of 4.96%. In 2007, the Company elected to account for a $10.0 million advance with the FHLB at fair value. The fair value of this advance decreased by $555,000 (pre-tax net mark-to-market gain of $555,000) over the 12-months ended December 31, 2013.

Refer to “Note 11 Other Borrowings” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report for further details on the Company’s term borrowings with the FHLB.

LIQUIDITY MANAGEMENT

The objective of liquidity management is to ensure the availability of adequate funding sources to satisfy the demand for credit, deposit withdrawals, operating expenses, 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 the Asset/Liability Management Committee of the Company’s subsidiary banks. This Committee reviews 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, provides 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, discussed above under “Deposits and Other Liabilities”, are a primary and low cost funding source obtained primarily through the Company’s branch network. 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 $250,000 or more, brokered time deposits, municipal money market accounts, securities sold under agreements to repurchase, overnight borrowings and term advances from the FHLB and other funding sources. Rates and terms are the primary determinants of the mix of these funding sources.

Non-core funding sources totaled $1.2 billion at December 31, 2013, an increase of $128.1 million or 12.5% from $1.0 billion at December 31, 2012. Non-core funding sources increased year-over-year as the Company used growth in core deposits and FHLB advances as loan demand continued to be strong in 2013. With the growth in FHLB advances, non-core funding sources as a percentage of total liabilities increased from 23.4% at year-end 2012 to 25.4% at year-end 2013.

Non-core funding sources may require securities to be pledged against the underlying liability. Securities carried at $1.0 billion and $986.8 million at December 31, 2013 and 2012, respectively, were either pledged or sold under agreements to repurchase. Pledged securities or securities sold under agreements to repurchase represented 74.7% of total securities at December 31, 2013, compared to 68.8% of total securities at December 31, 2012.

Cash and cash equivalents totaled $82.9 million as of December 31, 2013, down from $118.9 million at December 31, 2012. Short-term investments, consisting of securities due in one year or less, decreased from $53.1 million at December 31, 2012, to $37.0 million on December 31, 2013. The Company also has $11.0 million of securities designated as trading securities.

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 $724.5 million at December 31, 2013 compared with $712.4 million at December 31, 2012. Outstanding principal balances of residential mortgage loans, consumer loans, and leases totaled approximately $993.6 million at December 31, 2013 as compared to $921.9 million at December 31, 2012. 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 December 31, 2013, the unused borrowing capacity on established lines with the FHLB was $1.1 billion.

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 December 31, 2013, total unencumbered mortgage loans of the Company were $525.9 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.

Table 7 - Loan Maturity

Remaining maturity of originated loans	At December 31, 2013			
(in thousands)	Total	Within 1 year	1-5 years	After 5 years
Commercial and industrial	$637,227	$188,102	$205,201	$243,924
Commercial real estate	1,002,388	39,752	74,969	887,667
Residential real estate	830,775	556	13,220	816,999
Total	$2,470,390	$228,410	$293,390	$1,948,590

Remaining maturity of acquired loans	At December 31, 2013			
(in thousands)	Total	Within 1 year	1-5 years	After 5 years
Commercial and industrial	$128,503	$44,230	$54,323	$29,950
Commercial real estate	408,926	152,510	129,744	126,672
Residential real estate	102,519	22,153	21,311	59,055
Covered Loans	25,868	17,550	1,986	6,332
Total	$665,816	$236,443	$207,364	$222,009

Of the loan amounts shown above in Table 7 - Loan Maturity, maturing over 1 year, $1.1 billion have fixed rates and $1.5 billion have adjustable rates.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business the Company is party to certain financial instruments, which in accordance with accounting principles generally accepted in the United States, are not included in its Consolidated Statements of Condition. These transactions include commitments under standby letters of credit, unused portions of lines of credit, and commitments to fund new loans and are undertaken to accommodate the financing needs of the Company's customers. Loan commitments are agreements by the Company to lend monies at a future date. These loan and letter of credit commitments are subject to the same credit policies and reviews as the Company's loans. Because most of these loan commitments expire within one year from the date of issue, the total amount of these loan commitments as of December 31, 2013, are not necessarily indicative of future cash requirements. Further information on these commitments and contingent liabilities is provided in "Note 18 Commitments and Contingent Liabilities" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

CONTRACTUAL OBLIGATIONS

The Company leases land, buildings, and equipment under operating lease arrangements extending to the year 2090. Most leases include options to renew for periods ranging from 5 to 20 years. In addition, the Company has a software contract for its core banking application through July 31, 2017, along with contracts for more specialized software programs through 2018. Further information on the Company's lease arrangements is provided in "Note 8 Premises and Equipment" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report. The Company's contractual obligations as of December 31, 2013, are shown in *Table 8-Contractual Obligations and Commitments* below.

Table 8 - Contractual Obligations and Commitments

Contractual cash obligations (in thousands)	Payments Due By Period				
		Within			
As of December 31, 2013	Total	1 year	1-3 years	3-5 years	Over 5 Years
Long-term debt	$209,389	$52,196	$96,051	$61,142	$ 0
Operating leases	43,704	4,737	8,909	7,475	22,583
Software contracts	4,285	1,695	2,066	524	0
Total contractual cash obligations	$257,378	$58,628	$107,026	$69,141	$ 22,583

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to “Note 1 Summary of Significant Accounting Policies” in Notes to Consolidated Financial Statements in Part II, Item 8. of this Form 10-K for details of recently issued accounting pronouncements and their expected impact on the Company’s financial statements.

Fourth Quarter Summary

Fourth quarter 2013 net income was $14.3 million, up 28.0% over fourth quarter 2012 net income of $11.2 million. Diluted earnings per share of $0.96 for the fourth quarter of 2013, was up 24.7% from $0.77 for the comparable period in 2012. Both current and prior period results were impacted by certain non-recurring items including, but not limited to, merger related expenses associated with the acquisition of VIST Financial Corporation completed on August 1, 2012. After adjusting for non-recurring income and expenses, quarter-to-date diluted earnings per share would have been $0.91 for the fourth quarter of 2013, up from $0.81 for the same period last year. The 2012 adjusted diluted earnings per share included $5.7 million in provision expense, which was related to the charge-off of two large commercial credits in the originated portfolio.

The net interest margin for the fourth quarter of 2013 was 3.78%, compared to 3.83% for the fourth quarter of 2012, and 3.63% for the third quarter in 2013. Improvement in the current period, compared to the third quarter of 2013 reflects the benefit of loan prepayment income, interest related to the payoff of a nonaccrual loan, and growth in average loans and noninterest-bearing deposits.

Net interest income of $42.6 million for the fourth quarter of 2013 represents an increase of 1.9% over the same quarter last year, and 5.3%, from the third quarter of 2013. The increase in net interest income over prior periods was a result of growth in average interest-earning assets, growth in noninterest bearing deposits and lower funding costs. Average interest-earning assets for the fourth quarter of 2013 were up $37.5 million or 0.8% over average assets for the third quarter of 2013 and up $139.4 million or 3.2% over average interest-earning assets for the fourth quarter of 2012. Average noninterest bearing deposits balances for the fourth quarter of 2013 were up $38.5 million or 4.7% over average noninterest bearing deposit balances for the third quarter of 2013 and up $66.5 million or 8.5% over average noninterest bearing deposit balances for the fourth quarter of 2012. The average cost of interest bearing liabilities in the fourth quarter of 2013 was 0.63% compared to 0.66% in the third quarter of 2013 and 0.77% in the fourth quarter of 2012.

Provision for loan and lease losses was $585,000 for the fourth quarter of 2013, down from $5.7 million in the fourth quarter of 2012. Net recoveries totaled $977,000 for the fourth quarter of 2013 as compared to net charge-offs of $7.6

million in the fourth quarter of 2012. The fourth quarter 2012 loan charge-offs included the charge-off of one large commercial relationship totaling $4.2 million.

Noninterest income was $17.4 million for the fourth quarter of 2013, up 11.7% over the same period in 2012, and down 5.9% from the third quarter of 2013.

Trends in key fee income business areas in the fourth quarter of 2013 compare favorably to the same quarter last year. Insurance revenue was up 1.5%, investment services income was up 2.4%, deposit fees were up 11.2%, and card services revenue was up 22.4%. The decline in noninterest income from the most recent prior quarter is primarily due to net losses on sale of loans of $345,000 in the fourth quarter of 2013, compared to net gains on loans sales of $115,000 in the third quarter of 2013. The current period noninterest income benefited from a $1.3 million gain associated with certain deposit accounts that converted to alternative products during the quarter.

Noninterest expense was $40.3 million in the fourth quarter of 2013, up 5.4% from the same period in 2012, and up 7.2% compared to the third quarter of 2013. The increase over prior periods is mainly due to higher salary and benefit expenses.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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 by showing the potential effect of interest rate shifts on net interest income for future periods. Each quarter the Company’s Asset/Liability Management Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within Board-approved levels. The Committee also discusses strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. The Company does not currently use derivatives, such as interest rate swaps, to manage its interest rate risk exposure, but may consider such instruments in the future.

The Company's Board of Directors has set a policy that interest rate risk 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 100 basis point parallel change in rates. Based upon the simulation analysis performed as of November 30, 2013, a 200 basis point parallel upward change in interest rates over a one-year time frame would result in a one-year decrease in net interest income from the base case of approximately 1.10%, while a 100 basis point parallel decline in interest rates over a one-year period would result in a decrease in one-year net interest income from the base case of 0.80%. The simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The decrease in net interest income in the rising rate scenario is a result of the balance sheet showing a more liability sensitive position. Rate sensitive assets which reprice or are replaced into higher rates outpace rising non-maturity deposit costs, resulting in an expansion of balance sheet spread and a decreasing trend in net interest income. The slight exposure in the 100 basis point decline scenario results from the Company's assets repricing downward to a greater degree than the rates on the Company's interest-bearing liabilities, mainly deposits. Rates on savings and money market accounts are at low levels given the historically low interest rate environment experienced in recent years. In addition, the model assumes that prepayments accelerate in the down interest rate environment resulting in additional pressure on asset yields as proceeds are reinvested at lower rates.

In our most recent simulation, the base case scenario, which assumes interest rates remain unchanged from the date of the simulation, showed a relatively flat net interest margin during 2013.

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 a level of flexibility for management 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.

In addition to the simulation analysis, management uses an interest rate gap measure. *Table 9-Interest Rate Risk Analysis* below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of December 31, 2013. The Company's one-year interest rate gap was a negative $288.7 million or 5.77% of total assets at December 31, 2013, compared with a negative $72.4 million or 1.50% of total assets at December 31, 2012. A negative gap position exists when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within a particular time period. This analysis suggests that the Company's net interest income is more vulnerable to an increasing rate environment than it is to a prolonged declining interest rate environment. An interest rate gap measure could be significantly affected by external factors such as a rise or decline in interest rates, loan or securities prepayments, and deposit withdrawals.

Table 9 - Interest Rate Risk Analysis

Condensed Static Gap - December 31, 2013	Repricing Interval				
(in thousands)	Total	0-3 months	3-6 months	6-12 months	12 months
Interest-earning assets*	$4,607,762	$973,706	$241,477	$390,351	$1,605,534
Interest-bearing liabilities	3,592,741	1,505,159	159,420	229,628	1,894,207
Net gap position		(531,453)	82,057	160,723	(288,673)
Net gap position as a percentage of total assets		(10.62)%	1.64 %	3.21 %	(5.77)%

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

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Item 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data consist of the consolidated financial statements as indexed and presented below and the Unaudited Quarterly Financial Data presented in Part II, Item 8. of this Report

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Management's Statement of Responsibility

Management is responsible for preparation of the consolidated financial statements and related financial information contained in all sections of this annual report, including the determination of amounts that must necessarily be based on judgments and estimates. It is the belief of management that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Management establishes and monitors the Company's system of internal accounting controls to meet its responsibility for reliable financial statements. The system is designed to provide reasonable assurance that assets are safeguarded, and that transactions are executed in accordance with management's authorization and are properly recorded.

The Audit/Examining Committee of the board of directors, composed solely of outside directors, meets periodically and privately with management, internal auditors, and independent registered public accounting firm, KPMG LLP, to review matters relating to the quality of financial reporting, internal accounting control, and the nature, extent, and results of audit efforts. The independent registered public accounting firm and internal auditors have unlimited access to the Audit/Examining Committee to discuss all such matters. The consolidated financial statements have been audited by KPMG, LLP for the purpose of expressing an opinion on the consolidated financial statements. In addition, KPMG, LLP has audited internal control over financial reporting, as of December 31, 2013.

/s/ Stephen S. Romaine	/s/ Francis M. Fetsko	Date: March 14, 2014
Stephen S. Romaine	Francis M. Fetsko	
Chief Executive Officer	Chief Financial Officer	
	Chief Operating Officer	

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Tompkins Financial Corporation:

We have audited the accompanying consolidated statements of condition of Tompkins Financial Corporation and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tompkins Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tompkins Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/KPMG
Syracuse, New York

March 14, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Tompkins Financial Corporation:

We have audited Tompkins Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of Tompkins Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013, and our report dated March 14, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG
Syracuse, New York

March 14, 2014

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TOMPKINS FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except share and per share data) ASSETS	As of 12/31/2013	As of 12/31/2012
Cash and noninterest bearing balances due from banks	$82,163	$117,448
Interest bearing balances due from banks	721	1,482
Cash and Cash Equivalents	$82,884	$118,930
Trading securities, at fair value	10,991	16,450
Available-for-sale securities, at fair value (amortized cost of $1,368,736 at December 31, 2013 and $1,349,416 at December 31, 2012)	1,354,811	1,393,340
Held-to-maturity securities, fair value of $19,625 at December 31, 2013, and $25,163 at December 31, 2012	18,980	24,062
Originated loans and leases, net of unearned income and deferred costs and fees	2,527,244	2,133,106
Acquired loans and leases, covered	25,868	37,600
Acquired loans and leases, non-covered	641,172	783,904
Less: Allowance for loan and lease losses	27,970	24,643
Net Loans and Leases	$3,166,314	$2,929,967
FDIC Indemnification Asset	4,790	4,385
Federal Home Loan Bank stock and Federal Reserve Bank stock	25,041	19,388
Bank premises and equipment, net	55,932	54,581
Corporate owned life insurance	69,335	65,102
Goodwill	92,140	92,305
Other intangible assets, net	16,298	18,643
Accrued interest and other assets	105,523	100,044
Total Assets	$5,003,039	$4,837,197
LIABILITIES		
Deposits:		
Interest bearing:		
Checking, savings and money market	2,190,616	2,144,367
Time	865,702	973,883
Noninterest bearing	890,898	831,919
Total Deposits	$3,947,216	$3,950,169
Federal funds purchased and securities sold under agreements to repurchase	167,724	213,973
Other borrowings, including certain amounts at fair value of $11,292 at December 31, 2013 and $11,847 at December 31, 2012	331,531	111,848
Trust preferred debentures	37,169	43,668
Other liabilities	61,460	76,179
Total Liabilities	$4,545,100	$4,395,837
EQUITY		
Tompkins Financial Corporation shareholders' equity:		
	1,479	1,443

Common Stock - par value $.10 per share: Authorized 25,000,000 shares; Issued: 14,785,007 at December 31, 2013; and 14,426,711 at December 31, 2012		
Additional paid-in capital	346,096	334,649
Retained earnings	137,102	108,709
Accumulated other comprehensive loss	(25,119)	(2,106)
Treasury stock, at cost – 105,449 shares at December 31, 2013, and 100,054 shares at December 31, 2012	(3,071)	(2,787)
Total Tompkins Financial Corporation Shareholders' Equity	**456,487**	439,908
Noncontrolling interests	1,452	1,452
Total Equity	$457,939	$441,360
Total Liabilities and Equity	$5,003,039	$4,837,197

See notes to consolidated financial statements

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Consolidated Statements of Income

	Year ended December 31,		
(in thousands, except per share data)	2013	2012	2011
INTEREST AND DIVIDEND INCOME			
Loans	$151,711	$124,662	$103,998
Due from banks	10	32	12
Federal funds sold	0	2	7
Trading securities	589	744	873
Available-for-sale securities	31,360	31,232	30,103
Held-to-maturity securities	685	860	1,185
Federal Home Loan Bank stock and Federal Reserve Bank stock	749	824	910
Total Interest and Dividend Income	185,104	158,356	137,088
INTEREST EXPENSE			
Time certificates of deposits of $100,000 or more	4,832	3,322	3,292
Other deposits	7,933	8,910	9,795
Federal funds purchased and securities sold under agreements to repurchase	3,749	4,451	4,872
Trust preferred debentures	2,599	2,094	1,580
Other borrowings	4,862	5,436	6,143
Total Interest Expense	23,975	24,213	25,682
Net Interest Income	161,129	134,143	111,406
Less: Provision for loan and lease losses	6,161	8,837	8,945
Net Interest Income After Provision for Loan and Lease Losses	154,968	125,306	102,461
NONINTEREST INCOME			
Insurance commissions and fees	27,916	19,421	13,542
Investment services income	15,109	14,340	14,287
Service charges on deposit accounts	8,495	7,441	8,491
Card services income	7,216	6,030	5,060
Mark-to-market (loss) gain on trading securities	(538)	(332)	62
Mark-to-market gain (loss) on liabilities held at fair value	555	246	(464)
Net other-than-temporary impairment losses1	0	(196)	(65)
Other income	10,546	7,534	6,705
Net gain on securities transactions	599	324	396
Total Noninterest Income	69,898	54,808	48,014
NONINTEREST EXPENSES			
Salaries and wages	67,200	51,700	44,140
Pension and other employee benefits	22,164	18,075	14,275
Net occupancy expense of premises	11,757	8,969	7,117
Furniture and fixture expense	5,701	4,996	4,463
FDIC insurance	3,214	2,685	2,527
Amortization of intangible assets	2,197	1,264	589
Merger and integration related expenses	228	15,584	174
Other operating expenses	40,641	34,335	25,267
Total Noninterest Expenses	153,102	137,608	98,552
Income Before Income Tax Expense	71,764	42,506	51,923
Income Tax Expense	20,777	11,090	16,373

Net Income Attributable to Noncontrolling Interests and Tompkins Financial Corporation	50,987	31,416	35,550
Less: Net income attributable to noncontrolling interests	131	131	131
Net Income Attributable to Tompkins Financial Corporation	$50,856	$31,285	$35,419
Basic Earnings Per Share	$3.48	$2.44	$3.21
Diluted Earnings Per Share	$3.46	$2.43	$3.20

[1] *In 2013, there were no other-than-temporary impairment ("OTTI") charges recognized in noninterest income. In 2012, OTTI on securities available-for-sale totaling $196,000 was recognized in noninterest income. There were no additional non-credit OTTI losses on these securities in 2012. In 2011, OTTI on securities available-for-sale totaling $178,000 was recognized which included $113,000 in non-credit impairment losses recognized in accumulated other comprehensive income and $65,000 of OTTI losses recognized in noninterest income.*

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

	Year ended December 31,		
(in thousands)	2013	2012	2011
Net income attributable to noncontrolling interests and Tompkins Financial Corporation	$50,987	$31,416	$35,550
Other comprehensive income (loss), net of tax:			
Available-for-sale securities:			
Change in net unrealized gain/loss during the period	(34,354)	3,214	9,937
Reclassification adjustment for net realized gain on sale included in available-for-sale securities	(359)	(194)	(238)
Reclassification adjustment for credit impairment on available-for-sale securities	0	118	39
Employee benefit plans:			
Net retirement plan gain (loss)	10,088	(3,037)	(12,595)
Net retirement plan prior service (credit)	0	0	(476)
Amortization of net retirement plan actuarial gain	1,547	1,395	880
Amortization of net retirement plan prior service cost (credit)	35	35	(4)
Amortization of net retirement plan transition liability	30	40	40
Other comprehensive (loss) gain	(23,013)	1,571	(2,417)
Subtotal comprehensive income attributable to noncontrolling interests and Tompkins Financial Corporation	27,974	32,987	33,133
Less: Other comprehensive income attributable to noncontrolling interests	(131)	(131)	(131)
Total comprehensive income attributable to Tompkins Financial Corporation	$27,843	$32,856	$33,002

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

	Year ended December 31,		
(in thousands)	2013	2012	2011
OPERATING ACTIVITIES			
Net income attributable to Tompkins Financial Corporation	$50,856	$	