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TOMPKINS FINANCIAL CORP
Form 10-K
March 17, 2008

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, 2007

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

For the transition period from _____ to _____

Commission File Number 1-12709

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

New York
(State or other jurisdiction of
incorporation or organization)

16-1482357
(I.R.S. Employer Identification No.)

The Commons, P.O. Box 460, Ithaca, New York
(Address of principal executive offices)

14851
(Zip Code)

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

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

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

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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 voting stock held by non-affiliates was \$303,049,956 on June 30, 2007, 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 American Stock Exchange, on such date.

The number of shares of the registrant's Common Stock outstanding as of March 1, 2008, was 9,619,746 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2008 Annual Meeting of stockholders to be held on May 5, 2008, which will be subsequently filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Form 10-K where indicated.

PART I

- Item 1. Business
- Item 1A. Risk Factors
- Item 1B. Unresolved Staff Comments
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders
- Executive Officers of the Registrant

PART II

- Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- Item 9A. Controls and Procedures
- Item 9B. Other Information

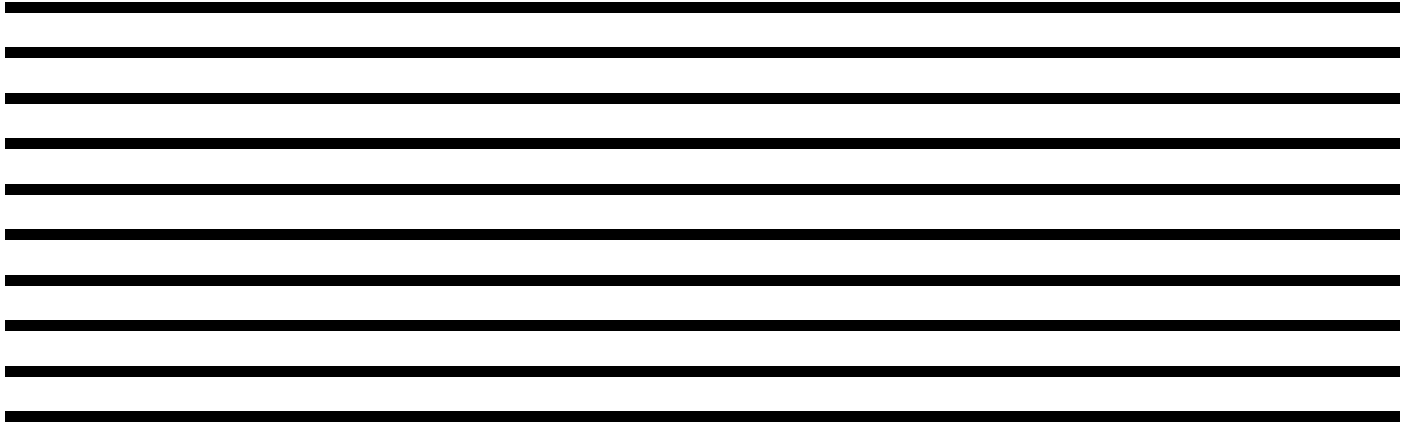
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PART III

- Item 10. Directors, Executive Officers, and Corporate Governance
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13. Certain Relationships and Related Transactions, and Director Independence
- Item 14. Principal Accounting Fees and Services

Part IV

- Item 15. Exhibits and Financial Statement Schedules



Location	Facility Type	Square
110 N. Tioga St., The Commons Ithaca, NY	Trust Company Main Office	23,90
119 E. Seneca Street Ithaca, NY	Trust Company Trust and Investment Services	18,55
121 E. Seneca Street Ithaca, NY	Tompkins Financial Corporation/Trust Company Administration and Executive Offices	18,90
215 E. State St., The Commons Rothschilds Building Ithaca, NY	Tompkins Financial Corporation/Trust Company Operations and Data Processing	24,50
86 North Street Auburn, NY	Trust Company Auburn Office	4,60
905 Hanshaw Road Ithaca, NY	Trust Company Community Corners Office	79
Cornell Bookstore Central Avenue Cornell University, Ithaca, NY	Trust Company Cornell Campus Office	40
33 Clinton Avenue Cortland, NY	Trust Company Cortland Office	1,90

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139 N. Street Extension Dryden, NY	Trust Company Dryden Office	2,25
1020 Ellis Hollow Road Ithaca, NY	Trust Company East Hill Plaza Office	65
2230 N. Triphammer Road Ithaca, NY	Trust Company Kendal Office (Part-time office)	20
100 Main Street Odessa, NY	Trust Company Odessa Office	3,11
775 S. Meadow Street Ithaca, NY	Trust Company Plaza Office	2,28
116 E. Seneca Street Ithaca, NY	Trust Company Seneca Street Drive-In Office	77
2251 N. Triphammer Road Ithaca, NY	Trust Company Triphammer Road Office	3,00
2 W. Main Street Trumansburg, NY	Trust Company Trumansburg Office	2,72

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Location	Facility Type	Square
701 W. Seneca Street Ithaca, NY	Trust Company West End Office	2,15
832 Hanshaw Road Ithaca, NY	Tompkins Financial Center Trust Company/Tompkins Insurance/Tompkins Investment Services	5,20
90 Main Street Batavia, NY	Trust Company Administrative Office for Bank of Castile and Tompkins Insurance	18,00
50 N. Main Street Castile, NY	The Bank of Castile Castile/Main Office	6,66
604 W. Main Street Arcade, NY	The Bank of Castile Arcade Office	4,66
263 E. Main Street Avon, NY	The Bank of Castile Avon Office	3,30
408 E. Main Street Batavia, NY	The Bank of Castile Batavia Office	3,49
358 W. Main Street Batavia, NY	The Bank of Castile Drive-In Office	1,05
3155 State Street Caledonia, NY	The Bank of Castile Caledonia Office	4,68
3252 Chili Avenue Chili, NY	The Bank of Castile Chili Office	4,00

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1 Main Street Gainesville, NY	The Bank of Castile Gainesville Office	1,44
11 South Street Geneseo, NY	The Bank of Castile Geneseo Office	9,70
724 Long Pond Road Greece, NY	The Bank of Castile Greece Office	6,50
29 Main Street LeRoy, NY	The Bank of Castile LeRoy Office	3,08
1410 S. Main Street Medina, NY	The Bank of Castile Medina Office	1,25
133 N. Center Street Perry, NY	The Bank of Castile Perry Office	4,70
129 N. Center Street Perry, NY	The Bank of Castile Processing Center **	11,13
2727 Genesee Street Retsof, NY	The Bank of Castile Retsof Office	2,22
2367 Route 19 North Warsaw, NY	The Bank of Castile Warsaw Office	6,95
1441 Route 22 Brewster, NY	Mahopac National Bank Brewster Office and Administration	34,00

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Location	Facility Type	Square
831 Route 82 Hopewell Junction, NY	Mahopac National Bank Hopewell Office	3,67
706 Freedom Plains Rd Poughkeepsie, NY	Mahopac National Bank Lagrange Office	2,20
630 Route 6 Mahopac, NY	Mahopac National Bank Mahopac Office	2,80
293 Lexington Avenue Mt. Kisco, NY	Mahopac National Bank Mt. Kisco Office	4,40
591 Route 6N Mahopac Falls, NY	Mahopac National Bank Red Mills Office	3,00
21 Peekskill Hollow Road Putnam Valley, NY	Mahopac National Bank Putnam Valley Office	17,95
100 - D Independent Way Southeast, NY	Mahopac National Bank Southeast Office	3,10
1281 Route 9 Wappingers Falls, NY	Mahopac National Bank Wappingers Falls Office	4,70
13360 Broadway Alden, NY	Tompkins Insurance Alden Office ***	1,20

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14 Market Street Attica, NY	Tompkins Insurance Attica Office ***	4,000
170 Franklin Street Dansville, NY	Tompkins Insurance Dansville Office ***	1,920
415 N. Tioga Street Ithaca, NY	Tompkins Insurance Ithaca Office ***	1,100
40 Main Street Leroy, NY	Tompkins Insurance Leroy Office ***	3,700
25 North State Street Nunda, NY	Tompkins Insurance Nunda Office ***	1,350
44 East Main Street Trumansburg, NY	Tompkins Insurance Trumansburg Office ***	1,600
179 Sully's Trail Pittsford, NY	AM&M Financial Services, Inc. Rochester Office	23,280

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* Lease terminations for the Company's leased properties range from 2008 through 2042.

** Office includes two parcels of land that are being leased through 2008 and 2090, respectively.

*** Offices for Tompkins Insurance shown above are stand-alone offices; Tompkins Insurance also shares office space with The Bank of Castile and The Trust Company.

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 Bank Premises and Equipment" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

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	Age	Title	Joined Co
Stephen S. Romaine	43	President and CEO	January 2007
James W. Fulmer	56	Vice Chairman of the Board	January 2007
Robert B. Bantle	56	Executive Vice President	March 2007
David S. Boyce	41	Executive Vice President	January 2007
Francis M. Fetsko	43	Executive Vice President and Chief Financial Officer	October 2006
Gregory J. Hartz	47	Executive Vice President	August 2006
Gerald J. Klein, Jr.	49	Executive Vice President	January 2007
Thomas J. Rogers	37	Executive Vice President	January 2007
Kathleen M. Rooney	55	Executive Vice President	April 2007

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 National Bank. Prior to this appointment, Mr. Romaine was Executive Vice President and Chief Financial Officer of Mahopac National Bank. Mr. Romaine currently serves on the boards of the New York Bankers Association and the Independent Bankers Association of New York State.

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James W. Fulmer has served as Vice Chairman since January 1, 2007, and Director of the Company since 2000. He previously served as President of the Company since 2000. He also serves 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 National Bank since 1999, as Chairman of Tompkins Insurance Agencies since January 1, 2001, and as Chairman of AM&M Financial Services, Inc. since January 2006. 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.

Robert B. Bantle has been employed by the Company since March 2001. He currently serves as Executive Vice President of Tompkins Services, a group that provides support to the Company in the areas of Operations, Information Technology, Human Resources, Training & Development, Remote Banking, Collections, and Card Services. Prior to this assignment, he was primarily responsible for the Company's retail banking services.

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		Market Price (1)		Cash Dividends
		High	Low	Paid
2006	1st Quarter	\$ 44.08	\$ 40.18	\$.273
	2nd Quarter	44.00	38.10	.273
	3rd Quarter	45.95	41.37	.300
	4th Quarter	50.80	44.00	.300
2007	1st Quarter	\$ 46.42	\$ 39.11	\$.300
	2nd Quarter	42.75	36.17	.300
	3rd Quarter	43.34	30.60	.320
	4th Quarter	44.21	34.49	.320

Note 1 - Per share data has been retroactively adjusted to reflect a 10% stock dividend paid on May 15, 2006.

As of March 1, 2008, there were approximately 2,063 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 18 Regulations and Supervision" in Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

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	Maximum (or Appro
Total Number of Shares Purchased	Dollar Va Shares that

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Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	as Part of Publicly Announced Plans or Programs (c)	Be Purchas the Pla Progr (d)
October 1, 2007 through October 31, 2007	24,583	\$ 40.61	23,248	29,42
November 1, 2007 through November 30, 2007	289	\$ 41.32	0	29,42
December 1, 2007 through December 31, 2007	0	0	0	29,42
Total	24,872	\$ 40.62	23,248	29,42

On July 18, 2006, the Company's Board of Directors approved the Company's current stock repurchase plan (the "2006 Plan"). The 2006 Plan authorizes the repurchase of up to 450,000 shares of the Company's outstanding common stock over a two-year period. Under the 2006 Plan, the Company repurchased 332,347 shares at an average price of \$38.86 in 2007. Since inception of the 2006 Plan, the Company has repurchased 420,575 shares at an average price of \$39.85.

Included above are 1,335 shares purchased in October 2007 at an average cost of \$40.04 and 289 shares purchased in November 2007 at an average cost of \$41.32 by the trustee of a rabbi trust established by the Company under the Company's Stock Retainer Plan For Eligible Directors of Tompkins Trustco, Inc., and Participating Subsidiaries and were part of the director deferred compensation under that plan. Shares purchased by the rabbi trust are not part of the 2006 Plan.

Recent Sales of Unregistered Securities

As part of the Company's acquisition of AM&M Financial Services, Inc., the Company issued 20,901 shares of Tompkins common stock pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

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.

Index	Period Ending					
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Tompkins Financial Corporation	100.00	117.87	140.54	133.00	152.41	134.35
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Bank Index	100.00	134.90	151.17	153.23	179.24	139.28

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FINANCIAL STATEMENT HIGHLIGHTS

Assets	\$ 2,359,459	\$ 2,210,837	\$ 2,106,870	\$ 1,999,870
Deposits	1,720,826	1,709,420	1,683,010	1,668,010
Other borrowings	210,862	85,941	63,673	63,673
Shareholders' equity	197,195	189,620	181,221	172,721
Interest and dividend income	132,441	121,041	106,707	106,707
Interest expense	58,412	48,184	31,686	31,686
Net interest income	74,029	72,857	75,021	75,021
Provision for loan and lease losses	1,529	1,424	2,659	2,659
Net securities gains (losses)	384	15	(1,526)	(1,526)
Net income	26,371	27,767	27,685	27,685

PER SHARE INFORMATION

Basic earnings per share	2.72	2.82	2.81	2.77
Diluted earnings per share	2.70	2.78	2.77	2.77
Cash dividends per share	1.24	1.15	1.07	1.07
Book value per share	20.58	19.24	18.37	18.37

SELECTED RATIOS

Return on average assets	1.16%	1.30%	1.36%	1.36%
Return on average equity	13.99%	15.02%	15.82%	15.82%
Shareholders' equity to average assets	8.32%	8.86%	8.89%	8.89%
Dividend payout ratio	45.59%	40.78%	37.94%	37.94%

OTHER SELECTED DATA (in whole numbers, unless otherwise noted)

Employees (average full-time equivalent)	662	658	587	587
Banking offices	39	37	34	34
Bank access centers (ATMs)	61	59	51	51
Trust and investment services assets under management, or custody (in thousands)	\$ 2,345,575	\$ 2,183,114	\$ 1,534,557	\$ 1,534,557

Per share data has been retroactively adjusted to reflect a 10% stock dividend paid on May 15, 2006 and a 10% stock dividend paid on February 15, 2005.

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 III, "Item 8. Financial Statements and Supplementary Data".

OVERVIEW

Tompkins Financial Corporation ("Tompkins" or the "Company"), is the corporate parent of three community banks, Tompkins Trust Company ("Trust Company"), The Bank of Castile, and The Mahopac National Bank ("Mahopac National Bank"), which together operate 39 banking offices, including 2 limited-service office, in local market areas throughout New York State. Through its community banking subsidiaries, the Company provides traditional banking services, and offers a full range of money management services through Tompkins Investment Services, a division of Tompkins Trust Company. The Company also offers insurance services through its wholly-owned subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"), an independent insurance agency with a history of over 100 years of service to individual and business clients throughout Western New York. Tompkins Insurance has expanded its geographic footprint into the Ithaca, New York market area with the acquisition of three insurance agencies over the past three years. The Company completed its acquisition of AM&M Financial

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Services, Inc. (AM&M), a fee-based financial planning and wealth management firm headquartered in Pittsford, New York, effective January 6, 2006. AM&M has three operating companies: (1) AM&M Planners, Inc., which provides fee based financial planning and wealth management services for corporate executives, small business owners, and high net worth individuals; (2) Ensemble Financial Services, Inc., an independent broker-dealer and leading outsourcing company for financial planners and investment advisors; and (3) Ensemble Risk Solutions, Inc., which creates customized risk management plans using life, disability and long-term care insurance products.

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(dollar amounts in thousands)	2007			December 31 2006		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
ASSETS						
Interest-earning assets:						
Certificates of deposit, other banks	\$ 4,820	\$ 217	4.50%	\$ 2,486	\$ 86	3.46%
Securities (1)						
U.S. Government securities	535,700	25,619	4.78	570,585	25,381	4.45
Trading securities	59,213	2,762	4.66	0	0	0.00
State and municipal (2)	103,213	6,270	6.07	121,305	7,134	5.88
Other securities (2)	36,098	2,246	6.22	23,001	1,290	5.61
Total securities	734,224	36,897	5.03	714,891	33,805	4.73
Federal funds sold	4,120	217	5.27	231	15	6.49
Loans, net of unearned income (3)						
Residential real estate	490,839	31,359	6.39	463,825	28,745	6.20
Commercial real estate	424,748	31,418	7.40	392,636	28,112	7.16
Commercial loans (2)	355,084	28,272	7.96	308,207	25,086	8.14
Consumer and other	81,865	5,862	7.16	92,959	7,289	7.84
Lease financing (2)	9,881	627	6.35	12,023	709	5.90
Total loans, net of unearned income	1,362,417	97,538	7.16	1,269,650	89,941	7.08
Total interest-earning assets	2,105,581	134,869	6.41	1,987,258	123,847	6.23
Noninterest-earning assets	160,643			151,934		
Total assets	\$2,266,224			\$2,139,192		

Liabilities & Shareholders' Equity

Deposits:

Interest-bearing deposits						
Interest checking, savings, and money market	\$ 723,297	\$ 14,361	1.99%	\$ 702,826	\$ 11,247	1.60%
Time Deposits > \$100,000	304,614	14,750	4.84	296,714	13,350	4.50

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Time Deposits < \$100,000	343,969	15,651	4.55	318,648	12,486	3.92
Brokered Time Deposits: <\$100,000	14,729	723	4.91	31,566	1,482	4.69

Total interest-bearing deposits	1,386,609	45,485	3.28	1,349,754	38,565	2.86
Federal funds purchased and securities sold under agreements to repurchase	199,126	8,125	4.08	159,147	5,905	3.71
Other borrowings	100,824	4,802	4.76	79,310	3,714	4.68

Total interest-bearing liabilities	1,686,559	58,412	3.46	1,588,211	48,184	3.03

Noninterest-bearing deposits	356,457			338,448		
Accrued expenses and other liabilities	33,246			26,181		

Total liabilities	2,076,262			1,952,840		
Minority Interest	1,480			1,480		
Shareholders' equity	188,482			184,872		

Total liabilities and shareholders' equity	\$2,266,224			\$2,139,192		

Interest rate spread			2.95%			3.20%

Net interest income/margin on earning assets	\$ 76,457		3.63%	\$ 75,663		3.81%

(1) Average balances and yields on available-for-sale securities are based on 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 a taxable equivalent basis. The tax equivalent adjustments for 2007, 2006, and 2005 were as follows: \$2,428,000, \$2,806,000, and \$2,838,000, respectively.

(3) Nonaccrual loans are included in the average loan totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in "Note 1 Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Part II, Item 8. of this Report.

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(in thousands) (taxable equivalent)	2007 vs. 2006			2006 vs. 2005		
	Increase (Decrease) Due to Change in Average Volume	(Decrease) Due to Change in Average Yield/Rate	Total	Increase (Decrease) Due to Change in Average Volume	(Decrease) Due to Change in Average Yield/Rate	Total

INTEREST INCOME:						
Certificates of deposit, other banks	\$ 99	\$ 32	\$ 131	\$ (34)	\$ 31	\$ 16
Federal funds sold	205	(3)	202	(25)		177
Investments:						
Taxable	1,727	2,228	3,955	1,741		3,220
Tax-exempt	(1,061)	198	(863)	64		188
Loans, net:						

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Taxable	6,688	988	7,676	3,456	5,763
Tax-exempt	(43)	(36)	(79)	(79)	(35)

Total interest income	\$ 7,615	\$ 3,407	\$ 11,022	\$ 5,123	\$ 9,179

INTEREST EXPENSE:					
Interest-bearing deposits:					
Interest checking,					
savings, and money market	336	2,778	3,114	(328)	4,056
Time	706	3,100	3,806	3,073	8,101
Federal funds purchased and					
Securities sold under					
agreements to repurchase	1,589	631	2,220	41	1,012
Other borrowings	1,024	64	1,088	409	134

Total interest expense	\$ 3,655	\$ 6,573	\$ 10,228	\$ 3,195	\$ 13,303

Net interest income	\$ 3,960	\$ (3,166)	\$ 794	\$ 1,928	\$ (4,124)
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Notes: See notes to Table 1 above.

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. The \$794,000 increase in taxable-equivalent net interest income from 2006 to 2007 resulted from an \$11.0 million increase in interest income and a \$10.2 million increase in interest expense. An increased volume of interest earning assets, in excess of interest bearing liabilities contributed to a net \$4.0 million increase in taxable-equivalent net interest income between 2006 and 2007, while changes in interest rates reduced taxable-equivalent net interest income by \$3.2 million, resulting in the net increase of \$794,000 from 2006.

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 adequate level. The provision for loan and lease losses was \$1.5 million in 2007, compared to \$1.4 million in 2006. Nonperforming loans and leases were \$9.3 million or 0.65% of total loans and leases at December 31, 2007, compared with \$3.0 million or 0.23% of total loans and leases at December 31, 2006. The increase over the prior year is mainly due to the addition of four commercial credits. The largest of these credits is \$4.0 million, of which \$3.7 million is 90% guaranteed by a government agency. Net charge-offs of \$1.3 million in 2007 represented 0.09% of average loans and leases during the period, compared to net charge-offs of \$773,000 in 2006, representing 0.06% of average loans and leases. 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

Noninterest income is a significant source of income for the Company, representing 37.3% of total revenues in 2007, 36.1% in 2006 and 29.1% in 2005, and is an important factor in the Company's results of operations. Total noninterest income was \$44.0 million in 2007, an increase of 7.1% over 2006.

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Noninterest income in 2006 included some nonrecurring items. In the fourth quarter of 2006 the Company sold its credit card portfolio of nearly \$9.4 million, resulting in a net pre-tax gain of approximately \$2.6 million. Through an ongoing relationship with the purchaser, the Company is able to offer an expanded suite of credit card products to its customers. Noninterest income in 2006 also included \$685,000 in life insurance proceeds.