TOMPKINS FINANCIAL CORP
Form 10-K
March 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**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, 2014

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: **(888) 503-5753**

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 $626,743,000 on June 30, 2014, 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, 2015, was 14,811,411 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement relating to its 2015 Annual Meeting of stockholders, to be held on May 4, 2015, 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, 2014**

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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 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, and insurance. At December 31, 2014, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). The Trust Company provides a full array of trust and investment services under the Tompkins Financial Advisors brand, 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 (888) 503-5753. 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.

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 22 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.

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 are 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.

***Banking 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. 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 Tompkins Trust Company, using the 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, and an insurance agency 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 48 banking offices located in New York and 18 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 provides trust and investment services through Tompkins Investment Services ("TIS"), a division of Tompkins Trust Company. Tompkins Investment Services has office locations at all four of the Company's subsidiary banks, and provides a full range of money management services. 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, 2014, Trust Company had total assets of $1.7 billion, total loans of $940.6 million and total deposits of $1.4 billion.

***Tompkins Bank of Castile***

Tompkins Bank of Castile is a New York State-chartered commercial bank and conducts its operations through its 17 banking offices, in towns situated in and around the areas commonly known as the Genesee Valley region of New York State. The main business office for Tompkins Bank of Castile is located in Batavia, New York and is shared with Tompkins Insurance. Tompkins 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 Tompkins Bank of Castile, other than Monroe, is approximately 210,000. Tompkins Bank of Castile's lending portfolio includes loans to the agricultural industry. As of December 31, 2014, The Bank of Castile had total assets of $1.2 billion, total loans of $826.7 million and total deposits of $1.0 billion.

***Tompkins Mahopac Bank (formerly known as Mahopac National Bank)***

On December 31, 2013, Tompkins Mahopac Bank converted its charter from a national charter to a New York State charter. Mahopac Bank is a commercial bank that operates 14 banking offices. The 14 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 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, 2014, Tompkins Mahopac Bank had total assets of $1.0 billion, total loans of $654.1 million and total deposits of $822.4 million.

***Tompkins VIST Bank***

Tompkins VIST Bank is a full service Pennsylvania State-charted commercial bank that was acquired as part of the VIST acquisition in August 2012. Tompkins VIST Bank operates 20 banking offices in Pennsylvania, including 2 limited-service offices. The 20 banking offices include 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 Tompkins 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, 2014, VIST Bank had total assets of $1.3 billion, total loans of $971.9 million and total deposits of $988.8 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 thirteen 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 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.

***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 11 - 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.

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***

At December 31, 2014 the FRB and the FDIC had 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.

Regulators have established minimum capital ratios for bank holding companies, including financial holding companies, and depository institutions. Tompkins, like other Financial 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 provide 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 Capital Rules also require 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 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). 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, 2014 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.

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 20 - 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 and many, but not all, of the proposed resolutions applicable to the these large systemically important financial institutions were adopted by the Federal Reserve in February 2014.

***Deposit Insurance***

Substantially all of the deposits of the Company’s 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 $2.9 million, $3.2 million and $2.7 million in 2014, 2013 and 2012, respectively. 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 $282,000 in 2014, $286,000 in 2013, and $251,000 in 2012.

***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, 2014 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. In October 2014, the CFPB published a final rule that allows lenders to cure loans that do not meet the "points and fees" test under the QM definition, but that otherwise satisfy the requirements of the QM. Pursuant to the final rule, lenders will be able to "cure" loans for which the points and fees exceed the 3% cap for QM by refunding the points and fees that exceed the 3% cap, with interest within 210 days after closing of the loan. The cure mechanism is available for loans closed on or after November 3, 2014 and before January 10, 2021. In November 2014, the CFPB published proposed amendments to the Mortgage Servicing Rules, which would further amend both Regulation X and Regulation Z. The proposed rule would, among other things, require servicers to provide certain borrowers with foreclosure protections more than once over the life of the loan, expand consumer protections to surviving family members and other homeowners, require servicers to notify borrowers when loss mitigation applications are complete, clarify when a borrower becomes delinquent and provide more information to borrower in bankruptcy.

***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, 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, 2014, the Company had 1,037 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. (888) 503-5753. 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, 2014, commercial and commercial real estate loans totaled $2.3 billion or 68.5% 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, 2014, $127.4 million or 5.0% of the Company's total loan portfolio consisted of agriculturally-related loans, including $52.6 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, 2014, the Company has $106.9 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. 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. The Company serves numerous market areas within New York State and Pennsylvania, and the Company is 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. In recent years 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; however 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.

**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. The techniques used by cyber criminals change frequently, may not be recognized until launched and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, or terrorist organizations. These risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications. 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.**

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. 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.

**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 2 offices, which are leased 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 7 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**

**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 | 50 | President and CEO | January 2000 |
| Stephen M. Angelis | 54 | Executive Vice President | February 2014 |
| David S. Boyce | 48 | Executive Vice President | January 2001 |
| Francis M. Fetsko | 50 | Executive Vice President, COO, CFO and Treasurer | October 1996 |
| Scott L. Gruber | 58 | Executive Vice President | April 2013 |
| Gregory J. Hartz | 54 | Executive Vice President | August 2002 |
| Rosemary G. Hyland | 64 | Executive Vice President of Human Resources | May 2000 |
| Gerald J. Klein, Jr. | 56 | Executive Vice President | January 2000 |
| John M. McKenna | 48 | Executive Vice President | April 2009 |
| Susan M. Valenti | 60 | Executive 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.

*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 where he served as Managing Partner and Private Equity Investor. 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 25 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, before joining VIST, Mr. Gruber spent 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. 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 past chairman.

*Rosemary G. Hyland* has been employed by the Company since May 2000. She currently serves as Executive 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.

*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.

*John M. McKenna* has been employed by the Company since April 2009. He was appointed President and CEO of The Bank of Castile effective January 1, 2015. McKenna had been a senior vice president at Bank of Castile for five years, concentrating in commercial lending. He has more than 25 years of banking experience including approximately 17 years with JPMorgan Chase Bank and its predecessors and 4 years with Citibank including experiences in investment banking, commercial lending and retail banking. Mr. McKenna currently serves on the NYBA PAC Committee.

Su*san 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. She was promoted to Executive Vice President of the Company in June of 2014.

## 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 2013 and 2014 are presented below. The per share dividends paid by the Company in each quarterly period in 2013 and 2014 and the payment dates of these dividends are also presented below.

| | | Market Price | | Cash Dividends | |
|---|---|---|---|---|---|
| | | High | Low | Amount | Date Paid |
| 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 |
| | | | | | |
| 2014 | 1st Quarter | $50.30 | $45.42 | $0.40 | 2/14/14 |
| | 2nd Quarter | 50.81 | 44.90 | 0.40 | 5/15/14 |
| | 3rd Quarter | 48.78 | 44.04 | 0.40 | 8/15/14 |
| | 4th Quarter | 56.18 | 43.98 | 0.42 | 11/14/14 |

As of March 4, 2015, there were approximately 3,594 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 20 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, 2014.

**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, 2014 through October 31, 2014 | 34,337 | $45.36 | 32,300 | 302,641 |
| November 1, 2014 through November 30, 2014 | 4,418 | $49.92 | 3,807 | 298,834 |
| December 1, 2014 through December 31, 2014 | 300 | $49.00 | 300 | 298,534 |
| **Total** | 39,056 | $45.90 | 36,407 | 298,534 |

Included above are 2,037 shares purchased in October 2014, at an average cost of $44.99, and 611 shares purchased in November 2014, at an average cost of $51.48 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 July 24, 2014, the Company's Board of Directors authorized a share repurchase plan for the Company to repurchase up to 400,000 shares of the Company's common stock. Purchases may be made over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated at any time for any reason. As of the date of this report, the Company has repurchased 101,466 shares under this program, at an average price of $45.35.

**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 over the five-year period from December 31, 2009 through December 31, 2014, 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, 2009, 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*** | **12/31/09** | **12/31/10** | **12/31/11** | **12/31/12** | **12/31/13** | **12/31/14** |
| Tompkins Financial Corporation | 100.00 | 110.04 | 112.06 | 119.68 | 160.65 | 178.89 |
| NASDAQ Composite | 100.00 | 118.15 | 117.22 | 138.02 | 193.47 | 222.16 |
| SNL Bank | 100.00 | 112.05 | 86.78 | 117.11 | 160.79 | 179.74 |

**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, 2014. 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)* | **2014** | 2013 | **2012** [1] | 2011 | **2010** |
| **FINANCIAL STATEMENT HIGHLIGHTS** | | | | | |
| Assets | **$5,269,561** | 5,003,039 | 4,837,197 | $3,400,248 | $3,260,343 |
| Total loans | **3,393,288** | 3,194,284 | 2,954,610 | 1,981,849 | 1,910,358 |
| Deposits | **4,169,154** | 3,947,216 | 3,950,169 | 2,660,564 | 2,495,873 |
| Other borrowings | **356,541** | 331,531 | 111,848 | 186,075 | 244,193 |
| Total equity | **489,583** | 457,939 | 441,360 | 299,143 | 273,408 |
| Interest and dividend income | **184,493** | 185,104 | 158,356 | 137,088 | 144,062 |
| Interest expense | **20,683** | 23,975 | 24,213 | 25,682 | 32,287 |
| Net interest income | **163,810** | 161,129 | 134,143 | 111,406 | 111,775 |
| Provision for loan and lease losses | **2,306** | 6,161 | 8,837 | 8,945 | 8,507 |
| Net gains on securities transactions | **391** | 599 | 324 | 396 | 178 |
| Net income attributable to Tompkins Financial Corporation | **52,041** | 50,856 | 31,285 | 35,419 | 33,831 |
| **PER SHARE INFORMATION** | | | | | |
| Basic earnings per share | **3.51** | 3.48 | 2.44 | 3.21 | 3.13 |
| Diluted earnings per share | **3.48** | 3.46 | 2.43 | 3.20 | 3.11 |
| Adjusted diluted earnings per share[2] | **3.48** | 3.36 | 3.16 | 3.21 | 3.11 |
| Cash dividends per share | **1.62** | 1.54 | 1.46 | 1.40 | 1.33 |
| Book value per share | **32.87** | 31.05 | 30.67 | 26.89 | 25.09 |
| Tangible book value per share[3] | **25.69** | 23.70 | 22.96 | 22.58 | 20.88 |
| **SELECTED RATIOS** | | | | | |
| Return on average assets | **1.03 %** | 1.03 % | 0.76 % | 1.07 % | 1.06 % |
| Return on average equity | **10.76 %** | 11.47 % | 8.30 % | 12.02 % | 12.72 % |
| Average shareholders' equity to average assets | **9.54 %** | 9.00 % | 9.21 % | 8.94 % | 8.33 % |
| Dividend payout ratio | **46.15 %** | 44.25 % | 59.84 % | 43.61 % | 42.49 % |
| | | | | | |
| **OTHER SELECTED DATA (in whole numbers, unless otherwise noted)** | | | | | |
| Employees (average full-time equivalent) | **1,037** | 989 | 839 | 719 | 726 |
| Banking offices | **66** | 66 | 66 | 45 | 45 |
| Bank access centers (ATMs) | **85** | 84 | 83 | 63 | 69 |
| Trust and investment services assets under management, or custody (in thousands) | **$3,761,972** | 3,443,636 | 3,240,782 | $2,780,622 | $2,859,725 |

[1] *Includes the impact of the acquisition of VIST Financial on August 1, 2012.*

[2] *Adjusted diluted earnings per share reflects adjustments made for certain nonrecurring items, including merger and integration expenses. There were no adjustments for nonrecurring items in 2014. Adjustments for 2013 included an $(846,000) after-tax gain on the redemption of trust preferred stock and a $(771,000) after-tax gain on a deposit 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.*

[3] *Tangible equity capital is used to calculate tangible book value per share and excludes from shareholders' equity goodwill and other intangibles of $106.9 million in 2014, $108.4 million in 2013, $110.9 million in 2012, $48.0 million in 2011, and $45.9 million in 2010. 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.*

**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, 2014, the Company's subsidiaries included: four wholly-owned banking subsidiaries, Tompkins Trust Company (the "Trust Company"), The Bank of Castile (DBA Tompkins Bank of Castile), Mahopac Bank (formerly known as Mahopac National Bank, DBA Tompkins Mahopac Bank), VIST Bank (DBA Tompkins VIST Bank); and a wholly-owned insurance agency subsidiary, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"). TFA Wealth Management and the trust division of the Trust Company provide a full array of investment services under the Tompkins Financial Advisors brand, 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 (888) 503-5753. The Company's common stock is traded on the NYSE MKT LLC under the Symbol "TMP."

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.

**Allowance for loan and lease losses**

Management considers the accounting policy relating to the allowance to be a critical accounting policy because of the high degree of judgment involved, the subjectivity of the assumptions used and the potential changes in the economic environment that could result in changes to the amount of the allowance.

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 model is comprised of five major components that management has deemed appropriate in evaluating the appropriateness of the allowance for loan and lease losses. While none of these components, when used independently, is effective in arriving at a reserve level that appropriately measures the risk inherent in the portfolio, management believes that using them collectively, provides reasonable measurement of the loss exposure in the portfolio. The various factors used in the methodologies are reviewed on a quarterly basis.

Although we believe our process for determining the ALLL adequately considers all of the factors that would likely result in credit losses, this evaluation is inherently subjective as it requires material estimates, including expected default probabilities, the loss emergence periods, the amounts and timing of expected future cash flows on impaired loans, and estimated losses based on historical loss experience and current economic conditions. All of these factors

may be susceptible to significant change. To the extent that actual results differ from management estimates, additional loan loss provisions may be required that would adversely impact earnings for future periods.

**Pension and other post retirement benefits**

The calculation of the expenses and liabilities related to pensions and other post-retirement benefits is a critical accounting policy that 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 to assist in making these estimates. Changes in 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.

**Investment securities**

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.

**Acquired loans**

The accounting policy for acquired loans is a critical accounting policy. 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, 2014 and 2013 results)

General

The Company reported diluted earnings per share of $3.48 in 2014, compared to diluted earnings per share of $3.46 in 2013. Net income attributable to Tompkins Financial Corporation for the year ended December 31, 2014, was $52.0 million, up 2.3% compared to $50.9 million in 2013.

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 10.76% in 2014, compared to 11.47% in 2013, while ROA was 1.03% in 2014 and 2013. Tompkins’ 2014 ROE and ROA were in the 73rd percentile for ROE and the 62nd 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, 2014, the most recent data available from the Federal Reserve Board.

The Company's net operating income available to common shareholders (non-GAAP) in 2014 amounted to $51.5 million or $3.48 diluted per share compared to $49.0 million or $3.36 per diluted share in 2013. 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. There were no adjustments to 2014 net operating income.

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, adjusted diluted earnings per share, and operating return on average tangible equity capital 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 Net Income/Adjusted Diluted Earnings Per Share (Non-GAAP)**

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| *(in thousands, except per share data)* | 2014 | | | 2013 | | |
| Net income attributable to Tompkins Financial Corporation | $ | 52,041 | | $ | 50,856 | |
| Less: dividends and undistributed earnings allocated to unvested stock awards | | (503 | ) | | (418 | ) |
| Net income available to common shareholders (GAAP) | | 51,538 | | | 50,438 | |
| Diluted earnings per share (GAAP) | | 3.48 | | | 3.46 | |
| Adjustments for non-operating income and expense, net of tax: | | | | | | |
| Merger and acquisition integration related expenses | | 0 | | | 140 | |
| Gain on redemption of trust preferred | | 0 | | | (846 | ) |
| Gain on deposit conversion | | 0 | | | (771 | ) |
| Total adjustments, net of tax | | 0 | | | (1,477 | ) |
| Net operating income available to common shareholders (Non-GAAP) | | 51,538 | | | 48,961 | |
| Adjusted diluted earnings per share (Non-GAAP) | | 3.48 | | | 3.36 | |

**Operating Return on Average Tangible Common Equity (Non-GAAP)**

| | As of December 31, | |
|---|---|---|
| *(in thousands, except per share data)* | 2014 | 2013 |

| | | |
|---|---|---|
| Net operating income available to common shareholders (Non-GAAP) | $51,538 | $48,961 |
| Amortization of intangibles, net of tax | 1,257 | 1,318 |
| Adjusted net operating income available to common shareholders (Non-GAAP) | 52,795 | 50,279 |
| Average Tompkins Financial Corporation shareholders' common equity | 482,087 | 442,054 |
| Average goodwill and intangibles [1] | 106,748 | 108,591 |
| Average Tompkins financial Corporation shareholders' tangible common equity (Non-GAAP) | 375,339 | 333,463 |
| Adjusted operating return on average shareholders' tangible common equity (Non-GAAP) | 14.07 % | 15.08 % |

[1] *Average goodwill and intangibles exclude mortgage servicing rights*

**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 conducted under the trust department of the Trust Company. All other activities are considered banking. For additional financial information on the Company's segments, refer to "Note 22 – 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 $46.1 million for the year ending December 31, 2014, representing a $901,000 or 2.0% increase compared to 2013, driven mainly by growth in net interest income and a lower provision for loan and lease losses. Net interest income increased $2.7 million in 2014, up 1.7% versus 2013, due primarily to loan growth and the lower cost of funds. Interest income declined $559,000 or 0.3%, while interest expense declined $3.3 million or 13.7% compared to the 2013. All associated segment results have been reconciled to their corresponding consolidated financial statement amounts (see "Note 22 – 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 $2.3 million in 2014, compared to $6.2 million in the prior year reflecting an improvement in credit quality.

Noninterest income declined by $452,000 or 1.6% when compared to year-end 2013. Included in 2013 results were two nonrecurring events: a $1.4 million pre-tax gain on the redemption of a Trust Preferred debenture acquired as part of the VIST acquisition and a $1.3 million pre-tax gain related to a deposit account conversion. For 2014, noninterest income improvements included a $909,000 or 10.7% in service charges on deposit accounts, a $726,000 or 10.1% increase in card services income, and a $495,000 increase in gains on loan sales. These were partially offset by a decline in gains on securities transactions of $208,000.

Noninterest expenses were relatively flat compared to 2013 as salaries and wages and occupancy expense increases offset declines in employee benefit costs.

**Insurance Segment**

The Insurance segment reported net income of $3.1 million, down 3.9% when compared to 2013.

Insurance commissions and fees increased $573,000 or 2.1% over the prior year. Revenues from the Company's primary insurance lines: commercial, personal insurance and health and benefit insurance all increased compared to the prior year. Noninterest expense increased $1.1 million in 2014, up 4.8% compared to 2013. 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 compared to prior year.

**Wealth Management Segment**

The Wealth Management segment reported net income of $2.9 million for the twelve month period ended December 31, 2014, an increase of $407,000 or 16.1% compared to 2013. Investment services revenue of $15.5 million was up 2.5% from 2013. The market value of assets under management or in custody at December 31, 2014, totaled $3.8 billion, an increase of 9.2% compared to year-end 2013.

**Net Interest Income**

Net interest income is the Company's largest source of revenue, representing 69.8% of total revenues for the twelve months ended December 31, 2014, and 69.7% of total revenues for the twelve months ended December 31, 2013. Net interest income was up 1.7% in 2014 compared to 2013. 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, which were up 3.8% in 2014 compared to 2013, and lower funding costs which were down 13.7% in 2014 compared to 2013. For 2014 and 2013, 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.

*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 3.57% in 2014 compared to 3.65% in 2013. Taxable-equivalent net interest income for 2014 benefitted from growth in average earning assets, which increased by 3.8% in 2014, and growth in noninterest bearing deposits which increased by 12.1% compared to the prior year. These factors helped to lessen the impact of lower asset yields and maintain a relatively stable net interest margin compared to prior year.

The increase in taxable-equivalent interest income was the result of the $169.7 million or 3.8% increase in average interest- earning assets in 2014 over 2013 average interest-earning assets. The growth in average earning assets and the higher concentration of loans helped to offset lower asset yields. The average yield on interest earning assets declined by 17 basis points or 4.1% for the period ended December 31, 2014. Average loan balances were up $185.5 million or 6.1% in 2014 compared to 2013, while the average yields on loans were down 31 basis points or 6.2%. Average loan balances represented 69.0% of earning assets in 2014 compared to 67.5% in 2013. The average securities balance of $34.2 million and the average yield on securities of 2.39% for 2014 were both in line with 2013.

Interest expense for 2014 was down $3.3 million or 13.7% compared to 2013, while average interest bearing liabilities were in line with the prior year. The decrease in interest expense reflects lower average rates paid on deposits and borrowings during 2014 when compared to 2013 and growth in noninterest bearing deposit balances. The average rate paid on interest bearing deposits was 0.35%, down 5 basis points when compared to 2013. Average interest bearing deposits in 2014 were in line with 2013. Average noninterest bearing deposit balances in 2014 were up $97.2 million or 12.1% over 2013 and represented 22.1% of total deposits compared to 20.3% in 2013. Average other borrowings increased by $29.0 million or 13.0% year over year, mainly due to a higher volume of overnight borrowings with the FHLB in 2014.

**Table 1 - Average Statements of Condition and Net Interest Analysis**

| *(dollar amounts in thousands)* | **For the year ended December 31, 2014 Average Balance (YTD)** | **Interest** | **Average Yield/Rate** | | **2013 Average Balance (YTD)** | **Interest** | **Average Yield/Rate** | | **2012 Average Balance (YTD)** | **Interes** |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| Interest-earning assets | | | | | | | | | | |
| Interest-bearing balances due from banks | 1,014 | $2 | 0.20 | % | $2,005 | $10 | 0.50 | % | $21,442 | $33 |
| Money market funds | — | — | 0.00 | % | — | — | 0.00 | % | 18 | — |
| Securities[1] | | | | | | | | | | |
| U.S. Government securities | 1,332,449 | 30,384 | 2.28 | % | 1,326,999 | 28,817 | 2.17 | % | 1,205,759 | 28,546 |
| Trading securities | 10,068 | 418 | 4.15 | % | 14,188 | 589 | 4.15 | % | 18,162 | 744 |
| State and municipal[2] | 85,402 | 3,290 | 3.85 | % | 95,276 | 4,893 | 5.14 | % | 95,095 | 4,946 |
| Other securities[2] | 4,489 | 139 | 3.10 | % | 7,714 | 265 | 3.44 | % | 11,766 | 544 |
| Total securities | 1,432,408 | 34,231 | 2.39 | % | 1,444,177 | 34,564 | 2.39 | % | 1,330,782 | 34,780 |
| Federal Funds Sold | — | — | 0.00 | % | — | — | 0.00 | % | 1,837 | 2 |
| FHLBNY and FRB stock | 19,168 | 810 | 4.23 | % | 22,153 | 749 | 3.38 | % | 18,479 | 824 |
| Total loans and leases, net of unearned income[2,3] | 3,238,992 | 152,958 | 4.72 | % | 3,053,538 | 153,569 | 5.03 | % | 2,382,109 | 125,54 |
| **Total interest-earning assets** | **4,691,582** | **188,001** | **4.01** | **%** | **4,521,873** | **188,892** | **4.18** | **%** | **3,754,667** | **161,18** |
| Other assets | 375,073 | | | | 406,626 | | | | 337,806 | |
| **Total assets** | **5,066,655** | | | | **4,928,499** | | | | **4,092,473** | |
| **LIABILITIES & EQUITY** | | | | | | | | | | |
| Deposits | | | | | | | | | | |
| Interest-bearing deposits | | | | | | | | | | |
| Interest bearing checking, savings, & money market | 2,286,707 | 4,312 | 0.19 | % | 2,224,028 | 4,938 | 0.22 | % | 1,750,444 | 4,854 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Time deposits | 904,040 | 6,769 | 0.75 | % | 939,630 | 7,827 | 0.83 | % | 846,166 | 7,377 |
| Total interest-bearing deposits | 3,190,747 | 11,081 | 0.35 | % | 3,163,658 | 12,765 | 0.40 | % | 2,596,610 | 12,231 |
| Federal funds purchased & securities sold under agreements to repurchase | 145,876 | 2,947 | 2.02 | % | 177,784 | 3,749 | 2.11 | % | 200,906 | 4,451 |
| Other borrowings | 251,312 | 4,368 | 1.74 | % | 222,345 | 4,862 | 2.19 | % | 132,746 | 5,437 |
| Trust preferred debentures | 37,249 | 2,287 | 6.14 | % | 41,643 | 2,599 | 6.24 | % | 32,835 | 2,094 |
| **Total interest-bearing liabilities** | **3,625,184** | **20,683** | **0.57** | **%** | **3,605,430** | **23,975** | **0.67** | **%** | **2,963,097** | **24,213** |
| Noninterest bearing deposits | 903,628 | | | | 806,387 | | | | 681,260 | |
| Accrued expenses and other liabilities | 54,244 | | | | 73,117 | | | | 71,226 | |
| **Total liabilities** | 4,583,056 | | | | 4,484,934 | | | | 3,715,583 | |
| Tompkins Financia l Corporation Shareholders' equity | 482,087 | | | | 442,054 | | | | 375,378 | |
| Noncontrolling interest | 1,512 | | | | 1,511 | | | | 1,512 | |
| **Total equity** | **483,599** | | | | **443,565** | | | | **376,890** | |
| **Total liabilities and equity** | **$5,066,655** | | | | **$ 4,928,499** | | | | **$4,092,473** | |
| Interest rate spread | | | **3.44** | **%** | | | **3.51** | **%** | | |
| Net interest income/margin on earning assets | | **167,318** | **3.57** | **%** | | **164,917** | **3.65** | **%** | | **136,967** |
| Tax Equivalent Adjustment | | **(3,508 )** | | | | **(3,788 )** | | | | **(2,824** |
| Net interest income per consolidated financial statements | | **$163,810** | | | | **$ 161,129** | | | | **$134,143** |

[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, 2014.*

**Table 2 - Analysis of Changes in Net Interest Income**

| | 2014 vs. 2013 Increase (Decrease) Due to Change in Average | | | 2013 vs. 2012 Increase (Decrease) Due to Change in Average | | |
|---|---|---|---|---|---|---|
| (in thousands)(taxable equivalent) | Volume | Yield/Rate | Total | Volume | Yield/Rate | Total |
| INTEREST INCOME: | | | | | | |
| Certificates of deposit, other banks | $(8) | $0 | $(8) | $(30) | $7 | $(23) |
| Federal funds sold | 0 | 0 | 0 | (1) | (1) | (2) |
| Investments | | | | | | |
| Taxable | (147) | 1,417 | 1,270 | (319) | (168) | (487) |
| Tax-exempt | (507) | (1,096) | (1,603) | 2,752 | (2,481) | 271 |
| FHLB and FRB stock | (101) | 162 | 61 | 144 | (219) | (75) |
| Loans, net[1] | 9,327 | (9,938) | (611) | 33,764 | (5,736) | 28,028 |
| Total interest income | $8,564 | $(9,455) | $(891) | $36,310 | $(8,598) | $27,712 |
| **INTEREST EXPENSE:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Interest checking, savings and money market | 138 | (764) | (626) | 1,182 | (1,098) | 84 |
| Time | (295) | (763) | (1,058) | 895 | (445) | 450 |
| Federal funds purchased and securities sold under agreements to repurchase | (645) | (157) | (802) | (500) | (202) | (702) |
| Other borrowings | 359 | (1,165) | (806) | 3,364 | (3,434) | (70) |
| Total interest expense | $(443) | $(2,849) | $(3,292) | $4,941 | $(5,179) | $(238) |
| Net interest income | $9,007 | $(6,606) | $2,401 | $31,369 | $(3,419) | $27,950 |

[1] 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.

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 2014, net interest income increased by $2.4 million, resulting from a $3.3 million decrease in interest expense, which was partially offset by an $891,000 decrease in interest income. Growth in average balances on interest-earnings assets contributed an $8.6 million increase in interest income, while the lower yields on average earning assets offset this growth by $9.5 million. The decrease in interest expense reflects lower rates paid on interest bearing liabilities. The decreases in interest expense is mainly due to lower rates paid on interest bearing liabilities.

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 $2.3 million in 2014, compared to $6.2 million in 2013. Net loan charge-offs of $1.3 million in 2014 were down from $2.8 million in 2013. The decrease in provision expense was mainly a result of improved asset quality metrics and recoveries received on previously charged off credits. 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) | 2014 | 2013 | 2012 |
| Insurance commissions and fees | $28,489 | $27,916 | $19,421 |
| Investment services | 15,493 | 15,109 | 14,340 |
| Service charges on deposit accounts | 9,404 | 8,495 | 7,441 |
| Card services | 7,942 | 7,216 | 6,030 |
| Net mark-to-market gains (losses) | 62 | 17 | (86) |
| Net other-than-temporary impairment losses | 0 | 0 | (196) |
| Other income | 8,984 | 10,546 | 7,534 |
| Net gain on securities transactions | 391 | 599 | 324 |
| Total | $70,765 | $69,898 | $54,808 |

Noninterest income is a significant source of income for the Company, representing 30.2% of total revenues in 2014, and 30.3% in 2013, and is an important factor in the Company's results of operations. Noninterest income increased 1.2% over 2013. The year-over-year changes in the various noninterest categories are discussed in more detail below.

Insurance commissions and fees increased $573,000 or 2.1% over 2013. 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 2013.

Investment services income in 2014 increased by $384,000 or 2.5% over 2013. Investment services income includes trust services, financial planning, and wealth management 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 $3.8 billion at December 31, 2014, and $3.4 billion at December 31, 2013. These figures include $1.1 billion in 2014 and $906.8 million in 2013, of Company-owned securities where Tompkins Trust Company serves as custodian. The increase in fair value of assets reflects favorable market conditions as well as successful business development initiatives resulting in customer retention.

Service charges on deposit accounts were up $909,000 or 10.7%, compared to 2013. The year-over-year increase was due to service fee income on deposit accounts which were up $897,000, and was slightly offset by overdraft fees which were down $84,000 compared to December 31, 2013. The largest component of this category is overdraft fees, which is largely driven by customer activity.

Card services income increased $726,000 or 10.1% over 2013. The primary components of card services income are fees related to debit card transactions and ATM usage. The increase over prior year was mainly in debit card income. 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 $62,000 in 2014, up $45,000 compared to 2013. 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 are mainly attributed to changes in market interest rates.

The Company recognized $391,000 of gains on sales/calls of available-for-sale securities in 2014, compared to $599,000 of gains in 2013. Sales of available-for-sale securities are generally the result of general portfolio maintenance and interest rate risk management.

Other income of $9.0 million was down $1.6 million or 14.8% compared to 2013. 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.

**Noninterest Expense**

| | Year ended December 31, | | |
|---|---|---|---|
| (in thousands) | 2014 | 2013 | 2012 |
| Salaries and wages | $69,558 | $67,200 | $51,700 |
| Pension and other employee benefits | 21,102 | 22,164 | 18,075 |
| Net occupancy expense of premises | 12,203 | 11,757 | 8,969 |
| Furniture and fixture expense | 5,708 | 5,701 | 4,996 |
| FDIC insurance | 2,906 | 3,214 | 2,685 |
| Amortization of intangible assets | 2,095 | 2,197 | 1,264 |
| Merger and integration related expense | 0 | 228 | 15,584 |
| Other | 41,121 | 40,641 | 34,335 |
| Total | $154,693 | $153,102 | $137,608 |

Noninterest expenses of $154.7 million were in line with 2013. Changes in various components of noninterest expense are discussed below.

Salaries and wages and pension and other employee benefit expenses increased $1.3 million or 1.5% over 2013. For 2014, salaries and wages were up $2.4 million or 3.5% over the prior year. The increases reflect additional employees, annual merit increases and higher accruals for incentive compensation. Pension and other employee benefits were down $1.1 million or 4.8% over 2013. The decrease in pension and other employee benefit expenses was mainly a result of an increase in the discount rate used to calculate the annual expense of these plans.

Net occupancy expense increased $446,000 or 3.8% in 2014 over 2013. The increase reflects higher expenses related to rent, utilities, real estate taxes, depreciation and general maintenance of properties for the year.

Other operating expenses of $41.1 million, increased by $480,000 or 1.2% compared to 2013. The primary components of other operating expenses in 2014 are technology expense ($6.2 million), marketing expense ($5.0 million), professional fees ($6.1 million), cardholder expense ($2.7 million) and other miscellaneous expense ($21.2 million). The increase in other miscellaneous expense when compared to 2013 was mainly due to amortization of the FDIC indemnification asset as a result of better than expected performance on FDIC covered loans.

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 63.9% in 2014, compared to 64.0% in 2013. 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 64.8% in 2014 and 65.0% in 2013.

**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 2014 and 2013. 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 2014 provision was $25.4 million. The effective tax rate for the Company was 32.7% in 2014, up from 29.0% in 2013. 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, 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 were 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 included 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 recorded in 2012.

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 excluded $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 excluded $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.

**Segment Reporting**

**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 in 2012. 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 were reconciled to their corresponding consolidated financial statement amounts.

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 2013 from 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 was 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 2012.

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 2013. 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 were 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 resulted in lower asset yields and lower funding costs in 2013 compared to 2012. The Company was 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 was also 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.

Taxable-equivalent interest income increased by 20.4% in 2013 compared to 2012. 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 reflected 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.

**Provision for Loan and Lease Losses**

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 reported improved credit quality metrics over the past several quarters and current levels of nonperforming loans and criticized and classified loans were down from 2012.

**Non-Interest Income**

Noninterest income represented 30.3% of total revenues in 2013, and 29.0% in 2012, and was 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 was 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 included $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 reflected 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 was overdraft fees, which is largely driven by customer activity. The increase over the prior year was 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 2012.

Card services income in 2013 increased $1.2 million or 19.7% over 2012. The primary components of card services income were 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 had 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 elected the fair value option. The year-over-year gains (losses) were 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 were 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. 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 was mainly due to lower sales volumes, reflecting a decision to hold certain loans in the portfolio rather than sell them in the secondary market.

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 was 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 2012. 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 included healthcare insurance, dental insurance and 401(k) plan and these expenses were up over 2012 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 were 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 expenses 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**

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.

FINANCIAL CONDITION

Total assets, at December 31, 2014, grew by $266.5 million or 5.3% compared to the previous year-end. The growth was mainly in loans and securities, which were up $199.0 million or 6.2% and $114.6 million or 8.3% respectively, over year-end 2013.

As of December 31, 2014, total securities comprised 28.5% of total assets, compared to 27.7% of total assets at year-end 2013. 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 64.4% of total assets at December 31, 2014, compared to 63.8% of total assets at December 31, 2013. A more detailed discussion of the loan portfolio is provided below in this section under the caption “Loans and Leases”.

Total deposits increased by $221.9 million or 5.6% compared to December 31, 2013. Noninterest bearing deposits increased by $132.5 million or 14.9% compared to December 31, 2013, and checking, savings and money market deposits and time deposits grew by 2.6% and 3.7%, respectively. Other borrowings, consisting mainly of short term advances with the FHLB, were up $25.0 million or 7.5% from December 31, 2013. 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 $31.6 million or 6.9% to $489.6 million at December 31, 2014, from $457.9 million at December 31, 2013. Additional paid-in capital increased by $2.8 million, from $346.1 million at December 31, 2013, to $348.9 million at December 31, 2014. The $2.8 million increase included the following: $1.7 million of proceeds from stock option exercises and the related tax benefits; $1.5 million related to stock-based compensation; $2.2 million related to shares issued for dividend reinvestment plans; $1.5 million related to shares issued for the employee stock ownership plan; and $329,000 related to shares issued for director deferred compensation plan. These were partially offset by the Company’s repurchase of 101,466 shares of its common stock for $4.6 million. Retained earnings increased by $28.1 million, reflecting net income of $52.0 million less dividends of $24.0 million.

Accumulated other comprehensive loss decreased from a net unrealized loss of $25.1 million at December 31, 2013 to a net unrealized loss of $24.0 million at December 31, 2014; reflecting a $11.1 million increase in unrealized gains on available-for-sale securities due to market interest rates, and an $10.1 million unrealized 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.

Total shareholders' equity was up $16.6 million or 3.8% 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.

The Company continued its long history of increasing cash dividends with a per share increase of 5.2% in 2014, which follows an increase of 5.5% in 2013. Dividends per share amounted to $1.62 in 2014, compared to $1.54 in 2012, and $1.46 in 2012. Cash dividends paid represented 46.1%, 44.2%, and 60.8% of after-tax net income in each of 2014, 2013, and 2012, respectively.

On July 24, 2014, the Company's Board of Directors authorized a share repurchase plan for the Company to repurchase up to 400,000 shares of the Company's common stock. Purchases may be made over the 24 months following adoption of the plan. The repurchase program may be suspended, modified or terminated at any time for any reason. During 2014, the Company has repurchased 101,466 shares at an average price of $45.35.

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.

As of December 31, 2014, 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 20 - 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 of obligations of U.S. Government sponsored entities and 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, 2014 totaled $1.50 billion compared to $1.38 billion at December 31, 2013. The increase in the available-for-sale portfolio was mainly due to increases in mortgage-backed securities issued by U.S. Government sponsored entities. In addition, fair values increased between year-end 2013 and year-end 2014 as a result of changes in market interest rates. The increase in the held-to-maturity portfolio was due to purchases of obligations of U.S. Government sponsored entities, partially offset by maturities and calls of obligations of U.S. state and political subdivisions 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 2 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, 2014 and 2013.

| **Available-for-Sale Securities** | 2014 | | **2013** | | **2012** | |
|---|---|---|---|---|---|---|
| *(in thousands)* | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** | **Amortized Cost**[1] | **Fair Value** |
| U.S. Treasury securities | **$0** | **$0** | $0 | $0 | $1,001 | $1,004 |
| Obligations of U.S. Government sponsored entities | **553,300** | **557,820** | 558,130 | 556,345 | 570,871 | 593,778 |
| Obligations of U.S. states and political subdivisions | **70,790** | **71,510** | 68,216 | 67,962 | 76,803 | 79,056 |
| Mortgage-backed securities - residential, issued by | | | | | | |
| U.S. Government agencies | **108,931** | **109,926** | 147,766 | 146,678 | 162,853 | 167,667 |
| U.S. Government sponsored entities | **660,195** | **659,120** | 587,843 | 577,472 | 526,364 | 540,355 |
| Non-U.S. Government agencies or sponsored entities | **267** | **271** | 306 | 311 | 4,457 | 4,354 |
| U.S. corporate debt securities | **2,500** | **2,162** | 5,000 | 4,633 | 5,009 | 5,083 |
| Total debt securities | **1,395,983** | **1,400,809** | 1,367,261 | 1,353,401 | 1,347,358 | 1,391,297 |
| Equity securities | **1,475** | **1,427** | 1,475 | 1,410 | 2,058 | 2,043 |
| **Total available-for-sale securities** | **$1,397,458** | **$1,402,236** | $1,368,736 | $1,354,811 | $1,349,416 | $1,393,340 |

[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** | **2014** | | **2013** | | **2012** | |
|---|---|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| Obligations of U.S. Government | $**71,906** | $**72,269** | $0 | $0 | $0 | $0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| sponsored entities | | | | | | |
| Obligations of U.S. states and political subdivisions | **16,262** | **16,767** | 18,980 | 19,625 | 24,062 | 25,163 |
| **Total held-to-maturity securities** | **$88,168** | **$89,036** | $18,980 | $19,625 | $24,062 | $25,163 |

| Trading Securities | 2014 Fair Value | 2013 Fair Value | 2012 Fair Value |
|---|---|---|---|
| Obligations of U.S. Government sponsored entities | $7,404 | $8,275 | $11,860 |
| Mortgage-backed securities-residential issued by U.S. Government sponsored entities | 1,588 | 2,716 | 4,590 |
| Total trading securities | $8,992 | $10,991 | $16,450 |

The decrease in trading securities reflects principal repayments and maturities received during 2014. The pre-tax mark-to-market losses on trading securities were $269,000, $538,000 and $332,000 for 2014, 2013 and 2012, respectively.

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. The Company did not recognize any net credit impairment charge to earnings on investment securities in 2014. 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 any investment security to be other-than-temporarily impaired at December 31, 2014. 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 (“ACBB”) 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 $14.6 million, $6.6 million and $95,000 at December 31, 2014, 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. At December 31, 2013, the Company’s holdings of FHLBNY stock, FHLBPITT stock, and ACBB stock totaled $17.2 million, $7.7 million, and $95,000, 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, 2014, 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, 2014 | | | |
|---|---|---|---|---|
| | Securities Available-for-Sale [1] | | Securities Held-to-Maturity | |
| *(in thousands)* | Amount | Yield [2] | Amount | Yield [2] |
| Obligations of U.S. Government sponsored entities | | | | |
| Within 1 year | $61,359 | 2.98 % | $0 | 0.00 % |
| Over 1 to 5 years | 317,509 | 2.03 % | 0 | 0.00 % |
| Over 5 to 10 years | 174,432 | 2.03 % | 71,906 | 2.38 % |
| | $553,300 | 2.14 % | $71,906 | 2.38 % |
| Obligations of U.S. state and political subdivisions | | | | |
| Within 1 year | $5,921 | 5.47 % | $11,400 | 3.93 % |
| Over 1 to 5 years | 25,039 | 4.17 % | 3,440 | 7.49 % |
| Over 5 to 10 years | 25,293 | 3.20 % | 1,114 | 7.90 % |
| Over 10 years | 14,537 | 3.35 % | 308 | 8.26 % |
| | $70,790 | 3.75 % | $16,262 | 5.04 % |
| Mortgage-backed securities - residential | | | | |
| Within 1 year | $100 | 5.01 % | $0 | 0.00 % |
| Over 1 to 5 years | 8,755 | 4.12 % | 0 | 0.00 % |
| Over 5 to 10 years | 136,145 | 2.92 % | 0 | 0.00 % |
| Over 10 years | 624,393 | 2.01 % | 0 | 0.00 % |
| | $769,393 | 2.20 % | $0 | 0.00 % |
| Other securities | | | | |
| Over 10 years | $2,500 | 3.04 % | 0 | 0.00 % |
| Equity securities | 1,475 | 4.81 % | 0 | 0.00 % |
| | $3,975 | 3.70 % | $0 | 0.00 % |
| Total securities | | | | |
| Within 1 year | $67,381 | 3.20 % | $11,400 | 3.93 % |
| Over 1 to 5 years | 351,303 | 2.23 % | 3,440 | 7.49 % |
| Over 5 to 10 years | 335,869 | 2.48 % | 73,020 | 2.46 % |
| Over 10 years | 641,430 | 2.04 % | 308 | 8.26 % |
| Equity securities | 1,475 | 4.81 % | 0 | 0.00 % |
| | $1,397,458 | 2.25 % | $88,168 | 2.87 % |

[1] *Balances of available-for-sale securities are shown at 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.*

The average taxable-equivalent yield on the securities portfolio was 2.39% in 2014 and 2013, and 2.61% in 2012.

At December 31, 2014, 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) | 2014 | 2013 | 2012 | 2011 | 2010 |
| Commercial and industrial | | | | | |
| Agriculture | $78,507 | $74,788 | $77,777 | $67,566 | $65,918 |
| Commercial and industrial other | 688,529 | 562,439 | 446,876 | 417,128 | 409,432 |
| Subtotal commercial and industrial | 767,036 | 637,227 | 524,653 | 484,694 | 475,350 |
| Commercial real estate | | | | | |
| Construction | 72,427 | 46,441 | 41,605 | 47,304 | 58,519 |
| Agriculture | 58,994 | 52,627 | 48,309 | 53,071 | 48,485 |
| Commercial real estate other | 979,621 | 903,320 | 722,273 | 665,859 | 619,458 |
| Subtotal commercial real estate | 1,111,042 | 1,002,388 | 812,187 | 766,234 | 726,462 |
| Residential real estate | | | | | |
| Home equity | 186,957 | 171,809 | 159,720 | 161,278 | 164,765 |
| Mortgages | 710,904 | 658,966 | 573,861 | 500,034 | 462,032 |
| Subtotal residential real estate | 897,861 | 830,775 | 733,581 | 661,312 | 626,797 |
| Consumer and other | | | | | |
| Indirect | 18,298 | 21,202 | 26,679 | 32,787 | 41,668 |
| Consumer and other | 35,874 | 32,312 | 32,251 | 30,961 | 31,757 |
| Subtotal consumer and other | 54,172 | 53,514 | 58,930 | 63,748 | 73,425 |
| Leases | 12,251 | 5,563 | 4,618 | 6,489 | 9,949 |
| Total loans and leases | 2,842,362 | 2,529,467 | 2,133,969 | 1,982,477 | 1,911,983 |
| Less: unearned income and deferred costs and fees | (2,388 ) | (2,223 ) | (863 ) | (628 ) | (1,625 ) |
| **Total originated loans and leases, net of unearned income and deferred costs and fees** | $2,839,974 | $2,527,244 | $2,133,106 | $1,981,849 | $1,910,358 |
| Acquired Loans | | | | | |
| Commercial and industrial | | | | | |
| Commercial and industrial other | 97,034 | 128,503 | 167,427 | 0 | 0 |
| Subtotal commercial and industrial | 97,034 | 128,503 | 167,427 | 0 | 0 |
| Commercial real estate | | | | | |
| Construction | 35,906 | 39,353 | 43,074 | 0 | 0 |
| Agriculture | 3,182 | 3,135 | 3,247 | 0 | 0 |
| Commercial real estate other | 308,488 | 366,438 | 445,359 | 0 | 0 |
| Subtotal commercial real estate | 347,576 | 408,926 | 491,680 | 0 | 0 |
| Residential real estate | | | | | |
| Home equity | 56,008 | 67,183 | 81,657 | 0 | 0 |
| Mortgages | 32,282 | 35,336 | 41,618 | 0 | 0 |
| Subtotal residential real estate | 88,290 | 102,519 | 123,275 | 0 | 0 |
| Consumer and other | | | | | |
| Indirect | 0 | 5 | 24 | 0 | 0 |
| Consumer and other | 1,095 | 1,219 | 1,498 | 0 | 0 |
| Subtotal consumer and other | 1,095 | 1,224 | 1,522 | 0 | 0 |
| Covered loans | 19,319 | 25,868 | 37,600 | 0 | 0 |
| Total loans and leases | 553,314 | 667,040 | 821,504 | 0 | 0 |

| | | | | | |
|---|---|---|---|---|---|
| **Total acquired loans and leases, net of unearned income and deferred costs and fees** | $553,314 | $667,040 | $821,504 | $0 | $0 |

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

Total loans and leases of $3.4 billion at December 31, 2014 were up $199.0 million or 6.2% from December 31, 2013. 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, 2014 are up 12.4% over year-end 2013. The increase in originated loans, over prior year-end, was in all loan categories. As of December 31, 2014 total loans and leases represented 64.4% of total assets compared to 63.8% of total assets at December 31, 2013.

Residential real estate loans, including home equity loans, of $986.2 million at December 31, 2014 increased by $52.9 million or 5.7% from $933.3 million at year-end 2013, and comprised 29.1% of total loans and leases at December 31, 2014. 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 the 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.

The Company may sell residential real estate loans in the secondary market based on interest rate considerations. These residential real estate loans are generally sold to Federal Home Loan Mortgage Corporation (“FHLMC”) or State of New York Mortgage Agency (“SONYMA”) 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 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, 2014 was insignificant. The Company has never had to repurchase a loan sold with recourse.

During 2014, 2013, and 2012, the Company sold residential mortgage loans totaling $19.9 million, $13.2 million, and $37.5 million, respectively, and realized net gains on these sales of $362,000, $301,000, and $885,000, 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 2014, 2013, and 2012, the Company recorded mortgage-servicing assets of $146,000, $85,000, and $123,000, 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 $1.5 billion at December 31, 2014; an increase of $47.3 million compared to December 31, 2013, and represented 43.0% of total loans and leases at December 31, 2014, down from 44.2% at December 31, 2013.