

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

TOMPKINS TRUSTCO INC
Form 10-Q
November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

Commission File Number 1-12709

[GRAPHIC OMITTED]
TOMPKINS TRUSTCO INC.

(Exact name of registrant as specified in its charter)

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

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

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

14851
(Zip Code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Indicate the number of shares of the registrant's common stock outstanding as of
the latest practicable date:

Class	Outstanding as of October 27, 2006
----- Common Stock, \$.10 par value	----- 9,786,147 shares

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

TOMPKINS TRUSTCO, INC.

FORM 10-Q

INDEX

	PAGE

PART I -FINANCIAL INFORMATION	
Item 1 - Financial Statements (Unaudited)	
Condensed Consolidated Statements of Condition as of September 30, 2006 and December 31, 2005	3
Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2006 and 2005	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005	5
Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2006 and 2005	6
Notes to Unaudited Condensed Consolidated Financial Statements	7-13
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	14-24
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	25
Item 4 - Controls and Procedures	26
PART II - OTHER INFORMATION	
Item 1 - Legal Proceedings	27
Item 1A - Risk Factors	27
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3 - Defaults Upon Senior Securities	28
Item 4 - Submission of Matters to a Vote of Security Holders	28
Item 5 - Other Information	28
Item 6 - Exhibits	28
SIGNATURES	28
EXHIBIT INDEX	29

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	As of 09/30/2006
Cash and noninterest bearing balances due from banks	\$ 65
Interest bearing balances due from banks	
Federal funds sold	
Available-for-sale securities, at fair value	648
Held-to-maturity securities, fair value of \$62,440 at September 30, 2006, and \$82,768 at December 31, 2005	62
Loans held-for-sale	9
Loans and leases, net of unearned income and deferred costs and fees	1,277
Less: Reserve for loan/lease losses	14
Net Loans/Leases	1,263
Bank premises and equipment, net	41
Corporate owned life insurance	25
Goodwill	17
Other intangible assets	3
Accrued interest and other assets	42
Total Assets	\$ 2,179
LIABILITIES, MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Interest bearing:	
Checking, savings and money market	\$ 728
Time	632
Noninterest bearing	342
Total Deposits	1,703
Federal funds purchased and securities sold under agreements to repurchase	170
Other borrowings	87
Other liabilities	28
Total Liabilities	\$ 1,989
Minority interest in consolidated subsidiaries	1
Shareholders' equity:	
Common Stock - par value \$.10 per share: Authorized 15,000,000 shares; Issued: 9,823,194 at September 30, 2006; and 9,899,546 at December 31, 2005	155
Surplus	39
Undivided profits	(5)
Accumulated other comprehensive loss	(1)
Treasury stock, at cost - 63,025 shares at September 30, 2006, and 58,831 shares at December 31, 2005	(1)

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

	Total Shareholders' Equity	\$	188

	Total Liabilities, Minority Interest in Consolidated Subsidiaries and Shareholders' Equity	\$	2,179
=====			

Share data has been retroactively adjusted to reflect a 10% stock dividend paid on May 15, 2006.

See accompanying notes to unaudited condensed consolidated financial statements.

3

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

	Three months ended	
	09/30/2006	09/30/2005
	-----	-----
INTEREST AND DIVIDEND INCOME		
Loans	\$ 22,798	\$ 20,901
Balances due from banks	8	4
Federal funds sold	0	0
Available-for-sale securities	7,281	5,803
Held-to-maturity securities	632	648
	-----	-----
Total Interest and Dividend Income	30,719	27,356
	-----	-----
INTEREST EXPENSE		
Deposits:		
Time certificates of deposits of \$100,000 or more	3,064	1,724
Other deposits	6,677	4,398
Federal funds purchased and securities sold under agreements to repurchase	1,482	1,320
Other borrowings	1,392	825
	-----	-----
Total Interest Expense	12,615	8,267
	-----	-----
Net Interest Income	18,104	19,089
	-----	-----
Less: Provision for loan/lease losses	482	662
	-----	-----
Net Interest Income After Provision for Loan/Lease Losses	17,622	18,427
	-----	-----
NONINTEREST INCOME		
Investment services income	3,173	1,270
Insurance commissions and fees	2,567	2,017
Service charges on deposit accounts	2,030	2,234
Card services income	746	663
Other service charges	651	793
Increase in cash surrender value of corporate owned life insurance	276	270
Life insurance proceeds	0	0
Net gains on sale of loans	40	47
Other income	477	413
Net gain on sale of available-for-sale securities	0	0

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

	Total Noninterest Income	9,960	7,707
NONINTEREST EXPENSES			
Salary and wages		8,265	7,183
Pension and other employee benefits		2,073	1,873
Net occupancy expense of bank premises		1,239	984
Furniture and fixture expense		885	894
Marketing expense		648	549
Professional fees		392	531
Software licenses and maintenance		459	433
Cardholder expense		289	357
Amortization of intangible assets		183	140
Other operating expense		3,026	2,661
	Total Noninterest Expenses	17,459	15,605
	Income Before Income Tax Expense and Minority Interest in Consolidated Subsidiaries	10,123	10,529
Minority interest in consolidated subsidiaries		33	33
	Income Tax Expense	3,287	3,386
	Net Income	\$ 6,803	\$ 7,110
	Basic Earnings Per Share	\$ 0.69	\$ 0.72
	Diluted Earnings Per Share	\$ 0.68	\$ 0.71

Per share data has been retroactively adjusted to reflect a 10% stock dividend paid on May 15, 2006. See accompanying notes to unaudited condensed consolidated financial statements.

4

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

Nine months ended

		09/30/2
OPERATING ACTIVITIES		
Net income		\$ 19
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan/lease losses		1
Depreciation and amortization premises, equipment, and software		3
Amortization of intangible assets		
Earnings from corporate owned life insurance		
Net amortization on securities		1
Net gain on sale of available-for-sale securities		
Net gain on sale of loans		
Proceeds from sale of loans		8
Loans originated for sale		(8)
Net gain on sale of bank premises and equipment		

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Tax benefit from stock option exercises	
Stock-based compensation expense	
Increase in accrued interest receivable	(1)
Increase in accrued interest payable	
Other, net	8

Net Cash Provided by Operating Activities 33

INVESTING ACTIVITIES

Proceeds from maturities of available-for-sale securities	54
Proceeds from sales of available-for-sale securities	25
Proceeds from maturities of held-to-maturity securities	32
Purchases of available-for-sale securities	(121)
Purchases of held-to-maturity securities	(11)
Net increase in loans	(48)
Proceeds from sale of bank premises and equipment	
Purchases of bank premises and equipment	(7)
Net cash used in acquisitions	(3)
Purchase of corporate owned life insurance	
Other, net	

Net Cash Used in Investing Activities (78)

FINANCING ACTIVITIES

Net increase (decrease) in demand, money market, and savings deposits	22
Net (decrease) increase in time deposits	(1)
Net increase in securities sold under agreements to repurchase and Federal funds purchased	18
Increase in other borrowings	84
Repayment of other borrowings	(61)
Cash dividends	(8)
Cash paid in lieu of fractional shares - 10% stock dividend	
Common stock repurchased and returned to unissued status	(9)
Net proceeds from exercise of stock options	1
Tax benefit from stock option exercises	

Net Cash Provided by Financing Activities 45

Net Increase in Cash and Cash Equivalents

Cash and cash equivalents at beginning of period	65
--	----

Total Cash & Cash Equivalents at End of Period \$ 66

Supplemental Information:

Cash paid during the year for:	
Interest	\$ 34
Taxes	3
Non-cash investing and financing activities:	
Fair value of non-cash assets acquired in purchase acquisitions	\$
Fair value of liabilities assumed in purchase acquisitions	\$
Fair value of shares issued for acquisitions	\$ 2
Securitization of loans	\$ 32

See accompanying notes to unaudited condensed consolidated financial statements.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

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

	Common Stock	Surplus	Undivided Profits	Accumulat Other Comprehens Income (Lo
Balances at January 1, 2005	\$ 816	\$ 75,837	\$ 94,522	\$ 87
Comprehensive Income:				
Net Income			20,471	
Other comprehensive loss				(3,86
Total Comprehensive Income				
Cash dividends (\$0.79 per share)			(7,814)	
Exercise of stock options and related tax benefit (39,565 shares, net)	3	868		
Common stock repurchased and returned to unissued status (24,182 shares)	(2)	(895)		
Effect of 10% stock dividend	82	42,380	(42,462)	
Cash paid in lieu of fractional shares (307 shares)			(13)	
Directors deferred compensation plan (3,673 shares, net)		158		
Balances at September 30, 2005	\$ 899	\$ 118,348	\$ 64,704	\$ (2,99
Balances at January 1, 2006	\$ 900	\$ 118,663	\$ 69,228	\$ (6,30
Comprehensive Income:				
Net Income			19,979	
Other comprehensive income				41
Total Comprehensive Income				
Cash dividends (\$0.85 per share)			(8,370)	
Exercise of stock options and related tax benefit (70,825 shares, net)	7	1,652		
Common stock repurchased and returned to unissued status (224,070 shares)	(23)	(9,238)		
Effect of 10% stock dividend	91	41,158	(41,249)	
Cash paid in lieu of fractional shares (262 shares)			(10)	
Directors deferred compensation plan (6,574 shares, net)		189		
Compensation expense stock options		542		
Shares issued for purchase acquisition (77,155 shares)	7	2,746		
Balances at September 30, 2006	\$ 982	\$ 155,712	\$ 39,578	\$ (5,89

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Share and per share data have been retroactively adjusted to reflect a 10% stock dividend paid on May 15, 2006.

See accompanying notes to unaudited condensed consolidated financial statements.

6

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Headquartered in Ithaca, New York, Tompkins Trustco, Inc., ("Tompkins" or the "Company") is registered as a financial holding company with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. The Company conducts its business through its (i) three wholly-owned banking subsidiaries, Tompkins Trust Company, The Bank of Castile and The Mahopac National Bank ("Mahopac National Bank"), its (ii) wholly-owned insurance subsidiary, Tompkins Insurance Agencies, Inc., and its (iii) wholly-owned fee-based financial planning and investment management subsidiary, AM&M Financial Services, Inc. ("AM&M"). Unless the context otherwise requires, the term "Company" refers to Tompkins Trustco, Inc. and its subsidiaries. The Company's principal offices are located at The Commons, Ithaca, New York 14851, and its telephone number is (607) 273-3210. The Company's common stock is traded on the American Stock Exchange under the Symbol "TMP."

2. Basis of Presentation

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

In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year ended December 31, 2006. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. On January 1, 2006, the Company began recognizing compensation expense for stock options with the adoption of Statement of Financial Accounting Standard ("SFAS") No. 123 (Revised), "Share-Based Payment" ("SFAS No. 123(R)"). There have been no other significant changes to the Company's accounting policies from those presented in the 2005 Annual Report on Form 10-K.

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

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

eliminated in consolidation.

On April 25, 2006, the Company's Board of Directors approved a 10% stock dividend payable on May 15, 2006, to holders of record of the Company's common stock on May 3, 2006. Share and per share data contained in this Form 10-Q have been retroactively adjusted to reflect this 10% stock dividend.

3. Stock Plans and Stock-Based Compensation

The Company's 2001 Stock Option Plan, as amended, (the "Stock Option Plan") authorizes the grant of options to purchase up to 1,131,350 shares of the Company's common stock. The Board of Directors of Tompkins may grant stock options to officers, employees and certain other qualified individuals. Stock options are granted at an exercise price equal to the stock's fair market value at the date of grant, may not have a term in excess of ten years, and have vesting periods that range between one and seven years from the grant date. Prior to the adoption of the Stock Option Plan, the Company had similar stock option plans, which remain in effect solely with respect to unexercised options issued under these plans.

7

The following table presents the activity related to options under all plans for the nine months ended September 30, 2006.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term	Ag Re In

Outstanding at January 1, 2006	628,894	\$ 31.23		
Granted	234,465	42.39		
Exercised	(84,988)	23.72		
Expired	(2,178)	39.34		
Forfeited	(35,425)	38.77		

Outstanding at September 30, 2006	740,768	\$ 35.24	7.00	\$ 7,
=====				
Exercisable at September 30, 2006	458,371	\$ 31.43	5.86	\$ 6,
=====				

The Company's practice is to issue original issue shares of its common stock upon exercise of stock options rather than treasury shares. The Company granted 234,465 options to its employees in the first nine months of 2006. No options were granted in the first nine months of 2005. The weighted average grant-date fair value of the options granted in 2006 was \$11.48. The Company uses the Black-Scholes option-valuation model to determine the fair value of each option at the date of grant. This valuation model estimates fair value based on the assumptions listed in the table below. The risk-free interest rate is the interest rate available on zero-coupon U.S. Treasury instruments with a remaining term equal to the expected term of the share option at the time of grant. The expected dividend yield is based on dividend trends and the market price of the Company's stock price at grant. Volatility is largely based on historical volatility of the Company's stock price. Expected term is based upon historical experience of employee exercises and terminations as well as the vesting term of the grants.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Risk-free interest rate
Expected dividend yield
Volatility
Expected life (years)

=====

The total intrinsic value, which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date, of options exercised was \$362,000 and \$362,000 for the three months ended September 30, 2006 and 2005, respectively, and \$1.6 million and \$900,000 for the nine months ended September 30, 2006 and 2005, respectively.

As of September 30, 2006, unrecognized compensation cost related to unvested stock options totaled \$2.5 million. The amount of cash received from the exercise of stock options for the nine months ended September 30, 2006 and 2005 was \$1.4 million and \$678,000, respectively. The tax benefit realized from stock options exercised during the nine months ended September 30, 2006 and 2005 was \$253,000 and \$193,000, respectively.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No 123 (Revised), "Share-Based Payment" ("SFAS No. 123(R)") on January 1, 2006, using the modified prospective method. Under this method, compensation costs recognized beginning in 2006 includes: (a) the compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based upon the grant date fair value estimated in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", and (b) the compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results from prior periods have not been restated. Prior to adoption of SFAS No. 123(R) on January 1, 2006, the Company applied Accounting Principles Board Opinion (APB Opinion) No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations in accounting for its stock option plan. Under APB No. 25, compensation expense is recognized only if the exercise price of the option is less than the fair value of the underlying stock at the grant date. Since the Company granted options with the exercise price equal to the fair value of the underlying stock at the grant date, there was no compensation expense recorded in net income in 2005. Compensation expense related to stock options for the three and nine months ended September 30, 2006 was \$172,000 and \$542,000, respectively.

In December 2005, the Compensation Committee of the Board of Directors of Tompkins approved the accelerated vesting of all then currently outstanding unvested stock options, except for those options issued to executive officers of Tompkins. The decision to accelerate the vesting, which was effective on December 27, 2005, was made primarily to reduce non-cash compensation expense

that the Company would have recorded in its income statement in future periods upon the adoption of SFAS No. 123(R) in January 2006. The Compensation Committee believed it was in the best interest of its shareholders to accelerate the vesting of these options to eliminate compensation expense in future periods. It is expected that in 2006 Tompkins will not be required to recognize approximately \$434,000, net of taxes, as a result of the accelerated vesting. Tompkins estimates that the accelerated vesting will result in lower compensation expense related to stock options of approximately \$1.2 million, net of taxes, over the remaining vesting period of the affected options. The affected options were previously awarded to officers and employees under the Stock Option Plan. There is no change to the Company's compensation philosophy

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

and all other terms and conditions applicable to such options, including the exercise prices and exercise periods, remain unchanged. No options held by executive officers of Tompkins were affected by the vesting acceleration. As a result of accelerated vesting, options to purchase up to 221,307 shares of common stock became immediately exercisable. In the absence of such, the options would have vested on dates ranging from April 18, 2006 to October 3, 2010.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) to all outstanding and unvested awards in 2005.

(In thousands except per share data)	Three months ended September 30, 2006
<hr style="border-top: 1px dashed black;"/>	
Net Income:	
As reported	\$ 0
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of all related tax effects	
<hr style="border-top: 1px dashed black;"/>	
Pro forma	\$ 0
<hr style="border-top: 1px dashed black;"/>	
Basic earnings per share:	
As reported	\$ 0
<hr style="border-top: 1px dashed black;"/>	
Pro forma	
<hr style="border-top: 1px dashed black;"/>	
Diluted earnings per share:	
As reported	\$ 0
<hr style="border-top: 1px dashed black;"/>	
Pro forma	
<hr style="border-top: 1px dashed black;"/>	

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

4. Earnings Per Share

The Company follows the provisions of SFAS No. 128, "Earnings Per Share" ("EPS"). Share and per share data have been retroactively adjusted to reflect a 10% dividend paid on May 15, 2006. A computation of Basic EPS and Diluted EPS for the three- and nine- month periods ending September 30, 2006 and 2005 is presented in the table below.

Three months ended September 30, 2006 (In thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares Outstanding (Denominator)
<hr style="border-top: 1px dashed black;"/>		
Basic EPS:		
Income available to holders of common stock	\$ 6,803	

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Effect of dilutive securities:
 Stock options
 Shares issuable as contingent consideration for acquisition

Diluted EPS:
 Income available to holders of common stock plus assumed conversions \$ 6,803
 =====

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

9

Three months ended September 30, 2005 (In thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)
Basic EPS:		
Income available to holders of common stock	\$ 7,110	
Effect of dilutive securities:		
Stock options		
Diluted EPS:		
Income available to holders of common stock plus assumed conversions	\$ 7,110	1
=====		

Nine months ended September 30, 2006 (In thousands except share and per share data)	Net Income (Numerator)	Weighted Average Shares (Denominator)
Basic EPS:		
Income available to holders of common stock	\$ 19,979	
Effect of dilutive securities:		
Stock options		
Shares issuable as contingent consideration for acquisition		
Diluted EPS:		
Income available to holders of common stock plus assumed conversions	\$ 19,979	1
=====		

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

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

(In thousands)	09/30/2006	09/30/2005	09/30/2006	09/30/2005
Service cost	\$ 395	\$ 377	\$ 13	\$ 50
Interest cost	466	434	64	80
Expected return on plan assets for the period	(689)	(660)	0	0
Amortization of transition liability	0	0	18	29
Amortization of prior service cost	(27)	(33)	0	2
Amortization of net loss	179	164	0	3
Net periodic benefit cost	\$ 324	\$ 282	\$ 95	\$ 164

(In thousands)	Pension Benefits Nine months ended		Life and Health Nine months ended	
	09/30/2006	09/30/2005	09/30/2006	09/30/2005
Service cost	\$ 1,185	\$ 1,130	\$ 39	\$ 150
Interest cost	1,398	1,302	191	241
Expected return on plan assets for the period	(2,067)	(1,980)	0	0
Amortization of transition liability	0	0	56	87
Amortization of prior service cost	(81)	(98)	0	5
Amortization of net loss	536	492	0	10
Net periodic benefit cost	\$ 971	\$ 846	\$ 286	\$ 493

The Company previously disclosed in its audited consolidated financial statements for the year ended December 31, 2005, contained in the Company's Annual Report on Form 10-K, that although the Company is not required to contribute to the pension plan in 2006, it could voluntarily contribute to the pension plan in 2006. There was no contribution to the pension plan through the first nine months of 2006.

11

7. Financial Guarantees

The Company extends standby letters of credit to its customers in the normal course of business. The standby letters of credit are generally short-term. As of September 30, 2006, the Company's maximum potential obligation under standby letters of credit was \$50.7 million. Management uses the same credit policies to extend standby letters of credit that it uses for on-balance sheet lending decisions and may require collateral to support standby letters of credit based upon its evaluation of the counterparty. Management does not anticipate losses as a result of these transactions.

8. Goodwill and Other Intangible Assets

On January 6, 2006, the Company completed its acquisition of AM&M Financial Services, Inc. (AM&M), a fee-based financial planning firm headquartered in Pittsford, New York. Under the terms of the Agreement and Plan of Merger dated November 21, 2005 by and between the Company and AM&M, the Company acquired all of the issued and outstanding shares of AM&M stock for an initial merger consideration of \$2,375,000 in cash and 59,377 shares of Tompkins common stock.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

In addition to the merger consideration paid at closing, additional contingent amounts of up to \$8.5 million (payable one-half in cash and one-half in Tompkins common stock) may be paid over a period of four years from closing, depending on the operating results of AM&M. The merger resulted in intangible assets of \$4.7 million, including goodwill of \$3.8 million, customer related intangible of \$845,000, and a covenant-not-to-compete of \$94,000. The customer related intangible and the covenant-not-to-compete are being amortized over 10 years and 6 years, respectively.

Effective March 1, 2006, Tompkins Insurance acquired the Farrell-Messler Agency, an insurance agency in Trumansburg, New York, in a cash transaction. The transaction resulted in goodwill of \$667,000, customer related intangibles of \$114,000 and a covenant-not-to-compete of \$79,000. The covenant-not-to-compete and other identifiable intangibles are being amortized over 6 years.

Effective April 1, 2006, Tompkins Insurance acquired certain assets of the Potter Enterprises of WNY, Inc., an insurance agency headquartered in Orchard Park, New York, in a cash transaction. Only the operations attributable to the Castile, NY branch were included in this transaction. The transaction resulted in goodwill of \$212,000, customer related intangibles of \$23,000 and a covenant-not-to-compete of \$15,000. The covenant-not-to-compete and other identifiable intangibles are being amortized over 5 years.

Effective July 1, 2006, Tompkins Insurance acquired the Kemp Agency, an insurance agency with offices in Dansville and Nunda, New York in a stock and cash transaction. The transaction resulted in goodwill of \$521,000, customer related intangibles of \$135,000 and a covenant-not-to-compete of \$90,000. The covenant-not-to-compete and other identifiable intangibles are being amortized over 5 and 6 years, respectively.

9. Accounting Pronouncements

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statement No. 133 and 140" ("SFAS 155"). SFAS 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective on January 1, 2007, and is not expected to have a material impact on the Company's results of operations and financial condition.

On March 17, 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125" ("SFAS 140"). SFAS 156 permits entities to subsequently

measure servicing rights at fair value and report changes in fair value in earnings rather than amortize servicing rights in proportion to and over the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation as required under SFAS 140. Entities that elect to subsequently measure their servicing rights at fair value may no longer

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

find it necessary to qualify for and apply the provisions of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," to achieve an income statement effect similar to the application of hedge accounting for instruments used to manage the effect of interest rate changes on servicing rights.

SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption of the Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements for any interim period of that fiscal year. Management does not expect the adoption to have a material impact on the Company's financial condition, results of operations or cash flows.

In July 2006, FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No 109 ("FIN 48").

FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also establishes a two-step evaluation process for tax positions, recognition and measurement. For recognition, a determination is made whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold it is measured and recognized in the financial statements as the largest amount of tax benefit that is greater than 50% likely of being realized. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized or, continue to be recognized, upon adoption of this Interpretation. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company plans to adopt FIN 48 on January 1, 2007. The Company is evaluating the impact of adopting FIN 48 and is unable, at this time, to quantify the impact, if any, to undivided profits at the time of adoption.

In July 2006, the FASB issued FASB Staff Position ("FSP") No. 13-2 "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" ("FSP 13-2"), which amends SFAS-13, Accounting for Leases. Under FSP 13-2, a material revision in the timing of expected cash flows of a leveraged lease requires a recalculation of the original lease assumptions. The cumulative effect of adopting the provisions of FSP 13-2 shall be recorded as an adjustment to the beginning balance of retained earnings in the period of adoption. After adoption, changes in cash flow assumptions that result in a change in the net investment of the lease shall be recognized as a gain or loss in the year in which the assumption is changed. FSP 13-2 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company plans to adopt FSP 13-2 on January 1, 2007. The Company is evaluating the impact of adopting FSP No. 13-2 and is unable, at this time, to quantify the impact, if any, to undivided profits at the time of adoption.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132R)" ("SFAS 158"). SFAS 158 requires an employer to recognize the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its statement of financial position. The funded status is measured as the difference between plan assets at fair value and the benefit obligation (the projected benefit obligation for

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

pension plans or the accumulated benefit obligation for other postretirement benefit plans). An employer is also required to measure the funded status of a plan as of the end of its fiscal year and reflect changes in the funded status in comprehensive income. The Company has two pension plans and a post retirement benefit plan that are subject to the requirements of SFAS 158. The Company is evaluating the impact of adopting SFAS 158, which is effective December 31, 2006, and is unable, at this time, to quantify the impact. The Company does expect the adoption to result in a charge to comprehensive income.

10. Subsequent Events

On October 27, 2006, the Company entered into an agreement with Elan Financial Services ("Elan") whereby the Company agreed to sell Elan all of its approximately \$8.7 million credit card portfolio. The Company expects to recognize a gain, net of transaction expenses, of approximately \$2.2 million (\$1.3 million after-tax) in the fourth quarter related to the sale. The Company will continue to market credit cards to its customers through an ongoing servicing relationship with Elan.

13

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

BUSINESS

Tompkins Trustco, Inc. ("Tompkins" or the "Company") is a registered financial holding company incorporated in 1995 under the laws of the State of New York and its common stock is listed on the American Stock Exchange (Symbol: TMP). Tompkins is headquartered at The Commons, Ithaca, New York. Tompkins is the corporate parent of three community banks: Tompkins Trust Company ("Trust Company"), The Bank of Castile and The Mahopac National Bank ("Mahopac National Bank"); an insurance agency, Tompkins Insurance Agencies, Inc. ("Tompkins Insurance"); and a fee-based financial planning and wealth management firm, AM&M Financial Services, Inc. ("AM&M"). Unless the context otherwise requires, the term "Company" refers collectively to Tompkins Trustco, Inc. and its subsidiaries.

Through its community bank subsidiaries, the Company provides traditional banking and related financial services, which constitute the Company's only reportable business segment. Banking services consist primarily of attracting deposits from the areas served by the community bank subsidiaries' 36 banking offices and using those deposits to originate a variety of commercial loans, consumer loans, real estate loans (including commercial loans collateralized by real estate), and leases, and providing trust and investment related services. The Company's principal expenses are interest on deposits, interest on borrowings, and operating and general administrative expenses, as well as provisions for loan/lease losses. Funding sources, other than deposits, include borrowings, securities sold under agreements to repurchase, and cash flow from lending and investing activities. The Company provides trust and investment services through Tompkins Investment Services, a division of Trust Company, including investment management accounts, custody accounts, trusts, retirement plans and rollovers, estate settlement, and financial planning.

Tompkins Insurance is headquartered in Batavia, New York, and offers property and casualty insurance to individuals and businesses primarily in Western New York. Over the past several years, Tompkins Insurance has expanded its efforts to offer services to bank customers of the Company's community banking subsidiaries by sharing certain offices with The Bank of Castile. Tompkins Insurance has seven stand-alone offices in Western New York and eight offices that it shares with The Bank of Castile. In the past two years, Tompkins Insurance has expanded its presence in Tompkins County with the acquisition of

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

two insurance agencies in the county.

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

The banking industry is highly competitive, as deregulation has opened the industry to nontraditional commercial banking companies. Competition for commercial banking and other financial services is strong in the Company's market area. Competition includes other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment companies, and other financial intermediaries. The Company differentiates itself from its competitors through its full complement of banking and related financial services, and through its community commitment and involvement in its primary market areas, as well as its commitment to quality and personalized banking services. The banking industry is also highly regulated. As a financial holding company of three community banks, the Company is subject to examination and regulation from the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of Currency, and the New York State Banking Department.

Other external factors affecting the Company's operating results are market rates of interest, the condition of financial markets, and both national and regional economic conditions. The interest rate environment of rising short-term rates and flat to lower longer-term rates has pressured the performance of the banking subsidiaries over the past several years. Growth in loans and deposits as well as continued efforts to expand its fee-based businesses has helped to offset the pressures of the current interest rate environment. The Company's community bank subsidiaries operate, in the aggregate, 36 banking offices, including one limited-service office, serving communities in many upstate New York markets. Economic climates in these markets vary by region. The Western New York market served by The Bank of Castile has been the most challenging in recent years, due to cutbacks and layoffs by some major employers in Rochester, New York. Conditions in this market appear to have recently improved. The economic climates in the Central New York markets served by Tompkins Trust Company and the lower Hudson Valley markets served by Mahopac National Bank remain favorable.

14

The following discussion is intended to provide the reader with an understanding of the consolidated financial condition and results of operations of Tompkins for the quarter and year-to-date periods ended September 30, 2006. It should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and the unaudited condensed consolidated financial statements and notes included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

The Company is making this statement in order to satisfy the "Safe Harbor" provision contained in the Private Securities Litigation Reform Act of 1995. The statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements are made based on management's expectations and beliefs concerning future events

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

impacting the Company and are subject to certain uncertainties and factors relating to the Company's operations and economic environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed and/or implied by such forward-looking statements. The following factors are among those that could cause actual results to differ materially from the forward-looking statements: changes in general economic, market, political, 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, including interest rate and currency rate fluctuations; changes in laws and regulations affecting banks, insurance companies, bank holding companies and/or financial holding companies; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; governmental and public policy changes, including environmental regulation; protection and validity of intellectual property rights; reliance on large customers; and financial resources in the amounts, at the times and on the terms required to support the Company's future businesses.

Critical Accounting Policies

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

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

Since the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, and changes in local property values. While management's evaluation of the reserve for loan/lease losses as of September 30, 2006, considers the reserve to be adequate, under adversely different conditions or assumptions, the Company would need to increase the reserve.

Another critical accounting policy is the policy for pensions and post-retirement benefits. Expenses and liabilities associated with the Company's pension and post-retirement benefit plans are based on estimates of future salary increases, employment levels, employee retention, discount rates, life expectancies, and the long-term rates of investment returns. Changes in these assumptions due to market conditions, governing laws and regulations, or Company specific circumstances may result in material changes to the Company's pension and post-retirement expenses.

All accounting policies are important and the reader of the Company's financial statements should review these policies, described in Note 1 to the notes to consolidated financial statements to the Company's audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, to gain a greater understanding of how the Company's financial performance is reported.

OVERVIEW

For the quarter ended September 30, 2006, net income of \$6.8 million was down 4.3% from the same period in 2005. Diluted earnings per share were \$0.68 for the third quarter of 2006, compared to \$0.71 for the same period in 2005. For the first nine months of 2006, net income was \$20.0 million, a decrease of \$492,000, or 2.4% over the same period in 2005. Diluted earnings per share for the first nine months of 2006 were \$2.00 compared to \$2.05 for the same period in 2005.

Return on average assets (ROA) for the quarter ended September 30, 2006, was 1.26% compared to 1.38% for the quarter ended September 30, 2005. Return on average shareholders' equity (ROE) for the third quarter of 2006 was 14.73%, compared to 15.95% for the same period in 2005. For the nine-month period ended September 30, 2006, ROA was 1.26%, compared to 1.35% for the same period prior year. ROE for the nine months ended September 30, 2006 was 14.62%, compared to 15.76% for the nine months ended September 30, 2005.

The current interest rate environment has unfavorably impacted operating performance and contributed to the decline in the above earnings measures. Rising short-term interest rates have contributed to higher funding costs, while the inverted yield curve has limited the yields on average earning assets. The increase in funding costs has exceeded the improvements in our asset yields, resulting in a lower net interest margin for the third quarter and year-to-date periods in 2006 compared to the same periods in 2005.

Noninterest income was up 29.2% in the third quarter and 31.0% year-to-date 2006, from the same periods prior year, driven by growth in investment services income and insurance commissions and fees. The acquisition of AM&M and three smaller insurance agencies in 2006 contributed to the growth in these fee-based businesses. The year-to-date growth in noninterest income also includes \$685,000 of death benefits proceeds on corporate owned life insurance. Noninterest expenses were up 11.9% over the third quarter of 2005, and 16.7% over the year-to-date 2005. Contributing to the growth in noninterest expenses were the previously mentioned acquisitions, the opening of two new banking offices, the relocation of one banking office, the expansion of retail brokerage services, and stock option expenses related to the adoption of SFAS No. 123R.

Asset quality at September 30, 2006, improved when compared to the same period last year, with nonperforming assets decreasing to \$4.1 million at September 30, 2006, from \$4.4 million at September 30, 2005. The ratio of nonperforming assets to total assets improved from 0.21% at September 30, 2005, to 0.19% at September 30, 2006. Net charge-offs in the third quarter and year-to-date 2006 were \$72,000, and \$572,000, respectively, compared to \$264,000 and \$996,000 in the same periods in 2005. The provision for loan and lease losses decreased to \$482,000 in the third quarter of 2006 from \$662,000 in the same period in 2005.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

For the year-to-date period, the provision for loan and leases losses decreased from \$1.8 million in 2005 to \$1.0 million in 2006.

RESULTS OF OPERATIONS

Net Interest Income

The following table illustrates the trend in average interest-earning assets and interest-bearing liabilities, and the corresponding yield or cost associated with each.

16

(Dollar amounts in thousands)	Quarter Ended Sept-06			Year to Date Period Ended Sept-06		
	Average Balance (QTD)	Interest	Average Yield/ Rate	Average Balance (YTD)	Interest	Average Yield/ Rate
ASSETS						
Interest-earning assets						
Interest-bearing balances						
due from banks	\$ 1,006	\$ 8	3.15%	\$ 2,663	\$ 73	3.67%
Securities (1)						
U.S. Government						
Securities	587,252	6,605	4.46%	567,366	18,825	4.44%
State and municipal (2)	117,058	1,732	5.87%	126,016	5,526	5.86%
Other Securities (2)	17,406	218	4.97%	18,609	744	5.35%
Total securities	721,716	8,555	4.70%	711,911	25,095	4.71%
Federal Funds Sold	0	0	0.00%	270	9	4.46%
Loans, net of unearned income (3)						
Real Estate	848,751	14,333	6.70%	849,435	42,015	6.61%
Commercial Loans (2)	309,683	6,437	8.25%	301,955	18,234	8.07%
Consumer Loans	93,036	1,891	8.06%	95,230	5,680	7.97%
Direct Lease Financing	11,858	175	5.86%	12,289	550	5.98%
Total loans, net of unearned income	1,263,328	22,836	7.17%	1,258,909	66,479	7.06%
Total interest-earning assets	1,986,050	31,399	6.27%	1,973,833	91,656	6.21%
Other assets						
	151,992			151,126		
Total assets	\$2,138,042			\$2,124,959		

LIABILITIES & SHAREHOLDERS' EQUITY

Deposits

Interest-bearing deposits

Interest bearing
checking, savings,
& money market

704,983	3,045	1.71%	701,703	8,049	1.53%
---------	-------	-------	---------	-------	-------

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Time Dep > \$100,000	259,149	3,064	4.69%	291,168	9,439	4.33%
Time Dep <\$100,000	325,495	3,313	4.04%	313,549	8,769	3.74%
Brokered Time Dep <\$100,000	25,672	319	4.93%	34,295	1,188	4.63%

Total interest-bearing deposits	1,315,299	9,741	2.94%	1,340,715	27,445	2.74%
Federal funds purchased & securities sold under agreements to repurchase	153,979	1,482	3.82%	151,733	4,093	3.61%
Other borrowings	112,208	1,392	4.92%	86,789	3,050	4.70%

Total interest-bearing liabilities	1,581,486	12,615	3.16%	1,579,237	34,588	2.93%
Noninterest bearing deposits	343,548			335,711		
Accrued expenses and other liabilities	28,337			25,832		

Total liabilities	1,953,371			1,940,780		
=====						
Minority Interest	1,472			1,476		
Shareholders' equity	183,199			182,703		

Total liabilities and shareholders' equity	\$2,138,042			\$2,124,959		
=====						
Interest rate spread			3.11%			3.28%

Net interest income/margin on earning assets		\$ 18,784	3.75%		\$ 57,068	3.87%
Tax Equivalent Adjustment		(680)			(2,176)	

Net interest income per consolidated financial statements		\$ 18,104			\$ 54,892	

- (1) Average balances and yields exclude unrealized gains and losses on available-for-sale securities.
- (2) Interest income includes the effects of taxable-equivalent adjustments using a blended Federal and State income tax rate of 40% to increase tax exempt interest income to a taxable-equivalent basis.
- (3) Nonaccrual loans are included in the average loans totals presented above. Payments received on nonaccrual loans have been recognized as disclosed in Note 1 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2005.

The Company earned taxable-equivalent net interest income of \$18.8 million for the three months ended September 30, 2006, a decrease of 5.1% from the same period in 2005. For the nine months ended September 30, 2006, the Company earned taxable-equivalent net interest income of \$57.1 million, a decrease of 2.3% from \$58.4 million for the first nine months of 2005. Quarter-to-date and

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

year-to-date decreases in taxable-equivalent net interest income as compared to the same periods in 2005 is mainly a result of funding costs increasing at a faster rate than yields on average earning assets. Yields on earnings assets were up 43 basis points in the third quarter and 48 basis points in the year-to-date period over the corresponding periods in 2005, while the cost of funds increased by 99 basis points and 95 basis points, respectively, over the same periods. The Company has been able to partially offset higher funding costs with growth in average earning assets and noninterest bearing deposits.

Taxable-equivalent interest income was up 11.9% for the third quarter and 13.6% for the year-to-date over the comparable periods in 2005. The growth in taxable-equivalent interest income was primarily a result of higher loan yields and higher average loan volumes. Investment yields and average balances were also up over the corresponding periods in 2005. The yield on average total loans and leases increased 46 basis points to 7.17% for the three months ended September 30, 2006, from the same period in 2005. Through the first nine months of 2006, the yield on average total loans and leases was up 49 basis points to 7.06% over the comparable prior year period. Loan yields on commercial and industrial loans, and commercial real estate loans benefited from increases in benchmark market interest rates. During the third quarter, the prime interest rate remained stable at 8.25%, which is 150 basis points higher than the prime interest rate of 6.75% in the third quarter of 2005. Home equity loan yields were also higher as initial introductory rates repriced to fully indexed rates.

Average interest-earning assets increased 4.2% and 4.8% for the three- and nine-month periods ended September 30, 2006, respectively, as compared to the same periods in 2005. For the third quarter of 2006, average total loans and leases were up \$24.6 million and average securities (excluding changes in unrealized gains and losses on available-for-sale securities) were up \$54.5 million over the same period in 2005. The growth in average loans and leases for the quarter included a \$42.7 million increase in average commercial real estate loans and a \$12.6 million increase in average commercial loans, which were partially offset by a \$17.0 million decrease in average residential mortgage loans, and an \$11.5 million decrease in average consumer loans. The decrease in average residential real estate loans and increase average securities reflects the effects of the securitization of \$32.0 million of residential mortgage loans that occurred late in the second quarter of 2006. For the nine months ended September 30, 2006, average total loans and leases were up \$48.1 million and average securities were up \$43.9 million over the same period of 2005. Growth in the loan and lease portfolio for the quarter and year-to-date periods occurred across the Company's banking subsidiaries and has benefited from newer markets served by the banking offices opened over the past several years.

Higher funding costs, driven by the increases in short-term market interest rates and competitive market conditions more than offset increases in taxable-equivalent interest income. Interest expense for the third quarter was up \$4.3 million or 52.6% over the third quarter of 2005. For the nine months ended September 30, 2006, interest expense of \$34.6 million was up \$12.3 million or 55.3% over the corresponding period of 2005. While average interest-bearing liabilities balances were up 4.5% for the quarter and 4.8% for the year-to-date period over the same periods of 2005, the increase in interest expense is driven by higher deposit and borrowing rates. The average cost of interest-bearing liabilities increased by 99 basis points in the third quarter of 2006 over the corresponding quarter in 2005 and by 95 basis points for the nine months ended September 30, 2006, from the same period in 2005.

Core deposits (total deposits, less brokered deposits, municipal money market deposits, and time deposits of \$100,000 or more) supported the growth in average assets in the third quarter and the first nine months of 2006 over the same periods in 2005. For the quarter, average core deposits increased by \$27.3 million, or 2.2%, from an average balance of \$1.24 billion for the third quarter of 2005. For the first nine months of 2006, average core deposits increased by

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

\$25.5 million, or 2.1% to \$1.24 billion, from an average balance of \$1.22 billion for the first nine months of 2005. Growth in average core deposits for the quarter and first nine months of 2006 included \$9.0 million and \$11.1 million, respectively, of growth in noninterest-bearing deposits. Recent additions to the Company's branch network contributed to the growth in deposits. Core deposits represent the Company's largest and lowest cost funding source, with average core deposits representing 64.1% of average liabilities for the first nine months of 2006 compared to 65.9% for the same period in 2005.

Non-core funding sources, which include time deposits of \$100,000 or more, brokered deposits, municipal money market deposits, Federal funds purchased, securities sold under agreements to repurchase (repurchase agreements), and other borrowings provided additional sources of funding to support asset growth. For the third quarter of 2006, average balances on non-core funding sources increased by \$49.2 million over the same period of 2005. Average balances on non-core funding sources increased by \$62.0 million in the first nine months of 2006 as compared to the same period in 2005. Time deposits of \$100,000 or more accounted for the majority of the growth in average non-core funding sources for the quarter and year-to-date periods over the same periods in 2005. Average time deposits of \$100,000 or more were up \$47.5 million or 22.5% in the third quarter

18

of 2006 over the same period in 2005. For the nine months ended September 30, 2006, average time deposits of \$100,000 or more were up \$85.6 million, or 41.7% over the year earlier period. As of September 30, 2006, time deposits over \$100,000 represented the largest component of non-core funding sources, with a nine-month average balance of \$291.2 million. The growth in average time deposits of \$100,000 or more for the quarter and the year-to-date period was partially offset by declines in municipal money market deposits. The increase in market interest rates and competitive market conditions led to an increase in the interest rates offered on most time deposit categories. The average cost of time deposits of \$100,000 or more was 4.69% for the third quarter of 2006 and 4.33% for the year-to-date period ended September 30, 2006 compared with 3.23% for the third quarter of 2005 and 2.87% for the year-to-date-period ended September 30, 2005.

The taxable-equivalent net interest margin decreased from 4.12% in the third quarter of 2005 to 3.75% in the third quarter of 2006. For the nine months ended September 30, 2006, the taxable-equivalent net interest margin was 3.87%, down from 4.15% for the same period in 2005.

Provision for Loan/Lease Losses

The provision for loan/lease losses ("provision") represents management's estimate of the expense necessary to maintain the reserve for loan/lease losses at an adequate level. Management uses a model to measure the amount of estimated loss exposure inherent in the loan/lease portfolio to ensure that an adequate reserve is maintained. The provision for the third quarter and first nine months of 2006 was \$482,000 and \$1.0 million, respectively, down from \$662,000 and \$1.8 million, respectively, for the same periods in 2005. Lower net charge-offs and a decrease in the volume of nonperforming loans contributed to the lower provision expense. Net charge-offs were \$572,000 for the first nine months of 2006, compared to \$996,000 for the same period in 2005.

Noninterest Income

Management considers noninterest income an important driver of long-term revenue growth and a way to reduce earnings volatility that may result from changes in general market interest rates. Noninterest income for the three months ended September 30, 2006, was \$10.0 million, an increase of 29.2% from the same period in 2005. Year-to-date 2006, noninterest income was \$29.0 million, up 31.0% over the same period in 2005. Noninterest income represented 35.5% of third quarter total revenues and 34.6% of year-to-date total revenues, compared to 28.8% and

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

28.2%, respectively, for the same periods in 2005. The primary components of noninterest income are fees from investment services, insurance commissions and fees, service charges on deposit accounts, and card services income. Investment services income and insurance commissions and fees were up in the third quarter and year-to-date 2006 over the same periods in 2005, benefiting from the acquisition of AM&M on January 6, 2006, and the acquisition of three insurance agencies during the first nine months of 2006.

Investment services reflects income from Tompkins Investment Services (TIS), a division within Tompkins Trust Company, and AM&M. Investment services income, which includes trust services, financial planning, wealth management services, and brokerage related services, was \$3.2 million in the third quarter of 2006, up 149.8% over the same period in 2005. For the first nine months of 2006, investment services income was \$9.1 million, an increase of 128.0% over the same period in 2005. AM&M contributed \$1.6 million and \$4.6 million, respectively, to the growth in third quarter and year-to-date 2006 investment services income. AM&M provides fee-based financial planning services, wealth management services, and brokerage services to independent financial planners and investment advisors.

TIS generates fee income through managing trust and investment relationships, managing estates, providing custody services, and managing investments in employee benefits plans. TIS income was \$1.5 million in the third quarter of 2006, an increase of \$250,000 or 20.1% over the same period in 2005. For the nine months ended September 30, 2006, TIS income was \$4.5 million compared with \$3.9 million for the same period prior year. With fees largely based on the market value and mix of assets managed, the general direction of the stock market can have a considerable impact on fee income. New account generation coupled with improved market conditions contributed to the growth in income in 2006 over 2005. The market value of assets managed by, or in custody of, TIS was \$1.7 billion at September 30, 2006, up 9.0% from \$1.5 billion at September 30, 2005. These figures include \$495.0 million and \$423.3 million, respectively, of Company-owned securities where Tompkins Investment Services is custodian.

Insurance commissions and fees were \$2.6 million in the third quarter of 2006, an increase of 27.3% over the third quarter of 2005. For the first nine months of 2006, insurance commissions and fees were \$7.0 million, up 21.1% from \$5.8 million for the same period in 2005. The growth was mainly in revenue generated from commercial lines as well as an increase in profit-sharing commissions from insurance underwriters. The acquisition of AM&M also contributed approximately \$100,000 and \$270,000, respectively, to the third quarter and year-to-date 2006 increase in insurance commissions and fees. AM&M offers customized risk

19

management plans using life, disability and long-term care insurance products. The acquisition of three insurance agencies in 2006 also contributed to the growth in commissions in 2006 over 2005.

Service charges on deposit accounts decreased 9.1% to \$2.0 million in the third quarter of 2006 compared to the third quarter of 2005. For the nine months ended September 30, 2006, service charges on deposit accounts were \$6.0 million, a 1.8% decrease over the same period in 2005. The decrease in the third quarter was primarily due to lower overdraft fees and cycle fees.

Card services income increased by 12.5% or \$83,000, to \$746,000 for the third quarter of 2006 over the same quarter in 2005. Card services income of \$2.1 million for the nine months ended September 30, 2006 was up 11.0% from \$1.9 million for the nine months ended September 30, 2005. The increase in income over prior year was concentrated in debit card income and reflected an increased number of cardholders, higher transaction volume, and fee increases.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Other services charges were down 17.9% in the third quarter of 2006 to \$651,000 from \$793,000 in the same period of 2005. For the nine months ended September 30, 2006, other service charges were down 16.9% to \$1.9 million from \$2.2 million in the same period of 2005. The decrease is primarily the result of the sale of the Company's merchant card processing relationships in the fourth quarter of 2005. Merchant card processing income was \$135,000 in the third quarter of 2005 and \$355,000 year-to-date 2005, compared to \$0 in the third quarter of 2006 and \$42,000 year-to-date 2006.

For the year-to-date period income relating to the increases in the cash surrender value of corporate owned life insurance (COLI) related income was \$846,000, up 7.6% from the same period in 2005. The COLI relates to life insurance policies covering certain executive officers of the Company. The Company's average investment in COLI was \$26.7 million for the nine-month period ended September 30, 2006, compared to \$25.4 million for the same period in 2005. Although income associated with the insurance policies is not included in interest income, the COLI produced an annualized tax-equivalent return of 7.06% for the first nine months of 2006, compared to 6.90% for the same period in 2005. For the year-to-date period ended September 30, 2006, the Company recognized \$685,000 in proceeds from death benefits on corporate owned life insurance.

Other income for the third quarter of 2006 was up \$64,000 or 15.5% from \$413,000 from the same period in 2005. For the third quarter 2006, the Company recognized income of \$144,000 attributable to its investment in a small business investment company (SBIC) compared to \$119,000 for the third quarter of 2005. Other income increased from \$1.0 million for the first nine months of 2005 to \$1.1 million for the same period in 2006. The year to date increase in other income is largely driven by the increase in income from the Company's SBIC investment from \$303,000 through September 30, 2005, to \$487,000 through September 30, 2006.

Noninterest Expenses

Total noninterest expenses were \$17.5 million for the third quarter of 2006, an increase of 11.9% over noninterest expenses of \$15.6 million for the same period in 2005. Year-to-date September 30, 2006 noninterest expense increased to \$53.9 million from \$46.2 million for the prior year period. The addition of AM&M contributed approximately \$1.4 million of the \$1.9 million increase in quarterly noninterest expenses and \$4.1 million of the \$7.7 million increase in year-to-date noninterest expense.

Personnel-related expenses comprise the largest segment of noninterest expense, representing 59.2% of noninterest expense for the third quarter of 2006, compared to 58.0% of noninterest expense for the same period of 2005. Personnel-related expenses for the three and nine month periods ended September 30, 2006 increased \$1.3 million or 14.2%, and \$4.7 million or 17.5%, compared to the same periods prior year. The increases were primarily a result of higher salaries and wages related to an increase in average full-time equivalent employees (FTEs), from 594 at September 30, 2005, to 672 at September 30, 2006, along with, annual salary adjustments. The acquisitions of AM&M and three smaller insurance agencies in 2006, and the staffing requirements at the Company's newer offices were the primary contributors to the increase in FTEs. Personnel-related expenses include \$172,000 and \$542,000 for the three and nine months ended September 30, 2006, respectively, related to the expensing of stock options required by the Company's adoption of Statement of Financial Accounting Standard No. 123 (Revised) "Share-Based Payment" on January 1, 2006. Refer to Note 3 "Stock Plans and Stock-Based Compensation" to the Notes to Unaudited Condensed Consolidated Financial Statements for additional details on the impact of the adoption of SFAS No. 123(R). Healthcare and pension expenses were also up over the same period in 2005.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Expenses related to bank premises and furniture and fixtures totaled \$2.1 million for the three-month period end September 30, 2006, an increase of 13.1% over the same period last year. For the nine month period ended September 30, 2006, expenses related to bank premises and furniture and fixtures totaled \$6.4 million, an increase of 11.9% over the same period last year. Additions to the Company's branch network, the acquisition of AM&M, as well as higher real estate taxes, maintenance, and insurance contributed to the increased expenses for bank premises and furniture and fixtures year-over-year.

Other noninterest expenses amounted to \$3.0 million for the third quarter 2006, compared to \$2.7 million for the corresponding quarter in 2005. Other noninterest expenses were \$10.0 million for the first nine months of 2006 and \$7.9 million for the similar period of 2005. The acquisition of AM&M contributed approximately \$330,000 to the quarterly increase and \$950,000 to the year-to-date increase in this category. Charitable contributions were up \$390,000 year-to-date over the same period in 2005, mainly due to a \$300,000 donation in the second quarter of 2006. Business development, postage, printing and supplies, legal fees, education and training, and loss on sale of other real estate were also up over the same periods in 2005.

Income Tax Expense

The provision for income taxes provides for Federal and New York State income taxes. For the year-to-date September 30, 2006, the tax provision was \$8.9 million, down 9.6% from \$9.9 million for the same period in 2005. The Company's effective tax rate for the third quarter of 2006 was 32.4%, compared to 32.1% for the same period in 2005. For the nine months ended September 30, 2006, the effective tax rate was 30.7% compared to 32.4% for the comparable prior year period. The recognition of \$685,000 of life insurance proceeds in the second quarter of 2006 contributed to the year to date decrease in the effective rate in 2006 compared with 2005. Also contributing to the lower effective rate is higher levels of tax-advantaged income, such as income from investments in municipal bonds, and economic zone credits.

FINANCIAL CONDITION

The Company's total assets were \$2.2 billion at September 30, 2006, representing a \$72.8 million or 3.5% increase over total assets reported at December 31, 2005. Asset growth included a \$51.3 million increase in the carrying value of securities and a \$15.3 million increase in total loans, including loans held-for-sale. Cash and cash equivalents were roughly flat at \$66.6 million. Balances for securities and loans were impacted by the securitization of residential mortgage loans in June 2006. The Company entered into an agreement with FHLMC to securitize \$32.0 million of the Company's residential mortgage loans. As of September 30, 2006, these securitized loans were held in the Company's available-for-sale securities portfolio as mortgage-backed securities. Loan growth between year-end 2005 and September 30, 2006 included \$30.6 million of commercial real estate loans and \$14.3 million of commercial loans. Total deposits were up \$20.4 million from December 31, 2005 to September 30, 2006, with the majority of the growth centered in money market and savings deposits. Time deposit balances were flat, while noninterest bearing deposit balances were down \$17.6 million.

Capital

Total shareholders' equity totaled \$188.9 million at September 30, 2006, an increase of \$7.7 million from December 31, 2005. Surplus increased by \$37.0 million, from \$118.7 million at December 31, 2005, to \$155.7 million at September 30, 2006; while undivided profits decreased \$29.7 million from \$69.2 million at December 31, 2005, to \$39.6 million at September 30, 2006 and accumulated other comprehensive loss narrowed by \$415,000 over the same period. The Company paid a 10% stock dividend on May 15, 2006, which contributed to the increase in surplus and decrease in undivided profits. The increase in common stock reflects shares issued for stock option exercises and shares issued in

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

connection with the acquisition of AM&M and the Kemp Agency. The decrease in accumulated other comprehensive loss relates to a decrease in unrealized losses on available-for-sale securities.

Cash dividends paid in the first nine months of 2006 totaled approximately \$8.4 million, representing 41.9% of year-to-date earnings. Cash dividends of \$0.85 per share paid during the first nine months of 2006 were up 7.6% over the \$0.79 per share paid during the same period in 2005.

On July 27, 2004, the Company's Board of Directors approved a stock repurchase plan (the "2004 Plan") which authorized the repurchase of up to 484,000 shares of the Company's outstanding common stock over a two-year period. The 2004 Plan expired on July 27, 2006. During 2006, the Company repurchased 151,742 shares at an average cost of \$40.50 per share under the 2004 Plan. Over the two-year term of the 2004 Plan, the Company repurchased 175,924 shares at an average cost of \$40.03.

21

On July 18, 2006, the Company's Board of Directors approved a new stock repurchase plan (the "2006 Plan") to replace the 2004 Plan, which expired in July 2006. The 2006 Plan authorizes the repurchase of up to 450,000 additional shares of the Company's outstanding common stock over a two-year period. During the third quarter, the Company repurchased 72,328 shares at an average cost of \$43.06 under the 2006 Plan.

The Company and its banking subsidiaries are subject to various regulatory capital requirements administered by Federal banking agencies. Management believes the Company and its subsidiaries meet all capital adequacy requirements to which they are subject. The table below reflects the Company's capital position at September 30, 2006, compared to the regulatory capital requirements for "well capitalized" institutions.

REGULATORY CAPITAL ANALYSIS - September 30, 2006

(Dollar amounts in thousands)	Actual Amount	Ratio	Well Capitalized Requirement Amount	Rati
Total Capital (to risk weighted assets)	\$ 190,947	13.2%	\$ 144,820	1
Tier I Capital (to risk weighted assets)	\$ 176,827	12.2%	\$ 86,892	
Tier I Capital (to average assets)	\$ 176,827	8.3%	\$ 106,344	

As illustrated above, the Company's capital ratios on September 30, 2006, remain well above the minimum requirement for well capitalized institutions. As of September 30, 2006, the capital ratios for each of the Company's subsidiary banks also exceeded the minimum levels required to be considered well capitalized.

Reserve for Loan/Lease Losses and Nonperforming Assets

Management reviews the adequacy of the reserve for loan/lease losses (the "reserve") on a regular basis. Management considers the accounting policy relating to the reserve to be a critical accounting policy, given the inherent uncertainty in evaluating the levels of the reserve required to cover credit losses in the Company's portfolio and the material effect that assumption could have on the Company's results of operations. Factors considered in determining

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

the adequacy of the reserve and the related provision include: management's approach to granting new credit; the ongoing monitoring of existing credits by the internal and external loan review functions; the growth and composition of the loan and lease portfolio; the level and trend of market interest rates; comments received during the course of regulatory examinations; current local economic conditions; past due and nonperforming loan statistics; estimated collateral values; and a historical review of loan and lease loss experience. Based upon consideration of the above factors, management believes that the reserve is adequate to provide for the risk of loss inherent in the current loan and lease portfolio. Activity in the Company's reserve for loan/lease losses during the nine months of 2006 and 2005 is illustrated in the table below.

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

	September 30, 2006	September 30, 2005
Average Loans and Leases Outstanding Year to Date	\$ 1,258,909	\$ 1,258,909
Beginning Balance	13,677	13,677
Provision for loan/lease losses	1,015	1,015
Loans charged off	(985)	(985)
Loan recoveries	413	413
Net charge-offs	(572)	(572)
Ending Balance	\$ 14,120	\$ 14,120

The reserve represented 1.11% of total loans and leases outstanding at September 30, 2006, up from 1.07% at September 30, 2005. The reserve coverage of nonperforming loans (loans past due 90 days and accruing, nonaccrual loans, and restructured troubled debt) increased from 3.11 times at September 30, 2005, to 3.69 times at September 30, 2006. Management is committed to early recognition of loan problems and to maintaining an adequate reserve.

The level of nonperforming assets at September 30, 2006 and 2005, is illustrated in the table below. Nonperforming assets of \$4.2 million as of September 30, 2006, reflect a decrease of \$200,000 from \$4.4 million as of September 30, 2005. The current level of nonperforming assets was 0.19% of total assets at September 30, 2006, compared to 0.21% at September 30, 2005. Approximately \$484,000 of nonperforming loans at September 30, 2006, were secured by U.S. Government guarantees, while \$1.6 million were secured by one-to-four family residential properties.

22

Potential problem loans/leases are loans/leases that are currently performing, but where known information about possible credit problems of the related borrowers causes management to have doubt as to the ability of such borrowers to comply with the present loan payment terms and may result in disclosure of such loans/leases as nonperforming at some time in the future. Management considers loans/leases classified as Substandard that continue to accrue interest to be potential problem loans/leases. At September 30, 2006, the Company's internal loan review function had identified 23 commercial relationships totaling \$17.0 million, which it has classified as Substandard, which continue to accrue interest. As of December 31, 2005, the Company's internal loan review function had classified 34 commercial relationships as Substandard totaling \$20.0 million.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

million, which continue to accrue interest. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal or government guarantees. These factors, when considered in aggregate, give management reason to believe that the current risk exposure on these loans is not significant. At September 30, 2006, approximately \$3.9 million of these loans were backed by guarantees of U.S. government agencies. While in a performing status as of September 30, 2006, these loans exhibit certain risk factors, which have the potential to cause them to become nonperforming in the future. Accordingly, management's attention is focused on these credits, which are reviewed on at least a quarterly basis. The decrease in the number and dollar amount of commercial relationships classified as Substandard between December 31, 2005 and September 30, 2006 primarily reflects upgrades of approximately \$5.0 million due to improvements in financial performance, and paydowns of approximately \$1.3 million, which were partially offset by additions of \$4.5 million.

NONPERFORMING ASSETS (In thousands)

	September 30, 2006	Septemb
Nonaccrual loans and leases	\$ 3,307	\$
Loans past due 90 days and accruing	519	
Troubled debt restructuring not included above	0	
<hr/>		
Total nonperforming loans	3,826	
<hr/>		
Other real estate, net of allowances	354	
<hr/>		
Total nonperforming assets	\$ 4,180	\$
<hr/>		
Total nonperforming loans/leases as a percent of total loans/leases	0.30%	
<hr/>		
Total nonperforming assets as a percentage of total assets	0.19%	
<hr/>		

Deposits and Other Liabilities

Total deposits of \$1.7 billion at September 30, 2006, increased \$20.4 million, or 1.2%, from December 31, 2005. The majority of the increase was in checking, savings and money market accounts. Total time deposits were flat, with decrease in time deposits of \$100,000 or more offset by increase in time deposits less than \$100,000. Core deposits, (total deposits less time deposits of \$100,000 or more, brokered time deposits, and municipal money market deposits), which represent the Company's primary funding source, were up 4.6% from year-end 2005. Core deposits totaled \$1.3 billion at September 30, 2006, and represented 65.6% of total liabilities. This compares to core deposits of \$1.2 billion, representing 64.9% of total liabilities at December 31, 2005.

Non-core funding sources for the Company totaled \$656.0 million at September 30, 2006, compared to \$651.0 million at December 31, 2005. While the level was relatively unchanged there was some minor shifting within non-core funding instruments, with decreases in time deposits of \$100,000 or more being offset by increase in FHLB borrowings, mainly repurchase agreements and overnight borrowings. As municipal deposits and time deposits over \$100,000 fluctuate, the Company relies on overnight borrowings to meet short-term liquidity needs.

The Company's liability for repurchase agreements amounted to \$170.7 million at September 30, 2006, which is up slightly from \$152.7 million at December 31, 2005. Included in repurchase agreements at September 30, 2006, were \$97.0

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

million in FHLB repurchase agreements and \$73.7 million in retail repurchase agreements. Retail repurchase agreements are arrangements with local customers, in which the Company agrees to sell securities to the customer with an agreement to repurchase those securities at a specified later date.

The Company's other borrowings include amounts owed to the FHLB. The Company increased its other borrowings from the FHLB by \$23.3 million, to \$87.0 million at September 30, 2006, from \$63.7 million at year-end 2005, primarily in short-term borrowings, including overnight lines of credit.

Included in the \$152.2 million in term advances and repurchase agreements with the FHLB are \$123.0 million of callable advances. The advances have call dates between 2006 and 2010 and are callable if certain conditions are met.

23

Liquidity

Liquidity represents the Company's ability to efficiently and economically accommodate decreases in deposits and other liabilities, and fund increases in assets. The Company uses a variety of resources to meet its liquidity needs, which include cash and cash equivalents, short-term investments, cash flow from lending and investing activities, deposit growth, repurchase agreements, and borrowings. The Company may also use borrowings as part of a growth strategy. The Company's Asset Liability Management Committee reviews periodic reports on liquidity and interest rate sensitivity.

Core deposits are a primary funding source and represent a low cost funding source obtained primarily through the Company's branch network. In addition to core deposits, the Company uses non-core funding sources to support asset growth. These non-core funding sources include time deposits of \$100,000 or more, brokered time deposits, municipal money market accounts, securities sold under agreements to repurchase and term advances from the FHLB. Rates and terms are the primary determinants of the mix of these funding sources. Non-core funding sources, as a percentage of total liabilities, decreased from 33.8% at December 31, 2005 to 33.0% at September 30, 2006. The dollar volume of non-core funding was relatively flat at September 30, 2006 compared to year-end 2005.

Cash and cash equivalents totaled \$66.6 million as of September 30, 2006, in line with the \$65.8 million at December 31, 2005. Short-term investments, consisting of securities due in one year or less, decreased from \$40.5 million at December 31, 2005, to \$28.9 million on September 30, 2006. The Company also pledges securities as collateral for certain non-core funding sources. Securities carried at \$516.8 million at December 31, 2005, and \$587.2 million at September 30, 2006, were pledged as collateral for public deposits, or other borrowings, or sold under agreements to repurchase. Pledged securities represented 82.7% of total securities as of September 30, 2006 and as of December 31, 2005.

Cash flow from the loan and investment portfolios provides a significant source of liquidity. These assets may have stated maturities in excess of one year, but have monthly principal reductions. Total mortgage-backed securities, at fair value, were \$346.4 million at September 30, 2006, compared with \$316.4 million at December 31, 2005. Using current prepayment assumptions, cash flow from the investment portfolio is estimated to be approximately \$148.1 million over the next 12 months. Investments in residential mortgage loans, consumer loans, and leases totaled approximately \$560.4 million at September 30, 2006 as compared to \$574.9 million at December 31, 2005. Aggregate amortization from monthly payments on these loan assets provides significant additional cash flow to the Company.

Liquidity is enhanced by ready access to national and regional wholesale funding sources including Federal funds purchased, repurchase agreements, brokered

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

certificates of deposit, and FHLB advances. Through its subsidiary banks, the Company has borrowing relationships with the FHLB and correspondent banks, which provide secured and unsecured borrowing capacity. At September 30, 2006, the unused borrowing capacity on established lines with the FHLB was \$375.1 million. As members of the FHLB, the Company's subsidiary banks can use certain unencumbered mortgage-related assets to secure additional borrowings from the FHLB. At September 30, 2006, total unencumbered residential mortgage loans of the Company were \$263.0 million. Additional assets may also qualify as collateral for FHLB advances upon approval of the FHLB.

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

24

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk is the primary market risk category associated with the Company's operations. Interest rate risk refers to the volatility of earnings caused by changes in interest rates. The Company manages interest rate risk using income simulation to measure interest rate risk inherent in its on-balance sheet and off-balance sheet financial instruments at a given point in time. The simulation models are used to estimate the potential effect of interest rate shifts on net interest income for future periods. Each quarter the Asset/Liability Management Committee reviews the simulation results to determine whether the exposure of net interest income to changes in interest rates remains within board-approved levels. The Committee also considers strategies to manage this exposure and incorporates these strategies into the investment and funding decisions of the Company. The Company does not use derivatives, such as interest rate swaps, to manage its interest rate risk exposure.

The Company's Board of Directors has set a policy that interest rate risk exposure will remain within a range whereby net interest income will not decline by more than 10% in one year as a result of a 200 basis point change in rates. Based upon the simulation analysis performed as of September 30, 2006, a 200 basis point upward shift in interest rates over a one-year time frame would result in a one-year decrease in net interest income of approximately 2.6%, while a 200 basis point decline in interest rates over a one-year period would result in an decrease in net interest income of 1.0%. This simulation assumes no balance sheet growth and no management action to address balance sheet mismatches.

The negative exposure in a rising rate environment is mainly driven by the repricing assumptions of the Company's core deposit base and the lag in the repricing of the Company's adjustable rate assets. Longer-term, the impact of a rising rate environment is positive as the asset base continues to reset at higher levels, while the repricing of the rate sensitive liabilities moderates. The Company's most recent base case simulation, which assumes interest rates remain unchanged from the date of the simulation, reflects continued pressure on the net interest margin during the remainder of 2006 and into early 2007.

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

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

The table below is a Condensed Static Gap Report, which illustrates the anticipated repricing intervals of assets and liabilities as of September 30, 2006. The analysis reflects sensitivity to rising interest rates in all repricing intervals shown.

Condensed Static Gap - September 30, 2006

Repricing I

(Dollar amounts in thousands)	Total	0-3 months	3-6 months
Interest-earning assets	\$ 2,007,660	\$ 448,052	\$ 82,67
Interest-bearing liabilities	1,618,885	748,790	101,55
Net gap position		(300,738)	(18,88
Net gap position as a percentage of total assets		(13.80%)	(0.8

25

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2006. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer, concluded that as of the end of the period covered by this Report on Form 10-Q the Company's disclosure controls and procedures were effective in providing reasonable assurance that any information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that material information relating to the Company and its subsidiaries is made known to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's third quarter ended September 30, 2006, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

26

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

There has not been any material change in the risk factors disclosure from that contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)
July 1, 2006 through July 31, 2006	13,447	\$ 43.35	12,220
August 1, 2006 through August 31, 2006	54,916	42.70	54,708
September 1, 2006 through September 30, 2006	5,400	45.66	5,400
Total	73,763	\$ 43.04	72,328

The Company's stock repurchase plan (the "2004 Plan") was approved by the Company's Board of Directors on July 27, 2004. Under the 2004 Plan, the Company was authorized to repurchase up to 484,000 shares of Tompkins common stock over a two-year period, which ended July 27, 2006. Over the life of the 2004 Plan, 175,924 shares were repurchased at an average cost of \$40.03.

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

Included above are 1,227 shares purchased in July 2006 at an average cost of \$41.69 and 208 shares purchased in September 2006 at an average cost of \$43.61 by the trustee of a rabbi trust established by the Company under the Company's Stock Retainer Plan For Eligible Directors of Tompkins Trustco, Inc., and Participating Subsidiaries and were part of the director deferred compensation under that plan. Shares purchased under the rabbi trust are not part of the Board approved stock repurchase plan.

As part of the Company's acquisition of the Kemp Agency, effective July 1, 2006, the Company issued 17,781 shares of Tompkins common stock pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

27

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

- 3(ii) Bylaws of Tompkins Trustco, Inc., as amended through and including October 24, 2006, incorporated herein by reference to Exhibit 3(ii) to Tompkins Trustco, Inc.'s Current Report on Form 8-K, filed with the Commission on October 26, 2006.
- 31.1 Certification of Principal Executive Officer and required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.2 Certification of Principal Financial Officer and required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
- 32.1 Certification of Principal Executive Officer and required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350 (filed herewith)
- 32.2 Certification of Principal Financial Officer and required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350 (filed herewith)

SIGNATURES

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

Date: November 7, 2006

TOMPKINS TRUSTCO, INC.

By: /s/ JAMES J. BYRNES

Chairman of the Board
Chief Executive Officer
(Principal Executive Officer)

By: /s/ FRANCIS M. FETSKO

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

28

EXHIBIT INDEX

Edgar Filing: TOMPKINS TRUSTCO INC - Form 10-Q

Exhibit Number	Description	Pages
3(ii)	Bylaws of Tompkins Trustco, Inc., as amended through and including October 24, 2006, incorporated herein by reference to Exhibit 3(ii) to Tompkins Trustco, Inc.'s Current Report on Form 8-K, filed with the Commission on October 26, 2006.	
31.1	Certification of Principal Executive Officer and required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	30
31.2	Certification of Principal Financial Officer and required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	31
32.1	Certification of Principal Executive Officer and required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350	32
32.2	Certification of Principal Financial Officer and required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, 18 U.S.C. Section 1350	33