# FORM 10-K

## NBT BANCORP INC - NBTB

**Filed: March 01, 2010 (period: December 31, 2009)**

Annual report which provides a comprehensive overview of the company for the past year

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______ TO ______
COMMISSION FILE NUMBER: 0-14703

# NBT BANCORP INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **16-1268674** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

52 SOUTH BROAD STREET
NORWICH, NEW YORK 13815
(Address of principal executive office) (Zip Code)
(607) 337-2265 (Registrant's telephone number, including area code)

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

| Title of each class: | Name of each exchange on which registered: |
|---|---|
| Common Stock, par value $0.01 per share | The NASDAQ Stock Market LLC |

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

Stock Purchase Rights Pursuant to Stockholders Rights Plan

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

Based on the closing price of the registrant's common stock as of June 30, 2009, the aggregate market value of the voting stock, common stock, par value, $0.01 per share, held by non-affiliates of the registrant is $731,252,689.

The number of shares of Common Stock outstanding as of February 15, 2010, was 34,412,890.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 4, 2010 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

**NBT BANCORP INC.**
**FORM 10-K –** Year Ended December 31, 2009

**TABLE OF CONTENTS**

## PART I

## ITEM 1. BUSINESS

NBT Bancorp Inc. (the "Registrant" or the "Company") is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Company, on a consolidated basis, at December 31, 2009 had assets of $5.5 billion and stockholders' equity of $505.1 million. Return on average assets and return on average equity were 0.96% and 10.90%, respectively, for the period ending December 31, 2009. The Company had net income of $52.0 million or $1.53 per diluted share for 2009 and fully taxable equivalent ("FTE") net interest margin was 4.04% for the same period.

The principal assets of the Registrant consist of all of the outstanding shares of common stock of its subsidiaries, including: NBT Bank, N.A. (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc. ("NBT Holdings") and CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (the "Trusts"). The Company's principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial, and NBT Holdings.

The Company's business, primarily conducted through the Bank but also through its other subsidiaries, consists of providing commercial banking and financial services to its customers in its market area, which includes central and upstate New York, northeastern Pennsylvania and Burlington, Vermont. The Company has been, and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company's business philosophy is to operate as a community bank with local decision-making, principally in non-metropolitan markets, providing a broad array of banking and financial services to retail, commercial, and municipal customers. The financial condition and operating results of the Company are dependent on its net interest income which is the difference between the interest and dividend income earned on its earning assets and the interest expense paid on its interest bearing liabilities, primarily consisting of deposits and borrowings. Among other factors, net income is also affected by provisions for loan and lease losses and noninterest income, such as service charges on deposit accounts, broker/dealer fees, trust fees, insurance commissions, and gains/losses on securities sales, as well as noninterest expense, such as salaries and employee benefits, data processing, communications, occupancy, and equipment expenses.

Substantially all of the Company's business activities are with customers located in the United States. For the year ended December 31, 2009, approximately 84% of the Registrant's revenue was derived from New York and approximately 16% from Pennsylvania. Vermont revenue was negligible for the year ended December 31, 2009 as the Registrant was new to the market in 2009. Approximately 67% of the revenue generated in New York was comprised of interest and fee income, predominately from loans and securities. Approximately 33% of the revenue generated in New York was comprised of noninterest income such as service charges on deposit accounts, trust administration fees, bank owned life insurance income, and insurance revenue. Approximately 66% of the revenue generated in Pennsylvania was comprised of interest and fee income. Approximately 34% of the revenue generated in Pennsylvania was comprised of noninterest income such as service charges on deposit accounts, trust administration fees, bank owned life insurance income, and insurance revenue. As of December 31, 2009, approximately 81% of the Registrant's loan portfolio was originated in New York and approximately 19% was originated in Pennsylvania. The amount of loans in the Vermont market was negligible as of December 31, 2009 as the Registrant was new to the market in 2009. Approximately 56% of the New York-based loan portfolio was secured by real estate in central and upstate New York, while approximately 64% of the Pennsylvania-based loan portfolio was secured by real estate in northeastern Pennsylvania as of December 31, 2009. Consumer loans (such as indirect and direct installment loans) and home equity loans comprised approximately 41% of the New York-based loan portfolio and approximately 38% of the Pennsylvania-based loan portfolio.

Like the rest of the nation, the market areas that the Company serves are presently experiencing an economic slowdown. A variety of factors (e.g., any substantial rise in inflation or further rise in unemployment rates, decrease in consumer confidence, natural disasters, war, or political instability) may further affect both the Company's markets and the national market. The Company will continue to emphasize managing our funding costs and lending rates to effectively maintain profitability. In addition, the Company will continue to seek and maintain relationships that can generate fee income that is not directly tied to lending relationships. We anticipate that this approach will help mitigate profit fluctuations that are caused by movements in interest rates, business and consumer loan cycles, and local economic factors.

**NBT Bank, N.A.**

The Bank is a full service commercial bank formed in 1856, which provides a broad range of financial products to individuals, corporations and municipalities throughout the central and upstate New York, northeastern Pennsylvania and Burlington, Vermont market areas.

Through its network of branch locations, the Bank offers a wide range of products and services tailored to individuals, businesses, and municipalities. Deposit products offered by the bank include demand deposit accounts, savings accounts, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts ("MMDA"), and certificate of deposit ("CD") accounts. The Bank offers various types of each deposit account to accommodate the needs of its customers with varying rates, terms, and features. Loan products offered by the Bank include consumer loans, home equity loans, mortgages, small business loans and commercial loans, with varying rates, terms and features to accommodate the needs of its customers. The Bank also offers various other products and services through its branch network such as trust and investment services and financial planning services. In addition to its branch network, the Bank also offers access to certain products and services online enabling customers to check balances, transfer funds, pay bills, view statements, apply for loans and access various other product and service information. The Bank provides 24-hour access to an automated telephone line whereby customers can check balances, obtain interest information, transfer funds, request statements, and perform various other activities.

The Bank conducts business through two geographic operating divisions, NBT Bank and Pennstar Bank. At year end 2009, the NBT Bank division had 85 divisional offices and 114 automated teller machines (ATMs), located primarily in central and upstate New York and Burlington, Vermont. At December 31, 2009, the NBT Bank division had total loans and leases of $3.0 billion, or 81.2% of total loans and leases, and total deposits of $3.2 billion, or 77.8% of total deposits. Revenue for the NBT Bank division totaled $185.8 million for the year ended December 31, 2009. At year end 2009, the Pennstar Bank division had 38 divisional offices and 49 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2009, the Pennstar Bank division had total loans and leases of $686.4 million, or 18.8% of total loans and leases, and total deposits of $910.5 million, or 22.2% of total deposits. Revenue for the Pennstar Bank division totaled $38.2 million for the year ended December 31, 2009.

**NBT Financial Services, Inc.**

Through NBT Financial, the Company operates EPIC Advisors, Inc. ("EPIC"), a retirement plan administrator. Through EPIC, the Company offers services including retirement plan consulting and recordkeeping services. EPIC's headquarters are located in Rochester, New York.

**NBT Holdings, Inc.**

Through NBT Holdings, the Company operates Mang Insurance Agency, LLC ("Mang"), a full-service insurance agency acquired by the Company on September 1, 2008. Prior to its acquisition by the Company, Mang was one of the largest independent insurance agencies in upstate New York and was headquartered in Binghamton, New York. As part of the acquisition, the Company acquired approximately $15.3 million of intangible assets and $11.8 million of goodwill, for a purchase price of $28.0 million, which has been allocated to NBT Holdings for reporting purposes. The results of operations are included in the consolidated financial statements from the date of acquisition, September 1, 2008. Mang's headquarters were moved to Norwich, New York in December 2009 and many Mang office locations that were in the same communities as NBT Bank branches have moved into those branches during 2009. Through Mang, the Company offers a full array of insurance products including personal property and casualty, business liability and commercial insurance tailored to serve the specific insurance needs of individuals as well as businesses in a range of industries operating in the markets served by the Company.

**The Trusts**

The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. CNBF Capital Trust I ("Trust I") and NBT Statutory Trust I are Delaware statutory business trusts formed in 1999 and 2005, respectively, for the purpose of issuing trust preferred securities and lending the proceeds to the Company. In connection with the acquisition of CNB Bancorp, Inc. mentioned below, the Company formed NBT Statutory Trust II ("Trust II") in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. The Company raised $51.5 million through Trust II in February 2006. The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities (VIEs) for which the Company is not the primary beneficiary, as defined by Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"). In accordance with FASB ASC, the accounts of the Trusts are not included in the Company's consolidated financial statements. The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions.

**Operating Subsidiaries of the Bank**

The Bank has five operating subsidiaries, NBT Capital Corp., Pennstar Bank Services Company, Broad Street Property Associates, Inc., NBT Services, Inc., and CNB Realty Trust. NBT Capital Corp., formed in 1998, is a venture capital corporation formed to assist young businesses to develop and grow primarily in the markets they serve. Pennstar Bank Services Company, formed in 2002, provides administrative and support services to the Pennstar Bank division of the Bank. Broad Street Property Associates, Inc., formed in 2004, is a property management company. NBT Services, Inc., formed in 2004, has a 44% ownership interest in Land Record Services, LLC. Land Record Services, LLC, a title insurance agency, offers mortgagee and owner's title insurance coverage to both retail and commercial customers. CNB Realty Trust, formed in 1998, is a real estate investment trust.

## COMPETITION

The banking and financial services industry in the Company's market areas is highly competitive. The increasingly competitive environment is the result of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers. The Company competes for loans, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Additionally, various out-of-state banks continue to enter or have announced plans to enter the market areas in which the Company currently operates.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. In addition, many of the Company's competitors have assets, capital and lending limits greater than that of the Company, have greater access to capital markets and offer a broader range of products and services than the Company. These institutions may have the ability to finance wide-ranging advertising campaigns and may also be able to offer lower rates on loans and higher rates on deposits than the Company can offer. Many of these institutions offer services, such as credit cards and international banking, which the Company does not directly offer.

In consumer transactions, in order to compete with other financial services providers, the Company stresses the community nature of its banking operations and principally relies upon local promotional activities, personal relationships established by officers, directors, and employees with their customers, and specialized services tailored to meet the needs of the communities served. We also offer certain customer services, such as agricultural lending, that many of our larger competitors do not offer. While the Company's position varies by market, the Company's management believes that it can compete effectively as a result of local market knowledge and awareness of customer needs.

The table below summarizes the Bank's deposits and market share by the twenty-six counties of New York and Pennsylvania in which it has customer facilities as of June 30, 2009. Market share is based on deposits of all commercial banks, credit unions, savings and loans associations, and savings banks.

| County | State | Number of Branches | Number of ATMs | Deposits (in thousands) | Market Share * | Market Rank * |
|---|---|---|---|---|---|---|
| Chenango | NY | 11 | 16 | 647,502 | 80.86% | 1 |
| Fulton | NY | 7 | 11 | 336,725 | 53.37% | 1 |
| Hamilton | NY | 1 | 1 | 30,629 | 47.37% | 2 |
| Schoharie | NY | 4 | 3 | 158,434 | 41.88% | 1 |
| Delaware | NY | 5 | 5 | 322,217 | 38.75% | 1 |
| Montgomery | NY | 6 | 5 | 212,855 | 29.00% | 2 |
| Otsego | NY | 9 | 14 | 264,211 | 24.92% | 2 |
| Susquehanna | PA | 6 | 7 | 153,958 | 24.62% | 3 |
| Essex | NY | 3 | 6 | 106,853 | 21.70% | 4 |
| Pike | PA | 3 | 3 | 89,454 | 15.22% | 4 |
| Saint Lawrence | NY | 5 | 6 | 141,459 | 12.07% | 4 |
| Broome | NY | 8 | 11 | 232,065 | 10.20% | 3 |
| Wayne | PA | 3 | 5 | 100,133 | 8.64% | 4 |
| Oneida | NY | 6 | 13 | 245,936 | 8.01% | 5 |
| Tioga | NY | 1 | 1 | 33,285 | 7.90% | 5 |
| Lackawanna | PA | 17 | 21 | 362,574 | 7.80% | 7 |
| Clinton | NY | 3 | 2 | 91,330 | 7.48% | 6 |
| Herkimer | NY | 2 | 1 | 33,516 | 5.69% | 6 |
| Franklin | NY | 1 | 1 | 24,272 | 5.21% | 5 |
| Saratoga | NY | 5 | 6 | 134,789 | 4.07% | 11 |
| Monroe | PA | 6 | 8 | 82,408 | 4.01% | 8 |
| Warren | NY | 2 | 2 | 38,831 | 2.88% | 8 |
| Schenectady | NY | 1 | 1 | 54,288 | 2.28% | 9 |
| Luzerne | PA | 4 | 5 | 67,820 | 1.19% | 15 |
| Rensselaer | NY | 1 | 1 | 14,992 | 0.81% | 13 |
| Albany | NY | 4 | 7 | 108,903 | 0.70% | 12 |
| | | 124 | 162 | 4,089,439 | 30.18% | |

Deposit market share data is based on the most recent data available (as of June 30, 2009).

Source: SNL Financial LLC

**SUPERVISION AND REGULATION**

As a bank holding company, the Company is subject to extensive regulation, supervision, and examination by the Board of Governors of the Federal Reserve System ("FRB") as its primary federal regulator. The Company also has qualified for and elected to be registered with the FRB as a financial holding company. The Bank, as a nationally chartered bank, is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency ("OCC") as its primary federal regulator and, as to certain matters, by the FRB and the Federal Deposit Insurance Corporation ("FDIC").

The Company is subject to capital adequacy guidelines of the FRB. The guidelines apply on a consolidated basis and require bank holding companies to maintain a minimum ratio of Tier 1 capital to total average assets (or "leverage ratio") of 4%. For the most highly rated bank holding companies, the minimum ratio is 3%. The FRB capital adequacy guidelines also require bank holding companies to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 4% and a minimum ratio of qualifying total capital to risk-weighted assets of 8%. As of December 31, 2009, the Company's leverage ratio was 8.35%, its ratio of Tier 1 capital to risk-weighted assets was 11.34%, and its ratio of qualifying total capital to risk-weighted assets was 12.59%. The FRB may set higher minimum capital requirements for bank holding companies whose circumstances warrant it, such as companies anticipating significant growth or facing unusual risks. The FRB has not advised the Company of any special capital requirement applicable to it.

Any holding company whose capital does not meet the minimum capital adequacy guidelines is considered to be undercapitalized and is required to submit an acceptable plan to the FRB for achieving capital adequacy. Such a company's ability to pay dividends to its shareholders and expand its lines of business through the acquisition of new banking or nonbanking subsidiaries also could be restricted.

The Bank is subject to leverage and risk-based capital requirements and minimum capital guidelines of the OCC that are similar to those applicable to the Company. As of December 31, 2009, the Bank was in compliance with all minimum capital requirements. The Bank's leverage ratio was 7.72%, its ratio of Tier 1 capital to risk-weighted assets was 10.50%, and its ratio of qualifying total capital to risk-weighted assets was 11.76%.

Under FDIC regulations, no FDIC-insured bank can accept brokered deposits unless it is well capitalized, or is adequately capitalized and receives a waiver from the FDIC. In addition, these regulations prohibit any bank that is not well capitalized from paying an interest rate on brokered deposits in excess of three-quarters of one percentage point over certain prevailing market rates. As of December 31, 2009, the Bank's total brokered deposits were $144.3 million.

The OCC generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is "significantly undercapitalized." Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The deposits of the Bank are insured up to regulatory limits by the FDIC. The Federal Deposit Insurance Reform Act of 2005 gave the FDIC increased flexibility in assessing premiums on banks and savings associations, including the Bank, to pay for deposit insurance and in managing its deposit insurance reserves. The FDIC has adopted regulations to implement its new authority. Under these regulations, all insured depository institutions are placed into one of four risk categories. For institutions such as the Bank, which do not have a long-term public debt rating, the individual risk assessment is based on its supervisory ratings and certain financial ratios and other measurements of its financial condition. For institutions that have a long-term public debt rating, the individual risk assessment is based on its supervisory ratings and its debt rating. On February 27, 2009, the FDIC issued new rules that took effect April 1, 2009 to change the way the FDIC differentiates risk and sets appropriate assessment rates. In addition, the FDIC also issued an interim rule on February 27, 2009 that imposed an emergency special assessment of 20 basis points in addition to its risk-based assessment resulting in a $2.5 million charge to the Company in 2009.

On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program ("TLGP"), that provides unlimited deposit insurance on funds invested in noninterest-bearing transaction deposit accounts in excess of the existing deposit insurance limit of $250,000. Participating institutions are assessed a $0.10 surcharge per $100 of deposits above the existing deposit insurance limit. The TLGP also provides that the FDIC, for an additional fee, will guarantee qualifying senior unsecured debt issued prior to October 2009 by participating banks and certain qualifying holding companies. The Bank and the Company have elected to opt in to both portions of the TLGP, but did not utilize the second part of the TLGP as no such debt was issued prior to October 2009.

The Federal Deposit Insurance Act provides for additional assessments to be imposed on insured depository institutions to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments are adjusted quarterly to reflect changes in the assessment base of the Depositors Insurance Fund ("DIF") and do not vary depending upon a depository institution's capitalization or supervisory evaluation.

Like all FDIC insured financial institutions, the Company has been subjected to substantial increases in FDIC recurring premiums, as well as a special assessment levied by the FDIC in the second quarter of 2009. The Company paid $1.8 million and $8.4 million of FDIC assessments in 2008 and 2009, respectively. On November 12, 2009, the FDIC adopted a final rule amending the assessment regulations to require insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 31, 2009. The Company paid approximately $22.2 million in 2009 for prepaid assessment fees for the fourth quarter of 2009, and for the years 2010, 2011, and 2012, of which approximately $1.4 million was expensed in the fourth quarter of 2009.

Transactions between the Bank and any of its affiliates, including the Company, are governed by sections 23A and 23B of the Federal Reserve Act and FRB regulations thereunder. An "affiliate" of a bank includes any company or entity that controls, is controlled by, or is under common control with the bank. A subsidiary of a bank that is not also a depository institution is not treated as an affiliate of the bank for purposes of sections 23A and 23B, unless the subsidiary is also controlled through a non-bank chain of ownership by affiliates or controlling shareholders of the bank, the subsidiary is a financial subsidiary that operates under the expanded authority granted to national banks under the Gramm-Leach-Bliley Act ("GLB Act"), or the subsidiary engages in other activities that are not permissible for a bank to engage in directly (except insurance agency subsidiaries). Generally, sections 23A and 23B are intended to protect insured depository institutions from suffering losses arising from transactions with non-insured affiliates, by placing quantitative and qualitative limitations on covered transactions between a bank and with any one affiliate as well as all affiliates of the bank in the aggregate, and requiring that such transactions be on terms that are consistent with safe and sound banking practices.

Under the GLB Act, a financial holding company may engage in certain financial activities that a bank holding company may not otherwise engage in under the Bank Holding Company Act ("BHC Act"). In addition to engaging in banking and activities closely related to banking as determined by the FRB by regulation or order prior to November 11, 1999, a financial holding company may engage in activities that are financial in nature or incidental to financial activities, or activities that are complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The GLB Act requires all financial institutions, including the Company and the Bank, to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. In addition, the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act") includes many provisions concerning national credit reporting standards, and permits consumers, including customers of the Company, to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The FRB and the OCC have extensive rulemaking authority under the FACT Act, and the Company and the Bank are subject to the rules that have been promulgated by the FRB and OCC, including recent rules regarding limitations on affiliate marketing and implementation of programs to identify, detect and mitigate certain identity theft red flags. The Company has developed policies and procedures for itself and its subsidiaries, including the Bank, and believes it is in compliance with all privacy, information sharing, and notification provisions of the GLB Act and the FACT Act. The Bank is also subject to data security standards and data breach notice requirements, chiefly those issued by the OCC.

In 2007, the Federal Reserve and Securities and Exchange Commission ("SEC") issued a final joint rulemaking (Regulation R) to clarify that traditional banking activities involving some elements of securities brokerage activities, such as most trust and fiduciary activities, may continue to be performed by banks rather than being "pushed-out" to affiliates supervised by the SEC. These rules took effect for the Bank beginning January 1, 2009.

Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act will prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machines ("ATM") and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. This regulation is expected to have a negative impact on the Company's service charge income, and therefore result in decreased earnings.

Under Title III of the USA PATRIOT Act all financial institutions, including the Company and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. The USA PATRIOT Act also encourages information-sharing among financial institutions, regulators, and law enforcement authorities by providing an exemption from the privacy provisions of the GLB Act for financial institutions that comply with this provision. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank, or the BHC Act, which applies to the Company. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, financial and reputational consequences for the institution. As of December 31, 2009, the Company and the Bank believe they are in compliance with the USA PATRIOT Act and regulations thereunder.

The Sarbanes-Oxley Act ("SOX") implemented a broad range of measures to increase corporate responsibility, enhance penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to federal securities laws. SOX applies generally to companies that have securities registered under the Exchange Act, including publicly-held bank holding companies such as the Company. It includes very specific additional disclosure requirements and has adopted corporate governance rules, and requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules pursuant to its mandates. SOX represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. In addition, the federal banking regulators have adopted generally similar requirements concerning the certification of financial statements by bank officials.

Home mortgage lenders, including banks, are required under the Home Mortgage Disclosure Act ("HMDA") to make available to the public expanded information regarding the pricing of home mortgage loans, including the "rate spread" between the annual percentage rate ("APR") and the average prime offer rate for mortgage loans of a comparable type. The availability of this information has led to increased scrutiny of higher-priced loans at all financial institutions to detect illegal discriminatory practices and to the initiation of a limited number of investigations by federal banking agencies and the U.S. Department of Justice. The Company has no information that it or its affiliates is the subject of any HMDA investigation.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. The EESA authorizes the U.S. Treasury to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The Company did not originate or invest in sub-prime assets and, therefore, does not expect to participate in the sale of any of our assets into these programs. EESA also increased the FDIC deposit insurance limit for most accounts from $100,000 to $250,000 through December 31, 2009.

On October 14, 2008, the U.S. Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), the U.S. Treasury was authorized to make $250 billion of capital available (from the $700 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program, as well as the more stringent executive compensation limits enacted as part of the American Recovery and Reinvestment Act of 2009 (the "ARRA" or "Stimulus Bill"), which was signed into law on February 17, 2009. The Company was approved but chose not to participate in the TARP Capital Purchase Program.

**EMPLOYEES**

At December 31, 2009, the Company had 1,437 full-time equivalent employees. The Company's employees are not presently represented by any collective bargaining group. The Company considers its employee relations to be good.

**AVAILABLE INFORMATION**

The Company's website is http://www.nbtbancorp.com. The Company makes available free of charge through its website, its annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. We also make available through our website other reports filed with or furnished to the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act, as well as our Code of Business Ethics and other codes/committee charters. The references to our website do not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

Any materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

There are risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Any of the following risks could affect the Company's financial condition and results of operations and could be material and/or adverse in nature.

***Deterioration in local economic conditions may negatively impact our financial performance.***

The Company's success depends primarily on the general economic conditions of upstate New York, northeastern Pennsylvania, and Burlington, Vermont and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in the upstate New York areas of Norwich, Oneonta, Amsterdam-Gloversville, Albany, Binghamton, Utica-Rome, Plattsburg, and Ogdensburg-Massena, the northeastern Pennsylvania areas of Scranton, Wilkes-Barre and East Stroudsburg, and the Burlington, Vermont area. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources.

As a lender with the majority of our loans secured by real estate or made to businesses in New York, Pennsylvania, and Vermont, a downturn in the local economy could cause significant increases in nonperforming loans, which could negatively impact our earnings. Declines in real estate values in our market areas could cause any of our loans to become inadequately collateralized, which would expose us to greater risk of loss. Additionally, a decline in real estate values could adversely impact our portfolio of residential and commercial real estate loans and could result in the decline of originations of such loans, as most of our loans, and the collateral securing our loans, are located in those areas.

As a lender with agricultural loans in the portfolio (approximately 3.4% of total loans), continued low milk prices could result in an increase in nonperforming loans, which could negatively impact our earnings.

***Variations in interest rates may negatively affect our financial performance.***

The Company's earnings and financial condition are largely dependent upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect the Company's earnings and financial condition. The Company cannot predict with certainty or control changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the Federal Reserve Board ("FRB"), affect interest income and interest expense. High interest rates could also affect the amount of loans that the Company can originate, because higher rates could cause customers to apply for fewer mortgages, or cause depositors to shift funds from accounts that have a comparatively lower cost, to accounts with a higher cost or experience customer attrition due to competitor pricing. With short-term interest rates at historic lows and the current Federal Funds target rate at 25 bp, the Company's interest-bearing deposit accounts, particularly core deposits, are repricing at historic lows as well. In the future, we anticipate that the interest rate environment will increase and the Federal funds target rate will start to increase. Depending on the nature and scale of those increases, the company's challenge will be managing the magnitude and scope of the repricing. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, net interest income will be negatively affected. Changes in the asset and liability mix may also affect net interest income. Similarly, lower interest rates cause higher yielding assets to prepay and floating or adjustable rate assets to reset to lower rates. If the Company is not able to reduce its funding costs sufficiently, due to either competitive factors or the maturity schedule of existing liabilities, then the Company's net interest margin will decline.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Net Interest Income" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 3. Quantitative and Qualitative Disclosure About Market Risk located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

***Our lending, and particularly our emphasis on commercial lending, exposes us to the risk of losses upon borrower default.***

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those across the States of New York, Pennsylvania and Vermont, and the entire United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company.

As of December 31, 2009, approximately 41% of the Company's loan and lease portfolio consisted of commercial and industrial, agricultural, construction and commercial real estate loans. These types of loans generally expose a lender to greater risk of non-payment and loss than residential real estate loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Because the Company's loan portfolio contains a significant number of commercial and industrial, agricultural, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and/or an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Loans and Leases" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to commercial and industrial, agricultural, construction and commercial real estate loans.

***If our allowance for loan and lease losses is not sufficient to cover actual loan and lease losses, our earnings will decrease.***

The Company maintains an allowance for loan and lease losses, which is an allowance established through a provision for loan and lease losses charged to expense, that represents management's best estimate of probable losses that could be incurred within the existing portfolio of loans and leases. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan and lease portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan and lease portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan and lease losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses, the Company will need additional provisions to increase the allowance for loan and lease losses. These increases in the allowance for loan and lease losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Allowance for Loan and Lease Losses, Provision for Loan and Lease Losses, and Nonperforming Assets" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan and losses.

***Strong competition within our industry and market area could hurt our performance and slow our growth.***

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Company operates. Additionally, various out-of-state banks continue to enter or have announced plans to enter the market areas in which the Company currently operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company can.

The Company's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Company's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Company introduces new products and services relative to its competitors.
- Customer satisfaction with the Company's level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

***We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.***

The Company, primarily through the Bank and certain non-bank subsidiaries, is subject to extensive federal regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned "Supervision and Regulation" which is located in Item 1. Business in the Company's Annual Report on Form 10-K.

***There can be no assurance that recent government action will help stabilize the U.S. financial system and will not have unintended adverse consequences.***

In recent periods, the U.S. government and various federal agencies and bank regulators have taken steps to stabilize and stimulate the financial services industry. Changes also have been made in tax policy for financial institutions. The Emergency Economic Stabilization Act of 2008 (the "EESA") was an initial legislative response to the financial crises affecting the banking system and financial markets and going concern threats to financial institutions. EESA authorized the U.S. Treasury to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Other government actions, such as the recently announced Homeowner Affordability and Stability Plan, are intended to prevent mortgage defaults and foreclosures, which may provide benefits to the economy as a whole, but may reduce the value of certain mortgage loans or related mortgage-related securities that investors such as the Company may hold. There can be no assurance as to the actual impact that these or other government actions will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA and other measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect the Company's business, financial condition, results of operations, access to credit or the trading price of its common stock.

***The Company is subject to liquidity risk which could adversely affect net interest income and earnings***

The purpose of the Company's liquidity management is to meet the cash flow obligations of its customers for both deposits and loans. The primary liquidity measurement the Company utilizes is called Basic Surplus which captures the adequacy of the Company's access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. However, competitive pressure on deposit pricing could result in a decrease in the Company's deposit base or an increase in funding costs. In addition, liquidity will come under additional pressure if loan growth exceeds deposit growth. These scenarios could lead to a decrease in the Company's basic surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. Depending on the level of interest rates, the Company's net interest income, and therefore earnings, could be adversely affected. See the section captioned "Liquidity Risk" in Item 7.

***Our ability to service our debt, pay dividends and otherwise pay our obligations as they come due is substantially dependent on capital distributions from our subsidiaries.***

The Company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's common stock and interest and principal on the Company's debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Company. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to the Company, the Company may not be able to service debt, pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, financial condition and results of operations.

***We are subject to security and operational risks relating to our use of technology that could damage our reputation and our business.***

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company’s customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Company’s information systems could damage the Company’s reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company’s financial condition and results of operations.

***We continually encounter technological change and the failure to understand and adapt to these changes could hurt our business.***

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company’s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company’s operations. Many of the Company’s competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on the Company’s business and, in turn, the Company’s financial condition and results of operations.

***Provisions of our certificate of incorporation, by-laws and stockholder rights plan, as well as Delaware law and certain banking laws, could delay or prevent a takeover of us by a third party.***

Provisions of the Company’s certificate of incorporation and by-laws, the Company’s stock purchase rights plan, the corporate law of the State of Delaware and state and federal banking laws, including regulatory approval requirements, could delay, defer or prevent a third party from acquiring the Company, despite the possible benefit to the Company’s stockholders, or otherwise adversely affect the market price of the Company’s common stock. These provisions include: supermajority voting requirements for certain business combinations; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to the Company’s board of directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, the Company is subject to Delaware law, which among other things prohibits the Company from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discouraging bids for the Company’s common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, the Company’s common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors other than candidates nominated by the Board.

***Recent negative developments in the housing market, financial industry and the domestic and international credit markets may adversely affect our operations and results.***

Dramatic declines in the housing market over the past couple of years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. In particular, we have seen increases in foreclosures in our markets, increases in expenses such as FDIC premiums and a low reinvestment rate environment. While it appears that the worst of the financial crisis has past, we do not expect that the challenging conditions in the financial and housing markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions. In particular, we may be affected in one or more of the following ways:

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- Customer confidence levels may continue to decline and increase delinquencies and default rates, which could impact our charge-offs and provision for loan losses.
- Our ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets.
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.
- We will continue to be required to pay significantly higher FDIC premiums than in the past.

***We are subject to other-than-temporary impairment risk which could negatively impact our financial performance.***

The Company recognizes an impairment charge when the decline in the fair value of equity, debt securities and cost-method investments below their cost basis are judged to be other-than-temporary. Significant judgment is used to identify events or circumstances that would likely have a significant adverse effect on the future use of the investment. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and whether the Company has the intent to sell and whether it is more likely than not it will be forced to sell. Information about unrealized gains and losses is subject to changing conditions. The values of securities with unrealized gains and losses will fluctuate, as will the values of securities that we identify as potentially distressed. Our current evaluation of other-than-temporary impairments reflects our intent to hold securities for a reasonable period of time sufficient for a forecasted recovery of fair value. However, our intent to hold certain of these securities may change in future periods as a result of facts and circumstances impacting a specific security. If our intent to hold a security with an unrealized loss changes, and we do not expect the security to fully recover prior to the expected time of disposition, we will write down the security to its fair value in the period that our intent to hold the security changes.

The process of evaluating the potential impairment of goodwill and other intangibles is highly subjective and requires significant judgment. The Company estimates expected future cash flows of its various businesses and determines the carrying value of these businesses. The Company exercises judgment in assigning and allocating certain assets and liabilities to these businesses. The Company then compares the carrying value, including goodwill and other intangibles, to the discounted future cash flows. If the total of future cash flows is less than the carrying amount of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. Estimates of the future cash flows associated with the assets are critical to these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges and therefore have a material adverse impact on the Company's financial condition and performance.

***We may be adversely affected by the soundness of other financial institutions.***

The Company owns common stock of FHLB of New York in order to qualify for membership in the FHLB system, which enables it to borrow funds under the FHLB of New York's advance program. The carrying value and fair market value of our FHLB of New York common stock was $36.0 million as of December 31, 2009.

There are 12 branches of the FHLB, including New York. Several members have warned that they have either breached risk-based capital requirements or that they are close to breaching those requirements. To conserve capital, some FHLB branches are suspending dividends, cutting dividend payments, and not buying back excess FHLB stock that members hold. FHLB of New York has stated that they expect to be able to continue to pay dividends, redeem excess capital stock, and provide competively priced advances in the future. The most severe problems in FHLB have been at some of the other FHLB branches. Nonetheless, the 12 FHLB branches are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

The Company's headquarters are located at 52 South Broad Street, Norwich, New York 13815. The Company operated the following number of community banking branches and ATMs as of December 31, 2009:

| County | Branches | ATMs | County | Branches | ATMs |
|---|---|---|---|---|---|
| **NBT Bank Division** | | | **Pennstar Bank Division** | | |
| *New York* | | | *Pennsylvania* | | |
| Albany County | 4 | 7 | Lackawanna County | 16 | 21 |
| Broome County | 8 | 11 | Luzerne County | 4 | 5 |
| Chenango County | 11 | 16 | Monroe County | 6 | 8 |
| Clinton County | 3 | 2 | Pike County | 3 | 3 |
| Delaware County | 5 | 5 | Susquehanna County | 6 | 7 |
| Essex County | 3 | 6 | Wayne County | 3 | 5 |
| Franklin County | 1 | 1 | | | |
| Fulton County | 7 | 11 | | | |
| Hamilton County | 1 | 1 | | | |
| Herkimer County | 2 | 1 | | | |
| Montgomery County | 6 | 5 | | | |
| Oneida County | 6 | 13 | | | |
| Otsego County | 9 | 14 | | | |
| Rensselaer | 1 | 1 | | | |
| Saratoga County | 5 | 6 | | | |
| Schenectady County | 1 | 1 | | | |
| Schoharie County | 4 | 3 | | | |
| St. Lawrence County | 5 | 6 | | | |
| Tioga County | 1 | 1 | | | |
| Warren County | 1 | 2 | | | |
| | | | | | |
| *Vermont* | | | | | |
| Chittenden County | 1 | 1 | | | |

The Company leases 47 of the above listed branches from third parties. The Company owns all other banking premises. The Company believes that its offices are sufficient for its present operations. All of the above ATMs are owned by the Company.

## ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

## ITEM 4. [RESERVED]

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The common stock of NBT Bancorp Inc. ("Common Stock") is quoted on the Nasdaq Global Select Market under the symbol "NBTB." The following table sets forth the high and low sales prices and dividends declared for the Common Stock for the periods indicated:

| | High | Low | Dividend |
|---|---|---|---|
| **2009** | | | |
| 1st quarter | $ **28.37** | $ **15.42** | $ **0.20** |
| 2nd quarter | **25.22** | **20.49** | **0.20** |
| 3rd quarter | **24.16** | **20.57** | **0.20** |
| 4th quarter | **23.59** | **19.43** | **0.20** |
| **2008** | | | |
| 1st quarter | $ 23.65 | $ 17.95 | $ 0.20 |
| 2nd quarter | 25.00 | 20.33 | 0.20 |
| 3rd quarter | 36.47 | 19.05 | 0.20 |
| 4th quarter | 30.83 | 21.71 | 0.20 |

The closing price of the Common Stock on February 15, 2010 was $20.60.

As of February 15, 2010, there were 6,745 shareholders of record of Company common stock.

**Equity Compensation Plan Information**

As of December 31, 2009, the following table summarizes the Company's equity compensation plans:

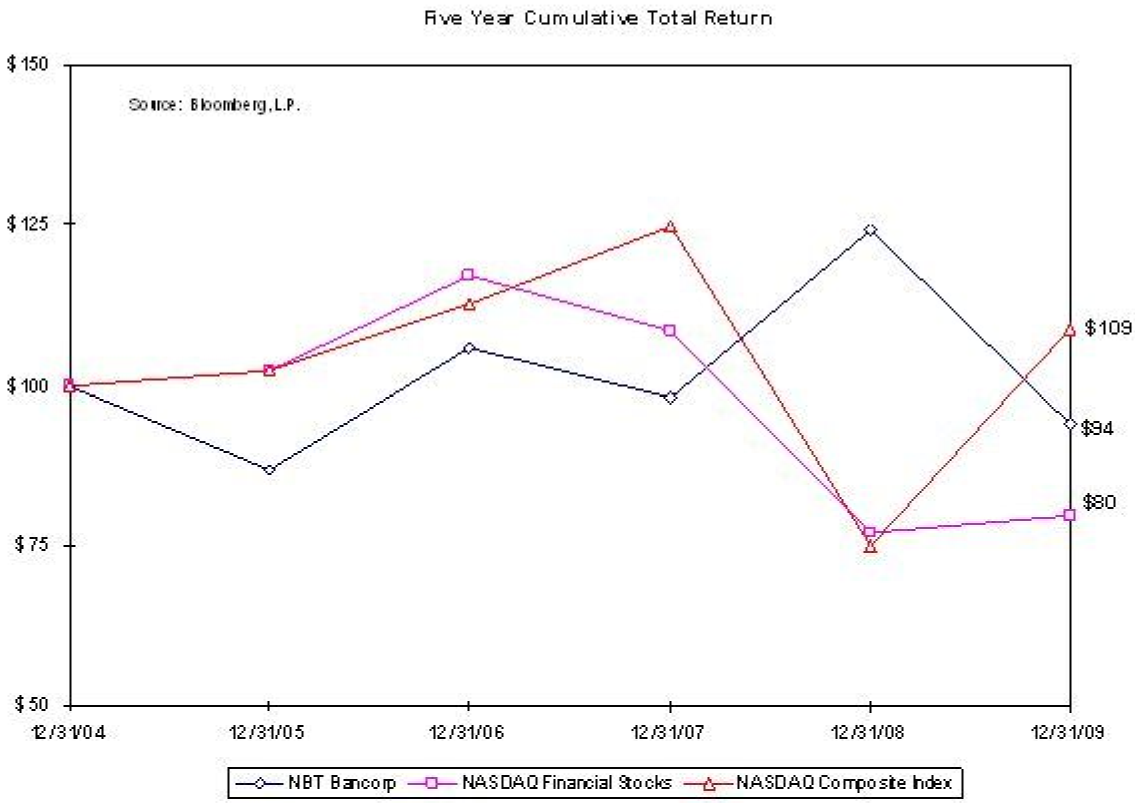
| Plan Category | A. Number of securities to be issued upon exercise of outstanding options | B. Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A.) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 1,853,200(1) | $ 22.08 | 3,912,445 |
| Equity compensation plans not approved by stockholders | None | None | None |

(1) Includes 30,700 shares issuable pursuant to restricted stock units granted pursuant to the Company's equity compensation plan. These awards are for the distribution of shares to the grant recipient upon the completion of time-based holding periods and do not have an associated exercise price. Accordingly, these awards are not reflected in the weighted-average exercise price disclosed in Column B.

[Table of Contents](#)

**Performance Graph**

The following graph compares the cumulative total stockholder return (i.e., price change, reinvestment of cash dividends and stock dividends received) on our common stock against the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index and the Index for NASDAQ Financial Stocks. The stock performance graph assumes that $100 was invested on December 31, 2004. The graph further assumes the reinvestment of dividends into additional shares of the same class of equity securities at the frequency with which dividends are paid on such securities during the relevant fiscal year. The yearly points marked on the horizontal axis correspond to December 31 of that year. We calculate each of the referenced indices in the same manner. All are market-capitalization-weighted indices, so companies judged by the market to be more important (i.e., more valuable) count for more in all indices.




| | | | | Period Ending | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Index** | | **12/31/04** | | **12/31/05** | | **12/31/06** | | **12/31/07** | | **12/31/08** | | **12/31/09** |
| NBT Bancorp | $ | 100.00 | $ | 86.78 | $ | 105.85 | $ | 98.04 | $ | 124.08 | $ | 93.80 |
| NASDAQ Financial Stocks | $ | 100.00 | $ | 102.35 | $ | 116.96 | $ | 108.51 | $ | 76.92 | $ | 79.55 |
| NASDAQ Composite Index | $ | 100.00 | $ | 102.12 | $ | 112.72 | $ | 124.72 | $ | 74.89 | $ | 108.80 |

Source: Bloomberg, L.P.

**Dividends**

We depend primarily upon dividends from our subsidiaries for a substantial part of our revenue. Accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Payment of dividends to the Company from the Bank is subject to certain regulatory and other restrictions. Under OCC regulations, the Bank may pay dividends to the Company without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of such dividends and its total dividends do not exceed its net income to date over the calendar year plus retained net income over the preceding two years. At December 31, 2009, the Bank was in compliance with all applicable minimum capital requirements and had the ability to pay dividends of $64.2 million to the Company without the prior approval of the OCC.

If the capital of the Company is diminished by depreciation in the value of its property or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, no dividends may be paid out of net profits until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets has been repaired. See the section captioned “Supervision and Regulation” in Item 1. Business and Note 15 – Stockholders’ Equity in the notes to consolidated financial statements in included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

**Issuer Purchases of Equity Securities**

On October 26, 2009, the Company’s Board of Directors authorized a new repurchase program for the Company to repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, effective January 1, 2010, as market conditions warrant in open market and privately negotiated transactions. The plan expires on December 31, 2011. On December 31, 2009, the repurchase program previously authorized on January 28, 2008 to repurchase up to 1,000,000 shares expired. The Company made no purchases of its common stock securities during the year ended December 31, 2009.

## ITEM 6. SELECTED FINANCIAL DATA

The following summary of financial and other information about the Company is derived from the Company's audited consolidated financial statements for each of the last five fiscal years ended December 31 and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's consolidated financial statements and accompanying notes, included elsewhere in this report:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands, except per share data)* | **2009** | 2008 | 2007 | 2006 | 2005 |
| Interest, fee and dividend income | **$ 273,393** | $ 294,414 | $ 306,117 | $ 288,842 | $ 236,367 |
| Interest expense | **76,924** | 108,368 | 141,090 | 125,009 | 78,256 |
| Net interest income | **196,469** | 186,046 | 165,027 | 163,833 | 158,111 |
| Provision for loan and lease losses | **33,392** | 27,181 | 30,094 | 9,395 | 9,464 |
| Noninterest income excluding securities gains (losses) | **79,987** | 70,171 | 57,586 | 49,504 | 43,785 |
| Securities gains (losses), net | **144** | 1,535 | 2,113 | (875) | (1,236) |
| Noninterest expense | **170,566** | 146,813 | 122,517 | 122,966 | 115,305 |
| Income before income taxes | **72,642** | 83,758 | 72,115 | 80,101 | 75,891 |
| Net income | **52,011** | 58,353 | 50,328 | 55,947 | 52,438 |
| | | | | | |
| **Per common share** | | | | | |
| Basic earnings | **$ 1.54** | $ 1.81 | $ 1.52 | $ 1.65 | $ 1.62 |
| Diluted earnings | **1.53** | 1.80 | 1.51 | 1.64 | 1.60 |
| Cash dividends paid | **0.80** | 0.80 | 0.79 | 0.76 | 0.76 |
| Book value at year-end | **14.69** | 13.24 | 12.29 | 11.79 | 10.34 |
| Tangible book value at year-end | **10.75** | 9.01 | 8.78 | 8.42 | 8.75 |
| Average diluted common shares outstanding | **33,903** | 32,427 | 33,421 | 34,206 | 32,710 |
| | | | | | |
| **At December 31,** | | | | | |
| Securities available for sale, at fair value | **$ 1,116,758** | $ 1,119,665 | $ 1,140,114 | $ 1,106,322 | $ 954,474 |
| Securities held to maturity, at amortized cost | **159,946** | 140,209 | 149,111 | 136,314 | 93,709 |
| Loans and leases | **3,645,398** | 3,651,911 | 3,455,851 | 3,412,654 | 3,022,657 |
| Allowance for loan and lease losses | **66,550** | 58,564 | 54,183 | 50,587 | 47,455 |
| Assets | **5,464,026** | 5,336,088 | 5,201,776 | 5,087,572 | 4,426,773 |
| Deposits | **4,093,046** | 3,923,258 | 3,872,093 | 3,796,238 | 3,160,196 |
| Borrowings | **786,097** | 914,123 | 868,776 | 838,558 | 883,182 |
| Stockholders' equity | **505,123** | 431,845 | 397,300 | 403,817 | 333,943 |
| | | | | | |
| **Key ratios** | | | | | |
| Return on average assets | **0.96%** | 1.11% | 0.98% | 1.14% | 1.21% |
| Return on average equity | **10.90** | 14.16 | 12.60 | 14.47 | 15.86 |
| Average equity to average assets | **8.79** | 7.83 | 7.81 | 7.85 | 7.64 |
| Net interest margin | **4.04** | 3.95 | 3.61 | 3.70 | 4.01 |
| Dividend payout ratio | **52.29** | 44.44 | 52.32 | 46.34 | 47.50 |
| Tier 1 leverage | **8.35** | 7.17 | 7.14 | 7.57 | 7.16 |
| Tier 1 risk-based capital | **11.34** | 9.75 | 9.79 | 10.42 | 9.80 |
| Total risk-based capital | **12.59** | 11.00 | 11.05 | 11.67 | 11.05 |

**Selected Quarterly Financial Data**

| *(Dollars in thousands, except per share data)* | 2009 First | 2009 Second | 2009 Third | 2009 Fourth | 2008 First | 2008 Second | 2008 Third | 2008 Fourth |
|---|---|---|---|---|---|---|---|---|
| Interest, fee and dividend income | **$ 69,381** | **$ 68,372** | **$ 67,636** | **$ 68,004** | $ 74,652 | $ 72,854 | $ 73,621 | $ 73,287 |
| Interest expense | **21,269** | **20,321** | **18,954** | **16,380** | 30,587 | 26,849 | 26,578 | 24,354 |
| Net interest income | **48,112** | **48,051** | **48,682** | **51,624** | 44,065 | 46,005 | 47,043 | 48,933 |
| Provision for loan and lease losses | **6,451** | **9,199** | **9,101** | **8,641** | 6,478 | 5,803 | 7,179 | 7,721 |
| Noninterest income excluding net securities (losses) gains | **19,590** | **19,828** | **20,721** | **19,848** | 16,080 | 16,401 | 17,452 | 20,238 |
| Net securities gains (losses) | **-** | **17** | **129** | **(2)** | 15 | 18 | 1,510 | (8) |
| Noninterest expense | **42,305** | **41,939** | **41,032** | **45,290** | 34,034 | 35,423 | 37,058 | 40,298 |
| Net income | **13,072** | **11,560** | **13,578** | **13,801** | 13,716 | 14,657 | 15,083 | 14,897 |
| Basic earnings per share | **$ 0.40** | **$ 0.34** | **$ 0.40** | **$ 0.40** | $ 0.43 | $ 0.46 | $ 0.47 | $ 0.46 |
| Diluted earnings per share | **$ 0.40** | **$ 0.34** | **$ 0.40** | **$ 0.40** | $ 0.43 | $ 0.45 | $ 0.46 | $ 0.45 |
| Annualized net interest margin | **4.09%** | **3.95%** | **3.98%** | **4.15%** | 3.84% | 3.94% | 3.94% | 4.06% |
| Annualized return on average assets | **0.99%** | **0.85%** | **0.99%** | **1.00%** | 1.07% | 1.12% | 1.13% | 1.11% |
| Annualized return on average equity | **12.14%** | **9.63%** | **11.01%** | **10.92%** | 13.68% | 14.49% | 14.58% | 13.88% |
| Average diluted common shares outstanding (in thousands) | **32,645** | **34,314** | **34,342** | **34,348** | 32,252 | 32,242 | 32,453 | 32,758 |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

The financial review which follows focuses on the factors affecting the consolidated financial condition and results of operations of NBT Bancorp Inc. (the "Registrant") and its wholly owned subsidiaries, the Bank, NBT Financial and NBT Holdings during 2009 and, in summary form, the preceding two years. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company." Net interest margin is presented in this discussion on a fully taxable equivalent (FTE) basis. Average balances discussed are daily averages unless otherwise described. The audited consolidated financial statements and related notes as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2009 presentation.

### CRITICAL ACCOUNTING POLICIES

The Company has identified policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan and lease losses and pension accounting.

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management's current evaluation of the allowance for loan and lease losses indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance may need to be increased. For example, if historical loan and lease loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provision for loan and lease losses would be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Company's nonperforming loans and potential problem loans have a significant impact on the overall analysis of the adequacy of the allowance for loan and lease losses. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral values were significantly lower, the Company's allowance for loan and lease policy would also require additional provision for loan and lease losses.

Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected rate of return on plan assets, the discount rate, and the rate of increase in future compensation levels. Changes to these assumptions could impact earnings in future periods. The Company takes into account the plan asset mix, funding obligations, and expert opinions in determining the various rates used to estimate pension expense. The Company also considers the Citigroup Pension Liability Index, market interest rates and discounted cash flows in setting the appropriate discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the rate of increase in future compensation levels.

The Company's policy on the allowance for loan and lease losses and pension accounting is disclosed in Note 1 to the consolidated financial statements. A more detailed description of the allowance for loan and lease losses is included in the "Risk Management" section of this Form 10-K. All significant pension accounting assumptions and detail is disclosed in Note 17 to the consolidated financial statements. All accounting policies are important, and as such, the Company encourages the reader to review each of the policies included in Note 1 to obtain a better understanding on how the Company's financial performance is reported.

## FORWARD LOOKING STATEMENTS

Certain statements in this filing and future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act. These statements may be identified by the use of phrases such as "anticipate," "believe," "expect," "forecasts," "projects," "will," "can," "would," "should," "could," "may," or other similar terms. There are a number of factors, many of which are beyond the Company's control that could cause actual results to differ materially from those contemplated by the forward looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities:

- Local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.
- Changes in the level of non-performing assets and charge-offs.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board.
- Inflation, interest rate, securities market and monetary fluctuations.
- Political instability.
- Acts of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowings and savings habits.
- Changes in the financial performance and/or condition of the Company's borrowers.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The ability to increase market share and control expenses.
- Changes in the competitive environment among financial holding companies.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the Company's organization, compensation and benefit plans.
- The costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews.
- Greater than expected costs or difficulties related to the integration of new products and lines of business.
- The Company's success at managing the risks involved in the foregoing items.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including but not limited to those described above, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to differ materially from those anticipated or projected.

Except as required by law, the Company does not undertake, and specifically disclaims any obligations to, publicly release any revisions that may be made to any forward-looking statements to reflect statements to the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

**OVERVIEW**

Significant factors management reviews to evaluate the Company’s operating results and financial condition include, but are not limited to: net income and earnings per share, return on assets and equity, net interest margin, noninterest income, operating expenses, asset quality indicators, loan and deposit growth, capital management, liquidity and interest rate sensitivity, enhancements to customer products and services, technology advancements, market share and peer comparisons. The following information should be considered in connection with the Company's results for the fiscal year ended December 31, 2009:

- Like all FDIC insured financial institutions, the Company has been subjected to substantial increases in FDIC recurring premiums, as well as a special assessment levied by the FDIC in the second quarter of 2009, which had a significant impact on fiscal year 2009 earnings. For the year ended December 31, 2009, FDIC expenses increased $6.6 million over the year ended December 31, 2008, including the aforementioned special assessment totaling $2.5 million. The FDIC premium increases and special assessment had a $0.14 effect on diluted earnings per share for the year ended December 31, 2009.

- Pension expenses increased in 2009 in comparison to 2008 primarily due to the impact of market declines on pension assets. For the year ended December 31, 2009, pension expenses increased $2.8 million over the year ended December 31, 2008. The pension expense increases had a $0.06 effect on diluted earnings per share for the year ended December 31, 2009.

- The Company's results for the year ended December 31, 2009, unlike the year ended December 31, 2008, include the results of Mang for the entire period. Mang was acquired by the Company on September 1, 2008.

- In 2009, the Company has strategically expanded into the northwest Vermont region.

- The Company’s results for the year ended December 31, 2009 include operating costs of new branches from de novo activity for three branches opened in 2007, four branches opened in 2008 and the branch in Burlington, Vermont, which opened in 2009. The operating costs for those locations are included in the Company’s noninterest expense for the year ended December 31, 2009 of approximately $3.2 million, as compared to $2.7 million for the year ended December 31, 2008.

- The Company's common stock was added to the Standard & Poor's SmallCap 600 Index during the first quarter of 2009. Simultaneously with being added to the index, the Company launched a public offering of its common stock, which was completed during the second quarter of 2009.

As a result of the current economic recession, the Company is facing certain challenges in its industry. The condition of the residential real estate marketplace and the U.S. economy since 2007 has had a significant impact on the financial services industry as a whole, and therefore on the financial results of the Company. Beginning with a pronounced downturn in the residential real estate market in early 2007 that was led by problems in the sub-prime mortgage markets, the deterioration of residential real estate values continued throughout 2008 and 2009. With the U.S. economy in recession in 2008 and 2009, financial institutions were facing higher credit losses from distressed real estate values and borrower defaults, resulting in reduced capital levels.

During 2009, the Company has experienced higher delinquencies and charge-offs related to its loan portfolios; however, the Company remains well-capitalized. The U.S. economic recession resulted in some visible stress in the agricultural portfolio primarily as a result of reduced milk prices. Unemployment in the Company's markets, while lower than the national average, has significantly increased resulting in increases in certain asset quality trends, including nonperforming loans. In response to the effects of the recession felt by the Company, we have:

- increased our loan collection efforts.
- increased the sale of conforming residential real estate mortgages. Interest rate conditions have made it favorable for the Company to do so, which has lowered our portfolio growth of this category.
- chosen to discontinue origination of new automobile leases in order to reduce the exposure to residual values of leased vehicles, which showed continual decline during 2008 and into 2009.
- increased noninterest income opportunities with the acquisition of Mang in 2008 as well as organic growth of two of the Company's nonbanking subsidiaries, Mang and EPIC during 2009.
- continued to originate loans using strict underwriting criteria.

The Company had net income of $52.0 million or $1.53 per diluted share for 2009, down 10.9% from net income of $58.4 million or $1.80 per diluted share for 2008. Net interest income increased $10.4 million or 5.6% in 2009 compared to 2008. The increase in net interest income resulted primarily from decreases in rates paid on interest bearing deposits and liabilities in 2009 as compared with 2008. In addition, average earning assets increased $134.6 million, or 2.8%, in 2009 over 2008. The provision for loan and lease losses totaled $33.4 million for the year ended December 31, 2009, up $6.2 million, or 22.9%, from $27.2 million for the year ended December 31, 2008. The increase in the provision for loan and lease losses for the year ended December 31, 2009 was due primarily to an increase in nonperforming loans and net charge-offs in 2009. Noninterest income increased $8.4 million or 11.7% compared to 2008. The increase in noninterest income was due primarily to an increase in insurance revenue, which increased approximately $9.0 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008. This increase was due primarily to revenue generated by Mang, which was acquired on September 1, 2008. Also included in noninterest income for 2009 were net securities gains totaling $0.1 million compared to net securities gains of $1.5 million in 2008. Excluding net security gains and losses, total noninterest income increased 14.0% in 2009 compared with 2008. Noninterest expense increased $23.8 million, or 16.2%, in 2009 compared with 2008. The increase in noninterest expense was due primarily to increases in salaries and employee benefits and FDIC expenses. For the year ended December 31, 2009, FDIC expenses increased $6.6 million over the year ended December 31, 2008, including the special assessment of approximately $2.5 million. The FDIC premium and special assessment had a $0.14 effect on diluted earnings per share for the year ended December 31, 2009. For the year ended December 31, 2009, pension expenses increased $2.8 million over the year ended December 31, 2008. The pension expense increases had a $0.06 effect on diluted earnings per share for the year ended December 31, 2009.

The Company had net income of $58.4 million or $1.80 per diluted share for 2008, up 15.9% from net income of $50.3 million or $1.51 per diluted share for 2007. Net interest income increased $21.0 million or 12.7% in 2008 compared to 2007. The increase in net interest income resulted primarily from decreases in rates paid on interest bearing deposits and liabilities in 2008 as compared with 2007. In addition, average earning assets increased $132.7 million, or 2.8%, in 2008 over 2007. The provision for loan and lease losses totaled $27.2 million for the year ended December 31, 2008, down $2.9 million, or 9.7%, from $30.1 million for the year ended December 31, 2007. Noninterest income increased $12.0 million or 20.1% compared to 2007. The increase in noninterest income was driven primarily by an increase in service charges on deposit accounts and ATM and debit card fees, which collectively increased $6.0 million due to various initiatives in 2008. Also included in noninterest income for 2008 were net securities gains totaling $1.5 million compared to net securities gains of $2.1 million in 2007. Excluding net security gains and losses, total noninterest income increased 21.9% in 2008 compared with 2007. Noninterest expense increased $24.3 million, or 19.8%, in 2008 compared with 2007. The increase in noninterest expense was due to several factors including increases in salaries and employee benefits, occupancy, professional fees and outside services, impairment on lease residual assets, and other operating expenses.

**2010 OUTLOOK**

The Company's 2009 earnings reflected the Company's ability to manage through the global economic conditions and challenges in the financial services industry. In 2010, the Company believes effects of the economic crisis will still exist. In particular the Company expects that in 2010:

- revenue from Federal Home Loan Bank dividends could decrease significantly;

- payments representing interest and principal on currently outstanding loans and investments will most likely continue to be reinvested at rates that are lower than the rates on currently outstanding on those loans and investments;

- noninterest income will probably decrease as a result of new regulations regarding consumer overdraft fees;

- competitive pressure on non-maturing deposits could result in an increase in interest expense if interest rates begin to rise;

- the economy may continue to have an adverse affect on asset quality indicators, particularly indicators related to loans secured by real estate, and the provision for loan and lease losses, and therefore credit costs, which have trended higher in recent years, are not expected to decline until economic indicators improve.

The Company's 2010 outlook is subject to factors in addition to those identified above and those risks and uncertainties that could impact the Company's future results are explained in ITEM 1A. RISK FACTORS.

## ASSET/LIABILITY MANAGEMENT

The Company attempts to maximize net interest income, and net income, while actively managing its liquidity and interest rate sensitivity through the mix of various core deposit products and other sources of funds, which in turn fund an appropriate mix of earning assets. The changes in the Company's asset mix and sources of funds, and the resultant impact on net interest income, on a fully tax equivalent basis, are discussed below. The following table includes the condensed consolidated average balance sheet, an analysis of interest income/expense and average yield/rate for each major category of earning assets and interest bearing liabilities on a taxable equivalent basis. Interest income for tax-exempt securities and loans and leases has been adjusted to a taxable-equivalent basis using the statutory Federal income tax rate of 35%.

**Table 1. Average Balances and Net Interest Income**

| | 2009 | | | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Average Balance** | **Interest** | **Yield/ Rate%** | Average Balance | Interest | Yield/ Rate% | Average Balance | Interest | Yield/ Rate% |
| **Assets** | | | | | | | | | |
| Short-term interest bearing accounts | **$ 88,012** | **$ 238** | **0.27** | $ 9,190 | $ 186 | 2.03 | $ 8,395 | $ 419 | 4.99 |
| Securities available for sale (1) | **1,095,609** | **48,951** | **4.47** | 1,113,810 | 56,841 | 5.10 | 1,134,837 | 57,290 | 5.05 |
| Securities held to maturity (1) | **151,078** | **7,385** | **4.89** | 149,775 | 8,430 | 5.63 | 144,518 | 8,901 | 6.16 |
| Investment in FRB and FHLB Banks | **37,878** | **1,966** | **5.19** | 39,735 | 2,437 | 6.13 | 34,022 | 2,457 | 7.22 |
| Loans and leases (2) | **3,641,852** | **221,128** | **6.07** | 3,567,299 | 233,016 | 6.53 | 3,425,318 | 243,317 | 7.10 |
| Total earning assets | **5,014,429** | **$ 279,668** | **5.58** | 4,879,809 | $ 300,910 | 6.17 | 4,747,090 | $ 312,384 | 6.58 |
| Trading securities | **1,929** | | | 2,254 | | | 2,674 | | |
| Other non-interest earning assets | **412,651** | | | 382,592 | | | 359,823 | | |
| Total assets | **$ 5,429,009** | | | $ 5,264,655 | | | $ 5,109,587 | | |
| **Liabilities and stockholders' equity** | | | | | | | | | |
| Money market deposit accounts | **$ 1,013,514** | **$ 12,165** | **1.20** | $ 778,477 | $ 14,373 | 1.85 | $ 663,532 | $ 22,402 | 3.38 |
| NOW deposit accounts | **600,943** | **3,159** | **0.53** | 485,014 | 4,133 | 0.85 | 449,122 | 3,785 | 0.84 |
| Savings deposits | **499,079** | **826** | **0.17** | 467,572 | 2,161 | 0.46 | 485,562 | 4,299 | 0.89 |
| Time deposits | **1,227,199** | **32,346** | **2.64** | 1,507,966 | 55,465 | 3.68 | 1,675,116 | 76,088 | 4.54 |
| Total interest-bearing deposits | **3,340,735** | **48,496** | **1.45** | 3,239,029 | 76,132 | 2.35 | 3,273,332 | 106,574 | 3.26 |
| Short-term borrowings | **140,066** | **552** | **0.39** | 223,830 | 4,847 | 2.17 | 280,162 | 12,943 | 4.62 |
| Trust preferred debentures | **75,422** | **4,247** | **5.63** | 75,422 | 4,747 | 6.29 | 75,422 | 5,087 | 6.74 |
| Long-term debt | **601,039** | **23,629** | **3.93** | 563,460 | 22,642 | 4.02 | 384,017 | 16,486 | 4.29 |
| Total interest-bearing liabilities | **4,157,262** | **$ 76,924** | **1.85** | 4,101,741 | $ 108,368 | 2.64 | 4,012,933 | $ 141,090 | 3.52 |
| Demand deposits | **718,580** | | | 682,656 | | | 639,423 | | |
| Other non-interest-bearing liabilities | **75,868** | | | 68,156 | | | 57,932 | | |
| Stockholders' equity | **477,299** | | | 412,102 | | | 399,299 | | |
| Total liabilities and stockholders' equity | **$ 5,429,009** | | | $ 5,264,655 | | | $ 5,109,587 | | |
| Interest rate spread | | | **3.73%** | | | 3.53% | | | 3.06% |
| Net interest income-FTE | | **202,744** | | | 192,542 | | | 171,294 | |
| Net interest margin | | | **4.04%** | | | 3.95% | | | 3.61% |
| Taxable equivalent adjustment | | **6,275** | | | 6,496 | | | 6,267 | |
| Net interest income | | **$ 196,469** | | | $ 186,046 | | | $ 165,027 | |

(1) Securities are shown at average amortized cost.
(2) For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding. The interest collected thereon is included in interest income based upon the characteristics of the related loans.

## 2009 OPERATING RESULTS AS COMPARED TO 2008 OPERATING RESULTS

### NET INTEREST INCOME

On a tax equivalent basis, the Company's net interest income for 2009 was $202.7 million, up from $192.5 million for 2008. The Company's net interest margin increased to 4.04% for 2009 from 3.95% for 2008. The increase in the net interest margin resulted primarily from interest-bearing liabilities repricing down faster than earning assets. Earning assets, particularly those tied to a fixed rate, reprice at a slower rate than interest-bearing liabilities, and have not fully realized the effect of the lower interest rate environment. The yield on earning assets decreased 59 basis points (bp), from 6.17% for 2008 to 5.58% for 2009. Meanwhile, the rate paid on interest bearing liabilities decreased 79 bp, from 2.64% for 2008 to 1.85% for 2009. Average earning assets increased $134.6 million, or 2.8%, from 2008 to 2009. This increase was driven primarily by a $78.8 million increase in short-term interest bearing accounts and a $74.6 million increase in average loans and leases, which was driven primarily by a 19.3% increase in average consumer indirect installment loans. The following table presents changes in interest income, on a FTE basis, and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

**Table 2. Analysis of Changes in Taxable Equivalent Net Interest Income**

| | **Increase (Decrease) 2009 over 2008** | | | Increase (Decrease) 2008 over 2007 | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | **Volume** | **Rate** | **Total** | Volume | Rate | Total |
| Short-term interest-bearing accounts | **$ 340** | **$ (288)** | **$ 52** | $ 36 | $ (269) | $ (233) |
| Securities available for sale | **(915)** | **(6,975)** | **(7,890)** | (1,069) | 620 | (449) |
| Securities held to maturity | **73** | **(1,118)** | **(1,045)** | 316 | (787) | (471) |
| Investment in FRB and FHLB Banks | **(110)** | **(361)** | **(471)** | 380 | (400) | (20) |
| Loans and leases | **4,791** | **(16,679)** | **(11,888)** | 9,810 | (20,111) | (10,301) |
| Total interest income | **4,179** | **(25,421)** | **(21,242)** | 9,473 | (20,947) | (11,474) |
| Money market deposit accounts | **3,636** | **(5,844)** | **(2,208)** | 3,394 | (11,423) | (8,029) |
| NOW deposit accounts | **842** | **(1,816)** | **(974)** | 305 | 43 | 348 |
| Savings deposits | **137** | **(1,472)** | **(1,335)** | (154) | (1,984) | (2,138) |
| Time deposits | **(9,166)** | **(13,953)** | **(23,119)** | (7,095) | (13,528) | (20,623) |
| Short-term borrowings | **(1,348)** | **(2,947)** | **(4,295)** | (2,223) | (5,873) | (8,096) |
| Trust preferred debentures | **-** | **(500)** | **(500)** | - | (340) | (340) |
| Long-term debt | **1,485** | **(498)** | **987** | 7,270 | (1,114) | 6,156 |
| Total interest expense | **(4,414)** | **(27,030)** | **(31,444)** | 1,497 | (34,219) | (32,722) |
| Change in FTE net interest income | **$ 8,593** | **$ 1,609** | **$ 10,202** | $ 7,976 | $ 13,272 | $ 21,248 |

### LOANS AND LEASES AND CORRESPONDING INTEREST AND FEES ON LOANS

The average balance of loans and leases increased $74.6 million, or 2.1%, totaling $3.6 billion in 2009. The yield on average loans and leases decreased from 6.53% in 2008 to 6.07% in 2009, as loan rates, particularly for loans indexed to the Prime Rate and other short-term variable rate indices, declined due to the declining rate environment in 2009. Interest income from loans and leases on a FTE basis decreased 5.1%, from $233.0 million in 2008 to $221.1 million in 2009. The decrease in interest income from loans and leases was due to the decrease in yield on loans and leases in 2009 compared to 2008 noted above.

Total loans and leases decreased nominally at December 31, 2009. The Company experienced increases in consumer and commercial real estate loans, which were offset by decreases in residential real estate loans, home equity loans, and leases. Consumer loans increased $61.9 million or 7.8%, from $795.1 million at December 31, 2008 to $857.0 million at December 31, 2009. The increase in consumer loans was driven primarily by an increase in indirect installment loans of $70.0 million, from $677.9 million in 2008 to $747.9 million in 2009. Commercial real estate loans increased $48.5 million, or 7.2%, from $669.7 million at December 31, 2008 to $718.2 million at December 31, 2009, in large part due to increases in new business. Residential real estate loans decreased $99.8 million, or 13.8%, from $722.7 million at December 31, 2008 to $622.9 million at December 31, 2009. This decrease was due primarily to the sales of fixed rate mortgages during 2009. Home equity loans decreased $24.0 million or 3.8% from $627.6 million at December 31, 2008 to $603.6 million at December 31, 2009 due to current market conditions decreasing consumer demand. Leases decreased $20.6 million, or 24.7%, from $83.3 million at December 31, 2008 to $62.7 million at December 31, 2009 as the Company discontinued lease originations beginning in the second quarter of 2009.
The following table reflects the loan and lease portfolio by major categories as of December 31 for the years indicated:

**Table 3. Composition of Loan and Lease Portfolio**

| | December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 | 2006 | 2005 |
| Residential real estate mortgages | **$ 622,898** | $ 722,723 | $ 719,182 | $ 739,607 | $ 701,734 |
| Commercial | **581,870** | 572,059 | 593,077 | 581,736 | 569,021 |
| Commercial real estate | **718,235** | 669,720 | 621,820 | 658,647 | 558,684 |
| Real estate construction and development | **76,721** | 67,859 | 81,350 | 94,494 | 69,135 |
| Agricultural and agricultural real estate | **122,466** | 113,566 | 116,190 | 118,278 | 114,043 |
| Consumer | **856,956** | 795,123 | 655,375 | 586,922 | 463,955 |
| Home equity | **603,585** | 627,603 | 582,731 | 546,719 | 463,848 |
| Lease financing | **62,667** | 83,258 | 86,126 | 86,251 | 82,237 |
| Total loans and leases | **$ 3,645,398** | $ 3,651,911 | $ 3,455,851 | $ 3,412,654 | $ 3,022,657 |

Residential real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residences. Loans in the commercial and agricultural categories, including commercial and agricultural real estate mortgages, consist primarily of short-term and/or floating rate loans made to small and medium-sized entities. Consumer loans consist primarily of indirect installment credit to individuals secured by automobiles and other personal property including marine, recreational vehicles and manufactured housing. Indirect installment loans represent $747.9 million of total consumer loans, or 87.3%. Installment credit for automobiles accounts for 66% of total consumer loans. Although automobile loans have generally been originated through dealers, all applications submitted through dealers are subject to the Company's normal underwriting and loan approval procedures. Real estate construction and development loans include commercial construction and development and residential construction loans. Commercial construction loans are for small and medium sized office buildings and other commercial properties and residential construction loans are primarily for projects located in upstate New York and northeastern Pennsylvania.

Commercial real estate loans increased by approximately $48.5 million, or 7.2%, from December 31, 2008 to December 31, 2009. Risks associated with the commercial real estate portfolio include the ability of borrowers to pay interest and principal during the loan's term, as well as the ability of the borrowers to refinance an the end of the loan term. While the Company continues to adhere to prudent underwriting standards, the recent severe economic recession has translated into fewer retail customers, decreased retail spending and decreased demand for office space which has impacted the borrowers' ability to maintain cash flow.

Lease financing receivables primarily represent automobile financing to customers through direct financing leases and are carried at the aggregate of the lease payments receivable and the estimated residual values, net of unearned income and net deferred lease origination fees and costs. Net deferred lease origination fees and costs are amortized under the effective interest method over the estimated lives of the leases. During the second quarter of 2009, the Company chose to discontinue lease origination. Therefore, this balance will gradually decrease as leases terminate.

One of the most significant risks associated with leasing operations is the recovery of the residual value of the leased vehicles at the termination of the lease. At termination, the lessor has the option to purchase the vehicle or may turn the vehicle over to the Company. The residual values included in lease financing receivables totaled $44.9 million and $58.6 million at December 31, 2009 and 2008, respectively. The estimated residual value related to the total lease portfolio is reviewed quarterly. If it is determined that there has been a decline in the estimated fair value of the residual that is judged by management to be other-than-temporary, a loss is recognized. Adjustments related to such other-than-temporary declines in estimated fair value are recorded within noninterest expenses in the consolidated statements of income.

The following table, Maturities and Sensitivities of Certain Loans to Changes in Interest Rates, summarizes the maturities of the commercial and agricultural and real estate construction and development loan portfolios and the sensitivity of those loans to interest rate fluctuations at December 31, 2009. Scheduled repayments are reported in the maturity category in which the contractual payment is due.

**Table 4. Maturities and Sensitivities of Certain Loans to Changes in Interest Rates**

| | **Remaining maturity at December 31, 2009** | | | |
|---|---|---|---|---|
| *(In thousands)* | Within One Year | After One Year But Within Five Years | After Five Years | Total |
| ***Floating/adjustable rate*** | | | | |
| Commercial, commercial real estate, agricultural, and agricultural real estate | **$ 310,207** | **$ 182,839** | **$ 324,916** | **$ 817,962** |
| Real estate construction and development | **37,438** | **13,391** | **2,425** | **53,254** |
| Total floating rate loans | **347,645** | **196,230** | **327,341** | **871,216** |
| ***Fixed rate*** | | | | |
| Commercial, commercial real estate, agricultural, and agricultural real estate | **65,894** | **261,148** | **277,567** | **604,609** |
| Real estate construction and development | **7,361** | **2,067** | **14,039** | **23,467** |
| Total fixed rate loans | **73,255** | **263,215** | **291,606** | **628,076** |
| Total | **$ 420,900** | **$ 459,445** | **$ 618,947** | **$ 1,499,292** |

**SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME**

The average balance of the amortized cost for securities available for sale decreased $18.2 million, or 1.6%, from December 31, 2008 to December 31, 2009. The yield on average securities available for sale was 4.47% for 2009 compared to 5.10% in 2008.

The average balance of securities held to maturity increased from $149.8 million in 2008 to $151.1 million in 2009. At December 31, 2009, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity decreased from 5.63% in 2008 to 4.89% in 2009 due to reinvestments during 2009 in lower yielding securities resulting from interest rate cuts by the FRB during 2008.

The average balance of FRB and Federal Home Loan Bank (FHLB) stock decreased to $37.9 million in 2009 from $39.7 million in 2008. The yield from investments in FRB and FHLB Banks decreased from 6.13% in 2008 to 5.19% in 2009 due to decreases in dividend rates from FHLB during 2009.

The Company classifies its securities at date of purchase as either available for sale, held to maturity or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity as a component of accumulated other comprehensive income or loss. Held to maturity securities are recorded at amortized cost. Trading securities are recorded at fair value, with net unrealized gains and losses recognized in income. Transfers of securities between categories are recorded at fair value at the date of transfer. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses or in other comprehensive income, depending on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the historical and implied volatility of the fair value of the security.

Non-marketable equity securities are carried at cost, with the exception of small business investment company (SBIC) investments, which are carried at fair value in accordance with SBIC rules.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on securities sold are derived using the specific identification method for determining the cost of securities sold.

**Table 5. Securities Portfolio**

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2009** | | 2008 | | 2007 | |
| *(In thousands)* | **Amortized Cost** | **Fair Value** | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| ***Securities available for sale*** | | | | | | |
| U.S. Treasury | **$ 20,102** | **$ 20,086** | $ 59 | $ 67 | $ 10,042 | $ 10,077 |
| Federal Agency and mortgage-backed | **579,267** | **594,018** | 565,970 | 579,796 | 704,308 | 705,354 |
| State & Municipal, collateralized mortgage obligations and other securities | **489,377** | **502,654** | 532,918 | 539,802 | 418,654 | 424,683 |
| Total securities available for sale | **$ 1,088,746** | **$ 1,116,758** | $ 1,098,947 | $ 1,119,665 | $ 1,133,004 | $ 1,140,114 |
| ***Securities held to maturity*** | | | | | | |
| Federal Agency and mortgage-backed | **$ 2,041** | **$ 2,213** | $ 2,372 | $ 2,467 | $ 2,810 | $ 2,909 |
| State & Municipal | **157,905** | **159,638** | 137,837 | 138,841 | 146,301 | 146,610 |
| Total securities held to maturity | **$ 159,946** | **$ 161,851** | $ 140,209 | $ 141,308 | $ 149,111 | $ 149,519 |

In the available for sale category at December 31, 2009, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; Mortgaged-backed securities were comprised of GSEs with an amortized cost of $238.8 million and a fair value of $248.7 million and US Government Agency securities with an amortized cost of $30.5 million and a fair value of $32.1 million; Collateralized mortgage obligations were comprised of GSEs with an amortized cost of $186.1 million and a fair value of $190.4 million and US Government Agency securities with an amortized cost of $135.8 million and a fair value of $140.3 million. At December 31, 2009, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

Our mortgage backed securities, U.S. agency notes, and collateralized mortgage obligations are all “prime/conforming” and are guaranteed by Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Farm Credit Banks, or Ginnie Mae (“GNMA”). GNMA securities are considered equivalent to U.S. Treasury securities, as they are backed by the full faith and credit of the U.S. government. Currently, there are no subprime mortgages in our investment portfolio.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2009:

| *(In thousands)* | Amortized cost | Estimated fair value | Weighted Average Yield |
|---|---|---|---|
| ***Debt securities classified as available for sale*** | | | |
| Within one year | $ 17,093 | $ 17,483 | 4.60% |
| From one to five years | 336,822 | 339,337 | 2.50% |
| From five to ten years | 306,346 | 317,577 | 4.71% |
| After ten years | 416,190 | 428,705 | 4.18% |
| | $ 1,076,451 | $ 1,103,102 | |
| ***Debt securities classified as held to maturity*** | | | |
| Within one year | $ 98,688 | $ 98,723 | 2.15% |
| From one to five years | 38,212 | 39,339 | 3.76% |
| From five to ten years | 17,761 | 18,330 | 4.13% |
| After ten years | 5,285 | 5,459 | 5.16% |
| | $ 159,946 | $ 161,851 | |

## FUNDING SOURCES AND CORRESPONDING INTEREST EXPENSE

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as necessary to support the Company's growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities increased $55.5 million, totaling $4.2 billion in 2009 from $4.1 billion in 2008. The rate paid on interest-bearing liabilities decreased from 2.64% in 2008 to 1.85% in 2009. This decrease caused a decrease in interest expense of $31.5 million, or 29.0%, from $108.4 million in 2008 to $76.9 million in 2009.

## DEPOSITS

Average interest bearing deposits increased $101.7 million, or 3.1%, during 2009 compared to 2008. The increase resulted primarily from increases in money market deposit accounts and NOW accounts, partially offset by a decrease in time deposits. Average money market deposits increased $235.0 million or 30.2% during 2009 when compared to 2008. The increase in average money market deposits resulted primarily from an increase in personal money market deposits and municipal money market deposits as customers chose the term flexibility of money market deposit accounts in the low rate environment as opposed to longer term options such as CD's. Average NOW accounts increased $115.9 million or 23.9% during 2009 as compared to 2008. This increase was due primarily to increases in municipal NOW accounts as the Company acquired new accounts in 2009, and existing municipal customers choosing the higher yielding NOW accounts over CD's. The average balance of savings accounts decreased $31.5 million or 6.7% during 2009 when compared to 2008. Average time deposits decreased $280.8 million or 18.6% during 2009 as compared to 2008. The decrease in average time deposits resulted primarily from decreases in municipal and negotiated rate time deposits due to lower interest rates. The average balance of demand deposits increased $35.9 million, or 5.3%, from $682.6 million in 2008 to $718.5 million in 2009. This growth in demand deposits was driven principally by increases in accounts from retail customers.

The rate paid on average interest-bearing deposits decreased from 2.35% during 2008 to 1.45% in 2009. The decrease in the rate on interest-bearing deposits was driven primarily by pricing decreases from money market accounts and time deposits, which are sensitive to interest rate changes. The pricing decreases for these products resulted from decreases in short-term rates driven by the cuts made to the Federal Funds Target rate by the FRB during 2008 as well as an overall decrease in all interest rates. The rates paid for money market deposit accounts decreased from 1.85% during 2008 to 1.20% during 2009. The rate paid for savings deposits decreased from 0.46% in 2008 to 0.17% in 2009 and the rate paid on time deposits decreased from 3.68% during 2008 to 2.64% during 2009.

The following table presents the maturity distribution of time deposits of $100,000 or more at December 31, 2009 and December 31, 2008:

**Table 6. Maturity Distribution of Time Deposits of $100,000 or More**

| | December 31, | |
|---|---|---|
| *(In thousands)* | **2009** | 2008 |
| Within three months | **$ 104,397** | $ 240,788 |
| After three but within twelve months | **101,416** | 134,097 |
| After one but within three years | **46,375** | 35,735 |
| Over three years | **46,606** | 18,130 |
| Total | **$ 298,794** | $ 428,750 |

## BORROWINGS

Average short-term borrowings decreased $83.8 million to $140.1 million in 2009. The average rate paid on short-term borrowings decreased from 2.17% in 2008 to 0.39% in 2009, which was primarily driven by the FRB decreasing the Fed Funds target rate (which directly impacts short-term borrowing rates). Average long-term debt increased from $563.5 million in 2008 to $601.0 million in 2009, which was primarily due to the Company's strategy of mitigating interest rate risk exposure by securing long term borrowings in the relatively low rate environment.

The average balance of trust preferred debentures remained at $75.4 million in 2009 compared to 2008. The average rate paid for trust preferred debentures in 2009 was 5.63%, down from 6.29% in 2008. The decrease in rate on the trust preferred debentures is due primarily to the previously mentioned decrease in short-term rates during 2009.

Short-term borrowings consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily FHLB advances, with original maturities of one year or less. The Company has unused lines of credit and access to brokered deposits available for short-term financing of approximately $848 million and $771 million at December 31, 2009 and 2008, respectively. Securities collateralizing repurchase agreements are held in safekeeping by non-affiliated financial institutions and are under the Company's control. Long-term debt, which is comprised primarily of FHLB advances, are collateralized by the FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans.

## NONINTEREST INCOME

Noninterest income is a significant source of revenue for the Company and an important factor in the Company's results of operations. The following table sets forth information by category of noninterest income for the years indicated:

| | Years ended December 31, | | |
|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 |
| Service charges on deposit accounts | **$ 27,165** | $ 28,143 | $ 22,742 |
| Insurance revenue | **17,725** | 8,726 | 4,255 |
| Trust | **6,719** | 7,278 | 6,514 |
| Bank owned life insurance income | **3,135** | 4,923 | 3,114 |
| ATM and debit card fees | **9,339** | 8,832 | 8,185 |
| Retirement plan administration fees | **9,086** | 6,308 | 6,336 |
| Other | **6,818** | 5,961 | 6,440 |
| Total before net securities gains | **79,987** | 70,171 | 57,586 |
| Net securities gains | **144** | 1,535 | 2,113 |
| Total | **$ 80,131** | $ 71,706 | $ 59,699 |

Noninterest income for the year ended December 31, 2009 was $80.1 million, up $8.4 million or 11.7% from $71.7 million for the same period in 2008. The increase in noninterest income was due primarily to an increase in insurance revenue, which increased approximately $9.0 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008. This increase was due primarily to revenue generated by Mang Insurance Agency, LLC, which was acquired on September 1, 2008. In addition, retirement plan administration fees increased approximately $2.8 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008 as a result of organic growth from new business. These increases were partially offset by a decrease in bank owned life insurance income of approximately $1.8 million for the year ended December 31, 2009 as compared to the year ended December 31, 2008. This decrease was primarily due to the death benefit realized during 2008 from two life insurance policies. In addition, net securities gains decreased by approximately $1.4 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008.

## NONINTEREST EXPENSE

Noninterest expenses are also an important factor in the Company's results of operations. The following table sets forth the major components of noninterest expense for the years indicated:

| | Years ended December 31, | | |
|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 |
| Salaries and employee benefits | **$ 85,565** | $ 71,159 | $ 59,516 |
| Occupancy | **14,864** | 13,781 | 11,630 |
| Equipment | **8,139** | 7,539 | 7,422 |
| Data processing and communications | **13,238** | 12,694 | 11,400 |
| Professional fees and outside services | **10,508** | 10,476 | 9,135 |
| Office supplies and postage | **5,857** | 5,346 | 5,120 |
| Amortization of intangible assets | **3,246** | 2,105 | 1,645 |
| Loan collection and other real estate owned | **2,766** | 2,494 | 1,633 |
| Impairment on lease residual assets | **-** | 2,000 | - |
| FDIC expenses | **8,408** | 1,813 | 452 |
| Other | **17,975** | 17,406 | 14,564 |
| Total noninterest expense | **$ 170,566** | $ 146,813 | $ 122,517 |

Noninterest expense for the year ended December 31, 2009 was $170.6 million, up from $146.8 million for the same period in 2008. Salaries and employee benefits increased $14.4 million, or 20.2%, for the year ended December 31, 2009 compared with the same period in 2008. This increase was due primarily to increases in full-time-equivalent employees during 2009, largely due to the aforementioned acquisition and de novo branch activity. In addition, the Company experienced increases of approximately $2.8 million and $1.3 million in pension and medical expenses, respectively, for the year ended December 31, 2009 as compared with the same period in 2008. FDIC expenses increased approximately $6.6 million for the year ended December 31, 2009, compared with the year ended December 31, 2008. This increase was due to the special assessment imposed by the FDIC totaling approximately $2.5 million during the second quarter of 2009, in addition to increased recurring FDIC insurance premiums. Amortization of intangible assets was $3.2 million for the year ended December 31, 2009, up $1.1 million from $2.1 million for same period in 2008 due to the aforementioned acquisition. Occupancy expenses were up approximately $1.1 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008. This increase was due primarily to the aforementioned acquisition and de novo branch activity during the period.

## INCOME TAXES

Income tax expense for the year ended December 31, 2009 was $20.6 million, down from $25.4 million for the same period in 2008. The decrease in income tax expense is primarily the result of the decrease in pre-tax income.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified, which is generally in the third quarter of the subsequent year for U.S. federal and state provisions.

The amount of income taxes the Company pays is subject at times to ongoing audits by federal and state tax authorities, which often result in proposed assessments. The Company's estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to the estimated tax liabilities in the period the assessments are proposed or resolved or when statutes of limitation on potential assessments expire. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly or annual basis.

## RISK MANAGEMENT

## CREDIT RISK

Credit risk is managed through a network of loan officers, credit committees, loan policies, and oversight from the senior credit officers and Board of Directors. Management follows a policy of continually identifying, analyzing, and grading credit risk inherent in each loan portfolio. An ongoing independent review, subsequent to management's review, of individual credits in the commercial loan portfolio is performed by the independent loan review function. These components of the Company's underwriting and monitoring functions are critical to the timely identification, classification, and resolution of problem credits.

**Table 7. Nonperforming Assets**

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **2009** | **%** | 2008 | % | 2007 | % | 2006 | % | 2005 | % |
| ***Nonaccrual loans*** | | | | | | | | | | |
| Commercial and agricultural loans and real estate | **$ 25,521** | **66%** | $ 15,891 | 66% | $ 20,491 | 69% | $ 9,346 | 69% | $ 9,373 | 70% |
| Real estate mortgages | **6,140** | **16%** | 3,803 | 16% | 1,372 | 5% | 2,338 | 17% | 2,009 | 15% |
| Consumer | **6,249** | **16%** | 3,468 | 14% | 2,934 | 10% | 1,981 | 14% | 2,037 | 15% |
| Troubled debt restructured loans | **836** | **2%** | 1,029 | 4% | 4,900 | 16% | - | 0% | - | 0% |
| Total nonaccrual loans | **38,746** | **100%** | 24,191 | 100% | 29,697 | 100% | 13,665 | 100% | 13,419 | 100% |
| ***Loans 90 days or more past due and still accruing*** | | | | | | | | | | |
| Commercial and agricultural loans and real estate | **59** | **2%** | 12 | 1% | 51 | 6% | 138 | 8% | - | 0% |
| Real estate mortgages | **602** | **24%** | 770 | 33% | 295 | 33% | 682 | 42% | 465 | 53% |
| Consumer | **1,865** | **74%** | 1,523 | 66% | 536 | 61% | 822 | 50% | 413 | 47% |
| Total loans 90 days or more past due and still accruing | **2,526** | **100%** | 2,305 | 100% | 882 | 100% | 1,642 | 100% | 878 | 100% |
| Total nonperforming loans | **41,272** | | 26,496 | | 30,579 | | 15,307 | | 14,297 | |
| Other real estate owned | **2,358** | | 665 | | 560 | | 389 | | 265 | |
| Total nonperforming loans and other real estate owned | **43,630** | | 27,161 | | 31,139 | | 15,696 | | 14,562 | |
| Total nonperforming loans to loans and leases | **1.13%** | | 0.73% | | 0.88% | | 0.45% | | 0.47% | |
| Total nonperforming loans and other real estate owned to total assets | **0.80%** | | 0.51% | | 0.60% | | 0.31% | | 0.33% | |
| Total allowance for loan and lease losses to nonperforming loans | **161.25%** | | 221.03% | | 177.19% | | 330.48% | | 331.92% | |

Loans over 60 days past due but not over 90 days past due were .15%, .15%, .12%, .12% and .07% of total loans as of December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

The allowance for loan and lease losses is maintained at a level estimated by management to provide adequately for risk of probable losses inherent in the current loan and lease portfolio. The adequacy of the allowance for loan and lease losses is continuously monitored. It is assessed for adequacy using a methodology designed to ensure the level of the allowance reasonably reflects the loan and lease portfolio's risk profile. It is evaluated to ensure that it is sufficient to absorb all reasonably estimable credit losses inherent in the current loan and lease portfolio.

Management considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that such judgments can have on the consolidated results of operations.

For purposes of evaluating the adequacy of the allowance, the Company considers a number of significant factors that affect the collectibility of the portfolio. For individually analyzed loans, these include estimates of loss exposure, which reflect the facts and circumstances that affect the likelihood of repayment of such loans as of the evaluation date. For homogeneous pools of loans and leases, estimates of the Company's exposure to credit loss reflect a current assessment of a number of factors, which could affect collectibility. These factors include: past loss experience; size, trend, composition, and nature of loans; changes in lending policies and procedures, including underwriting standards and collection, charge-offs and recoveries; trends experienced in nonperforming and delinquent loans; current economic conditions in the Company's market; portfolio concentrations that may affect loss experienced across one or more components of the portfolio; the effect of external factors such as competition, legal and regulatory requirements; and the experience, ability, and depth of lending management and staff. In addition, various regulatory agencies, as an integral component of their examination process, periodically review the Company's allowance for loan and lease losses. Such agencies may require the Company to recognize additions to the allowance based on their examination.

After a thorough consideration of the factors discussed above, any required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses. These charges are necessary to maintain the allowance at a level which management believes is reasonably reflective of overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans and leases, additions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above.

Total nonperforming assets were $43.6 million at December 31, 2009, compared to $27.2 million at December 31, 2008. Nonperforming loans at December 31, 2009 were $41.3 million or 1.13% of total loans and leases compared with $39.2 million or 1.08% at September 30, 2009 and $26.5 million or 0.73% at December 31, 2008. The increase in nonperforming loans at December 31, 2009 as compared with December 31, 2008 was primarily the result of specific commercial and agricultural credits. As a result of a decline in milk prices, the agricultural industry has suffered in 2009. This has caused an increase in nonperforming agricultural loans. As a result of this, the Company has determined that additional reserves are warranted on these loan types. The increase in nonperforming commercial credits is a result of certain relationships whose risks do not appear to be representative of the entire commercial loan portfolio. The Company recorded a provision for loan and lease losses of $33.4 million for the year ended December 31, 2009 compared with $27.2 million for the year ended December 31, 2008. The increase in the provision for loan and lease losses for the year ended December 31, 2009 was due primarily to an increase in net charge-offs which totaled $25.4 million for the year ended December 31, 2009, up from $22.8 million for the year ended December 31, 2008. Net charge-offs to average loans and leases for the year ended December 31, 2009 were 0.70%, compared with 0.64% for the year ended December 31, 2008. The allowance for loan and lease losses was 161.25% of non-performing loans at December 31, 2008 as compared to 221.03% at December 31, 2008.

Impaired loans, which primarily consist of nonaccruing commercial, commercial real estate, agricultural, and agricultural real estate loans increased to $19.8 million at December 31, 2009 as compared to $11.3 million at December 31, 2008. At December 31, 2009, $6.3 million of the total impaired loans had a specific reserve allocation of $2.6 million compared to $1.7 million of impaired loans at December 31, 2008 which had a specific reserve allocation of $0.6 million.

Total net charge-offs for 2009 were $25.4 million as compared with $22.8 million for 2008. The ratio of net charge-offs to average loans and leases was 0.70% for 2009 compared to 0.64% for 2008. Gross charge-offs increased $2.8 million, totaling $29.8 million for 2009 compared to $27.0 million for 2008. Recoveries increased slightly from $4.2 million for the year ended December 31, 2008 to $4.4 million for the year ended December 31, 2009. The allowance for loan and lease losses as a percentage of total loans and leases was 1.83% at December 31, 2009 and 1.60% at December 31, 2008.

**Table 8. Allowance for Loan and Lease Losses**

| *(Dollars in thousands)* | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Balance at January 1 | **$ 58,564** | $ 54,183 | $ 50,587 | $ 47,455 | $ 44,932 |
| ***Loans and leases charged-off*** | | | | | |
| Commercial and agricultural | **11,500** | 14,464 | 20,349 | 6,132 | 3,403 |
| Residential real estate mortgages | **705** | 543 | 1,032 | 542 | 741 |
| Consumer* | **17,609** | 11,985 | 9,862 | 6,698 | 6,875 |
| Total loans and leases charged-off | **29,814** | 26,992 | 31,243 | 13,372 | 11,019 |
| ***Recoveries*** | | | | | |
| Commercial and agricultural | **1,508** | 1,411 | 1,816 | 1,939 | 1,695 |
| Residential real estate mortgages | **133** | 68 | 125 | 239 | 438 |
| Consumer* | **2,767** | 2,713 | 2,804 | 2,521 | 1,945 |
| Total recoveries | **4,408** | 4,192 | 4,745 | 4,699 | 4,078 |
| Net loans and leases charged-off | **25,406** | 22,800 | 26,498 | 8,673 | 6,941 |
| Allowance related to purchase acquisitions | **-** | - | - | 2,410 | - |
| Provision for loan and lease losses | **33,392** | 27,181 | 30,094 | 9,395 | 9,464 |
| Balance at December 31 | **$ 66,550** | $ 58,564 | $ 54,183 | $ 50,587 | $ 47,455 |
| Allowance for loan and lease losses to loans and leases outstanding at end of year | **1.83%** | 1.60% | 1.57% | 1.48% | 1.57% |
| Net charge-offs to average loans and leases outstanding | **0.70%** | 0.64% | 0.77% | 0.26% | 0.23% |

* Consumer charge-off and recoveries include consumer, home equity, and lease financing.

In addition to the nonperforming loans discussed above, the Company has also identified approximately $79.1 million in potential problem loans at December 31, 2009 as compared to $95.4 million at December 31, 2008. Potential problem loans are loans that are currently performing, but where known information about possible credit problems of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. At the Company, potential problem loans are typically loans that are performing but are classified by the Company's loan rating system as "substandard." At December 31, 2009 and 2008, potential problem loans primarily consisted of commercial and agricultural loans and totaled $72.4 million and $90.7 million, respectively. At December 31, 2009, there were 17 potential problem loans that equaled or exceeded $1.0 million, totaling $32.2 million in aggregate compared to 21 potential problem loans exceeding $1.0 million, totaling $41.2 million at December 31, 2008. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses.

The following table sets forth the allocation of the allowance for loan losses by category, as well as the percentage of loans and leases in each category to total loans and leases, as prepared by the Company. This allocation is based on management's assessment of the risk characteristics of each of the component parts of the total loan portfolio as of a given point in time and is subject to changes as and when the risk factors of each such component part change. The allocation is not indicative of either the specific amounts of the loan categories in which future charge-offs may be taken, nor should it be taken as an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category. The following table sets forth the allocation of the allowance for loan losses by loan category:

**Table 9. Allocation of the Allowance for Loan and Lease Losses**

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | | 2008 | | 2007 | | 2006 | | 2005 | |
| *(Dollars in thousands)* | **Allowance** | **Category Percent of Loans** | Allowance | Category Percent of Loans | Allowance | Category Percent of Loans | Allowance | Category Percent of Loans | Allowance | Category Percent of of Loans |
| Commercial and agricultural | **$ 36,599** | **41%** | $ 33,231 | 39% | $ 32,811 | 41% | $ 28,149 | 43% | $ 30,257 | 43% |
| Real estate mortgages | **3,002** | **17%** | 3,143 | 20% | 3,277 | 21% | 3,377 | 22% | 3,148 | 23% |
| Consumer | **26,664** | **42%** | 21,908 | 41% | 17,362 | 38% | 17,327 | 35% | 12,402 | 34% |
| Unallocated | **285** | **0%** | 282 | 0% | 733 | 0% | 1,734 | 0% | 1,648 | 0% |
| Total | **$ 66,550** | **100%** | $ 58,564 | 100% | $ 54,183 | 100% | $ 50,587 | 100% | $ 47,455 | 100% |

The Company’s accounting policy relating to the allowance for loan and lease losses requires a review of each significant loan type within the loan portfolio, considering asset quality trends for each type, including, but not limited too, delinquencies, nonaccruals, historical charge-off experience, and specific economic factors (i.e. milk prices are considered when reviewing agricultural loans). Based on this review, management believes the reserve allocations are adequate to address any trends in asset quality indicators. As a result of the increase in 2009 in nonperforming loans and charge-offs increased compared to 2008, the allowance to loan and lease loss as a percentage of total loans increased from 1.60% as of December 31, 2008 to 1.83% as of December 31, 2009.

For 2009, the reserve allocation for commercial and agricultural loans increased to $36.6 million from $33.2 million in 2008. The reserve allocation for real estate mortgages decreased slightly from $3.1 million in 2008 to $3.0 million in 2009. The reserve allocation for consumer loans increased from $21.9 million in 2008 to $26.7 million in 2009. This 21.7% increase was due in large part to increased reserves warranted by the worsened economic conditions in 2009 that affected most U.S. consumers.

At December 31, 2009, approximately 58.1% of the Company’s loans are secured by real estate located in central and northern New York, northeastern Pennsylvania and the Burlington, Vermont area. Accordingly, the ultimate collectibility of a substantial portion of the Company’s portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

Subprime mortgage lending, which has been the riskiest sector of the residential housing market, is not a market that the Company has ever actively pursued. The market does not apply a uniform definition of what constitutes “subprime” lending. Our reference to subprime lending relies upon the “Statement on Subprime Mortgage Lending” issued by the OTS and the other federal bank regulatory agencies, or the Agencies, on June 29, 2007, which further referenced the “Expanded Guidance for Subprime Lending Programs,” or the Expanded Guidance, issued by the Agencies by press release dated January 31, 2001. In the Expanded Guidance, the Agencies indicated that subprime lending does not refer to individual subprime loans originated and managed, in the ordinary course of business, as exceptions to prime risk selection standards. The Agencies recognize that many prime loan portfolios will contain such accounts. The Agencies also excluded prime loans that develop credit problems after acquisition and community development loans from the subprime arena. According to the Expanded Guidance, subprime loans are other loans to borrowers which display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions’ specific subprime definitions, are set forth, including having a FICO score of 660 or below. Based upon the definition and exclusions described above, the Company is a prime lender. Within the loan portfolio, there are loans that, at the time of origination, had FICO scores of 660 or below. However, since the Company is a portfolio lender, it reviews all data contained in borrower credit reports and does not base underwriting decisions solely on FICO scores. We believe the aforementioned loans, when made, were amply collateralized and otherwise conformed to our prime lending standards.

## LIQUIDITY RISK

Liquidity involves the ability to meet the cash flow requirements of customers who may be depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. The Asset Liability Committee (ALCO) is responsible for liquidity management and has developed guidelines which cover all assets and liabilities, as well as off balance sheet items that are potential sources or uses of liquidity. Liquidity policies must also provide the flexibility to implement appropriate strategies and tactical actions. Requirements change as loans and leases grow, deposits and securities mature, and payments on borrowings are made. Liquidity management includes a focus on interest rate sensitivity management with a goal of avoiding widely fluctuating net interest margins through periods of changing economic conditions.

The primary liquidity measurement the Company utilizes is called Basic Surplus which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. At December 31, 2009, the Company's Basic Surplus measurement was 6.8% of total assets or $367 million, which was above the Company's minimum of 5% (calculated at $273 million of period end total assets at December 31, 2009) set forth in its liquidity policies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the Company is able to operate with a more fully invested and, therefore, higher interest income generating, securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position. At December 31, 2009, the Company considered its Basic Surplus position to be adequate. However, certain events may adversely impact the Company's liquidity position in 2010. Improvement in the economy may increase demand for equity related products or increase competitive pressure on deposit pricing, which in turn, could result in a decrease in the Company's deposit base or increase funding costs. Additionally, liquidity will come under additional pressure if loan growth exceeds deposit growth in 2010. These scenarios could lead to a decrease in the Company's basic surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. The additional liquidity that could be provided by these measures was $848 million at December 31, 2009. In addition, the Bank has enhanced its Borrower-in-Custody ("BIC") program with the Federal Reserve Bank with the addition of the ability to pledge automobile loans. At December 31, 2009, the Bank had the capacity to borrow $395 million from the BIC program.

At December 31, 2009 and December 31, 2008, FHLB advances outstanding totaled $530 million and $601 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $167 million at December 31, 2009 and $230 million at December 31, 2008. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $162 million at December 31, 2009 or used to collateralize other borrowings, such as repurchase agreements. In addition, the Bank has enhanced its Borrower-in-Custody ("BIC") program with the Federal Reserve Bank with the addition of the ability to pledge automobile loans. At December 31, 2009, the Bank had the capacity to borrow $395 million from the BIC program.

At December 31, 2009, a portion of the Company's loans and securities were pledged as collateral on borrowings. Therefore, future growth of earning assets will depend upon the Company's ability to obtain additional funding, through growth of core deposits and collateral management, and may require further use of brokered time deposits, or other higher cost borrowing arrangements.

Net cash flows provided by operating activities totaled $54.7 million in 2009 and $87.3 million in 2008. The critical elements of net operating cash flows include net income, after adding back provision for loan and lease losses, depreciation and amortization, and changes in other assets and liabilities.

Net cash used in investing activities totaled $28.4 million in 2009 and $216.6 million in 2008. Critical elements of investing activities are loan and investment securities transactions. The decrease in cash used in investing activities in 2009 compared with 2008 was primarily due to less loan growth in 2009 compared with 2008. The net increase in loans was $18.8 million in 2009 as compared to $220.7 million in 2008.

Net cash flows provided by financing activities totaled $50.5 million in 2009 and $76.7 million in 2008. The critical elements of financing activities are proceeds from deposits, borrowings, and stock issuances. In addition, financing activities are impacted by dividends and treasury stock transactions. In 2009, the Company had a net decrease in short term borrowings of approximately $50.5 million as compared with a net decrease of $162.0 million in 2008. In addition, the Company experienced a net increase in deposits totaling approximately $169.8 million in 2009 as compared with a net increase of $51.2 million in 2008. Proceeds from long-term debt, which totaled $340.0 million in 2008, were zero in 2009. In addition, approximately $33.5 million was provided through the issuance of common stock in 2009 from a capital raise.

In connection with its financing and operating activities, the Company has entered into certain contractual obligations. The Company's future minimum cash payments, excluding interest, associated with its contractual obligations pursuant to its borrowing agreements and operating leases at December 31, 2009 are as follows:

***Contractual Obligations***
*(In thousands)*

| | ***Payments Due by Period*** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** | **Thereafter** | **Total** |
| Long-term debt obligations | $ 79,000 | $ 52,083 | $ 25,000 | $ 150,000 | $ - | $ 248,615 | **$ 554,698** |
| Trust preferred debentures | - | - | - | - | - | 75,422 | **75,422** |
| Operating lease obligations | 4,680 | 4,279 | 3,837 | 3,142 | 2,734 | 21,700 | **40,372** |
| Retirement plan obligations | 4,775 | 4,856 | 4,951 | 5,077 | 5,172 | 42,415 | **67,246** |
| Data processing commitments | 2,972 | 1,713 | 1,713 | 1,713 | 1,713 | 1,713 | **11,537** |
| Total contractual obligations | **$ 91,427** | **$ 62,931** | **$ 35,501** | **$ 159,932** | **$ 9,619** | **$ 376,578** | **$ 749,275** |

## OFF-BALANCE SHEET RISK

## COMMITMENTS TO EXTEND CREDIT

The Company makes contractual commitments to extend credit, which include unused lines of credit, which are subject to the Company's credit approval and monitoring procedures. At December 31, 2009 and 2008, commitments to extend credit in the form of loans, including unused lines of credit, amounted to $556.6 million and $537.6 million, respectively. In the opinion of management, there are no material commitments to extend credit, including unused lines of credit, that represent unusual risks. All commitments to extend credit in the form of loans, including unused lines of credit, expire within one year.

**STAND-BY LETTERS OF CREDIT**

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its stand-by letters of credit. The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. At December 31, 2009 and 2008, outstanding stand-by letters of credit were approximately $34.6 million and $27.6 million, respectively. The fair value of the Company's stand-by letters of credit at December 31, 2009 and 2008 was not significant. The following table sets forth the commitment expiration period for stand-by letters of credit at December 31, 2009:

| **Commitment Expiration of Stand-by Letters of Credit** | | |
|---|---|---|
| Within one year | $ | 20,490 |
| After one but within three years | | 8,743 |
| After three but within five years | | 3,133 |
| After five years | | 2,196 |
| Total | $ | 34,562 |

**LOANS SERVICED FOR OTHERS AND LOANS SOLD WITH RECOURSE**

The total amount of loans serviced by the Company for unrelated third parties was approximately $262.7 million and $141.4 million at December 31, 2009 and 2008, respectively. This increase was due to the increase in mortgages sold in 2009 in which servicing was retained. At December 31, 2009, the Company had approximately $1.1 million of mortgage servicing rights, as compared to $0.6 million at December 31, 2008. At December 31, 2009 and 2008, the Company serviced $11.9 million and $11.2 million, respectively, of loans sold with recourse. Due to collateral on these loans, no reserve is considered necessary at December 31, 2009 and 2008.

**CAPITAL RESOURCES**

Consistent with its goal to operate a sound and profitable financial institution, the Company actively seeks to maintain a "well-capitalized" institution in accordance with regulatory standards. The principal source of capital to the Company is earnings retention. The Company's capital measurements are in excess of both regulatory minimum guidelines and meet the requirements to be considered well-capitalized.

The Company's principal source of funds to pay interest on trust preferred debentures and pay cash dividends to its shareholders are dividends from its subsidiaries. Various laws and regulations restrict the ability of banks to pay dividends to their shareholders. Generally, the payment of dividends by the Company in the future as well as the payment of interest on the capital securities will require the generation of sufficient future earnings by its subsidiaries.

The Bank also is subject to substantial regulatory restrictions on its ability to pay dividends to the Company. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. At December 31, 2009, approximately $64.2 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements.

In the second quarter of 2009, the Company raised approximately $34 million in capital through an additional public offering of our common stock.

## STOCK REPURCHASE PLAN

On October 26, 2009, the Company's Board of Directors authorized a new repurchase program for the Company to repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, effective January 1, 2010, as market conditions warrant in open market and privately negotiated transactions. The plan expires on December 31, 2011. On December 31, 2009, the repurchase program previously authorized on January 28, 2008 to repurchase up to 1,000,000 shares expired. The Company made no purchases of its common stock securities during the year ended December 31, 2009.

## 2008 OPERATING RESULTS AS COMPARED TO 2007 OPERATING RESULTS

## NET INTEREST INCOME

On a tax equivalent basis, the Company's net interest income for 2008 was $192.5 million, up from $171.3 million for 2007. The Company's net interest margin increased to 3.95% for 2008 from 3.61% for 2007. The increase in the net interest margin resulted primarily from interest-bearing liabilities repricing down faster than earning assets. Earning assets, particularly those tied to a fixed rate, reprice at a slower rate than interest-bearing liabilities, and have not fully realized the effect of the lower interest rate environment. The yield on earning assets decreased 41 basis points (bp), from 6.58% for 2007 to 6.17% for 2008. Meanwhile, the rate paid on interest bearing liabilities decreased 88 bp, from 3.52% for 2007 to 2.64% for 2008. Average earning assets increased $132.7 million, or 2.8%, from 2007 to 2008. This increase was driven primarily by a $142.0 million increase in average loans and leases, which was driven primarily by a 23.4% increase in consumer indirect installment loans. The following table presents changes in interest income, on a FTE basis, and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

## LOANS AND LEASES AND CORRESPONDING INTEREST AND FEES ON LOANS

The average balance of loans and leases increased 4.1%, totaling $3.6 billion in 2008 compared to $3.4 billion in 2007. The yield on average loans and leases decreased from 7.10% in 2007 to 6.53% in 2008, as loan rates, particularly for loans indexed to the Prime Rate and other short-term variable rate indices, declined due to the declining rate environment in 2008. Interest income from loans and leases on a FTE basis decreased 4.2%, from $243.3 million in 2007 to $233.0 million in 2008. The decrease in interest income from loans and leases was due to the decrease in yield on loans and leases in 2008 compared to 2007 noted above.

Total loans and leases increased 5.7% at December 31, 2008, totaling $3.7 billion from $3.5 billion at December 31, 2007. The increase in loans and leases was driven by strong growth in consumer loans and home equity loans. Consumer loans increased $139.7 million or 21.3%, from $655.4 million at December 31, 2007 to $795.1 million at December 31, 2008. The increase in consumer loans was driven primarily by an increase in indirect installment loans of $155.0 million, from $520.7 million in 2007 to $675.7 million in 2008. Home equity loans increased $44.9 million or 7.7% from $582.7 million at December 31, 2007 to $627.6 million at December 31, 2008. The increase in home equity loans was due to strong product demand and successful marketing of home equity products. Commercial and commercial real estate increased $26.9 million at December 31, 2008 when compared to December 31, 2007. These increases were partially offset by a decrease in real estate construction and development loans, which decreased $13.5 million, or 16.6% at December 31, 2008 as compared to December 31, 2007.

**SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME**

The average balance of the amortized cost for securities available for sale decreased $21.0 million, or 1.9%, from $1.1 billion in 2007. The yield on average securities available for sale was 5.10% for 2008 compared to 5.05% in 2007.

The average balance of securities held to maturity increased from $144.5 million in 2007 to $149.8 million in 2008. At December 31, 2008, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity decreased from 6.16% in 2007 to 5.63% in 2008 due to reinvestments during 2008 in lower yielding securities resulting from interest rate cuts by the FRB during 2008.

**DEPOSITS**

Average interest bearing deposits decreased $34.3 million, or 1.0%, during 2008 compared to 2007. The decrease resulted primarily from a decrease in time deposits, partially offset by increases in money market deposits and NOW account deposits. Average time deposits decreased $167.2 million or 10.0% during 2008 as compared to 2007. The decrease in average time deposits resulted primarily from decreases in municipal and negotiated rate time deposits. Average money market deposits increased $114.9 million or 17.3% during 2008 when compared to 2007. The increase in average money market deposits resulted primarily from an increase in personal money market deposits. Average NOW accounts increased $35.9 million or 8.0% during 2008 as compared to 2007. This increase was due primarily to increases in municipal NOW accounts. The average balance of savings accounts decreased $18.0 million or 3.7% during 2008 when compared to 2007. The average balance of demand deposits increased $43.2 million, or 6.8%, from $639.4 million in 2007 to $682.6 million in 2008. This growth in demand deposits was driven principally by increases in accounts from retail customers.

The rate paid on average interest-bearing deposits decreased from 3.26% during 2007 to 2.35% in 2008. The decrease in the rate on interest-bearing deposits was driven primarily by pricing decreases from money market accounts and time deposits, which are sensitive to interest rate changes. The pricing decreases for these products resulted from decreases in short-term rates by the FRB during 2008 combined with an overall decrease in market rates. The rates paid for money market deposit accounts decreased from 3.38% during 2007 to 1.85% during 2008. The rate paid for savings deposits decreased from 0.89% in 2007 to 0.46% in 2008 and the rate paid on time deposits decreased from 4.54% during 2007 to 3.68% during 2008.

**BORROWINGS**

Average short-term borrowings decreased $56.3 million to $223.8 million in 2008. The average rate paid on short-term borrowings decreased from 4.62% in 2007 to 2.17% in 2008, which was primarily driven by the FRB decreasing the Fed Funds target rate (which directly impacts short-term borrowing rates) 400 bp in 2008. Average long-term debt increased from $384.0 million in 2007 to $563.5 million in 2008, which was primarily due to the Company's strategy of mitigating interest rate risk exposure by securing long term borrowings in the relatively low rate environment.

## NONINTEREST INCOME

Noninterest income for the year ended December 31, 2008 was $71.7 million, up $12.0 million or 20.1% from $59.7 million for the same period in 2007. The increase in noninterest income was due primarily to an increase in service charges on deposit accounts and ATM and debit card fees, which collectively increased $6.0 million due to various initiatives in 2008. In addition, trust administration income increased $0.8 million for the year ended December 31, 2008, compared with the same period in 2007. This increase stems primarily from an increase in customer accounts resulting from successful business development. Insurance revenue increased approximately $4.5 million for the year ended December 31, 2008, primarily due to the acquisition of Mang Insurance Agency, LLC during the third quarter of 2008. Bank owned life insurance income increased $1.8 million for the year ended December 31, 2008, compared with the same period in 2007. This increase was due primarily to the death benefit realized during 2008 from two life insurance policies. Net securities gains for the year ending December 31, 2008 were $1.5 million, compared with $2.1 million for the year ending December 31, 2007. Excluding the effects of these securities transactions, noninterest income increased $12.6 million, or 21.9%, for the years ended December 31, 2008, compared with 2007.

## NONINTEREST EXPENSE

Noninterest expense for the year ended December 31, 2008 was $146.8 million, up from $122.5 million for the same period in 2007. Salaries and employee benefits increased $11.6 million, or 19.6%, for the year ended December 31, 2008, compared with the same period in 2007. This increase was due primarily to increases in full time equivalent employees during 2008 and reduced levels of incentive compensation in 2007 compared with 2008. The increase in full time equivalent employees was largely due to new branch activity and the aforementioned acquisition. Occupancy, equipment and data processing and communications expenses were $34.0 million for the year ended December 31, 2008, up $3.5 million, or 11.7%, from $30.5 million for the year ended December 31, 2007. This increase was due primarily to an increase in expenses related to new branch activity during the past year. Professional fees and outside services increased $1.3 million for the year ended December 31, 2008, compared with the same period in 2007, due primarily to increases in legal and audit fees incurred in 2008, as well as increases in fees related to the aforementioned noninterest income initiatives. Loan collection and other real estate owned expenses were $2.5 million for the year ended December 31, 2008, up from $1.6 million for same period in 2007. The Company recorded an other than temporary impairment charge on lease residual assets totaling $2.0 million during the third quarter of 2008 as a result of declines in the fair value of lease residual assets associated with certain leased vehicles. Other operating expenses were $17.4 million for the year ended December 31, 2008, up $2.8 million from $14.6 million for the year ended December 31, 2007. This increase resulted primarily from losses incurred from sales of certain returned lease vehicles totaling approximately $1.4 million during the period due to reduced values of those vehicles. In addition, FDIC insurance premiums increased approximately $1.4 million for the year ended December 31, 2008, compared with the same period in 2007.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company’s business activities or are immaterial to the results of operations.

Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on the Company’s net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets. When interest-bearing liabilities mature or reprice more quickly than earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

In an attempt to manage the Company's exposure to changes in interest rates, management monitors the Company's interest rate risk. Management's asset/liability committee (ALCO) meets monthly to review the Company's interest rate risk position and profitability, and to recommend strategies for consideration by the Board of Directors. Management also reviews loan and deposit pricing, and the Company's securities portfolio, formulates investment and funding strategies, and oversees the timing and implementation of transactions to assure attainment of the Board's objectives in the most effective manner. Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

In adjusting the Company's asset/liability position, the Board and management attempt to manage the Company's interest rate risk while minimizing the net interest margin compression. At times, depending on the level of general interest rates, the relationship between long and short-term interest rates, market conditions and competitive factors, the Board and management may determine to increase the Company's interest rate risk position somewhat in order to increase its net interest margin. The Company's results of operations and net portfolio values remain vulnerable to changes in interest rates and fluctuations in the difference between long and short-term interest rates.

The primary tool utilized by ALCO to manage interest rate risk is a balance sheet/income statement simulation model (interest rate sensitivity analysis). Information such as principal balance, interest rate, maturity date, cash flows, next repricing date (if needed), and current rates is uploaded into the model to create an ending balance sheet. In addition, ALCO makes certain assumptions regarding prepayment speeds for loans and leases and mortgage related investment securities along with any optionality within the deposits and borrowings. The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Two additional models are run in which a gradual increase of 200 bp and a gradual decrease of 100 bp takes place over a 12 month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded into them are handled accordingly based on the interest rate scenario. The resultant changes in net interest income are then measured against the flat rate scenario.

In the declining rate scenario, net interest income is projected to decrease slightly when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The decrease in net interest income is a result of earning assets repricing downward, given potential higher prepayments and lower reinvestment rates, slightly faster than the interest bearing liabilities that are at or near their floors. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario; however, the potential impact on earnings is dependent on the ability to lag deposit repricing on NOW, savings, MMDA, and CD accounts. Net interest income for the next twelve months in the +200/-100 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the December 31, 2009 balance sheet position:

**Table 10. Interest Rate Sensitivity Analysis**

| Change in interest rates *(In basis points)* | Percent change in net interest income |
|---|---|
| +200 | (1.54%) |
| -100 | (0.82%) |

The Company anticipates that under the current low rate environment, on a monthly basis, interest income is expected to decrease at a faster rate than interest expense given the potential higher prepayments and reinvestment into lower rates as deposit rates are at or near their respective floors. In order to protect net interest income from anticipated net interest margin compression, the Company will continue to focus on increasing earning assets through loan growth and leverage opportunities. However, if the Company cannot maintain the level of earning assets at December 31, 2009, the Company would expect net interest income to decline in 2010.

## RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2009-17, Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (Topic 810) was issued in June 2009. This update amends the guidance related to the consolidation of variable interest entities (VIE). It requires reporting entities to evaluate former Qualifying Special Purpose Entities (QSPEs) for consolidation, changes the approach to determining a VIE's primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also clarifies, but does not significantly change, the characteristics that identify a VIE. This standard requires additional year-end and interim disclosures for public and nonpublic companies. It is effective for us beginning on January 1, 2010. The Company is currently evaluating this new guidance.

ASU 2009-16, Transfers and Servicing: Accounting for Transfers of Financial Assets (Topic 860) was issued in June 2009. It eliminates the QSPE concept, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria, revises how retained interests are initially measured, and removes the guaranteed mortgage securitization recharacterization provisions. This standard also requires additional year-end and interim disclosures for public and nonpublic companies The standard is effective for our Company on January 1, 2010 and must be applied to transfers that occurred before and after its effective date. The Company is currently evaluating this new guidance.

ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820), was issued in January 2010. Subtopic 820-10 has been amended to require new disclosures: (a) transfers in and out of Levels 1 and 2 should be disclosed separately including a description of the reasons for the transfers, and (b) activity in Level 3 fair value measurements shall be reported on a gross basis, including information about purchases, sales, issuances, and settlements. The amendments also clarify existing disclosures relating to disaggregated reporting, model inputs, and valuation techniques. The new disclosures are effective for us in the first quarter of 2010, except for the gross reporting of Level 3 activity which is effective beginning in the first quarter of 2011. Implementing these amendments may result in additional disclosures in our interim and annual reports.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NBT Bancorp Inc.:

We have audited the accompanying consolidated balance sheets of NBT Bancorp Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NBT Bancorp Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG LLP

Albany, New York

February 26, 2010

**Consolidated Balance Sheets**

| *(In thousands, except share and per share data)* | As of December 31, 2009 | 2008 |
|---|---|---|
| ***Assets*** | | |
| Cash and due from banks | **$ 107,980** | $ 107,409 |
| Short-term interest bearing accounts | **79,181** | 2,987 |
| Securities available for sale, at fair value | **1,116,758** | 1,119,665 |
| Securities held to maturity (fair value $161,851 and $141,308) | **159,946** | 140,209 |
| Trading securities | **2,410** | 1,407 |
| Federal Reserve and Federal Home Loan Bank stock | **35,979** | 39,045 |
| Loans and leases | **3,645,398** | 3,651,911 |
| Less allowance for loan and lease losses | **66,550** | 58,564 |
| Net loans and leases | **3,578,848** | 3,593,347 |
| Premises and equipment, net | **66,221** | 65,241 |
| Goodwill | **114,938** | 114,838 |
| Intangible assets, net | **20,590** | 23,367 |
| Bank owned life insurance | **74,322** | 72,276 |
| Other assets | **106,853** | 56,297 |
| Total assets | **$ 5,464,026** | $ 5,336,088 |
| ***Liabilities*** | | |
| Demand (noninterest bearing) | **$ 789,989** | $ 685,495 |
| Savings, NOW, and money market | **2,269,779** | 1,885,551 |
| Time | **1,033,278** | 1,352,212 |
| Total deposits | **4,093,046** | 3,923,258 |
| Short-term borrowings | **155,977** | 206,492 |
| Long-term debt | **554,698** | 632,209 |
| Trust preferred debentures | **75,422** | 75,422 |
| Other liabilities | **79,760** | 66,862 |
| Total liabilities | **4,958,903** | 4,904,243 |
| ***Stockholders' equity*** | | |
| Preferred stock, $0.01 par value; authorized 2,500,000 shares at December 31, 2009 and 2008 | **-** | - |
| Common stock, $0.01 par value. Authorized 50,000,000 shares at December 31, 2009 and 2008; issued 38,035,539 and 36,459,344 at December 31, 2009 and 2008, respectively | **380** | 365 |
| Additional paid-in-capital | **311,164** | 276,418 |
| Retained earnings | **270,232** | 245,340 |
| Accumulated other comprehensive income (loss) | **1,163** | (8,204) |
| Common stock in treasury, at cost, 3,650,068 and 3,853,548 shares at December 31, 2009 and 2008, respectively | **(77,816)** | (82,074) |
| Total stockholders' equity | **505,123** | 431,845 |
| Total liabilities and stockholders' equity | **$ 5,464,026** | $ 5,336,088 |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

| *(In thousands, except per share data)* | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| ***Interest, fee, and dividend income*** | | | |
| Interest and fees on loans and leases | **$ 220,324** | $ 232,155 | $ 242,497 |
| Securities available for sale | **45,972** | 54,048 | 54,847 |
| Securities held to maturity | **4,894** | 5,588 | 5,898 |
| Other | **2,203** | 2,623 | 2,875 |
| Total interest, fee, and dividend income | **273,393** | 294,414 | 306,117 |
| ***Interest expense*** | | | |
| Deposits | **48,496** | 76,132 | 106,574 |
| Short-term borrowings | **552** | 4,847 | 12,943 |
| Long-term debt | **23,629** | 22,642 | 16,486 |
| Trust preferred debentures | **4,247** | 4,747 | 5,087 |
| Total interest expense | **76,924** | 108,368 | 141,090 |
| Net interest income | **196,469** | 186,046 | 165,027 |
| Provision for loan and lease losses | **33,392** | 27,181 | 30,094 |
| Net interest income after provision for loan and lease losses | **163,077** | 158,865 | 134,933 |
| ***Noninterest income*** | | | |
| Service charges on deposit accounts | **27,165** | 28,143 | 22,742 |
| Insurance revenue | **17,725** | 8,726 | 4,255 |
| Trust | **6,719** | 7,278 | 6,514 |
| Net securities gains | **144** | 1,535 | 2,113 |
| Bank owned life insurance | **3,135** | 4,923 | 3,114 |
| ATM and debit card fees | **9,339** | 8,832 | 8,185 |
| Retirement plan administration fees | **9,086** | 6,308 | 6,336 |
| Other | **6,818** | 5,961 | 6,440 |
| Total noninterest income | **80,131** | 71,706 | 59,699 |
| ***Noninterest expense*** | | | |
| Salaries and employee benefits | **85,565** | 71,159 | 59,516 |
| Occupancy | **14,864** | 13,781 | 11,630 |
| Equipment | **8,139** | 7,539 | 7,422 |
| Data processing and communications | **13,238** | 12,694 | 11,400 |
| Professional fees and outside services | **10,508** | 10,476 | 9,135 |
| Office supplies and postage | **5,857** | 5,346 | 5,120 |
| Amortization of intangible assets | **3,246** | 2,105 | 1,645 |
| Loan collection and other real estate owned | **2,766** | 2,494 | 1,633 |
| Impairment on lease residual assets | **-** | 2,000 | - |
| FDIC expenses | **8,408** | 1,813 | 452 |
| Other | **17,975** | 17,406 | 14,564 |
| Total noninterest expense | **170,566** | 146,813 | 122,517 |
| Income before income tax expense | **72,642** | 83,758 | 72,115 |
| Income tax expense | **20,631** | 25,405 | 21,787 |
| Net income | **$ 52,011** | $ 58,353 | $ 50,328 |
| ***Earnings per share*** | | | |
| Basic | **$ 1.54** | $ 1.81 | $ 1.52 |
| Diluted | **$ 1.53** | $ 1.80 | $ 1.51 |

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Changes in Stockholders' Equity**

| Years ended December 31, 2009, 2008, and 2007 *(In thousands except share and per share data)* | Common stock | Additional paid-in-capital | Retained earnings | Accumulated other comprehensive income (loss) | Common stock in treasury | Total |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2006** | **$ 365** | **$ 271,528** | **$ 191,770** | **$ (14,014)** | **$ (45,832)** | **$ 403,817** |
| Net income | - | - | 50,328 | - | - | 50,328 |
| Cash dividends - $0.79 per share | - | - | (26,226) | - | - | (26,226) |
| Purchase of 2,261,267 treasury shares | - | - | - | - | (48,957) | (48,957) |
| Net issuance of 254,929 shares to employee benefit plans and other stock plans, including tax benefit | - | 383 | (841) | - | 5,526 | 5,068 |
| Stock-based compensation | - | 2,831 | - | - | - | 2,831 |
| Net issuance of 84,192 shares of restricted stock awards | - | (1,633) | - | - | 1,633 | - |
| Forfeiture of 7,633 shares of restricted stock awards | - | 166 | - | - | (166) | - |
| Other comprehensive income | - | - | - | 10,439 | - | 10,439 |
| **Balance at December 31, 2007** | **$ 365** | **$ 273,275** | **$ 215,031** | **$ (3,575)** | **$ (87,796)** | **$ 397,300** |
| Cumulative effect adjustment to record liability for split-dollar life insurance policies | - | - | (1,518) | - | - | (1,518) |
| Net income | - | - | 58,353 | - | - | 58,353 |
| Cash dividends - $0.80 per share | - | - | (25,830) | - | - | (25,830) |
| Purchase of 272,840 treasury shares | - | - | - | - | (5,939) | (5,939) |
| Net issuance of 530,039 shares to employee benefit plans and other stock plans, including tax benefit | - | 1,396 | (696) | - | 11,303 | 12,003 |
| Stock-based compensation | - | 2,105 | - | - | - | 2,105 |
| Net issuance of 31,648 shares of restricted stock awards | - | (526) | - | - | 526 | - |
| Forfeiture of 9,067 shares of restricted stock | - | 168 | - | - | (168) | - |
| Other comprehensive loss | - | - | - | (4,629) | - | (4,629) |
| **Balance at December 31, 2008** | **$ 365** | **$ 276,418** | **$ 245,340** | **$ (8,204)** | **$ (82,074)** | **$ 431,845** |
| Net income | - | - | 52,011 | - | - | 52,011 |
| Cash dividends - $0.80 per share | - | - | (27,119) | - | - | (27,119) |
| Net issuance of 1,576,230 common shares | 15 | 33,386 | - | - | - | 33,401 |
| Net issuance of 143,190 shares to employee benefit plans and other stock plans, including tax benefit | - | (500) | - | - | 2,985 | 2,485 |
| Stock-based compensation | - | 3,133 | - | - | - | 3,133 |
| Net issuance of 66,098 shares of restricted stock awards | - | (1,406) | - | - | 1,406 | - |
| Forfeiture of 5,808 shares of restricted stock | - | 133 | - | - | (133) | - |
| Other comprehensive income | - | - | - | 9,367 | - | 9,367 |
| **Balance at December 31, 2009** | **$ 380** | **$ 311,164** | **$ 270,232** | **$ 1,163** | **$ (77,816)** | **$ 505,123** |

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents

**Consolidated Statements of Cash Flows**

| *(In thousands)* | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| ***Operating activities*** | | | |
| Net income | **$ 52,011** | $ 58,353 | $ 50,328 |
| ***Adjustments to reconcile net income to net cash provided by operating activities*** | | | |
| Provision for loan and lease losses | **33,392** | 27,181 | 30,094 |
| Depreciation and amortization of premises and equipment | **5,398** | 5,220 | 5,295 |
| Net accretion on securities | **535** | 423 | 105 |
| Amortization of intangible assets | **3,246** | 2,105 | 1,645 |
| Stock based compensation | **3,133** | 2,105 | 2,831 |
| Bank owned life insurance income | **(3,135)** | (4,923) | (3,114) |
| Trading security (purchases) sales | **(460)** | 456 | 46 |
| Unrealized (gains) losses on trading securities | **(543)** | 669 | 49 |
| Deferred income tax expense | **(1,501)** | 4,778 | 2,244 |
| Proceeds from sale of loans held for sale | **135,519** | 26,745 | 30,427 |
| Originations and purchases of loans held for sale | **(138,583)** | (27,760) | (31,086) |
| Net gains on sales of loans held for sale | **(953)** | (170) | (112) |
| Net security gains | **(144)** | (1,535) | (2,113) |
| Net gains on sales of other real estate owned | **(306)** | (230) | (442) |
| Impairment on lease residual assets | **-** | 2,000 | - |
| Net (increase) decrease in other assets | **(39,324)** | 1,576 | (7,205) |
| Net increase (decrease) in other liabilities | **6,399** | (9,711) | 6,848 |
| Net cash provided by operating activities | **54,684** | 87,282 | 85,840 |
| ***Investing activities*** | | | |
| Net cash used in Mang Insurance Agency, LLC acquisition | **-** | (26,233) | - |
| *Securities available for sale:* | | | |
| Proceeds from maturities, calls, and principal paydowns | **434,127** | 413,560 | 233,312 |
| Proceeds from sales | **2,753** | 6,800 | 55,758 |
| Purchases | **(426,979)** | (392,957) | (303,465) |
| *Securities held to maturity:* | | | |
| Proceeds from maturities, calls, and principal paydowns | **90,668** | 91,309 | 70,234 |
| Purchases | **(110,496)** | (82,525) | (83,186) |
| Net increase in loans | **(18,775)** | (220,700) | (70,061) |
| Net decrease (increase) in Federal Reserve and FHLB stock | **3,066** | (943) | 710 |
| Cash received from death benefit | **1,054** | - | - |
| Purchases of premises and equipment, net | **(6,378)** | (6,039) | (2,355) |
| Proceeds from sales of other real estate owned | **2,512** | 1,150 | 1,408 |
| Net cash used in investing activities | **(28,448)** | (216,578) | (97,645) |
| ***Financing activities*** | | | |
| Net increase in deposits | **169,788** | 51,165 | 75,855 |
| Net (decrease) increase in short-term borrowings | **(50,515)** | (161,975) | 23,059 |
| Proceeds from issuance of long-term debt | **-** | 340,027 | 150,000 |
| Repayments of long-term debt | **(77,511)** | (132,705) | (142,841) |
| Excess tax benefit from exercise of stock options | **(243)** | 700 | 715 |
| Proceeds from the issuance of shares to employee benefit plans and other stock plans | **2,728** | 11,303 | 4,353 |
| Issuance of common stock | **33,401** | - | - |
| Purchase of treasury stock | **-** | (5,939) | (48,957) |
| Cash dividends and payments for fractional shares | **(27,119)** | (25,830) | (26,226) |
| Net cash provided by financing activities | **50,529** | 76,746 | 35,958 |
| Net increase (decrease) in cash and cash equivalents | **76,765** | (52,550) | 24,153 |
| Cash and cash equivalents at beginning of year | **110,396** | 162,946 | 138,793 |
| Cash and cash equivalents at end of year | **$ 187,161** | $ 110,396 | $ 162,946 |

| ***Supplemental disclosure of cash flow information*** | Years ended December 31, | | |
|---|---|---|---|
| **Cash paid during the year for:** | **2009** | 2008 | 2007 |
| Interest | **$ 79,819** | $ 113,597 | $ 138,791 |
| Income taxes, net of refunds | **13,952** | 17,081 | 18,007 |
| **Noncash investing activities:** | | | |
| Loans transferred to other real estate owned | **$ 3,899** | $ 1,025 | $ 1,137 |
| **Acquisitions:** | | | |
| Fair value of assets acquired | **$ -** | $ 30,062 | $ - |
| Goodwill and identifiable intangible assets recognized in purchase combination | **-** | 27,107 | - |
| Fair value of liabilities assumed | **-** | 3,829 | - |
| See accompanying notes to consolidated financial statements. | | | |

**Consolidated Statements of Comprehensive Income**

| | Years ended December 31, | | |
|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 |
| Net income | **$ 52,011** | $ 58,353 | $ 50,328 |
| Other comprehensive (loss) income, net of tax | | | |
| Unrealized net holding gains arising during the year (pre-tax amounts of $7,438, $15,143, and $19,347) | **4,490** | 9,138 | 11,618 |
| Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $144, $1,535, and $2,113) | **(86)** | (921) | (1,270) |
| Amortization of prior service cost and actuarial gains (pre-tax amounts of $2,581, $378 and $481) | **1,548** | 227 | 288 |
| Increase (decrease) in unrecognized actuarial amounts (pre-tax amounts of $5,637, $(21,087) and $(326)) | **3,415** | (13,073) | (197) |
| Total other comprehensive income (loss) | **9,367** | (4,629) | 10,439 |
| Comprehensive income | **$ 61,378** | $ 53,724 | $ 60,767 |

See accompanying notes to consolidated financial statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 AND 2008**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of NBT Bancorp Inc. (Bancorp) and its subsidiaries, NBT Bank, N.A. (NBT Bank), NBT Holdings, Inc., and NBT Financial Services, Inc., conform, in all material respects, to accounting principles generally accepted in the United States of America (GAAP) and to general practices within the banking industry. Collectively, Bancorp and its subsidiaries are referred to herein as “the Company.”

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates associated with the allowance for loan and lease losses, other real estate owned (“OREO”), income taxes, pension expense, fair values of lease residual assets, fair values of financial instruments and status of contingencies, and other-than-temporary impairment on investments are particularly susceptible to material change in the near term. In connection with the determination of the allowance for loan and lease losses and the valuation of other real estate owned, management obtains appraisals for properties.

The following is a description of significant policies and practices:

**CONSOLIDATION**

The accompanying consolidated financial statements include the accounts of Bancorp and its wholly owned subsidiaries mentioned above. All material intercompany transactions have been eliminated in consolidation. Amounts previously reported in the consolidated financial statements are reclassified whenever necessary to conform to the current year’s presentation. In the “Parent Company Financial Information,” the investment in subsidiaries is recorded using the equity method of accounting.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company’s wholly owned subsidiaries CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company’s consolidated financial statements.

**SEGMENT REPORTING**

The Company's operations are primarily in the community banking industry and include the provision of traditional banking services. The Company also provides other services through its subsidiaries such as insurance, retirement plan administration, and trust administration. The Company operates solely in the geographical regions of central and northern New York, northeastern Pennsylvania and Burlington, Vermont. The Company has identified separate operating segments; however, these segments did not meet the quantitative thresholds for separate disclosure.

**CASH EQUIVALENTS**

The Company considers amounts due from correspondent banks, cash items in process of collection, and institutional money market mutual funds to be cash equivalents for purposes of the consolidated statements of cash flows.

**SECURITIES**

The Company classifies its securities at date of purchase as either available for sale, held to maturity, or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Held to maturity securities are stated at amortized cost. Securities bought and held for the purpose of selling in the near term are classified as trading. Trading securities are recorded at fair value, with net unrealized gains and losses recognized currently in income. Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity as a component of accumulated other comprehensive income or loss. Transfers of securities between categories are recorded at fair value at the date of transfer. For the securities that the Company does not have the intent to sell and will not be more likely than not forced to sell, the amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. Credit loss is determined by calculating the present value of future cash flows of the security as compared to the amortized cost of the security. Credit loss is the amount by which the fair value is less than the amortized cost. Securities with other-than-temporary impairment are generally placed on non-accrual status.

Nonmarketable equity securities are carried at cost, with the exception of investments owned by NBT Bank's small business investment company (SBIC) subsidiary, which are carried at fair value in accordance with SBIC rules.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on securities sold are derived using the specific identification method for determining the cost of securities sold.

Investments in Federal Reserve and Federal Home Loan Bank stock are required for membership in those organizations and are carried at cost since there is no market value available.

**LOANS AND LEASES**

Loans are recorded at their current unpaid principal balance, net of unearned income and unamortized loan fees and expenses, which are amortized under the effective interest method over the estimated lives of the loans. Interest income on loans is accrued based on the principal amount outstanding.

Lease receivables primarily represent automobile financing to customers through direct financing leases and are carried at the aggregate of the lease payments receivable and the estimated residual values, net of unearned income and net deferred lease origination fees and costs. Net deferred lease origination fees and costs are amortized under the effective interest method over the estimated lives of the leases. The estimated residual value related to the total lease portfolio is reviewed, and if there has been a decline in the estimated fair value of the total residual value that is judged by management to be other-than-temporary, a loss is recognized. Adjustments related to such other-than-temporary declines in estimated fair value are recorded in noninterest expense in the consolidated statements of income.

Loans and leases are placed on nonaccrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. Loans and leases are transferred to nonaccrual status generally when principal or interest payments become ninety days delinquent, unless the loan is well secured and in the process of collection, or sooner when management concludes circumstances indicate that borrowers may be unable to meet contractual principal or interest payments. When a loan or lease is transferred to a nonaccrual status, all interest previously accrued in the current period but not collected is reversed against interest income in that period. Interest accrued in a prior period and not collected is charged-off against the allowance for loan and lease losses.

If ultimate repayment of a nonaccrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayment of principal is not expected, any payment received on a nonaccrual loan is applied to principal until ultimate repayment becomes expected. Nonaccrual loans are returned to accrual status when they become current as to principal and interest and demonstrate a period of performance under the contractual terms and, in the opinion of management, are fully collectible as to principal and interest. When in the opinion of management the collection of principal appears unlikely, the loan balance is charged-off in total or in part.

Commercial type loans are considered impaired when it is probable that the borrower will not repay the loan according to the original contractual terms of the loan agreement, and all loan types are considered impaired if the loan is restructured in a troubled debt restructuring.

A loan is considered to be a troubled debt restructured loan (TDR) when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of all or a portion of principal or interest, or other modifications at interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

**ALLOWANCE FOR LOAN AND LEASE LOSSES**

The allowance for loan and lease losses is the amount which, in the opinion of management, is necessary to absorb probable losses inherent in the loan and lease portfolio. The allowance is determined based upon numerous considerations, including local economic conditions, the growth and composition of the loan portfolio with respect to the mix between the various types of loans and their related risk characteristics, a review of the value of collateral supporting the loans, comprehensive reviews of the loan portfolio by the independent loan review staff and management, as well as consideration of volume and trends of delinquencies, nonperforming loans, and loan charge-offs. As a result of the test of adequacy, required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses.

The allowance for loan and lease losses related to impaired loans is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Company's impaired loans are generally collateral dependent. The Company considers the estimated cost to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

Management believes that the allowance for loan and lease losses is adequate. While management uses available information to recognize loan and lease losses, future additions to the allowance for loan and lease losses may be necessary based on changes in economic conditions or changes in the values of properties securing loans in the process of foreclosure. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan and lease losses. Such agencies may require the Company to recognize additions to the allowance for loan and lease losses based on their judgments about information available to them at the time of their examination which may not be currently available to management.

**PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation of premises and equipment is determined using the straight-line method over the estimated useful lives of the respective assets. Expenditures for maintenance, repairs, and minor replacements are charged to expense as incurred.

**OTHER REAL ESTATE OWNED**

Other real estate owned (OREO) consists of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are recorded at the lower of fair value of the asset acquired less estimated costs to sell or "cost" (defined as the fair value at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any, of the loan over the fair market value of the assets received, less estimated selling costs, is charged to the allowance for loan and lease losses and any subsequent valuation write-downs are charged to other expense. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the minimum down payment requirements prescribed by GAAP. The balance of OREO at December 31, 2009 was approximately $2.4 million.

**GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets that have finite useful lives continue to be amortized over their useful lives. Core deposit intangibles at the Company are amortized on a straight-line basis. Covenants not to compete are amortized on a straight-line basis. Customer lists are amortized using an accelerated method.

When facts and circumstances indicate potential impairment of amortizable intangible assets, the Company evaluates the recoverability of the asset carrying value, using estimates of undiscounted future cash flows over the remaining asset life. Any impairment loss is measured by the excess of carrying value over fair value. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. In these tests, the fair values of each reporting unit, or segment, is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated. If so, the implied fair value of the reporting unit's goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value.

**TREASURY STOCK**

Treasury stock acquisitions are recorded at cost. Subsequent sales of treasury stock are recorded on an average cost basis. Gains on the sale of treasury stock are credited to additional paid-in-capital. Losses on the sale of treasury stock are charged to additional paid-in-capital to the extent of previous gains, otherwise charged to retained earnings.

## INCOME TAXES

Income taxes are accounted for under the asset and liability method. The Company files a consolidated tax return on the accrual basis. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense.

## STOCK-BASED COMPENSATION

The fair value of stock-based awards is determined on the date of grant, and is recognized as compensation expense over the vesting period of the awards.

## STANDBY LETTERS OF CREDIT

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit typically have one year expirations with an option to renew upon annual review. The Company typically receives a fee for these transactions. The fair value of stand-by letters of credit is recorded upon inception.

## LOAN SALES AND LOAN SERVICING

The Company originates and services residential mortgage loans for consumers and sells 15-year, 20-year and 30-year residential real estate mortgages in the secondary market, while retaining servicing rights on the sold loans. Loan sales are recorded when the sales are funded. Mortgage servicing rights are recorded at fair value upon sale of the loan.

## REPURCHASE AGREEMENTS

Repurchase agreements are accounted for as secured financing transactions since the Company maintains effective control over the transferred securities and the transfer meets the other criteria for such accounting. Obligations to repurchase securities sold are reflected as a liability in the Consolidated Balance Sheets. The securities underlying the agreements are delivered to a custodial account for the benefit of the dealer or bank with whom each transaction is executed. The dealers or banks, who may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations, agree to resell to the Company the same securities at the maturities of the agreements.

## EARNINGS PER SHARE

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as the Company’s dilutive stock options and restricted stock). On January 1, 2009, the Company adopted new accounting standards that require share based compensation awards that qualify as participating securities to be included in basic EPS. Adoption of this standard did not have a significant effect on EPS.

**SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for potential recognition and/or disclosure through March 1, 2010, the date the consolidated financial statements included in the Annual Report on Form 10-K were issued.

**OTHER FINANCIAL INSTRUMENTS**

The Company is a party to certain other financial instruments with off-balance-sheet risk such as commitments to extend credit, unused lines of credit, as well as certain mortgage loans sold to investors with recourse. The Company's policy is to record such instruments when funded.

**COMPREHENSIVE INCOME**

At the Company, comprehensive income represents net income plus other comprehensive income (loss), which consists primarily of the net change in unrealized gains or losses on securities available for sale for the period and changes in the funded status of employee benefit plans. Accumulated other comprehensive (loss) income represents the net unrealized gains or losses on securities available for sale and the previously unrecognized portion of the funded status of employee benefit plans, net of income taxes, as of the consolidated balance sheet dates.

**PENSION COSTS**

The Company maintains a noncontributory, defined benefit pension plan covering substantially all employees, as well as supplemental employee retirement plans covering certain executives and a defined benefit postretirement healthcare plan that covers certain employees. Costs associated with these plans, based on actuarial computations of current and future benefits for employees, are charged to current operating expenses.

**TRUST OPERATIONS**

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Company. Trust income is recognized on the accrual method based on contractual rates applied to the balances of trust accounts.

**FAIR VALUE MEASUREMENTS**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are not adjusted for transaction costs. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. The Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid agency securities, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate will be used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

## (2) MERGER AND ACQUISITION ACTIVITY

On September 1, 2008, the Company completed the acquisition of Mang Insurance Agency, LLC ("Mang"), then headquartered in Binghamton, New York. As part of the acquisition, the Company acquired approximately $15.3 million of intangible assets and $11.8 million of goodwill for a purchase price of $28.0 million, which has been allocated to NBT Holdings, Inc. for reporting purposes. The results of operations are included in the consolidated financial statements from the date of acquisition, September 1, 2008.

## (3) EARNINGS PER SHARE

The following is a reconciliation of basic and diluted earnings per share for the years presented in the consolidated statements of income:

| | Years ended December 31, | | | | | |  | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2009** | | | 2008 | | | 2007 | | |
| *(In thousands, except per share data)* | **Net income** | **Weighted average shares** | **Per share amount** | Net income | Weighted average shares | Per share amount | Net income | Weighted average shares | Per share amount |
| Basic earnings per share | **$ 52,011** | **33,723** | **$ 1.54** | $ 58,353 | 32,152 | $ 1.81 | $ 50,328 | 33,165 | $ 1.52 |
| ***Effect of dilutive securities*** | | | | | | | | | |
| Stock based compensation | | **180** | | | 275 | | | 256 | |
| Diluted earnings per share | **$ 52,011** | **33,903** | **$ 1.53** | $ 58,353 | 32,427 | $ 1.80 | $ 50,328 | 33,421 | $ 1.51 |

There were approximately 609,000, 328,000, and 628,000 weighted average stock options for the years ended December 31, 2009, 2008, and 2007, respectively, that were not considered in the calculation of diluted earnings per share since the stock options' exercise prices were greater than the average market price during these periods.

## (4) FEDERAL RESERVE BANK REQUIREMENT

The Company is required to maintain reserve balances with the Federal Reserve Bank. The required average total reserve for NBT Bank for the 14-day maintenance period ending December 31, 2009 was $31.0 million.

Table of Contents

## (5) SECURITIES

The amortized cost, estimated fair value, and unrealized gains and losses of securities available for sale are as follows:

| (In thousands) | Amortized cost | Unrealized gains | Unrealized losses | Estimated fair value |
|---|---|---|---|---|
| ***December 31, 2009*** | | | | |
| U.S. Treasury | **$ 20,102** | **$ 5** | **$ 21** | **$ 20,086** |
| Federal Agency | **310,012** | **3,214** | **69** | **313,157** |
| State & municipal | **135,181** | **2,738** | **306** | **137,613** |
| Mortgage-backed | **269,255** | **11,606** | **-** | **280,861** |
| Collateralized mortgage obligations | **321,890** | **9,003** | **182** | **330,711** |
| Corporate | **20,011** | **663** | **-** | **20,674** |
| Other securities | **12,295** | **1,483** | **122** | **13,656** |
| Total securities available for sale | **$ 1,088,746** | **$ 28,712** | **$ 700** | **$ 1,116,758** |
| ***December 31, 2008*** | | | | |
| U.S. Treasury | $ 59 | $ 8 | $ - | $ 67 |
| Federal Agency | 213,997 | 5,211 | 41 | 219,167 |
| State & municipal | 126,369 | 2,374 | 770 | 127,973 |
| Mortgage-backed | 351,973 | 8,755 | 99 | 360,629 |
| Collateralized mortgage obligations | 376,058 | 5,656 | 1,437 | 380,277 |
| Corporate | 20,016 | 769 | - | 20,785 |
| Other securities | 10,475 | 1,279 | 987 | 10,767 |
| Total securities available for sale | $ 1,098,947 | $ 24,052 | $ 3,334 | $ 1,119,665 |

In the available for sale category at December 31, 2009, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of $238.8 million and a fair value of $248.7 million and US Government Agency securities with an amortized cost of $30.5 million and a fair value of $32.1 million; collateralized mortgage obligations were comprised of GSEs with an amortized cost of $186.1 million and a fair value of $190.4 million and US Government Agency securities with an amortized cost of $135.8 million and a fair value of $140.3 million.

In the available for sale category at December 31, 2008, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of $313.7 million and a fair value of $321.0 million and US Government Agency securities with an amortized cost of $38.2 million and a fair value of $39.7 million; collateralized mortgage obligations were comprised of GSEs with an amortized cost of $204.1 million and a fair value of $205.6 million and US Government Agency securities with an amortized cost of $172.0 million and a fair value of $174.6 million. Other securities primarily represent marketable equity securities.

The following table sets forth information with regard to sales transactions of securities available for sale:

| | Years ended December 31 | | |
|---|---|---|---|
| (In thousands) | **2009** | 2008 | 2007 |
| Proceeds from sales | **$ 2,753** | $ 6,800 | $ 55,758 |
| Gross realized gains | **$ 238** | $ 1,780 | $ 2,248 |
| Gross realized losses | **(94)** | (245) | (135) |
| Net securities gains | **$ 144** | $ 1,535 | $ 2,113 |

At December 31, 2009 and 2008, securities available for sale with amortized costs totaling $891.4 million and $891.6 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2009, securities available for sale with an amortized cost of $178.0 million were pledged as collateral for securities sold under the repurchase agreements.

The amortized cost, estimated fair value, and unrealized gains and losses of securities held to maturity are as follows:

| *(In thousands)* | **Amortized cost** | **Unrealized gains** | **Unrealized losses** | **Estimated fair value** |
|---|---|---|---|---|
| ***December 31, 2009*** | | | | |
| Mortgage-backed | **$ 2,041** | **$ 172** | **$ -** | **$ 2,213** |
| State & municipal | **157,905** | **1,736** | **3** | **159,638** |
| Total securities held to maturity | **$ 159,946** | **$ 1,908** | **$ 3** | **$ 161,851** |
| ***December 31, 2008*** | | | | |
| Mortgage-backed | $ 2,372 | $ 95 | $ - | $ 2,467 |
| State & municipal | 137,837 | 1,048 | 44 | 138,841 |
| Total securities held to maturity | $ 140,209 | $ 1,143 | $ 44 | $ 141,308 |

At December 31, 2009 and December 31, 2008, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2009 and 2008, segregated according to the length of time the securities had been in a continuous unrealized loss position:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| Security Type: | Fair Value | Unrealized losses | Fair Value | Unrealized losses | Fair Value | Unrealized losses |
| **December 31, 2009** | | | | | | |
| U.S. Treasury | $ 20,022 | $ (21) | $ - | $ - | $ 20,022 | $ (21) |
| Federal agency | 29,931 | (69) | - | - | 29,931 | (69) |
| State & municipal | 7,121 | (40) | 9,629 | (269) | 16,750 | (309) |
| Mortgage-backed | - | - | - | - | - | - |
| Collateralized mortgage obligations | 51,882 | (124) | 33,235 | (58) | 85,117 | (182) |
| Other securities | 4,900 | (93) | 52 | (29) | 4,952 | (122) |
| Total securities with unrealized losses | $ 113,856 | $ (347) | $ 42,916 | $ (356) | $ 156,772 | $ (703) |
| **December 31, 2008** | | | | | | |
| U.S. Treasury | $ - | $ - | $ - | $ - | $ - | $ - |
| Federal agency | 9,959 | (41) | - | - | 9,959 | (41) |
| State & municipal | 17,024 | (412) | 15,112 | (402) | 32,136 | (814) |
| Mortgage-backed | 2,105 | (28) | 7,336 | (71) | 9,441 | (99) |
| Collateralized mortgage obligations | 46,865 | (1,301) | 15,682 | (136) | 62,547 | (1,437) |
| Other securities | 5,276 | (947) | 704 | (40) | 5,980 | (987) |
| Total securities with unrealized losses | $ 81,229 | $ (2,729) | $ 38,834 | $ (649) | $ 120,063 | $ (3,378) |

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses or in other comprehensive income, depending on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the historical and implied volatility of the fair value of the security.

Management has the intent to hold the securities classified as held to maturity until they mature, at which time it is believed the Company will receive full value for the securities. Furthermore, as of December 31, 2009, management also had intent to hold, and will not be required to sell, the securities classified as available for sale for a period of time sufficient for a recovery of cost, which may be until maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. When necessary, the Company has performed a discounted cash flow analysis to determine whether or not it will receive the contractual principal and interest on certain securities. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. As of December 31, 2009, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment losses have been realized in the Company's consolidated statements of income.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2009:

| *(In thousands)* | Amortized cost | Estimated fair value |
|---|---|---|
| ***Debt securities classified as available for sale*** | | |
| Within one year | $ 17,093 | $ 17,483 |
| From one to five years | 336,822 | 339,337 |
| From five to ten years | 306,346 | 317,577 |
| After ten years | 416,190 | 428,705 |
| | $ 1,076,451 | $ 1,103,102 |
| ***Debt securities classified as held to maturity*** | | |
| Within one year | $ 98,688 | $ 98,723 |
| From one to five years | 38,212 | 39,339 |
| From five to ten years | 17,761 | 18,330 |
| After ten years | 5,285 | 5,459 |
| | $ 159,946 | $ 161,851 |

Maturities of mortgage-backed, collateralized mortgage obligations and asset-backed securities are stated based on their estimated average lives. Actual maturities may differ from estimated average lives or contractual maturities because, in certain cases, borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Except for U.S. Government securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of consolidated stockholders' equity at December 31, 2009 and 2008.

## (6) LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

A summary of loans and leases, net of deferred fees and origination costs, by category is as follows:

| | At December 31, | |
|---|---|---|
| *(In thousands)* | **2009** | 2008 |
| Residential real estate mortgages | $ 622,898 | $ 722,723 |
| Commercial | 581,870 | 572,059 |
| Commercial real estate | 718,235 | 669,720 |
| Real estate construction and development | 76,721 | 67,859 |
| Agricultural and agricultural real estate mortgages | 122,466 | 113,566 |
| Consumer | 856,956 | 795,123 |
| Home equity | 603,585 | 627,603 |
| Lease financing | 62,667 | 83,258 |
| Total loans and leases | $ 3,645,398 | $ 3,651,911 |

Included in the above loans and leases are net deferred loan origination costs totaling $3.8 million and $4.2 million at December 31, 2009 and December 31, 2008, respectively. Also included is unearned income of $4.0 million and $7.3 million at December 31, 2009 and 2008, respectively. Loans held for sale were $4.7 million and $2.2 million at December 31, 2009 and 2008, respectively and are included in residential real estate mortgages.

FHLB advances are collateralized by a blanket lien on the Company's residential real estate mortgages.

Changes in the allowance for loan and lease losses for the three years ended December 31, 2009, are summarized as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 |
| Balance at January 1 | **$ 58,564** | $ 54,183 | $ 50,587 |
| Provision | **33,392** | 27,181 | 30,094 |
| Recoveries | **4,408** | 4,192 | 4,745 |
| Charge-offs | **(29,814)** | (26,992) | (31,243) |
| Balance at December 31 | **$ 66,550** | $ 58,564 | $ 54,183 |

The following table sets forth information with regard to nonperforming loans:

| | At December 31, | |
|---|---|---|
| *(In thousands)* | **2009** | 2008 |
| Loans in nonaccrual status | **$ 38,746** | $ 24,191 |
| Loans contractually past due 90 days or more and still accruing interest | **2,526** | 2,305 |
| Total nonperforming loans | **$ 41,272** | $ 26,496 |

There were no material commitments to extend further credit to borrowers with nonperforming loans. Within nonaccrual loans, there are approximately $0.8 million of troubled debt restructured loans at December 31, 2009.

Accumulated interest on the above nonaccrual loans of approximately $1.4 million, $1.2 million, and $0.8 million would have been recognized as income in 2009, 2008, and 2007, respectively, had these loans been in accrual status. Approximately $0.8 million, $1.4 million, and $1.0 million of interest on the above nonaccrual loans was collected in 2009, 2008, and 2007, respectively.

Impaired loans consist primarily of large, nonaccrual commercial, commercial real estate, agricultural, and agricultural real estate loans. Impaired loans totaled $19.8 million at December 31, 2009 and $11.3 million at December 31, 2008. At December 31, 2009, $6.3 million of the impaired loans had a specific reserve allocation of $2.6 million and $13.5 million of the impaired loans reviewed had no specific reserve allocation. At December 31, 2008, $1.7 million of the impaired loans reviewed had a specific reserve allocation of $0.6 million and $9.6 million of the impaired loans reviewed had no specific reserve allocation.

The following provides additional information on impaired loans for the periods presented:

| | Years ended December 31, | | |
|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 |
| Average recorded investment on impaired loans | **$ 17,256** | $ 14,438 | $ 20,984 |
| Interest income recognized on impaired loans | **558** | 360 | 559 |
| Cash basis interest income recognized on impaired loans | **558** | 360 | 559 |

There was significant disruption and volatility in the financial and capital markets during the second half of 2008 and most of 2009. Turmoil in the mortgage market adversely impacted both domestic and global markets, and led to a significant credit and liquidity crisis in many domestic markets. These market conditions were attributable to a variety of factors, in particular the fallout associated with subprime mortgage loans (a type of lending we have never actively pursued). The disruption has been exacerbated by the continued decline of the real estate and housing market. However, in the markets in which the Company does business, the disruption has been somewhat delayed and less significant than the national impact. For example, our real estate market has not suffered the extreme declines seen nationally and our unemployment rate, while notably higher, is still below the national average.

While we continue to adhere to prudent underwriting standards, as a lender we may be adversely impacted by general economic weaknesses and, in particular, a sharp downturn in the housing market nationally. Decreases in real estate values could adversely affect the value of property used as collateral for our loans. Adverse changes in the economy may have a negative effect on the ability of our borrowers to make timely loan payments, which would have an adverse impact on our earnings. For example, we have seen an increase in charge-offs and nonperforming loans as a result of economic conditions in 2009. A further increase in loan delinquencies would decrease our net interest income and adversely impact our loan loss experience, causing increases in our provision and allowance for loan and lease losses.

## (7) RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has made loans at prevailing rates and terms to directors, officers, and other related parties. Such loans, in management's opinion, do not present more than the normal risk of collectibility or incorporate other unfavorable features. The aggregate amount of loans outstanding to qualifying related parties and changes during the years are summarized as follows:

| *(In thousands)* | **2009** | **2008** |
|---|---|---|
| Balance at January 1 | **$ 5,433** | **$ 10,950** |
| New loans | **358** | **335** |
| Adjustment due to change in composition of related parties | **(1,226)** | **344** |
| Repayments | **(2,722)** | **(6,196)** |
| Balance at December 31 | **$ 1,843** | **$ 5,433** |

## (8) PREMISES AND EQUIPMENT, NET

A summary of premises and equipment follows:

| | | December 31, | | |
|---|---|---|---|---|
| *(In thousands)* | | **2009** | | 2008 |
| Land, buildings, and improvements | **$** | **92,408** | $ | 88,567 |
| Equipment | | **70,628** | | 68,450 |
| Construction in progress | | **181** | | 113 |
| Premises and equipment before accumulated depreciation | | **163,217** | | 157,130 |
| Accumulated depreciation | | **96,996** | | 91,889 |
| Total premises and equipment | **$** | **66,221** | $ | 65,241 |

Land, buildings, and improvements with a carrying value of approximately $3.1 million and $3.2 million at December 31, 2009 and 2008, respectively, are pledged to secure long-term borrowings. Buildings and improvements are depreciated based on useful lives of 15 to 40 years. Equipment is depreciated based on useful lives of 3 to 10 years.

Rental expense included in occupancy expense amounted to $5.3 million in 2009, $4.5 million in 2008, and $3.5 million in 2007. The future minimum rental payments related to noncancelable operating leases with original terms of one year or more are as follows at December 31, 2009 (in thousands):

Future Minimum Rental Payments

| | | |
|---|---|---|
| 2010 | $ | 4,680 |
| 2011 | | 4,279 |
| 2012 | | 3,837 |
| 2013 | | 3,142 |
| 2014 | | 2,734 |
| Thereafter | | 21,700 |
| **Total** | **$** | **40,372** |

## (9) GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of goodwill is as follows:

| *(In thousands)* | | |
|---|---|---|
| January 1, 2009 | | 114,838 |
| Goodwill Acquired | | - |
| Goodwill Adjustments | | 100 |
| December 31, 2009 | $ | 114,938 |
| | | |
| January 1, 2008 | | 103,398 |
| Goodwill Acquired | | 11,808 |
| Goodwill Adjustments | | (368) |
| December 31, 2008 | $ | 114,838 |

In September 2008, the Company acquired Mang Insurance Agency, LLC. The acquisition resulted in increases to goodwill of $11.8 million and other intangibles of $15.3 million.

The Company has intangible assets with definite useful lives capitalized on its consolidated balance sheet in the form of core deposit and other identified intangible assets. These intangible assets are amortized over their estimated useful lives, which range primarily from one to twelve years.

A summary of core deposit and other intangible assets follows:

| | December 31, | |
|---|---|---|
| (In thousands) | **2009** | 2008 |
| ***Core deposit intangibles*** | | |
| Gross carrying amount | **$ 10,762** | $ 10,631 |
| Less: accumulated amortization | **4,495** | 3,469 |
| Net carrying amount | **6,267** | 7,162 |
| | | |
| ***Identified intangible assets*** | | |
| Gross carrying amount | **18,532** | 18,194 |
| Less: accumulated amortization | **4,209** | 1,989 |
| Net carrying amount | **14,323** | 16,205 |
| | | |
| ***Total intangibles*** | | |
| Gross carrying amount | **29,294** | 28,825 |
| Less: accumulated amortization | **8,704** | 5,458 |
| Net carrying amount | **$ 20,590** | $ 23,367 |

Amortization expense on intangible assets with definite useful lives totaled $3.2 million for 2009, $2.1 million for 2008 and $1.6 million for 2007. Amortization expense on intangible assets with definite useful lives is expected to total $3.1 million for 2010, $2.9 million for 2011, $2.7 million for 2012, $2.6 million for 2013, $2.4 million for 2014 and $5.1 million thereafter. Identified intangible assets include customer lists, non-competes, and trademark intangibles. The Company also has $1.8 million in intangible assets that will not amortize.

(10) DEPOSITS

The following table sets forth the maturity distribution of time deposits at December 31, 2009 (in thousands):

| **Time deposits** | |
|---|---|
| Within one year | **$ 679,851** |
| After one but within two years | **174,396** |
| After two but within three years | **81,290** |
| After three but within four years | **62,926** |
| After four but within five years | **30,651** |
| After five years | **4,164** |
| Total | **$ 1,033,278** |

Time deposits of $100,000 or more aggregated $298.8 million and $428.8 million at year end 2009 and 2008, respectively.

## (11) SHORT-TERM BORROWINGS

Short-term borrowings totaled $156.0 million and $206.5 million at December 31, 2009 and 2008, respectively, and consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily Federal Home Loan Bank (FHLB) advances, with original maturities of one year or less. Since March 2009, the Company has been in a Fed Funds sold position as a result of excess liquidity. The Fed Funds balance as of December 31, 2009 was approximately $78.6 million.

The Company has unused lines of credit with the FHLB available for short-term financing of approximately $182 million and $245 million at December 31, 2009 and 2008, respectively.

Included in the information provided above, the Company has two lines of credit available with the FHLB, which are automatically renewed on July 30th of each year. The first is an overnight line of credit for approximately $100.0 million with interest based on existing market conditions. The second is a one-month overnight repricing line of credit for approximately $100.0 million with interest based on existing market conditions. As of December 31, 2009, there were no outstanding balances on these lines of credit. Borrowings on these lines are secured by FHLB stock, certain securities and one-to-four family first lien mortgage loans. Securities collateralizing repurchase agreements are held in safekeeping by nonaffiliated financial institutions and are under the Company's control.

Information related to short-term borrowings is summarized as follows:

| *(In thousands)* | **2009** | 2008 | 2007 |
|---|---|---|---|
| ***Federal funds purchased*** | | | |
| Balance at year-end | **$ 0** | $ 85,000 | $ 149,250 |
| Average during the year | **5,957** | 70,445 | 98,872 |
| Maximum month end balance | **50,000** | 124,000 | 149,250 |
| Weighted average rate during the year | **0.30%** | 2.34% | 5.14% |
| Weighted average rate at December 31 | **0.00%** | 0.27% | 4.38% |
| | | | |
| ***Securities sold under repurchase agreements*** | | | |
| Balance at year-end | **$ 155,727** | $ 121,242 | $ 93,967 |
| Average during the year | **133,859** | 109,692 | 104,876 |
| Maximum month end balance | **166,208** | 138,527 | 117,337 |
| Weighted average rate during the year | **0.40%** | 1.74% | 3.62% |
| Weighted average rate at December 31 | **0.32%** | 0.42% | 3.56% |
| | | | |
| ***Other short-term borrowings*** | | | |
| Balance at year-end | **$ 250** | $ 250 | $ 125,250 |
| Average during the year | **250** | 43,693 | 76,414 |
| Maximum month end balance | **250** | 200,250 | 125,250 |
| Weighted average rate during the year | **0.03%** | 2.94% | 5.32% |
| Weighted average rate at December 31 | **0.00%** | 0.00% | 4.54% |

See Note 5 for additional information regarding securities pledged as collateral for securities sold under the repurchase agreements.

## (12) LONG-TERM DEBT

Long-term debt consists of obligations having an original maturity at issuance of more than one year. A majority of the Company's long-term debt is comprised of FHLB advances collateralized by the FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans. A summary as of December 31, 2009 and 2008 is as follows:

| | As of December 31, 2009 | | | | As of December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| Maturity | Amount | Weighted Average Rate | Callable Amount | Weighted Average Rate | Amount | Weighted Average Rate | Callable Amount | Weighted Average Rate |
| 2009 | - | | - | | 40,000 | 5.47% | 40,000 | 5.47% |
| 2010 | 79,000 | 4.11% | 29,000 | 3.43% | 79,000 | 4.07% | 29,000 | 3.35% |
| 2011 | 52,083 | 3.64% | 2,000 | 4.72% | 89,444 | 3.64% | 2,000 | 4.72% |
| 2012 | 25,000 | 4.01% | - | | 25,025 | 4.01% | - | |
| 2013 | 150,000 | 3.79% | 125,000 | 3.61% | 150,000 | 3.79% | 125,000 | 3.61% |
| 2016 | 70,000 | 4.17% | 70,000 | 4.17% | 70,000 | 4.17% | 70,000 | 4.17% |
| 2017 | 100,000 | 3.89% | 100,000 | 3.89% | 100,000 | 3.89% | 100,000 | 3.89% |
| 2018 | 75,000 | 3.61% | 75,000 | 3.61% | 75,000.00 | 3.61% | 75,000 | 3.61% |
| 2025 | 3,615 | 2.75% | - | | 3,740 | 2.75% | - | |
| | $ 554,698 | | $ 401,000 | | $ 632,209 | | $ 441,000 | |

## (13) TRUST PREFERRED DEBENTURES

The Company has issued a total of $75.4 million of junior subordinated deferrable interest debentures to three wholly owned Delaware statutory business trusts, CNBF Capital Trust I ("CNBF Trust I"), NBT Statutory Trust I ("NBT Trust I") and NBT Statutory Trust II ("NBT Trust II") collectively referred to as the ("Trusts"). The Trusts are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, the accounts of the Trusts are not included in the Company's consolidated financial statements. See Note 1 — Summary of Significant Accounting Policies for additional information about the Company's consolidation policy. Details of the Company's transactions with these trusts are presented below.

**CNBF Trust I**

In June 1999, CNBF Trust I issued $18.0 million of floating rate (three-month LIBOR plus 275 basis points) trust preferred securities, which represent beneficial interests in the assets of the trust. The trust preferred securities will mature on August 31, 2029 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Company at any time after September 1, 2009 and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. CNBF Trust I also issued $0.7 million of common equity securities to the Company. The proceeds of the offering of the trust preferred securities and common equity securities were used to purchase $18.7 million of floating rate (three-month LIBOR plus 275 basis points) junior subordinated deferrable interest debentures issued by the Company, which have terms substantially similar to the trust preferred securities.

**NBT Trust I**

In November 2005, NBT Trust I issued $5.0 million of fixed rate (at 6.30%) trust preferred securities, which represent beneficial interests in the assets of the trust. After 5 years, the rate converts to a floating rate (three-month LIBOR plus 140 basis points). The trust preferred securities will mature on December 1, 2035 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Corporation at any time after December 1, 2010 and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. NBT Trust I also issued $0.2 million of common equity securities to the Company. The proceeds of the offering of the trust preferred securities and common equity securities were used to purchase $5.2 million of fixed rate (at 6.30%) junior subordinated deferrable interest debentures issued by the Corporation, which have terms substantially similar to the trust preferred securities.

**NBT Trust II**

In connection with acquisition of CNB, the Company formed NBT Trust II in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. NBT Trust II issued $50.0 million of fixed rate (at 6.195%) trust preferred securities, which represent beneficial interests in the assets of the trust. After 5 years, the rate converts to a floating rate (three-month LIBOR plus 140 basis points). The trust preferred securities will mature on March 15, 2036 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Corporation at any time after March 15, 2011 and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. NBT Trust II also issued $1.5 million of common equity securities to the Company. The proceeds of the offering of the trust preferred securities and common equity securities were used to purchase $51.5 million of fixed rate (at 6.195%) junior subordinated deferrable interest debentures issued by the Corporation, which have terms substantially similar to the trust preferred securities.

With respect to the Trusts, the Company has the right to defer payments of interest on the debentures at any time or from time to time for a period of up to ten consecutive semi-annual periods with respect to each deferral period in the case of the debentures issued to the Trusts. Under the terms of the debentures, in the event that under certain circumstances there is an event of default under the debentures or the Company has elected to defer interest on the debentures, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock.

Payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities are guaranteed by the Company on a limited basis. The Company also entered into an agreement as to expenses and liabilities with the Trusts pursuant to which it agreed, on a subordinated basis, to pay any costs, expenses or liabilities of each trust other than those arising under the trust preferred securities. The obligations of the Company under the junior subordinated debentures, the related indentures, the trust agreements establishing the trusts, the guarantees and the agreements as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the Company of each Trust’s obligations under the trust preferred securities.

Despite the fact that the accounts of CNBF Trust I, NBT Trust I, and NBT Trust II are not included in the Company’s consolidated financial statements, the $74 million of the $75 million in trust preferred securities issued by these subsidiary trusts are included in the Tier 1 capital of the Company for regulatory capital purposes as allowed by the Federal Reserve Board (NBT Bank, NA owns $1.0 million of CNBF Trust I securities).

(14) INCOME TAXES

The significant components of income tax expense attributable to operations are:

| | Years ended December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| ***Current*** | | | |
| Federal | **$ 21,046** | $ 19,156 | $ 19,020 |
| State | **1,086** | 1,471 | 523 |
| | **22,132** | 20,627 | 19,543 |
| ***Deferred*** | | | |
| Federal | **(1,669)** | 3,915 | 1,530 |
| State | **168** | 863 | 714 |
| | **(1,501)** | 4,778 | 2,244 |
| Total income tax expense | **$ 20,631** | $ 25,405 | $ 21,787 |

Not included in the above table are changes in deferred tax assets and liabilities that were recorded to stockholders' equity of approximately $6.1 million, ($3.9 million), and $6.1 million for 2009, 2008, and 2007, respectively, relating to unrealized (gain) loss on available for sale securities, tax benefits recognized with respect to stock options exercised, and tax benefit related to pension funding.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

| | December 31, | |
|---|---|---|
| *(In thousands)* | **2009** | 2008 |
| ***Deferred tax assets*** | | |
| Allowance for loan and lease losses | **$ 25,036** | $ 22,059 |
| Deferred compensation | **4,534** | 4,196 |
| Postretirement benefit obligation | **1,111** | 1,170 |
| Writedowns on corporate debt securities | **177** | 177 |
| Accrued liabilities | **1,336** | 1,186 |
| Stock-based compensation expense | **2,798** | 1,962 |
| Other | **1,248** | 940 |
| Total deferred tax assets | **36,240** | 31,690 |
| ***Deferred tax liabilities*** | | |
| Pension and executive retirement | **12,070** | 3,073 |
| Unrealized gains on securities available for sale | **11,097** | 8,207 |
| Premises and equipment, primarily due to accelerated depreciation | **1,630** | 1,803 |
| Equipment leasing | **23,169** | 26,354 |
| Deferred loan costs | **1,658** | 1,687 |
| Intangible amortization | **9,464** | 8,715 |
| Other | **397** | 452 |
| Total deferred tax liabilities | **59,485** | 50,291 |
| Net deferred tax liability at year-end | **23,245** | 18,601 |
| Net deferred tax liability at beginning of year | **18,601** | 16,857 |
| Increase in net deferred tax liability | **$ 4,644** | $ 1,744 |

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at December 31, 2009 and 2008.

A reconciliation of the beginning and ending balance of gross unrecognized tax benefits is as follows:

| | December 31, | |
|---|---|---|
| (In thousands) | **2009** | 2008 |
| Balance at January 1 | **$ 2,212** | $ 2,515 |
| Additions for tax positions of prior years | **132** | 65 |
| Reduction for tax positions of prior years | **(57)** | (368) |
| Balance at December 31 | **$ 2,287** | $ 2,212 |

The $2.3 million and $2.2 million of unrecognized tax benefits at December 31, 2009 and 2008, respectively, would impact the annual effective tax rate, if recognized. The Company is currently under examination by New York State for tax years 2000 through 2004. It is likely that the examination phase of some of these audits will conclude in 2010, and it is reasonably possible a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time. The Company is no longer subject to U.S. Federal examination by tax authorities for years prior to 2007.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense. The total amount of accrued interest at December 31, 2009 and December 31, 2008 was approximately $0.8 million and $0.6 million (less the associated tax benefit), respectively. Net interest impacting the Company's 2009 and 2008 tax expense was $0.2 million for each year.

The following is a reconciliation of the provision for income taxes to the amount computed by applying the applicable Federal statutory rate of 35% to income before taxes:

| | Years ended December 31 | | |
|---|---|---|---|
| *(In thousands)* | **2008** | 2008 | 2007 |
| Federal income tax at statutory rate | **$ 25,424** | $ 29,315 | $ 25,229 |
| Tax exempt income | **(3,811)** | (3,847) | (3,596) |
| Net increase in CSV of life insurance | **(871)** | (1,473) | (915) |
| State taxes, net of federal tax benefit | **816** | 1,517 | 804 |
| Other, net | **(927)** | (107) | 265 |
| Income tax expense | **$ 20,631** | $ 25,405 | $ 21,787 |

(15) STOCKHOLDERS' EQUITY

In accordance with accounting standards, unrealized gains on available for sale securities and unrecognized actuarial gains or losses and prior service costs associated with the Company's pension and postretirement benefit plans are included in accumulated other comprehensive income (loss). During the years ended December 31, components of accumulated other comprehensive income (loss) are:

| (In thousands) | **2009** | 2008 |
|---|---|---|
| Unrecognized prior service cost and net actuarial loss on pension plans | **$ (15,751)** | $ (20,714) |
| Unrealized net holding gains on available for sale securities | **16,914** | 12,510 |
| Accumulated other comprehensive income (loss) | **$ 1,163** | $ (8,204) |

Certain restrictions exist regarding the ability of the subsidiary bank to transfer funds to the Company in the form of cash dividends. The approval of the Office of Comptroller of the Currency (OCC) is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years (as defined in the regulations). At December 31, 2009, approximately $64.2 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the State of Delaware Business Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

In October 2004, the Company adopted a Stockholder Rights Plan (Plan) designed to ensure that any potential acquirer of the Company negotiate with the board of directors and that all Company stockholders are treated equitably in the event of a takeover attempt. At that time, the Company paid a dividend of one Preferred Share Purchase Right (Right) for each outstanding share of common stock of the Company. Similar rights are attached to each share of the Company's common stock issued after November 16, 2004. Under the Plan, the Rights will not be exercisable until a person or group acquires beneficial ownership of 15% or more of the Company's outstanding common stock or begins a tender or exchange offer for 15% or more of the Company's outstanding common stock. Additionally, until the occurrence of such an event, the Rights are not severable from the Company's common stock and, therefore, the Rights will be transferred upon the transfer of shares of the Company's common stock. Upon the occurrence of such events, each Right entitles the holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, no par value, and $0.01 stated value per share of the Company at a price of $70.

The Plan also provides that upon the occurrence of certain specified events, the holders of Rights will be entitled to acquire additional equity interests, in the Company or in the acquiring entity, such interests having a market value of two times the Right's exercise price of $70. The Rights, which expire October 24, 2014, are redeemable in whole, but not in part, at the Company's option prior to the time they are exercisable, for a price of $0.001 per Right.

## (16) REGULATORY CAPITAL REQUIREMENTS

Bancorp and NBT Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, NBT Bank must meet specific capital guidelines that involve quantitative measures of NBT Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and NBT Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2009 and 2008, the Company and NBT Bank meet all capital adequacy requirements to which they were subject.

Under their prompt corrective action regulations, regulatory authorities are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution's financial statements. The regulations establish a framework for the classification of banks into five categories: well capitalized, adequately capitalized, under capitalized, significantly under capitalized, and critically under capitalized. As of December 31, 2009, the most recent notification from NBT Bank's regulators categorized NBT Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized NBT Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 capital to average asset ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed NBT Bank's category.

The Company and NBT Bank's actual capital amounts and ratios are presented as follows:

| | Actual | | Regulatory ratio requirements | |
|---|---|---|---|---|
| (Dollars in thousands) | Amount | Ratio | Minimum capital adequacy | For classification as well capitalized |
| As of December 31, 2009 | | | | |
| **Total capital (to risk weighted assets):** | | | | |
| Company | **$ 498,230** | **12.59%** | **8.00%** | **10.00%** |
| NBT Bank | **464,144** | **11.76%** | **8.00%** | **10.00%** |
| **Tier I Capital (to risk weighted assets)** | | | | |
| Company | **448,565** | **11.34%** | **4.00%** | **6.00%** |
| NBT Bank | **414,587** | **10.50%** | **4.00%** | **6.00%** |
| **Tier I Capital (to average assets)** | | | | |
| Company | **448,565** | **8.35%** | **4.00%** | **5.00%** |
| NBT Bank | **414,587** | **7.72%** | **4.00%** | **5.00%** |
| | | | | |
| **As of December 31, 2008** | | | | |
| **Total capital (to risk weighted assets):** | | | | |
| Company | $ 421,829 | 11.00% | 8.00% | 10.00% |
| NBT Bank | 408,069 | 10.64% | 8.00% | 10.00% |
| **Tier I Capital (to risk weighted assets)** | | | | |
| Company | 373,783 | 9.75% | 4.00% | 6.00% |
| NBT Bank | 359,984 | 9.38% | 4.00% | 6.00% |
| **Tier I Capital (to average assets)** | | | | |
| Company | 373,783 | 7.17% | 4.00% | 5.00% |
| NBT Bank | 359,984 | 6.93% | 4.00% | 5.00% |

(17) EMPLOYEE BENEFIT PLANS

**DEFINED BENEFIT POSTRETIREMENT PLANS**

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at December 31, 2009. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

In addition to the pension plan, the Company also provides supplemental employee retirement plans to certain current and former executives. These supplemental employee retirement plans and the defined benefit pension plan are collectively referred to herein as "Pension Benefits".

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees' active service period. Only employees that were employed by NBT Bank on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Employees become eligible for these benefits if they reach normal retirement age while working for the Company. The Company funds the cost of postretirement health care as benefits are paid. The Company elected to recognize the transition obligation on a delayed basis over twenty years. These postretirement benefits are referred to herein as "Other Benefits".

Accounting standards require an employer to: (1) recognize the overfunded or underfunded status of defined benefit postretirement plans, which is measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its balance sheet; (2) recognize changes in that funded status in the year in which the changes occur through comprehensive income; and (3) measure the defined benefit plan assets and obligations as of the date of its year-end balance sheet.

The components of accumulated other comprehensive loss, which have not yet been recognized as components of net periodic benefit cost, related to pensions and other postretirement benefits, net of tax, at December 31, 2009 are summarized below. The Company expects that $1.5 million in net actuarial loss and $0.1 million in prior service cost will be recognized as components of net periodic benefit cost in 2010.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| (In thousands) | **2009** | 2008 | **2009** | 2008 |
| Transition asset | **$ -** | $ (23) | **$ -** | $ - |
| Net actuarial loss | **22,988** | 31,416 | **2,335** | 2,182 |
| Prior service cost | **2,040** | 2,208 | **(1,278)** | (1,480) |
| Total amounts recognized in accumulated other comprehensive loss (pre-tax) | **$ 25,028** | $ 33,601 | **$ 1,057** | $ 702 |

A December 31 measurement date is used for the pension, supplemental pension and postretirement benefit plans. The following table sets forth changes in benefit obligation, changes in plan assets, and the funded status of the pension plans and other postretirement benefits:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| (In thousands) | **2009** | 2008 | **2009** | 2008 |
| ***Change in benefit obligation*** | | | | |
| Benefit obligation at beginning of year | **$ 56,766** | $ 53,325 | **$ 3,648** | $ 3,978 |
| Service cost | **2,222** | 2,193 | **17** | 22 |
| Interest cost | **3,413** | 3,253 | **205** | 218 |
| Plan participants' contributions | **-** | - | **290** | 287 |
| Actuarial loss (gain) | **4,641** | 420 | **289** | (240) |
| Amendments | **127** | 1,098 | **-** | - |
| Benefits paid | **(3,761)** | (3,523) | **(611)** | (617) |
| Projected benefit obligation at end of year | **63,408** | 56,766 | **3,838** | 3,648 |
| ***Change in plan assets*** | | | | |
| Fair value of plan assets at beginning of year | **60,900** | 72,714 | **-** | - |
| Actual return (loss) on plan assets | **16,285** | (13,781) | **-** | - |
| Employer contributions | **17,467** | 5,490 | **321** | 330 |
| Plan participants' contributions | **-** | - | **290** | 287 |
| Benefits paid | **(3,761)** | (3,523) | **(611)** | (617) |
| Fair value of plan assets at end of year | **90,891** | 60,900 | **-** | - |
| Funded status at year end | **$ 27,483** | $ 4,134 | **$ (3,838)** | $ (3,648) |

The funded status of the pension and other postretirement benefit plans has been recognized as follows in the consolidated balance sheets at December 31, 2009 and December 31, 2008. An asset is recognized for an overfunded plan and a liability is recognized for an underfunded plan. The accumulated benefit obligation for pension benefits was $63.4 million and $56.8 million for the years ended 2009 and 2008, respectively. The accumulated benefit obligation for other postretirement benefits was $3.8 million and $3.6 million for the years ended 2009 and 2008, respectively.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| (In thousands) | **2009** | 2008 | **2009** | 2008 |
| Other assets | **$ 34,255** | $ 9,844 | **$ -** | $ - |
| Other liabilities | **(6,772)** | (5,710) | **(3,838)** | (3,648) |
| Funded status | **$ 27,483** | $ 4,134 | **$ (3,838)** | $ (3,648) |

The following assumptions were used to determine the benefit obligation and the net periodic pension cost for the years indicated:

| | Years ended December 31, | | |
|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 |
| ***Weighted average assumptions:*** | | | |
| The following assumptions were used to determine benefit obligations: | | | |
| Discount rate | **5.70%** | 6.30% | 6.30% |
| Expected long-term return on plan assets | **8.00%** | 8.00% | 8.50% |
| Rate of compensation increase | **3.00%** | 3.00% | 3.00% |
| The following assumptions were used to determine net periodic pension cost: | | | |
| Discount rate | **6.30%** | 6.30% | 5.80% |
| Expected long-term return on plan assets | **8.00%** | 8.50% | 8.50% |
| Rate of compensation increase | **3.00%** | 3.00% | 3.00% |

Net periodic benefit cost and other amounts recognized in other comprehensive income for the years ended December 31 included the following components:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | **2009** | 2008 | 2007 | **2009** | 2008 | 2007 |
| ***Components of net periodic benefit cost*** | | | | | | |
| Service cost | **$ 2,222** | $ 2,193 | $ 2,100 | **$ 17** | $ 22 | $ 19 |
| Interest cost | **3,413** | 3,253 | 2,979 | **205** | 218 | 233 |
| Expected return on plan assets | **(5,591)** | (6,028) | (5,430) | **-** | - | - |
| Amortization of initial unrecognized asset | **(23)** | (192) | (192) | **-** | - | - |
| Amortization of prior service cost | **296** | 218 | 283 | **(202)** | (202) | (202) |
| Amortization of unrecognized net gain | **2,374** | 398 | 422 | **136** | 156 | 170 |
| Net periodic pension cost (income) | **$ 2,691** | $ (158) | $ 162 | **$ 156** | $ 194 | $ 220 |
| | | | | | | |
| ***Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)*** | | | | | | |
| Net (gain) loss | **$ (6,053)** | $ 20,229 | $ 114 | **$ 289** | $ (240) | $ 302 |
| Prior service cost | **127** | 1,098 | (90) | **-** | - | - |
| Amortization of initial unrecognized asset | **23** | 192 | 192 | **-** | - | - |
| Amortization of prior service cost | **(296)** | (218) | (283) | **202** | 202 | 202 |
| Amortization of unrecognized net gain | **(2,374)** | (398) | (422) | **(136)** | (156) | (170) |
| Total recognized in other comprehensive (income) loss | **(8,573)** | 20,903 | (489) | **355** | (194) | 334 |
| | | | | | | |
| Total recognized in net periodic benefit cost and other comprehensive income (pre-tax) | **$ (5,882)** | $ 20,745 | $ (327) | **$ 511** | $ - | $ 554 |

The following table sets forth estimated future benefit payments for the pension plans and other postretirement benefit plans:

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2010 | $ 4,536 | $ 239 |
| 2011 | 4,623 | 233 |
| 2012 | 4,705 | 246 |
| 2013 | 4,817 | 260 |
| 2014 | 4,899 | 273 |
| 2015 - 2019 | $ 27,632 | $ 1,496 |

The Company is not required to make contributions to the plan in 2010.

**PLAN INVESTMENT POLICY AS OF DECEMBER 31, 2009**

The Company's key investment objectives in managing its defined benefit plan assets are to ensure that present and future benefit obligations to all participants and beneficiaries are met as they become due; to provide a total return that, over the long-term, maximizes the ratio of the plan assets to liabilities, while minimizing the present value of required Company contributions, at the appropriate levels of risk; to meet statutory requirements and regulatory agencies' requirements; and to satisfy applicable accounting standards. The Company periodically evaluates the asset allocations, funded status, rate of return assumption and contribution strategy for satisfaction of our investment objectives. Generally, the investment manager allocates investments as follows: 20-40% of the total portfolio in fixed income, 40-80% in equities, and 0-20% in cash. Only high-quality bonds should be included in the portfolio. All issues that are rated lower than A by Standard and Poor's should be excluded. Equity securities at December 31, 2009 and 2008 do not include any Company common stock.

The following is a summary of the plan's weighted average asset allocation at December 31, 2009:

| (In thousands) | Actual Allocation | Percentage Allocation |
|---|---|---|
| Cash and Cash Equivalents | $ 11,411 | 12.55% |
| Foreign Equity Mutual Funds | 8,635 | 9.50% |
| Equity Mutual Funds | 16,263 | 17.89% |
| Federal Agency | 17,388 | 19.13% |
| Corporate Bonds | 3,732 | 4.11% |
| Common Stock | 27,389 | 30.13% |
| Preferred Stock | 238 | 0.26% |
| Foreign Equity | 5,835 | 6.42% |
| Total | $ 90,891 | 100.00% |

The following table presents the financial instruments recorded at fair value on a recurring basis by the Plan as of December 31, 2009:

| | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Balance as of December 31, 2009** |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 11,411 | $ - | $ - | $ 11,411 |
| Foreign Equity Mutual Funds | 8,635 | - | - | 8,635 |
| Equity Mutual Funds | 16,263 | - | - | 16,263 |
| Federal Agency | - | 17,388 | - | 17,388 |
| Corporate Bonds | - | 3,732 | - | 3,732 |
| Common Stock | 27,389 | - | - | 27,389 |
| Preferred Stock | - | 238 | - | 238 |
| Foreign Equity | 5,835 | - | - | 5,835 |
| **Totals** | **$ 69,533** | **$ 21,358** | **$ -** | **$ 90,891** |

The Plan has no financial instruments recorded at fair value on a nonrecurring basis as of December 31, 2009.

## DETERMINATION OF ASSUMED RATE OF RETURN

The expected long-term rate-of-return on assets is 8.0%. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the portfolio considering the asset distribution and related historical rates of return. The appropriateness of the assumption is reviewed annually. The portfolio allocation as of December 31, 2009 is as follows:

| | Percentage Allocation |
|---|---|
| Money Market & Equivalents | 12.55% |
| Bonds | 23.24% |
| International Equities | 15.92% |
| US Equities | 48.29% |
| Total | 100.00% |

For measurement purposes, the annual rates of increase in the per capita cost of covered medical and prescription drug benefits for fiscal year 2009 were assumed to be 7.0 to 10.0 percent. The rates were assumed to decrease gradually to 5.0 percent for fiscal year 2016 and remain at that level thereafter for prescription drug benefits and post-65 medical costs. The rates were assumed to decrease gradually to 5.0 percent for fiscal year 2017 for pre-65 medical costs. Assumed health care cost trend rates have a significant effect on amounts reported for health care plans. A one-percentage point change in the health care trend rates would have the following effects as of and for the year ended December 31, 2009:

| *(In thousands)* | 1-Percentage point increase | 1-Percentage point decrease |
|---|---|---|
| Increase (decrease) on total service and interest cost components | $ 26 | $ (24) |
| Increase (decrease) on postretirement accumulated benefit obligation | 436 | (397) |

## EMPLOYEE 401(K) AND EMPLOYEE STOCK OWNERSHIP PLANS

At December 31, 2009, the Company maintains a 401(k) and employee stock ownership plan (the “401(k) Plan”). The Company contributes to the 401(k) Plan based on employees’ contributions out of their annual salary. In addition, the Company may also make discretionary contributions to the 401(k) Plan based on profitability. Participation in the 401(k) Plan is contingent upon certain age and service requirements. The employer contributions associated with the 401(k) Plan were $3.4 million in 2009, $2.7 million in 2008, and $1.4 million in 2007.

## OMNIBUS INCENTIVE PLAN

In April 2008, the Company adopted the NBT Bancorp Inc. 2008 Omnibus Incentive Plan (the “Plan”). Under the terms of the Plan, options and other equity-based awards are granted to directors and employees to increase their direct proprietary interest in the operations and success of the Company. The Plan assumes all prior equity-based incentive plans and any new equity-based awards are granted under the terms of the Plan. Under terms of the Plan, stock options are granted to purchase shares of the Company’s common stock at a price equal to the fair market value of the common stock on the date of the grant. Options granted have a vesting period of four years and terminate ten years from the date of the grant. Shares issued as a result of stock option exercises and vesting of restricted stock unit awards are funded from the Company’s treasury stock. Restricted shares and units granted under the Plan vest after five years for employees and three years for non-employee directors.

The per share weighted average fair value of stock options granted during 2009, 2008, and 2007 was $5.71, $4.41, and $6.37, respectively. The fair value of each award is estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31. Historical information was the primary basis for the selection of the expected volatility, expected dividend yield and the expected lives of the options. The risk-free interest rate was selected based upon yields of the U.S. treasury issues with a term equal to the expected life of the option being valued:

| | Years ended December 31, | | |
|---|---|---|---|
| | **2009** | 2008 | 2007 |
| Dividend yield | **2.86%–3.65%** | 2.72%–4.17% | 2.98%–4.35% |
| Expected volatility | **30.20%–32.91%** | 27.73%–29.38% | 25.08%–28.01% |
| Risk-free interest rates | **1.71%–3.20%** | 2.96%–3.62% | 3.64%–4.96% |
| Expected life | **7 years** | 7 years | 7 years |

The following table summarizes information concerning stock options outstanding at December 31, 2009:

| | Number of Shares | Weighted average exercise price | Weighted Average Remaining Contractual Term (in yrs) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2008 | 1,609,537 | $ 21.26 | | |
| Granted | 332,660 | 25.24 | | |
| Exercised | (70,070) | 17.57 | | |
| Forfeited | (25,871) | 23.25 | | |
| Expired | (23,756) | 22.58 | | |
| Outstanding at December 31, 2009 | **1,822,500** | **$ 22.08** | **6.15** | **$ 1,335,658** |
| Exercisable at December 31, 2009 | **1,168,915** | **$ 21.07** | **4.96** | **$ 1,334,494** |
| Expected to Vest | **611,746** | **$ 23.86** | **8.25** | **$ 1,093** |

The weighted-average fair market value of stock options granted for the twelve months ended December 31, 2009, was $5.71 per share. Total stock-based compensation expense for stock option awards totaled $1.6 million for the year ended December 31, 2009, $1.4 million for the year ended December 31, 2008, and $0.9 million for the year ended December 31, 2007. Cash proceeds, tax benefits and intrinsic value related to total stock options exercised is as follows:

| | **Years ended** | | |
|---|---|---|---|
| (dollars in thousands) | **2009** | 2008 | 2007 |
| Proceeds from stock options exercised | **$ 2,728** | $ 11,303 | $ 11,361 |
| Tax benefits related to stock options exercised | **(243)** | 700 | 700 |
| Intrinsic value of stock options exercised | **406** | 3,591 | 3,591 |
| Fair value of shares vested during the year | **1,700** | 2,081 | 2,028 |

The Company has outstanding restricted and deferred stock awards granted from various plans at December 31, 2009. The Company recognized $1.5 million in stock-based compensation expense related to these stock awards for the year ended December 31, 2009 and $0.8 million for the year ended December 31, 2008, and $1.0 million for the year ended December 31, 2007. There was no tax benefit recognized on restricted and deferred stock-based compensation expense during 2009, $0.6 million recognized during 2008, and $0.7 million during 2007. Unrecognized compensation cost related to restricted stock awards totaled $2.5 million at December 31, 2009 and will be recognized over 2.3 years on a weighted average basis. Shares issued are funded from the Company's treasury stock. The following table summarizes information for unvested restricted stock awards outstanding as of December 31, 2009:

| Unvested Restricted Stock Awards | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested at January 1, 2009 | 137,142 | $ 24.07 |
| Forfeited | (5,808) | $ 22.92 |
| Vested | (21,016) | $ 22.06 |
| Granted | 66,098 | $ 25.71 |
| Unvested at December 31, 2009 | 176,416 | $ 24.17 |

The following table summarizes information for unvested restricted stock units outstanding as of December 31, 2009:

| Unvested Restricted Stock Units | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested at January 1, 2009 | 30,700 | $ 24.52 |
| Forfeited | - | - |
| Vested | - | - |
| Granted | - | - |
| Unvested at December 31, 2009 | 30,700 | $ 24.52 |

The Company has 3.9 million securities remaining available to be granted as part of the Plan at December 31, 2009.

## (18) COMMITMENTS AND CONTINGENT LIABILITIES

The Company's concentrations of credit risk are reflected in the consolidated balance sheets. The concentrations of credit risk with standby letters of credit, unused lines of credit, commitments to originate new loans and loans sold with recourse generally follow the loan classifications.

At December 31, 2009, approximately 58% of the Company's loans are secured by real estate located in central and northern New York, northeastern Pennsylvania and the Burlington, Vermont area. Accordingly, the ultimate collectibility of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

The Company is a party to certain financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit, and as certain mortgage loans sold to investors with recourse. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, unused lines of credit, standby letters of credit, and loans sold with recourse is represented by the contractual amount of those instruments. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

| (In thousands) | At December 31, 2009 | 2008 |
|---|---|---|
| Unused lines of credit | $ 141,743 | $ 146,942 |
| Commitments to extend credits, primarily variable rate | 414,845 | 390,678 |
| Standby letters of credit | 34,562 | 27,631 |
| Commercial letters of credit | 14,061 | 14,818 |
| Loans sold with recourse | 11,948 | 11,233 |

Since many loan commitments, standby letters of credit, and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows. The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. The fair value of the Company's stand-by letters of credit at December 31, 2009 and 2008 was not significant.

The total amount of loans serviced by the Company for unrelated third parties was approximately $262.7 million and $141.4 million at December 31, 2009 and 2008, respectively.

In the normal course of business there are various outstanding legal proceedings. If legal costs are deemed material by management, the Company accrues for the estimated loss from a loss contingency if the information available indicates that it is probable that a liability had been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated. In the opinion of management, the aggregate amount involved in such proceedings is not material to the consolidated balance sheets or results of operations of the Company.

Table of Contents

(19) PARENT COMPANY FINANCIAL INFORMATION

**Condensed Balance Sheets**

| *(In thousands)* | December 31, 2009 | December 31, 2008 |
|---|---|---|
| ***Assets*** | | |
| Cash and cash equivalents | **$ 11,584** | $ 10,846 |
| Securities available for sale, at estimated fair value | **12,653** | 9,779 |
| Trading securities | **1,875** | 953 |
| Investment in subsidiaries, on equity basis | **569,407** | 517,541 |
| Other assets | **40,169** | 39,578 |
| Total assets | **$ 635,688** | $ 578,697 |
| ***Liabilities and Stockholders' Equity*** | | |
| Total liabilities | **$ 130,565** | $ 146,852 |
| Stockholders' equity | **505,123** | 431,845 |
| Total liabilities and stockholders' equity | **$ 635,688** | $ 578,697 |

**Condensed Income Statements**

| *(In thousands)* | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Dividends from subsidiaries | **$ 9,000** | $ 42,900 | $ 61,500 |
| Management fee from subsidiaries | **65,596** | 59,102 | 57,135 |
| Securities gains | **141** | 1,514 | 67 |
| Interest, dividend and other income | **869** | 1,026 | 917 |
| Total revenue | **75,606** | 104,542 | 119,619 |
| Operating expense | **73,687** | 65,180 | 57,846 |
| Income before income tax benefit (expense) and equity in undistributed income of subsidiaries (excess distributions by subsidiaries over income) | **1,919** | 39,362 | 61,773 |
| Income tax benefit (expense) | **1,994** | 1,016 | (392) |
| Equity in undistributed income of subsidiaries (excess distributions by subsidiaries over income) | **48,098** | 17,975 | (11,053) |
| Net income | **$ 52,011** | $ 58,353 | $ 50,328 |

| (In thousands) | Years ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| ***Operating activities*** | | | |
| Net income | **$ 52,011** | $ 58,353 | $ 50,328 |
| ***Adjustments to reconcile net income to net cash provided by operating activities*** | | | |
| Impairment of available-for-sale securities | **-** | 162 | - |
| Stock-based compensation | **3,133** | 2,105 | 2,831 |
| (Gain) loss on sales of available-for-sale securities | **(141)** | (1,514) | (68) |
| (Equity in undistributed income of subsidiaries) excess distributions by subsidiaries over income | **(48,098)** | (17,975) | 11,053 |
| Net change in other liabilities | **(3,662)** | 24,436 | (2,215) |
| Net change in other assets | **3,632** | (24,450) | (2,845) |
| Net cash provided by operating activities | **6,875** | 41,117 | 59,084 |
| ***Investing activities*** | | | |
| Cash used in Mang Insurance Agency, LLC acquisition | **-** | (26,233) | - |
| Purchases of available-for-sale securities | **(2,173)** | (5,934) | (1,500) |
| Sales and maturities of available-for-sale securities | **494** | 5,660 | 1,159 |
| (Purchases) disposals of premises and equipment | **(600)** | (445) | 433 |
| Net cash (provided by) used in investing activities | **(2,279)** | (26,952) | 92 |
| ***Financing activities*** | | | |
| Proceeds from the issuance of shares to employee benefit plans and other stock plans | **2,728** | 11,361 | 4,353 |
| Payments on long-term debt | **(12,625)** | (1,365) | (111) |
| Proceeds from the issuance of long-term debt | **-** | 13,750 | - |
| Proceeds from the issuance of common stock | **33,401** | - | - |
| Purchases of treasury shares | **-** | (5,939) | (48,957) |
| Cash dividends and payments for fractional shares | **(27,119)** | (25,830) | (26,226) |
| Excess tax benefit from exercise of stock options | **(243)** | 700 | 715 |
| Net cash (used in) provided by financing activities | **(3,858)** | (7,323) | (70,226) |
| Net increase (decrease) in cash and cash equivalents | **738** | 6,842 | (11,050) |
| Cash and cash equivalents at beginning of year | **10,846** | 4,004 | 15,054 |
| Cash and cash equivalents at end of year | **$ 11,584** | $ 10,846 | $ 4,004 |

A statement of changes in stockholders' equity has not been presented since it is the same as the consolidated statement of changes in stockholders' equity previously presented.

(20) FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

SHORT TERM INSTRUMENTS

For short-term instruments, such as cash and cash equivalents, accrued interest receivable, accrued interest payable, and short term borrowings, carrying value approximates fair value.

**SECURITIES**

Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix pricing from third party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

**LOANS**

For variable rate loans that reprice frequently and have no significant credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated through discounted cash flow analysis using interest rates currently being offered for loans with similar terms and credit quality. Nonperforming loans are valued based upon recent loss history for similar loans.

**DEPOSITS**

The fair values disclosed for savings, money market, and noninterest bearing accounts are, by definition, equal to their carrying values at the reporting date. The fair value of fixed maturity time deposits is estimated using a discounted cash flow analysis that applies interest rates currently offered to a schedule of aggregated expected monthly maturities on time deposits.

**LONG-TERM DEBT**

The fair value of long-term debt has been estimated using discounted cash flow analysis that applies interest rates currently offered for notes with similar terms.

**COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT**

The fair value of commitments to extend credit and standby letters of credit are estimated using fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. Carrying amounts, which are comprised of the unamortized fee income, are not significant.

**TRUST PREFERRED DEBENTURES**

The fair value of trust preferred debentures has been estimated using a discounted cash flow analysis.

Estimated fair values of financial instruments at December 31 are as follows:

| (In thousands) | 2009 Carrying amount | 2009 Estimated fair value | 2008 Carrying amount | 2008 Estimated fair value |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Cash and cash equivalents | **$ 187,161** | **$ 187,161** | $ 110,396 | $ 110,396 |
| Securities available for sale | **1,116,758** | **1,116,758** | 1,119,665 | 1,119,665 |
| Securities held to maturity | **159,946** | **161,851** | 140,209 | 141,308 |
| Trading securities | **2,410** | **2,410** | 1,407 | 1,407 |
| Loans | **3,645,398** | **3,627,198** | 3,651,911 | 3,650,428 |
| Less allowance for loan losses | **66,550** | **-** | 58,564 | - |
| Net loans | **3,578,848** | **3,627,198** | 3,593,347 | 3,650,428 |
| Accrued interest receivable | **22,104** | **22,104** | 22,746 | 22,746 |
| ***Financial liabilities*** | | | | |
| Savings, NOW, and money market | **$ 2,269,779** | **$ 2,269,779** | $ 1,885,551 | $ 1,885,551 |
| Time deposits | **1,033,278** | **1,041,370** | 1,352,212 | 1,367,425 |
| Noninterest bearing | **789,989** | **789,989** | 685,495 | 685,495 |
| Short-term borrowings | **155,977** | **155,977** | 206,492 | 206,492 |
| Long-term debt | **554,698** | **596,588** | 632,209 | 660,246 |
| Accrued interest payable | **5,814** | **5,814** | 8,709 | 8,709 |
| Trust preferred debentures | **75,422** | **73,244** | 75,422 | 79,411 |

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has a substantial trust and investment management operation that contributes net fee income annually. The trust and investment management operation is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities include the benefits resulting from the low-cost funding of deposit liabilities as compared to the cost of borrowing funds in the market, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimate of fair value.

The following table sets forth the Company's financial assets and liabilities measured on a recurring basis that were accounted for at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2009 |
|---|---|---|---|---|
| Assets: | | | | |
| Securities Available for Sale: | | | | |
| U.S. Treasury | 20,086 | - | - | 20,086 |
| Federal Agency | - | 313,157 | - | 313,157 |
| State & municipal | | 137,613 | - | 137,613 |
| Mortgage-backed | - | 280,861 | - | 280,861 |
| Collateralized mortgage obligations | - | 330,711 | - | 330,711 |
| Corporate | | 20,674 | - | 20,674 |
| Other securities | 11,654 | 2,002 | - | 13,656 |
| Total Securities Available for Sale | $ 31,740 | $ 1,085,018 | $ - | $ 1,116,758 |
| | | | | |
| Trading Securities | 2,410 | - | - | 2,410 |
| Total | $ 34,150 | $ 1,085,018 | $ - | $ 1,119,168 |

Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix pricing from a third party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

FASB ASC Topic 820 requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis. In accordance with the provisions of FASB ASC Topic 310, the Company had collateral dependent impaired loans with a carrying value of approximately $12.0 million which had specific reserves included in the allowance for loan and lease losses of $2.6 million at December 31, 2009. During the year ended December 31, 2009, the Company established specific reserves of approximately $2.1 million, which were included in the provision for loan and lease losses. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

FASB ASC Topic 825 gives entities the option to measure eligible financial assets, financial liabilities and Company commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, FASB ASC Topic 825 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. FASB ASC Topic 825 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. FASB ASC Topic 825 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not eliminate disclosure requirements included in other accounting standards. As of December 31, 2009, the Company has not elected the fair value option for any eligible items.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out by the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. No changes were made to the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Management Report on Internal Controls Over Financial Reporting

The management of NBT Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2009, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company's internal control over financial reporting as of December 31, 2009 was effective at the reasonable assurance level based on those criteria.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm" on page 93.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
NBT Bancorp Inc.:

We have audited NBT Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's report on Internal Control Over Financial Reporting* . Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in stockholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

Albany, New York
February 26, 2010

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information for the executive officers other than directors who are officers of NBT Bancorp Inc.

| Name | Age at December 31, 2009 | Positions Held with NBT and NBT Bank |
|---|---|---|
| Michael J. Chewens | 48 | Senior Executive Vice President, Chief Financial Officer and Corporate Secretary |
| David E. Raven | 47 | President of Retail Banking of NBT Bank, President and Chief Executive Officer Pennstar Bank Division |
| Jeffrey M. Levy | 48 | President of Commercial Banking and Capital Region President of NBT Bank |

Information concerning the principal occupation of these executive officers of NBT Bancorp Inc. and NBT Bank N.A. during at least the last five years is set forth below.

Michael J. Chewens has been Senior Executive Vice President and Chief Financial Officer of NBT and NBT Bank since January 2002. He was EVP and CFO of same from 1999 to 2001. He has been Secretary of NBT and NBT Bank since December 2000.

David E. Raven has been President of Retail Banking of NBT Bank since July 2006 and President and Chief Executive Officer of Pennstar Bank Division since August 2005. Prior to that, he was President and Chief Operating Officer of Pennstar Bank Division from August 2000 to 2005 and Sales and Administration from September 1999 through August 2000.

Jeffrey M. Levy has been Executive Vice President of NBT and Executive Vice President, Commercial Banking for NBT Bank since December 2006. He joined NBT in August 2005 as Capital Region President. Prior to joining NBT, Mr. Levy was Manager of New York State Government Banking at M&T Bank from January 2004 to August 2005 and President of the Capital District, Commercial Banking at M&T Bank from January 2001 to December 2003.

Additional information by this items is incorporated herein by reference to the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on may 4, 2010 (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the Company's 2009 fiscal year end.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2009 fiscal year end.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2009 fiscal year end.

## ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2009 fiscal year end.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2009 fiscal year end.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) The following Consolidated Financial Statements are included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2009 and 2008.

Consolidated Statements of Income for each of the three years ended December 31, 2009, 2008 and 2007.

Consolidated Statements of Changes in Stockholders' Equity for each of the three years ended December 31, 2009, 2008 and 2007.

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2009, 2008 and 2007.

Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2009, 2008 and 2007.

Notes to the Consolidated Financial Statements.

(a)(2) There are no financial statement schedules that are required to be filed as part of this form since they are not applicable or the information is included in the consolidated financial statements.

(a)(3) See below for all exhibits filed herewith and the Exhibit Index.

| | |
|---|---|
| 3.1 | Certificate of Incorporation of NBT Bancorp Inc. as amended through July 23, 2001. (filed as Exhibit 3.1 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference). |
| 3.2 | By-laws of NBT Bancorp Inc. as amended and restated through July 23, 2001. (filed as Exhibit 3.2 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference). |
| 3.3 | Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registration's Form 8-K, file number 0-14703, filed on November 18, 2004, and incorporated herein by reference). |
| 4.1 | Specimen common stock certificate for NBT's common stock (filed as exhibit 4.1 to the Registrant's Amendment No. 1 to Registration Statement on Form S-4 filed on December 27, 2005 and incorporated herein by reference). |
| 4.2 | Rights Agreement, dated as of November 15, 2004, between NBT Bancorp Inc. and Registrar and Transfer Company, as Rights Agent (filed as Exhibit 4.1 to Registrant's Form 8-K, file number 0-14703, filed on November 18, 2004, and incorporated by reference herein). |
| 10.1 | NBT Bancorp Inc. 1993 Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-71830 filed on October 18, 2001 and incorporated by reference herein).* |
| 10.2 | NBT Bancorp Inc. Non-Employee Director, Divisional Director and Subsidiary Director Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-73038 filed on November 9, 2001 and incorporated by reference herein).* |
| 10.3 | CNB Bancorp, Inc. Stock Option Plan (filed as Exhibit 10.3 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).* |
| 10.4 | NBT Bancorp Inc. Employee Stock Purchase Plan (filed as Exhibit 10.4 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).* |
| 10.5 | NBT Bancorp Inc. Non-employee Directors Restricted and Deferred Stock Plan (filed as Exhibit 10.5 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).* |
| 10.6 | NBT Bancorp Inc. Performance Share Plan (filed as Exhibit 10.6 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).* |
| 10.7 | NBT Bancorp Inc. 2010 Executive Incentive Compensation Plan.* |

| | |
|---|---|
| 10.8 | CNB Bancorp, Inc. Long-Term Incentive Compensation Plan (filed as Exhibit 10.8 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).* |
| 10.9 | 2006 Non-Executive Restricted Stock Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-139956, filed on January 12, 2007, and incorporated herein by reference).* |
| 10.10 | Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe as amended and restated Effective January 1, 2005. (filed as Exhibit 10.11 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).* |
| 10.11 | Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995 (filed as Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).* |
| 10.12 | Amendment dated January 28, 2002 to Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995 (filed as Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).* |
| 10.13 | Employment Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated November 5, 2009 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.14 | Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated January 20, 2010. |
| 10.15 | Form of Change in Control Agreement, dated November 5, 2009, by and between NBT Bancorp Inc. and certain executive officers. (filed as Exhibit 10.5 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.16 | Employment Agreement between NBT Bancorp Inc. and Michael J. Chewens as amended and restated November 5, 2009 (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.17 | Form of Amended and Restated NBT Bancorp Inc. Supplemental Retirement Agreement, dated as of November 5, 2009, between NBT Bancorp Inc. and certain executive officers. (filed as Exhibit 10.7 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.18 | Employment Agreement between NBT Bancorp Inc. and David E. Raven as amended and restated November 5, 2009 (filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.19 | Employment Agreement between NBT Bancorp Inc. and Jeff Levy made as amended and restated November 5, 2009 (filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.20 | Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Martin A. Dietrich made November 10, 2008 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2008, filed on November 10, 2008 and incorporated herein by reference).* |
| 10.21 | First amendment dated November 5, 2009 to Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Martin A. Dietrich made November 10, 2008. (filed as Exhibit 10.6 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).* |
| 10.22 | NBT Bancorp Inc. 2008 Omnibus Incentive Plan (filed as Appendix A of Registrant's Definitive Proxy Statement on Form 14A filed on March 31, 2008, and incorporated herein by reference).* |
| 10.23 | Description of Arrangement for Directors Fees.* |
| 21 | A list of the subsidiaries of the Registrant. |
| 23 | Consent of KPMG LLP. |
| 31.1 | Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934. |
| 31.2 | Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934. |
| 32.1 | Certification by the Chief Executive Officer pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management contract or compensatory plan or arrangement

(b) Exhibits to this Form 10-K are attached or incorporated herein by reference as noted above.

(c) Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, NBT Bancorp Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NBT BANCORP INC. (Registrant)

March 1, 2010

/s/ Martin A. Dietrich

---

Martin A. Dietrich
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Daryl R. Forsythe

---

Daryl R. Forsythe
Chairman and Director
Date:March 1, 2010

/s/ Martin A. Dietrich

---

Martin A. Dietrich

NBT Bancorp Inc. President, CEO, and Director (Principal Executive Officer)

Date:March 1, 2010

/s/ John C. Mitchell

---

John C. Mitchell, Director
Date:March 1, 2010

/s/ Joseph G. Nasser

---

Joseph G. Nasser, Director

Date:March 1, 2010

/s/ William C. Gumble

---

William C. Gumble, Director

Date:March 1, 2010

/s/ Richard Chojnowski

Richard Chojnowski, Director

Date:March 1, 2010

/s/ Michael M. Murphy

Michael M. Murphy, Director

Date:March 1, 2010

/s/ Michael J. Chewens

Michael J. Chewens
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date:March 1, 2010

/s/ Joseph A. Santengelo

Joseph A. Santangelo, Director

Date:March 1, 2010

/s/ Robert A. Wadsworth

Robert A. Wadsworth, Director

Date:March 1, 2010

/s/ Patricia T. Civil

Patricia T. Civil, Director

Date:March 1, 2010

**Exhibit 10.7**

January 2010

# NBT BANCORP INC. AND SUBSIDIARIES

# 2010 EXECUTIVE INCENTIVE COMPENSATION PLAN

**NBT BANCORP INC. AND SUBSIDIARIES**
**2010 EXECUTIVE INCENTIVE COMPENSATION PLAN**

## Table of Contents

# NBT BANCORP INC. AND SUBSIDIARIES

## Introduction

It is important to examine the benefits that accrue to the organization through the operation of the Executive Incentive Compensation Plan (EICP). The Plan impacts directly on the success of the organization and its purpose can be summarized as follows:

* Provides Motivation: The opportunity for incentive awards provides Executives with the impetus to "stretch" for challenging, yet attainable, goals.

* Provides Retention: By enhancing the organization's competitive compensation posture.

* Provides Management Team Building: By making the incentive award dependent on the attainment of organization goals, a "team orientation" is fostered among the participant group.

* Provides Individual Motivation: By encouraging the participant to make significant personal contribution to the corporate effort.

* Provides Competitive Compensation Strategy: The implementation of incentive arrangements is competitive with current practice in the banking industry.

Highlights of the 2010 Executive Incentive Compensation Plan (EICP) are listed below:

1. The Plan is competitive compared with similar sized banking organizations and the banking industry in general.

2. The Compensation Committee of the Board of Directors controls all aspects of the Plan.

3. All active Executives are eligible for participation.

4. The financial criteria necessary for Plan operation consist of achieving certain levels of Earnings Per Share (EPS) for the Company and its Subsidiaries as applicable. The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occur during a Performance Period: (a) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (b) any reorganization and restructuring programs; and (c) acquisitions or divestitures and related expenses. To the extent such inclusions or exclusions affect Awards to Covered Employees; they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

5. Incentive distributions will be made on or before March 15 of the year following the Plan Year and will be based on the matrix in Appendix A.

6. Incentive awards will be based on attainment of corporate goals. Total incentive awards may contain Corporate, Subsidiary, Divisional and Individual components. The Corporate, Subsidiary and Divisional components are awarded by virtue of performance related to pre-established goals and the Individual component is awarded by virtue of individual performance related to individual goals. No bonus will be paid unless the Corporation achieves the threshold EPS goal set forth in Appendix A.

## NBT BANCORP INC. AND SUBSIDIARIES

The Board of Directors has established this 2010 Executive Incentive Compensation Plan. The 2010 Executive Incentive Compensation Plan is implemented pursuant to the provisions of the 2008 Omnibus Incentive Plan for purposes of paying performance-based compensation within the meaning of Section 162(m) of the Code. The purpose of the Plan is to meet and exceed financial goals and to promote a superior level of performance relative to the competition in our market areas. Through payment of incentive compensation beyond base salaries, the Plan provides reward for meeting and exceeding financial goals.

### SECTION I – DEFINITIONS

Various terms used in the Plan are defined as follows:

**Award:** An award granted under this Plan.

**Base Salary:** The base salary at the end of the Plan Year, excluding any bonuses, contributions to Executive benefit programs, or other compensation not designated as salary.

**Board of Directors:** The Board of Directors of NBT Bancorp Inc.

**CEO:** The CEO of NBT Bancorp Inc.

**Code:** The Internal Revenue Code of 1986, as now in effect or as hereafter amended.

**Corporate, Subsidiary and Divisional Goals:** Those pre-established objectives and goals of NBT Bancorp Inc. or its Subsidiaries and Divisions which are required to activate distribution of awards under the Plan.

**Covered Employee:** A Participant who is a Covered Employee within the meaning of Section 162(m)(3) of the Code.

**Individual Goals:** Refers to the performance standards established by the plan participant and agreed to by the supervisor. The participant shall stray from using standards tied to day to day responsibilities and shall strive to achieve such goals that shall be considered value-added and, where possible, support the strategic objectives of the Company.

**Compensation Committee:** The Compensation and Benefits Committee of the NBT Bancorp Inc. Board of Directors.

**Plan Participant:** An eligible Executive as recommended by the CEO and approved by the Compensation Committee for participation for the Plan Year.

**Plan Year:** The 2010 calendar year.

## SECTION II - ELIGIBILITY TO PARTICIPATE

To be eligible for an award under the Plan, a Plan participant must be an Executive in full-time service at the start and close of the calendar year and at the time of the award unless mutually agreed upon prior to the Executive leaving the company. Newly hired employees may be recommended by the CEO and approved by the Compensation Committee as eligible for an award as determined by their date of hire or any relevant employment agreement. A Plan participant must be in the same or equivalent position, at year-end as they were when named a participant or have been promoted during the course of the year, to be eligible for an award. If a Plan participant voluntarily leaves the company prior to the payment of the award, he/she is not eligible to receive an award unless mutually agreed upon prior to the Executive leaving the company. However, if the active full-time service of a participant in the Plan is terminated by death, disability, retirement, or if the participant is on an approved leave of absence, an award may be recommended for such a participant based on the proportion of the Plan Year that he/she was in active service.

## SECTION III - ACTIVATING THE PLAN

If and to the extent that the Committee determines that a bonus to be granted under the Plan to a Plan participant who is designated by the Compensation Committee as likely to be a Covered Employee should qualify as “performance-based compensation” for purposes of Code Section 162(m), the bonus as to that Plan participants shall be determined consistently with the terms of the NBT Bancorp Inc. 2008 Omnibus Incentive Plan.

The operation of the Plan is predicated on attaining and exceeding management performance goals. The goals will consist of the attainment of certain Earnings Per Share (EPS) levels as applicable. Non-recurring events, as previously detailed, may be excluded from the financial results at the discretion of the CEO and upon approval of the Compensation Committee; subject to the terms of the NBT Bancorp Inc. 2008 Omnibus Incentive Plan as applied to any Covered Employee whose bonus is intended to qualify for purposes of Code Section 162(m).

EPS goals shall be established not later than 90 days after the beginning of any performance period applicable to the bonus, or at such other date as may be required or permitted for "performance-based compensation" under Code Section 162(m). In addition, the maximum value of a bonus awarded under the Plan to a single Covered Employee may not exceed $2,000,000 per Plan Year.

Prior to payment of any bonus amount under the Plan to a Covered Employee whose bonus is intended to qualify for purposes of Code Section 162(m), the Compensation Committee shall certify in writing that the EPS goal(s) and all other material terms stated herein have been attained. For this purpose, the approved minutes of a Compensation Committee meeting in which a certification is made shall be treated as a written certification.

The Corporation must achieve a threshold EPS goal set forth in Appendix A to trigger an award pursuant to the terms of this Plan. The bonus awards can range from 0 to 200% of the target award for Plan participants.

**SECTION IV - CALCULATION OF AWARDS**

The Compensation Committee designates the incentive formula as shown in Appendix A. The Compensation Committee will make final decisions with respect to all incentive awards and will have final approval over all incentive awards. If the threshold EPS goal is met but below the baseline budget threshold established by the Company, the CEO may provide the Compensation Committee with a qualitative analysis of the Company's earnings and its performance which the Compensation Committee shall consider in its exercise of discretion under the plan. Prior to payment of any bonus amount under the Plan to a Covered Employee whose bonus is intended to qualify for purposes of Code Section 162(m), the Compensation Committee shall certify in writing that the EPS goal(s) and all other material terms stated herein have been attained. For this purpose, the approved minutes of a Compensation Committee meeting in which a certification is made shall be treated as a written certification. The individual participant data regarding maximum award and formulas used in calculation has been customized and appears as Appendix A.

**SECTION V - SPECIAL RECOMMENDATIONS**

As long as the threshold EPS goal is met, the CEO has the authority to recommend to the Compensation Committee the amounts to be awarded to individual participants in the incentive Plan. The CEO may recommend a change outside the formula to a bonus award (increase or decrease) to an individual participant by a specified percentage based on assessment of special individual performance outside the individual goals or based on special circumstances that may have occurred during the plan year; provided, however that as to a Covered Employee whose bonus is intended to qualify for purposes of Code Section 162(m), only the Compensation Committee has the authority to make a change outside the formula to a bonus award and it may exercise its discretion only to reduce the bonus award.

**SECTION VI - DISTRIBUTION OF AWARDS**

Distribution of the EICP will be made during the first quarter of the year following the plan. Distribution of the award must be approved by the Compensation Committee.

In the event of death, any approved award earned under the provisions of this plan will become payable to the designated beneficiary of the participant as recorded under the Company's group life insurance program; or in the absence of a valid designation, to the participant's estate.

**SECTION VII - PLAN ADMINISTRATION**

The Compensation Committee shall, with respect to the Plan have full power and authority to construe, interpret, manage, control and administer this Plan. The Committee shall decide upon cases in conformity with the objectives of the Plan under such rules as the Board of Directors may establish.

Any decision made or action taken by NBT Bancorp Inc., the Board of Directors, or the Compensation Committee arising out of, or in connection with, the administration, interpretation, and effect of the Plan shall be at their absolute discretion and will be conclusive and binding on all parties. No member of the Board of Directors, Compensation Committee, or employee shall be liable for any act or action hereunder, whether of omission or commission, by a Plan participant or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated in accordance with the provision of the Plan.

**SECTION VIII - AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION**

NBT Bancorp Inc. reserves the right, by and through its Board of Directors to amend, modify, suspend, reinstate or terminate all or part of the Plan at any time. The Compensation Committee will give prompt written notice to each participant of any amendment, suspension or termination or any material modification of the Plan. In the event of a merger or acquisition, the Plan and related financial formulas may be reviewed and adjusted to take into account the effect of such activities.

**SECTION IX – NONEXCLUSIVITY**

NBT Bancorp Inc. reserves the right, by and through its Board of Directors and Compensation Committee to award bonus and other forms of incentive compensation outside the terms of this Plan.

**SECTION X - EFFECTIVE DATE OF THE PLAN**

The effective date of the Plan shall be January 1, 2010.

**SECTION XI - EMPLOYER RELATION WITH PARTICIPANTS**

Neither establishment nor the maintenance of the Plan shall be construed as conferring any legal rights upon any participant or any person for a continuation of employment, nor shall it interfere with the right of an employer to discharge any participant or otherwise deal with him/her without regard to the existence of the Plan.

**SECTION XII - GOVERNING LAW**

Except to the extent pre-empted under federal law, the provisions of the Plan shall be construed, administered and enforced in accordance with the domestic internal law of the State of New York. In the event of relevant changes in the Internal Revenue Code, related rulings and regulations, changes imposed by other regulatory agencies affecting the continued appropriateness of the Plan and awards made thereunder, the Board may, at its sole discretion, accelerate or change the manner of payments of any unpaid awards or amend the provisions of the Plan.

AMENDED AND RESTATED
SUPPLEMENTAL RETIREMENT AGREEMENT
EFFECTIVE January 20, 2010

The attached document (**Amended and Restated NBT Bancorp Inc. Supplemental Executive Retirement Plan**, effective as of January 20, 2010) sets forth the terms of an agreement for the payment of supplemental retirement income made as of January 20, 2010 between **NBT Bancorp Inc.**, a Delaware corporation and a registered financial holding company headquartered at 52 S. Broad Street, Norwich, New York 13815, and **Martin A. Dietrich**, an individual residing at 122 Serenity Drive, Norwich, New York 13815. The parties hereby execute this agreement as follows:

NBT BANCORP INC.

By /s/ Daryl R. Forsythe Date: January 20, 2010
Daryl R. Forsythe
Chairman and Director

/s/ Martin A. Dietrich Date: January 20, 2010
Martin A. Dietrich

## PREAMBLE

This Amended and Restated NBT Bancorp Inc. Supplemental Executive Retirement Plan (the "Plan") is effective as of November 5, 2009. The purpose of the Plan is to permit certain employees of NBT Bancorp Inc. (the "Company"), its subsidiary, NBT Bank, National Association (the "Bank") and adopting affiliated employers to receive supplemental retirement income when such amounts would be due under the benefit and contribution formulas in the tax-qualified NBT Bancorp Inc. Defined Benefit Pension Plan and NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan but cannot be paid thereunder due to the reductions and other limitations imposed by Sections 401(a)(17), 401(k)(3), 401(m) and 415 of the Internal Revenue Code of 1986, as amended and to provide such employees' with an aggregate retirement benefit (taking into consideration amounts paid under such Plans and social security benefits) commencing following retirement at or after age 60 of not less than 60% of such employees' final average compensation, subject to the terms of the Plan. Capitalized terms are defined in Article 1 below.

The Plan is intended to be an unfunded, non-qualified deferred compensation plan. Neither the Employer, the Committee, nor the individual members of the Committee shall segregate or otherwise identify specific assets to be applied to the purposes of the Plan, nor shall any of them be deemed to be a trustee of any amounts to be paid under the Plan. Any liability of the Employer to any person with respect to benefits payable under the Plan shall be based solely upon such contractual obligations, if any, as shall be created by the Plan, and shall give rise only to a claim against the general assets of the Employer. No such liability shall be deemed to be secured by any pledge or any other encumbrance on any specific property of the Employer.

## ARTICLE 1

## DEFINITIONS

The following words and phrases shall have the meanings hereafter ascribed to them. Those words and phrases which have limited application are defined in the respective Articles in which such terms appear.

1.1 "Actuarial Equivalent" shall have the same meaning the term "Actuarial Equivalent" has under Section 1.4 of the Basic Retirement Plan using the following actuarial assumptions:

Mortality: "Applicable Mortality Rate" as such term is defined Exhibit I of the Basic Retirement Plan.

Interest Rate: "Applicable Interest Rate" as such term is defined in Exhibit I of the Basic Retirement Plan.

1.2 "Bank" means NBT Bank, National Association or any successor thereto by merger, consolidation or otherwise by operation of law.

1.3 “Basic 401(k)/ESOP” means the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan, as amended from time to time.

1.4 “Basic 401(k)/ESOP Benefit” means the benefit paid to a Participant under the Basic 401(k)/ESOP and includes benefits payable upon Normal Retirement, Early Retirement, Postponed Retirement, death or termination of service.

1.5 “Basic 401(k)/ESOP Surviving Spouse Benefit” means the benefit payable to a Participant’s surviving spouse under the Basic 401(k)/ESOP upon the Participant’s death before a distribution of the Participant’s entire Basic 401(k)/ESOP account balance.

1.6 “Basic Retirement Plan” means the NBT Bancorp Inc. Defined Benefit Pension Plan, as amended from time to time.

1.7 “Basic Retirement Plan Benefit” means the benefit payable to a Participant under the Basic Retirement Plan and includes benefits payable upon Normal Retirement, Early Retirement, Postponed Retirement, death or termination of service.

1.8 “Basic Retirement Plan Surviving Spouse Benefit” means the benefit payable to a Participant’s surviving spouse or eligible children under the Basic Retirement Plan upon the Participant’s death, if any.

1.9 “Beneficiary” means such living person or living persons designated by the Participant in accordance with Section 7.3(a) to receive the Supplemental Retirement Benefit after his or her death, or his or her personal or legal representative, all as herein described and provided. If no Beneficiary is designated by the Participant or if no Beneficiary survives the Participant, the Beneficiary shall be the Participant’s estate.

1.10 “Board” means the Board of Directors of the Company, as duly constituted from time to time.

1.11 “Cause” means the Participant’s (a) conviction of robbery, bribery, extortion, embezzlement, fraud, grand larceny, burglary, perjury, income tax evasion, misapplication of Employer funds, false statements in violation of 18 U.S.C. § 1001, or any other felony that is punishable by a term of imprisonment of more than one year; (b) material breach of his or her duty of loyalty to the Employer; (c) acts or omissions in the performance of his or her duties having a material adverse effect on the Employer that were not done or omitted to be done in good faith or which involved intentional misconduct or a knowing violation of law; or (d) any transaction in the performance of his or her duties with the Employer from which he or she derived a material improper personal benefit.

1.12 “Change in Control” means:

(i) A change in control with respect to the Company or the Bank of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the date hereof pursuant to the Securities Exchange Act of 1934 (the “Exchange Act”); provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any person (including an individual, corporation, partnership, trust, association, joint venture, pool, syndicate, unincorporated organization, joint-stock company or similar organization or group acting in concert) hereafter becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of the common stock and other voting securities of the Company; or

(ii) During any period of two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election by the shareholders of the Company, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(iii) There shall be consummated (x) any consolidation or merger of the Company in which it is not the continuing or surviving corporation or pursuant to which voting securities of the Company would be converted into cash, securities, or other property, other than a merger of the Company in which the holders of its common stock and other voting securities immediately before the merger have substantially the same proportionate ownership of common stock and other voting securities, respectively, of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all of the assets of the Company or the Bank, provided that any such consolidation, merger, sale, lease, exchange or other transfer consummated at the insistence of an appropriate banking regulatory agency shall not constitute a change in control; or

(iv) Approval by the shareholders of the Company of any plan or proposal for its liquidation or dissolution.

1.13 “Code” means the Internal Revenue Code of 1986, as amended from time to time.

1.14 “Committee” means the Plan’s administrative committee, as appointed by the Board to administer the Plan, as described in Article 10.

1.15 “Company” means NBT Bancorp Inc. or any successor thereto by merger, consolidation or otherwise by operation of law.

1.16 “Confidential Information” means business methods, creative techniques and technical data of the Company, the Bank and their affiliates that are deemed by the Company, the Bank or any such affiliate to be and are in fact confidential business information of the Company, the Bank or its affiliates or are entrusted to the Company, the Bank or its affiliates by third parties, and includes, but is not limited to, procedures, methods, sales relationships developed while the Participant is in the service of the Company, the Bank or their affiliates, knowledge of customers and their requirements, marketing plans, marketing information, studies, forecasts and surveys, competitive analyses, mailing and marketing lists, new business proposals, lists of vendors, consultants, and other persons who render service or provide material to the Company, the Bank or their affiliates, and compositions, ideas, plans, and methods belonging to or related to the affairs of the Company, the Bank or their affiliates, except for such information as is clearly in the public domain, *provided*, that information that would be generally known or available to persons skilled in the Participant’s fields shall be considered to be “clearly in the public domain” for this purpose.

1.17 “Default Payment Commencement Date” means the later of: (a) the first day of the month following the month in which the Participant attains age 60, and (b) in the event the Participant incurs a Separation from Service due to his or her death, the first day of the month following the date of death or, in the event the Participant incurs a Separation from Service other than by reason of death, the first day of the seventh month following the date on which the Participant incurs a Separation from Service.

1.18 “Deferral Credit Account” means the bookkeeping account maintained in the name of the Employer, on behalf of each Participant, pursuant to Article 5.

1.19 “Determination Date” means the earlier of (i) the date of termination of the Participant’s employment with the Employer or (ii) the first day of the month following the Participant’s 65th birthday.

1.20 “Effective Date” means July 23, 2001, as amended and restated as of November 5, 2009.

1.21 “Employee” means a person who is an employee of the Employer.

1.22 “Employer” means the Company, the Bank and any subsidiary or affiliated corporation of either of them which, with the approval of the Board and subject to such conditions as the Board may impose, adopts the Plan, and any successor or successors of any of them.

1.23 “Final Average Compensation” shall have the same meaning as the term “Final Average Compensation” has under Section 1.05A of Appendix A to the Basic Retirement Plan, except that in determining the amount of Compensation (as defined in Section 1.12 of the Basic Retirement Plan) to be used in calculating Final Average Compensation under Section 1.05A of Appendix A to the Basic Retirement Plan, Compensation shall not be subject to the compensation limitation of section 401(a)(17) of the Code.

1.24 “401(k)/ESOP Benefit” means the deferred compensation 401(k)/ESOP Benefit provided to Participants and their beneficiaries in accordance with the applicable provisions of the Plan.

1.25 “Full-Time Employee” shall mean an Employee who works not less than 1,000 hours in a calendar year.

1.26 “Other Retirement Benefits” means the sum of:

(a) The annual benefit payable to the Participant from the Basic Retirement Plan; plus

(b) The annual Retirement Income Benefit payable to the Participant hereunder; plus

(c) The annual amount of any supplemental retirement benefit payable to the Participant by the Employer or any other Employer pursuant to any Supplemental Retirement Agreement with the Participant (other than amounts attributable to elective deferrals of such Participant's compensation); plus

(d) The annual benefit that could be provided by (A) Employer contributions (other than elective deferrals) made on the Participant's behalf under the Basic 401(k)/ESOP, and (B) actual earnings on contributions in (A), if such contributions and earnings were converted to a benefit payable at age 60 in the same form as the Supplemental Retirement Benefit, using the same actuarial assumptions as are provided under Section 1.1; plus

(e) The annual benefit that could be provided by the Participant's Deferral Credit Account, if such Deferral Credit Account were converted to a benefit payable at age 60 in the same form as the Supplemental Retirement Benefit, using the same actuarial assumptions as are provided under Section 1.1.

The amount of Other Retirement Benefits shall be determined by an actuary selected by the Company, with such determination to be made without regard to whether the Participant is receiving payment of such benefits on the Determination Date. To the extent the Participant receives a payment of Other Retirement Benefits described in 1.26(d) or (e) prior to the date the Supplemental Retirement Benefit is determined pursuant to this Plan, the total of such Other Retirement Benefits shall be determined by including and assuming that such amounts earned interest at a variable rate equal to the one-year United States Treasury bill rate as reported in the New York edition of *The Wall Street Journal* on the Determination Date from the date received to the date Other Retirement Benefits are calculated for purposes of this Plan.

1.27 "Participant" means an Employee who has been designated by the Employer as eligible to participate in the Plan and who becomes a Participant pursuant to the provisions of Article 2.

1.28 "Payment Commencement Date" means the later of (a) the first day of the seventh month following the date a Participant incurs a Separation from Service other than by reason of death, or if due to death, the first day of the month following the Participant's death, and (b) the date elected by the Participant in his or her valid Payment Election.

1.29 "Payment Election" means a Participant's election on the form provided by the Company of a Payment Commencement Date and the form in which payment shall be made in accordance with the procedures established by the Committee for such purpose.

1.30 "Plan" means the NBT Bancorp Inc. Supplemental Executive Retirement Plan, as herein set forth, and as it may hereafter be amended from time to time.

1.31 "Plan Limitation Provisions" means provisions of the Basic 401(k)/ESOP and the Basic Retirement Plan that reduce or restrict an Employee's employer-provided benefits under the Basic Retirement Plan and employer matching contributions to the Basic 401(k)/ESOP (including Article IX and the last paragraph of Section 1.12 of the Basic Retirement Plan and the fourth to last paragraph of Section 1.12, and Sections 4.5, 4.7 and 4.9 of the Basic 401(k)/ESOP, or the corresponding provisions of any amendment to such Plans) in order to satisfy the limitations imposed by one or more of the following: (i) Section 401(a)(17) of the Code, (ii) Section 401(k)(3) of the Code, (iii) Section 401(m) of the Code, or (iv) Section 415 of the Code.

1.32 “Plan Year” means the period from the Effective Date through December 31, 2001 and each calendar year thereafter within which the Plan is in effect.

1.33 “Present Value” means the present value of a benefit determined on the basis of the actuarial assumptions specified in Section 1.1

1.34 “Separation from Service” means a “separation from service” within the meaning of Treas. Reg. §1.409A-1(h) and in accordance with the default rules thereunder, which includes termination of a Participant’s employment with the Company or any Affiliate, whether voluntarily or involuntarily, by reason of death, retirement, becoming disabled, resignation or discharge. Transfer to employment with an Affiliate shall not be treated as a Separation from Service.

1.35 “Social Security Benefit” means the Participant’s actual social security benefit at his or her Social Security Retirement Age.

1.36 “Social Security Retirement Age” means (a) age 65 for a Participant who attains age 62 before January 1, 2000 (i.e., born before January 1, 1938); (b) age 66 for a Participant who attains age 62 after December 31, 1999, but before January 1, 2017 (i.e., born after December 31, 1937, but before January 1, 1955); and (c) age 67 for a Participant who attains age 62 after December 31, 2016 (i.e., born after December 31, 1954).

1.37 “Retirement Income Benefit” means the deferred compensation retirement income benefit determined pursuant to Article 4.

1.38 “Supplemental Retirement Benefit” means the deferred compensation retirement benefit determined pursuant to Article 6.

1.39 “Supplemental Surviving Spouse Benefit” means the survivor death benefit payable to a Participant’s surviving spouse, pursuant to the provisions of Sections 8.1 through 8.3.

1.40 “Year of Service” means a calendar year in which the Participant completes not less than 1,000 Hours of Service (as defined in Section 1.25 of the Basic Retirement Plan) with an Employer.

Words importing males shall be construed to include females and the singular shall be construed to include the plural, and vice versa, wherever appropriate.

## ARTICLE 2

## ELIGIBILITY AND PARTICIPATION

2.1 Plan eligibility is limited to a select group of management or highly compensated Employees, as designated in writing by the Board, who participate in the Basic Retirement Plan, the Basic 401(k)/ESOP or both such plans.

From time to time, the Company may designate one or more Employees who participate in the Basic Retirement Plan, the Basic 401(k)/ESOP or both such plans as participants in the Plan, from the class of Employees participating in the Basic Retirement Plan, the Basic 401(k)/ESOP or both such plans who are members of a select group of management Employees or are highly compensated Employees. Newly eligible Employees shall participate as of the date specified by the Board.

2.2 The Company may, from time to time, remove any Participant from participation in the Plan; *provided*, however, that, subject to Section 12.4, such removal will not reduce the amount of Retirement Income Benefit and 401(k)/ESOP Benefit credited to the Participant under the Plan, as determined as of the date of such Participant's removal. A Participant so removed shall remain a Participant until all benefits are distributed in accordance with the provisions of the Plan.

2.3 The Committee may provide each eligible Employee with appropriate forms in connection with participation in the Plan.

## ARTICLE 3

## RETIREMENT DATE

3.1 A Participant's Retirement Date shall be his or her date of actual retirement, which may be his or her Normal, Early, Disability or Postponed Retirement Date, whichever is applicable pursuant to the following sections of this Article 3.

3.2 A Participant's Normal Retirement Age shall be the 65th anniversary of his or her birth. Such Participant's Normal Retirement Date shall be the date coinciding with Normal Retirement Date under the Basic Retirement Plan.

3.3 A Participant may retire on an Early Retirement Date, which shall be the date coinciding with the initial distribution of an early retirement benefit under the Basic Retirement Plan.

3.4 A Participant may retire on a Disability Retirement Date, which shall be the date coinciding with the initial distribution of a disability retirement benefit under the Basic Retirement Plan.

3.5 If a Participant continues in the employment of the Employer beyond Normal Retirement Date, the date coinciding with postponed retirement under the Basic Retirement Plan shall be the Participant's Postponed Retirement Date.

## ARTICLE 4

## RETIREMENT INCOME BENEFIT

4.1 The Retirement Income Benefit payable to an eligible Participant in the form of a life annuity with five years certain commencing on his or her Normal, Early, Disability or Postponed Retirement Date, as the case may be, shall be equal to the excess, if any, of the amount specified in (a) over the amount specified in (b), as stated below:

(a) the monthly amount of Basic Retirement Plan retirement income payable upon Normal, Early or Postponed Retirement Date, as the case may be, to which the Participant would have been entitled under the Basic Retirement Plan (including any payments credited as a result of a Participant being a Disabled Participant (as defined in the Basic Retirement Plan)), if such benefit were calculated under the Basic Retirement Plan without giving effect to the limitations and restrictions imposed by the application of Plan Limitation Provisions and any other provisions of the Basic Retirement Plan that are necessary to comply with Code Sections 401(a)(17) and 415, or any successor provisions thereto;

(b) the sum of (i) the monthly amount of Basic Retirement Plan retirement income payable upon Normal, Early or Postponed Retirement Date, as the case may be, actually payable to the Participant under the Basic Retirement Plan (including any payments credited as a result of a Participant being a Disabled Participant (as defined in the Basic Retirement Plan)), after the limitations and restrictions imposed by the application of the Plan Limitation Provisions and any other provisions of the Basic Retirement Plan that are necessary to comply with Code Sections 401(a)(17) and 415, or any successor provisions thereto, plus (ii) the monthly amount of retirement income that is the actuarial equivalent (determined in accordance with the Basic Retirement Plan) of any supplemental retirement benefit payable to the Participant by any Employer upon Normal, Early or Postponed Retirement Date, as the case may be, pursuant to any Supplemental Retirement Agreement with the Participant.

4.2 With respect to eligible Participants who terminate their employment other than on a Retirement Date specified in Article 3, the vested Retirement Income Benefit payable in the form of a life annuity with five years certain, commencing on the date the Participant is eligible for a vested retirement benefit under the Basic Retirement Plan, shall be equal to the excess, if any, of the amount specified in (a) over the amount specified in (b), as stated below:

(a) the monthly amount of Basic Retirement Plan vested retirement income payable upon termination of service to which the Participant would have been entitled under the Basic Retirement Plan, if such benefit were calculated under the Basic Retirement Plan without giving effect to the limitations and restrictions imposed by the application of the Plan Limitation Provisions and any other provisions of the Basic Retirement Plan that are necessary to comply with Code Sections 401(a)(17) and 415, or any successor provisions thereto;

(b) the sum of (i) the monthly amount of Basic Retirement Plan vested retirement income payable upon termination of service actually payable to the Participant under the Basic Retirement Plan, after the limitations and restrictions imposed by the application of the Plan Limitation Provisions and any other provisions of the Basic Retirement Plan that are necessary to comply with Code Sections 401(a)(17) and 415, or any successor provisions thereto, plus (ii) the monthly amount of retirement income that is the actuarial equivalent (determined in accordance with the Basic Retirement Plan) of any supplemental retirement benefit payable to the Participant by any Employer following such termination of service pursuant to any Supplemental Retirement Agreement with the Participant.

## ARTICLE 5

## SUPPLEMENTAL 401(k)/ESOP

## BENEFIT AND DEFERRAL CREDIT ACCOUNTS

5.1 The 401(k)/ESOP Benefit under the Plan shall equal the discretionary and matching contributions or other Employer-provided benefit to the extent provided for under the Basic 401(k)/ESOP (disregarding the limitations and restrictions imposed by the application of the Plan Limitation Provisions and any other provisions of the Basic 401(k)/ESOP that are necessary to comply with Code Sections 401(a)(17), 401(k)(3), 401(m), and 415, or any successor provisions thereto) for plan years of the Basic 401(k)/ESOP ending after the Effective Date, less any such amount actually contributed by the Employer to the Basic 401(k)/ESOP for such plan years (to the extent permitted by the terms thereof, taking into account the limitations and restrictions imposed by the application of the Plan Limitation Provisions and any other provisions of the Basic 401(k)/ESOP that are necessary to comply with Code Sections 401(a)(17), 401(k)(3), 401(m), and 415, or any successor provisions thereto), adjusted for income, gains and losses based on deemed investments, pursuant to Section 5.4 below. For purposes of this Section 5.1, it shall be assumed that the Participant has made Basic 401(k)/ESOP contributions, on a before-tax or after-tax basis, as are necessary to qualify for the maximum Employer provided benefit available under the Basic 401(k)/ESOP to similarly situated Basic 401(k)/ESOP Participants who are not affected by such restrictions and limitations.

5.2 The 401(k)/ESOP Benefit under the Plan shall be accounted for by the Employer under a Deferral Credit Account, maintained in the name of the Employer, on behalf of each Participant.

5.3 Each Deferral Credit Account maintained by the Employer shall be credited with units on behalf of each Participant, as appropriate in accordance with the 401(k)/ESOP Benefit, as soon as administratively practicable, but in no event later than March 15 of the Plan Year following the Plan Year in which Basic 401(k)/ESOP contributions on behalf of the Participant were limited or restricted.

5.4 The 401(k)/ESOP Benefit credited annually to each Participant's Deferral Credit Account under the Plan shall be deemed to be invested on a time weighted basis, based upon the crediting of the Deferral Credit Account under Section 5.3 above, as if such amounts had been invested in the same manner as the investment of the corresponding amounts pursuant to the Basic 401(k)/ESOP, and such Account shall be credited with income and gains, and charged with losses, as if such investments had actually been made.

## ARTICLE 6

## SUPPLEMENTAL RETIREMENT BENEFIT

6.1 If an eligible Participant shall remain employed by the Employer until: (1) reaching his or her 60th birthday or (2) or shall terminate employment prior to his or her 60$^{th}$ birthday due to disability, in each case serving as a Full-Time Employee until such date, and subject to the other terms and conditions of this Plan, the Company shall pay such Participant an annual "Supplemental Retirement Benefit" determined pursuant to subparagraphs (a) and (b) if Participant terminates employment other than due to disability and paragraph (c) if the termination is due to disability as follows:

(a) the Participant shall be entitled to a Supplemental Retirement Benefit on and after his or her 60th birthday but before his or her Social Security Retirement Age in an amount equal to the excess, if any, of (1) 60 percent of the Participant's Final Average Compensation, over (2) the Participant's Other Retirement Benefits, determined as of the Determination Date.

(b) the Participant shall be entitled to a Supplemental Retirement Benefit on and after his or her Social Security Retirement Age in an amount equal to the excess, if any, of (1) 60 percent of the Participant's Final Average Compensation, over (2) the sum of (aa) the Participant's Other Retirement Benefits, determined as of the Determination Date, plus (bb) the Participant's Social Security Benefit.

(c) the Participant shall be entitled to a Supplemental Retirement Benefit upon termination of employment due to disability in an amount equal to the excess, if any, of (1) 60 percent of the Participant's Final Average Compensation, over (2) the annual amount of any benefits paid to the Participant payable under any Employer-provided disability policies.

If the eligible Participant has terminated employment due to disability prior to reaching his Disability Retirement Date, the amount of the Supplemental Retirement Benefit shall not reduce the benefits to which the eligible Participant is entitled pursuant to any Employer provided disability policies.

6.2 If an eligible Participant shall remain employed by the Employer until reaching his or her 58th birthday, serving as a Full-Time Employee until such date and he or she continues to serve as a Full-Time Employee until the date of his or her retirement, and he or she retires then or thereafter but before reaching his or her 60th birthday, and subject to the other terms and conditions of this Plan, the Company shall pay such Participant after the date of his or her retirement, pursuant to Section 7.2(b), or to his or her spouse or other Beneficiary, pursuant and subject to Section 8.6(c) if he or she has died before his or her 60th birthday, a reduced early Supplemental Retirement Benefit calculated in accordance with the following schedule:

(a) if the date of the Participant's retirement shall be on or after his or her 58th birthday but before his or her 59th birthday, the Company shall pay such Participant 75% of the Supplemental Retirement Benefit calculated in accordance with Section 6.1; and

(b) if the date of the Participant's retirement shall be on or after his or her 59th birthday but before his or her 60th birthday, the Company shall pay such Participant 90% of the Supplemental Retirement Benefit so calculated.

## ARTICLE 7

## MODES OF BENEFIT PAYMENT AND VESTING OF BENEFITS

7.1 Payment of any Retirement Income Benefit and 401(k)/ESOP Benefit under the Plan to a Participant, beneficiary, joint or contingent annuitant or eligible child shall be made in the normal form in which benefits are made under the Basic Retirement Plan and Basic 401(k)/ESOP, respectively, and commence on the Default Payment Commencement Date; provided, however, that payment shall instead be made in accordance with the Participant's Payment Election if the Participant has in place a valid Payment Election. To be valid, the Payment Election shall be an irrevocable election made on such form provided by the Company and filed with the Company no later than December 31, 2008. Notwithstanding any provision to the contrary in the Plan, payment of any Retirement Income Benefit and 401(k)/ESOP Benefit to a Participant shall commence on the Payment Commencement Date (or as soon as reasonably practicable thereafter retroactive to a Participant's Payment Commencement Date, but in no event more than 60 days following the Payment Commencement Date).

Any Retirement Income Benefit paid from the Plan in a form other than a life annuity shall be the actuarial equivalent of a life annuity, utilizing the actuarial equivalent factors set forth in the Basic Retirement Plan and applied to obtain the optional mode of payment thereunder.

7.2 The Supplemental Retirement Benefit shall be paid:

(a) except as provided in Section 7.2(b) (early retirement) and Section 8.6 (death), commencing on the first day of the month following the later of the Participant's retirement or his or her attainment of age 60; or

(b) commencing on the first day of the month following the Participant's Determination Date in connection with early retirement after reaching age 58 and prior to the date of his or her 60th birthday, and

(c) notwithstanding anything herein to the contrary, no Supplemental Retirement Benefit shall commence under this Plan before the date which is the seventh (7th) month following the Participant's "separation from service" with the Company as that phrase is defined for purposes of section 409A of the Code.

7.3 The Supplemental Retirement Benefit shall be paid in the form specified below:

(a) The Supplemental Retirement Benefit shall be paid as a straight life annuity, payable in monthly installments, for the Participant's life; provided, however, that if the Participant has no surviving spouse and dies before having received 60 monthly payments, such monthly payments shall be continued to his or her Beneficiary until the total number of monthly payments to the Participant and his or her Beneficiary equal 60, whereupon all payments shall cease and the Company's obligation to pay the Supplemental Retirement Benefit under shall be deemed to have been fully discharged. If the Participant and his or her Beneficiary shall die before having received a total of 60 monthly payments, an amount equal to the Actuarial Equivalent of the balance of such monthly payments shall be paid in a single sum to the estate of the survivor of the Participant and his or her Beneficiary. If Supplemental Retirement Benefits are payable in the form described in this Section 7.3(a), the Participant shall designate in writing, as his or her Beneficiary, any person or persons, primarily, contingently or successively, to whom the Company shall pay benefits following the Participant's death if the Participant's death occurs before 60 monthly payments have been made.

(b) Notwithstanding the form of payment described in Section 7.3(a), if the Participant is married on the date payment of the Supplemental Retirement Benefit commences, the benefit shall be paid as a 50% joint and survivor annuity with the Participant's spouse as the Beneficiary. The 50% joint and survivor annuity shall be the Actuarial Equivalent of the benefit described in Section 7.3(a). If the Supplemental Retirement Benefit is payable pursuant to this Section 7.3(b), but the Participant's spouse fails to survive him or her, no payments of the Supplement Retirement Benefit will be made following the Participant's death.

7.4 Subject to Section 12.4, each Participant shall have a 100 percent vested and non-forfeitable right to benefits under the Plan.

## ARTICLE 8

## DEATH BENEFITS

8.1 Upon the death of: (i) a Participant who has not terminated from employment before Retirement Date as defined in Section 3.1, or (ii) a Participant who retires on a Retirement Date as defined in Section 3.1 and dies before the complete distribution of Basic Retirement Plan Benefit and Basic 401(k)/ESOP Benefit, as the case may be, benefits shall be payable as set forth in Sections 8.2, 8.3 and 8.4.

8.2 With respect to any Retirement Income Benefit, if a Basic Retirement Plan pre-retirement survivor annuity or post retirement survivor annuity, as the case may be, is payable to a Participant's surviving spouse or eligible children, if applicable, a supplemental pre-retirement survivor annuity or post retirement survivor annuity, as the case may be, shall be payable to the surviving spouse or eligible children, if applicable, under the Plan. The monthly amount of the Supplemental Surviving Spouse Benefit pre-retirement survivor annuity or post retirement survivor annuity, as the case may be, payable to a surviving spouse or eligible children, if applicable, shall be equal to the excess, if any, of the amount specified in (a) over the amount specified in (b), as stated below:

(a) the monthly amount of Basic Retirement Plan pre-retirement survivor annuity or post retirement survivor annuity, as the case may be, to which the surviving spouse or eligible children, if applicable, would have been entitled under the Basic Retirement Plan, if such benefit were calculated under the Basic Retirement Plan without giving effect to the limitations and restrictions imposed by the Plan Limitation Provisions and any other provisions of the Basic Retirement Plan that are necessary to comply with Code Sections 401(a)(17) and 415, or any successor provisions thereto;

(b) (i) the monthly amount of Basic Retirement Plan pre-retirement survivor annuity or post retirement survivor annuity, as the case may be, actually payable to the surviving spouse or eligible children, if applicable, under the Basic Retirement Plan, after the limitations imposed by the application of Plan Limitation Provisions and any other provisions of the Basic Retirement Plan that are necessary to comply with Code Sections 401(a)(17) and 415, or any successor provisions thereto plus (ii) the monthly amount that is the actuarial equivalent (determined in accordance with the Basic Retirement Plan) of any supplemental retirement benefit payable to the surviving spouse or eligible children, if applicable, by any Employer following the Participant's death pursuant to any Supplemental Retirement Agreement with the Participant.

8.3 The Retirement Income Benefit supplemental pre-retirement survivor annuity or post retirement survivor annuity shall be payable over the lifetime of the surviving spouse, or to eligible children to the extent provided in the Basic Retirement Plan, in monthly installments commencing on the same date as payment of the Basic Retirement Plan pre-retirement survivor annuity or post retirement survivor annuity, as the case may be, and shall terminate on the date of the last payment of the Basic Retirement Plan pre-retirement survivor annuity or post retirement survivor annuity, as the case may be.

8.4 With respect to any 401(k)/ESOP Benefit, all amounts credited to the Participant's Deferral Credit Account shall be payable in a single lump sum to the Participant's surviving spouse, if any, as a Supplemental Surviving Spouse Benefit, unless an optional mode has been elected pursuant to Article 7.

8.5 Upon the death of a Participant under the circumstances set forth in clauses (i) and (ii) of Section 8.1, if no Basic Retirement Plan Surviving Spouse Benefit, or Basic 401(k)/ESOP Surviving Spouse Benefit, as the case may be, is payable, (a) no further Retirement Income Benefit shall be payable, unless an optional mode has been elected pursuant to Article 7, and (b) all amounts credited to the Participant's Deferral Credit Account shall be payable to the Participant's designated beneficiary in a single lump sum, unless an optional mode has been elected pursuant to Article 7.

8.6 The following provisions shall apply with respect to payment of the Supplemental Retirement Benefit after the death of a Participant:

(a) Except as provided in Section 8.6(b), if a Participant shall die before his or her 60th birthday, no Supplemental Retirement Benefit shall be payable.

(b) If a Participant shall die on or after his or her 60th birthday, after he or she has retired but before payment of any Supplemental Retirement Benefit has commenced, the Participant's surviving spouse, if any, shall be paid as a straight life annuity 50 percent of the Supplemental Retirement Benefit for her life commencing within 30 days following the Participant's death. Such payments shall be made in monthly installments. However, if such Participant is not married at the time of his or her death, the Company shall pay to the Participant's Beneficiary a lump sum benefit equal to 50 percent of the Present Value of the Participant's Supplemental Retirement Benefit.

(c) Except as provided in Section 8.6(b), no Supplemental Retirement Benefit shall be payable if the Participant dies before payment of any Supplement Retirement Benefit has begun without having a spouse who survives him or her.

(d) If a Participant dies after payment of a Supplemental Retirement Benefit has commenced, the amount, if any, of the Supplemental Retirement Benefit payable to the Participant's surviving spouse or other Beneficiary shall be determined pursuant to the applicable provisions of Section 7.5.

## ARTICLE 9

## UNFUNDED PLAN

9.1 The Plan shall be administered as an unfunded plan and is not intended to meet the qualification requirements of Sections 401(a) and 401(k) of the Code. No Participant or beneficiary shall be entitled to receive any payment or benefits under the Plan from the qualified trust maintained in connection with the Basic Retirement Plan and Basic 401(k)/ESOP.

9.2 The Employer shall have the right to establish a reserve, establish a grantor trust or make any investment for the purposes of satisfying its obligation hereunder for payment of benefits, including, but not limited to, investments in one or more registered investment companies under the Investment Company Act of 1940, as amended, to the extent permitted by applicable banking or other law; *provided*, however, that no Participant or beneficiary shall have any interest in such investment, trust, or reserve.

9.3 To the extent that any Participant or beneficiary acquires a right to receive benefits under the Plan, such rights shall be no greater than those rights which guarantee to the Participant or beneficiary the strongest claim to such benefits, without resulting in the Participant’s or beneficiary’s constructive receipt of such benefits.

9.4 With respect to any 401(k)/ESOP Benefit, 100% of the Participant’s Deferral Credit Account shall be deemed to be invested as provided in Section 5.4 above. A Participant’s Deferral Credit Account may not be encumbered or assigned by a Participant or any beneficiary.

9.5 A Participant or beneficiary with a Retirement Income Benefit, the 401(k)/ESOP Benefit or both such Benefits under the Plan shall be an unsecured creditor of the Employer as to any benefit payable under the Plan.

9.6 Not later than the closing of any transaction that would constitute a Change of Control, the Employer shall transfer to an independent corporate trustee of a grantor trust within the meaning of section 671 of the Code that satisfies the applicable requirements of Revenue Procedure 92-64 or any successor thereto an amount sufficient to cover all potential liabilities under this Plan.

## ARTICLE 10

## ADMINISTRATION

10.1 Except for the functions reserved to the Company or the Board, the administration of the Plan shall be the responsibility of the Committee. The Committee shall consist of three or more persons designated by the Company. Members of the Committee shall serve for such terms as the Company shall determine and until their successors are designated and qualified. Any member of the Committee may resign upon at least 60 days written notice to the Company, or may be removed from office by the Company at any time, with or without notice.

10.2 The Committee shall hold meetings upon notice at such times and places as it may determine. Notice shall not be required if waived in writing. Any action of the Committee shall be taken pursuant to a majority vote at a meeting, or pursuant to the written consent of a majority of its members without a meeting, and such action shall constitute the action of the Committee and shall be binding in the same manner as if all members of the Committee had joined therein. A majority of the members of the Committee shall constitute a quorum. No member of the Committee shall note or be counted for quorum purposes on any matter relating solely to himself or herself or his or her rights under the Plan. The Committee shall record minutes of any actions taken at its meetings or of any other official action of the Committee. Any person dealing with the Committee shall be fully protected in relying upon any written notice, instruction, direction or other communication signed by the Secretary of the Committee or by any of the members of the Committee or by a representative of the Committee authorized by the Committee to sign the same in its behalf.

10.3 The Committee shall have the power and the duty to take all actions and to make all decisions necessary or proper to carry out the Plan. The determination of the Committee as to any question involving the Plan shall be final, conclusive and binding. Any discretionary actions to be taken under the Plan by the Committee shall be uniform in their nature and applicable to all persons similarly situated. Without limiting the generality of the foregoing, the Committee shall have the following powers and duties:

(a) the duty to furnish to all Participants, upon request, copies of the Plan;

(b) the power to require any person to furnish such information as it may request for the purpose of the proper administration of the Plan as a condition to receiving any benefits under the Plan;

(c) the power to make and enforce such rules and regulations and prescribe the use of such forms as it shall deem necessary for the efficient administration of the Plan;

(d) the power to interpret the Plan, and to resolve ambiguities, inconsistencies and omissions, which findings shall be binding, final and conclusive;

(e) the power to decide on questions concerning the Plan in accordance with the provisions of the Plan;

(f) the power to determine the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan and to provide a full and fair review to any Participant whose claim for benefits has been denied in whole or in part;

(g) the power to designate a person who may or may not be a member of the Committee as Plan “Administrator” for purposes of the Employee Retirement Income Security Act of 1974 (ERISA); if the Committee does not so designate an Administrator, the Committee shall be the Plan Administrator;

(h) the power to allocate any such powers and duties to or among individual members of the Committee; and

(i) the power to designate persons other than Committee members to carry out any duty or power which would otherwise be a responsibility of the Committee or Administrator, under the terms of the Plan.

10.4 To the extent permitted by law, the Committee and any person to whom it may delegate any duty or power in connection with administering the Plan, the Company, any Employer, and the officers and directors thereof, shall be entitled to rely conclusively upon, and shall be fully protected in any action taken or suffered by them in good faith in the reliance upon, any actuary, counsel, accountant, other specialist, or other person selected by the Committee, or in reliance upon any tables, valuations, certificates, opinions or reports which shall be furnished by any of them. Further, to the extent permitted by law, no member of the Committee, nor the Company, any Employer, nor the officers or directors thereof, shall be liable for any neglect, omission or wrongdoing of any other members of the Committee, agent, officer or employee of the Company or any Employer. Any person claiming benefits under the Plan shall look solely to the Employer for redress.

10.5 All expenses incurred before the termination of the Plan that shall arise in connection with the administration of the Plan (including, but not limited to administrative expenses, proper charges and disbursements, compensation and other expenses and charges of any actuary, counsel, accountant, specialist, or other person who shall be employed by the Committee in connection with the administration of the Plan), shall be paid by the Employer.

## ARTICLE 11

## AMENDMENT OR TERMINATION

11.1 The Board shall have the power to suspend or terminate the Plan in whole or in part at any time, and from time to time to extend, modify, amend or revise the Plan in such respects as the Board, by resolution, may deem advisable; *provided*, however, that no such extension, modification, amendment, revision, or termination shall deprive a Participant or any beneficiary of any benefit accrued under the Plan.

11.2 In the event of a termination or partial termination of the Plan, the rights of all affected parties, if any, to benefits accrued to the date of such termination or partial termination, shall become nonforfeitable to the same extent that such rights would be nonforfeitable if such benefits were provided under the Basic Retirement Plan or the Basic 401(k)/ESOP and such plans were terminated on such date.

11.3 No amendment of the Plan shall reduce the vested and accrued benefits, if any, of a Participant under this Plan, except to the extent that such a reduction would be permitted if such benefits were provided under the Basic Retirement Plan or the Basic 401(k)/ESOP.

11.4 In the event of the termination or partial termination of the Plan: (a) the Company shall pay in one lump sum to affected Participants or their beneficiaries the 401(k)/ESOP Benefit, if any, to which they are entitled, as if such Participants' termination of service had occurred on the date the Plan is terminated, and (b) the Retirement Income Benefit and Supplemental Retirement Benefit, if any, to which they are entitled shall continue to be payable.

## ARTICLE 12

## GENERAL PROVISIONS

12.1 The Plan shall not be deemed to constitute an employment contract between the Employer and any Employee or other person, whether or not in the employ of the Employer, nor shall anything herein contained be deemed to give any Employee or other person, whether or not in the employ of the Employer, any right to be retained in the employ of the Employer, or to interfere with the right of the Employer to discharge any Employee at any time and to treat such Employee without any regard to the effect which such treatment might have upon such Employee as a Participant of the Plan.

12.2 Except as provided in Section 12.4, or as may otherwise be required by law, no distribution or payment under the Plan to any Participant or beneficiary shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void; nor shall any such distribution or payment be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to such distribution or payment. If any Participant or beneficiary is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any such distribution or payment, voluntarily or involuntarily, the Committee, in its sole discretion, may cancel such distribution or payment or may hold or cause to be held or applied such distribution or payment, or any part thereof, to or for the benefit of such Participant or beneficiary, in such manner as the Committee shall direct.

12.3 If the Employer determines that any person entitled to payments under the Plan is incompetent by reason of physical or mental disability, it may cause all payments thereafter becoming due to such person to be made to any other person for his or her benefit, without responsibility to follow application of amounts so paid. Payments made pursuant to this provision shall completely discharge the Plan, the Employer and the Committee.

12.4 Notwithstanding any other provision of this Plan:

(a) if the Employer determines that Cause exists for the termination of the Participant's employment, the Participant and his or her spouse and beneficiaries shall forfeit all rights to any payments under this Plan;

(b) if a Participant incurs a Separation from Service before having completed five Years of Service with any Employer, no Supplemental Retirement Benefit shall be payable hereunder;

(c) no amounts shall be payable hereunder to the Participant and his or her spouse and beneficiaries:

(i) following any breach by the Participant of any provision of any employment or other written agreement with the Company, the Bank or any other Employer with respect to confidentiality, non-competition, non-interference with, or non-solicitation of, employees, customers, suppliers or agents or similar matters, *provided* that no Change in Control shall have occurred before such breach;

(ii) if, without the prior written consent of the Company, the Participant discloses or divulges to any third party, except as may be required by his or her duties, by law, regulation, or order of a court or government authority, or as directed by the Company, or uses to the detriment of the Company or its affiliates or in any business or on behalf of any business competitive with or substantially similar to any business of the Company or the Bank or their affiliates, any Confidential Information obtained during the course of his or her employment by the Company, the Bank or any affiliate of any of either of them, *provided* that this Section 12.4(c)(ii) shall not be construed as restricting the Participant from disclosing such information to the employees of the Company or the Bank or their affiliates;

(iii) if while the Participant is employed by the Company, the Bank, any Employer or any affiliate of any of them or within two years after any termination of such employment other than in anticipation of or following a Change in Control, the Participant (A) interferes with the relationship of the Company, the Bank or their affiliates with any of their employees, suppliers, agents, or representatives (including, without limitation, causing or helping another business to hire any employee of the Company, the Bank or their affiliates), or (B) directly or indirectly diverts or attempts to divert from the Company, the Bank or their affiliates any business in which any of them has been actively engaged during the period of such employment, or interferes with the relationship of the Company, the Bank or their affiliates with any of their customers or prospective customers, *provided*, that this Section 12.4(c)(iii) shall not, in and of itself, prohibit the Participant from engaging in the banking, trust, or financial services business in any capacity, including that of an owner or employee; and

(d) if any particular provision of this section 12.4 shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to delete from the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made. In addition, should any court determine that the provisions of this section 12.4 shall be unenforceable with respect to scope, duration, or geographic area, such court shall be empowered to substitute, to the extent enforceable, provisions similar hereto or other provisions so as to provide to the Company, the Bank and their affiliates, to the fullest extent permitted by applicable law, the benefits intended by this section 12.4.

12.5 The Employer shall be the sole source of benefits under the Plan, and each Employee, Participant, beneficiary, or any other person who shall claim the right to any payment or benefit under the Plan shall be entitled to look solely to the Employer for payment of benefits.

12.6 If the Employer is unable to make payment to any Participant, beneficiary, or any other person to whom a payment is due under the Plan, because it cannot ascertain the identity or whereabouts of such Participant, beneficiary, or other person after reasonable efforts have been made to identify or locate such person (including a notice of the payment so due mailed to the last known address of such Participant, beneficiary, or other person shown on the records of the Employer), such payment and all subsequent payments otherwise due to such Participant, beneficiary or other person shall be forfeited 24 months after the date such payment first became due; *provided*, however, that such payment and any subsequent payments shall be reinstated, retroactively, no later than 60 days after the date on which the Participant, beneficiary, or other person shall make application therefor. Neither the Company, the Committee nor any other person shall have any duty or obligation under the Plan to make any effort to locate or identify any person entitled to benefits under the Plan, other than to mail a notice to such person's last known mailing address.

12.7 If upon the payment of any benefits under the Plan, the Employer shall be required to withhold any amounts with respect to such payment by reason of any federal, state or local tax laws, rules or regulations, then the Employer shall be entitled to deduct and withhold such amounts from any such payments. In any event, such person shall make available to the Employer, promptly when requested by the Employer, sufficient funds or other property to meet the requirements of such withholding. Furthermore, at any time the Employer shall be obligated to withhold taxes, the Employer shall be entitled to take and authorize such steps as it may deem advisable in order to have the amounts required to be withheld made available to the Employer out of any funds or property due to become due to such person, whether under the Plan or otherwise.

12.8 The Committee, in its discretion, may increase or decrease the amount of any benefit payable hereunder if and to the extent that it determines, in good faith, that an increase is necessary in order to avoid the omission of a benefit intended to be payable under this Plan or that a decrease is necessary in order to avoid a duplication of the benefits intended to be payable under this Plan.

12.9 The provisions of the Plan shall be construed, administered and governed under applicable federal laws and the laws of the State of New York. In applying the laws of the State of New York, no effect shall be given to conflict of laws principles that would cause the laws of another jurisdiction to apply.

**AMENDED AND RESTATED**
**NBT BANCORP INC.**
**SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**
**(Effective as of November 5, 2009)**

## TABLE OF CONTENTS

**Exhibit 10.23**

**Description of Arrangement for Directors Fees**

Except as set forth below, the following sets forth the amount of fees payable to outside directors of NBT Bancorp for their services as Directors in fiscal year 2010:

| **Event** | **Fee** |
|---|---|
| Annual retainer | Cash (Chairman) - $50,000<br>Cash (Member) - $12,500<br>Cash (Chair) Audit and Risk Management Committee - $10,000<br>Cash (Chairs) Other Committees - $7,500<br>Restricted Stock (Member) - $12,500<br>Restricted Stock (Chairman) - $50,000 |
| Board meeting attended | Cash (Member) - $1,000 per meeting<br>Cash (Chairman) - $1,000 per meeting |
| Telephonic board meeting | Cash (Member) - $1,000 per meeting<br>Cash (Chairman) - $1,000 per meeting |
| Committee meeting attended | Cash (Member) - $600 per meeting<br>Cash (Chairman) - $600 per meeting |
| Telephonic committee meeting | Cash (Member) - $600 per meeting<br>Cash (Chairman) - $600 per meeting |

*EXHIBIT 21*

**List of Subsidiaries of the Registrant**

| | Jurisdiction of Incorporation | Names Under Which Subsidiary does Business |
|---|---|---|
| **NBT Bancorp Inc. Subsidiaries:** | | |
| NBT Bank, National Association | New York | NBT Bank |
| NBT Financial Services, Inc. | Delaware | NBT Financial Services |
| Hathaway Agency, Inc. | New York | Hathaway Agency |
| CNBF Capital Trust I | Delaware | CNBF Capital Trust I |
| NBT Statutory Trust I | Delaware | NBT Statutory Trust I |
| NBT Statutory Trust II | Delaware | NBT Statutory Trust II |
| NBT Holdings, Inc. | New York | NBT Holdings |
| **NBT Bank, National Association Subsidiaries:** | | |
| NBT Capital Corp. | New York | NBT Capital Corp. |
| LA Lease, Inc. | Pennsylvania | LA Lease |
| Colonial Financial Services, Inc. | New York | Colonial Financial Services |
| NBT Services, Inc. | Delaware | NBT Services |
| Broad Street Property Associates, Inc. | New York | Broad Street Property Associates |
| Pennstar Bank Services Company | Delaware | Pennstar Bank Services |
| FNB Financial Services, Inc. | Delaware | FNB Financial Services |
| CNB Realty Trust | Maryland | CNB Realty Trust |
| **NBT Financial Services, Inc. Subsidiaries:** | | |
| Pennstar Financial Services, Inc. | Pennsylvania | Pennstar Financial Services |
| EPIC Advisors, Inc. | New York | EPIC Advisors |
| **NBT Holdings, Inc. Subsidiaries:** | | |
| Mang Insurance Agency, LLC | New York | Mang Insurance Agency |

*EXHIBIT 23*

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors
NBT Bancorp Inc.:

We consent to incorporation by reference in the Registration Statements on Forms S-3 (File Nos. 33-12247, 333-40192 and 333-158197) and Forms S-8 (File Nos. 333-71830, 333-72772, 333-73038, 333-66472, 333-97995, 333-107479, 333-107480, 333-127098, 333-139956 and 333-150956) of NBT Bancorp Inc. of our reports dated February 26, 2010, with respect to the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2009, and the effectiveness of internal control over financial reporting as of December 31, 2009, which reports appear in the December 31, 2009 annual report on Form 10-K of NBT Bancorp Inc.

/s/ KPMG LLP

Albany, New York
February 26, 2010

**EXHIBIT 31.1**

CERTIFICATION – Rule 13a-14(a) Certification of Chief Executive Officer

I, Martin A. Dietrich, certify that:

1. I have reviewed this annual report on Form 10-K of NBT Bancorp Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:March 1, 2010
/s/ Martin A. Dietrich

Martin A. Dietrich
Chief Executive Officer

EXHIBIT 31.2
CERTIFICATION - Rule 13a-14(a) Certification of Chief Financial Officer

I, Michael J. Chewens, certify that:

1. I have reviewed this annual report on Form 10-K of NBT Bancorp Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2010
/s/ Michael J. Chewens

Michael J. Chewens

Senior Executive Vice President, Chief Financial Officer and Corporate Secretary

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION

**906 OF THE SARBANES-OXLEY ACT OF 2002**

**The undersigned, the Chief Executive Officer of NBT Bancorp Inc. (the "Company"), hereby certifies that to his knowledge on the date hereof:**

(a) the Form 10-K of the Company for the Annual Period Ended December 31, 2009, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin A. Dietrich

Martin A. Dietrich
Chief Executive Officer

March 1, 2010

*The forgoing certification is being furnished solely pursuant to Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

**EXHIBIT 32.2**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION

**906 OF THE SARBANES-OXLEY ACT OF 2002**

**The undersigned, the Chief Financial Officer of NBT Bancorp Inc. (the "Company"), hereby certifies that to his knowledge on the date hereof:**

(a) the Form 10-K of the Company for the Annual Period Ended December 31, 2008, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Chewens

Michael J. Chewens
Senior Executive Vice President,
Chief Financial Officer and Corporate Secretary

March 1, 2010

*The forgoing certification is being furnished solely pursuant to Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.*