NBT BANCORP INC
Form 10-K
March 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

OR

o 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 x No o

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 o No x

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 x No o

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 x No o

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. o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Based on the closing price of the registrant's common stock as of June 30, 2010, the aggregate market value of the voting stock, common stock, par value, $0.01 per share, held by non-affiliates of the registrant is $673,845,411.

The number of shares of Common Stock outstanding as of February 15, 2011, was 34,566,224.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 3, 2011 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, 2010

TABLE OF CONTENTS

PART I

ITEM 1	BUSINESS
ITEM 1A	RISK FACTORS
ITEM 1B	UNRESOLVED STAFF COMMENTS
ITEM 2	PROPERTIES
ITEM 3	LEGAL PROCEEDINGS
ITEM 4	[RESERVED]
PART II	
ITEM 5	MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
ITEM 6	SELECTED FINANCIAL DATA
ITEM 7	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
ITEM 7A	QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK
ITEM 8	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
	Report of Independent Registered Public Accounting Firm
	Consolidated Balance Sheets at December 31, 2010 and 2009

Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2010

Consolidated Statements of Changes in Stockholders' Equity for each of the years in the three-year period ended December 31, 2010

Table of Contents

	Consolidated Statements of Cash Flows for each of the years in the three- year period ended December 31, 2010
	Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2010
	Notes to Consolidated Financial Statements
ITEM 9	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
ITEM 9A	CONTROLS AND PROCEDURES
ITEM 9B	OTHER INFORMATION
PART III	
ITEM 10	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
ITEM 11	EXECUTIVE COMPENSATION
ITEM 12	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
ITEM 13	CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE
ITEM 14	PRINCIPAL ACCOUNTANT FEES AND SERVICES
PART IV	
ITEM 15	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

SIGNATURES

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, 2010 had assets of $5.3 billion and stockholders’ equity of $533.6 million. Return on average assets and return on average equity were 1.05% and 10.92%, respectively, for the year ending December 31, 2010. The Company had net income of $57.4 million or $1.66 per diluted share for 2010 and fully taxable equivalent (“FTE”) net interest margin was 4.15% 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 customers in its market area, which includes central and upstate New York, northeastern Pennsylvania and the greater Burlington, Vermont area. 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, primarily loans and investments, 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, trust fees, insurance and other financial services fees, 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 and are summarized by state below:

	Interest and Fee Income		Noninterest Income		Total Revenue	
New York	58	%	28	%	86	%
Pennsylvania	8	%	5	%	13	%
Vermont	1	%	0	%	1	%
	67	%	33	%	100	%

	Commercial		Consumer		Residential Real Estate		Total Loan Portfolio	
New York	36	%	34	%	11	%	81	%
Pennsylvania	6	%	7	%	4	%	17	%
Vermont	2	%	0	%	0	%	2	%
	44	%	41	%	15	%	100	%

Table of Contents

Approximately 56% of the New York-based loan portfolio was secured by real estate in central and upstate New York, while approximately 68% of the Pennsylvania-based loan portfolio was secured by real estate in northeastern Pennsylvania as of December 31, 2010. Approximately 68% of the Vermont-based loan portfolio was secured by real estate in the Burlington, Vermont area.

Like the rest of the nation, the market areas that the Company serves are still experiencing some economic challenges. A variety of factors (e.g., any substantial rise in inflation or further rise in unemployment rates, further decrease in consumer confidence, natural disasters, war, or political instability) may affect both the Company’s markets and the national market. The Company will continue to emphasize managing its funding costs and lending and investment 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 should 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 greater 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 and life insurance 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 2010, the NBT Bank division had 86 divisional offices and 114 automated teller machines (ATMs), located primarily in central and upstate New York and Burlington, Vermont. At December 31, 2010, the NBT Bank division had total loans and leases of approximately $3.0 billion, or 83% of total loans and leases, and total deposits of $3.2 billion, or 77% of total deposits. Revenue for the NBT Bank division totaled $199.0 million for the year ended December 31, 2010. At year end 2010, the Pennstar Bank division had 37 divisional offices and 50 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2010, the Pennstar Bank division had total loans and leases of $626.6 million, or 17% of total loans and leases, and total deposits of $941.3 million, or 23% of total deposits. Revenue for the Pennstar Bank division totaled $34.5 million for the year ended December 31, 2010.

NBT Financial Services, Inc.

Through NBT Financial Services, 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 and 2010. 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.

Table of Contents

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. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which among other things, requires bank holding companies with assets greater than $500 million to be subject to the same capital requirements as insured depository institutions, meaning, for instance, that such bank holding companies will not be able to count trust preferred securities issued after May 19, 2010 as Tier 1 capital.

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.

Table of Contents

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 in-state market competitors and 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.

Some of the Company's competitors have fewer regulatory constraints and may have lower cost structures. In addition, some 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. Some of these institutions offer services, such as credit cards and international banking, which the Company does not directly offer.

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.

Table of Contents

The table below summarizes the Bank's deposits and market share by the twenty-seven counties of New York, Pennsylvania, and Vermont in which it has customer facilities as of June 30, 2010. Market share is based on deposits of all commercial banks, credit unions, savings and loans associations, and savings banks.

County	State	Deposits (in thousands)	Market Share		Market Rank	Number of Branches	Number of ATMs
Chenango	NY	$ 485,746	80.94	%	1	11	16
Fulton	NY	367,069	55.97	%	1	7	11
Hamilton	NY	32,337	47.07	%	2	1	1
Schoharie	NY	168,977	43.76	%	1	4	3
Delaware	NY	317,547	36.78	%	1	5	5
Montgomery	NY	197,161	28.63	%	2	6	5
Otsego	NY	290,326	27.67	%	2	9	14
Essex	NY	120,384	23.75	%	2	3	6
Susquehanna	PA	146,120	21.51	%	3	6	7
St Lawrence	NY	128,694	11.46	%	4	5	6
Pike	PA	62,534	11.06	%	5	2	3
Broome	NY	250,190	10.89	%	3	8	11
Wayne	PA	129,729	10.48	%	4	4	5
Oneida	NY	268,270	8.81	%	5	6	13
Tioga	NY	32,440	7.93	%	4	1	1
Lackawanna	PA	374,380	7.72	%	7	15	20
Clinton	NY	90,284	6.92	%	6	3	2
Herkimer	NY	39,375	6.88	%	5	2	1
Franklin	NY	21,817	4.74	%	5	1	1
Monroe	PA	88,990	4.04	%	7	6	8
Saratoga	NY	131,530	4.00	%	11	4	4
Warren	NY	45,730	3.37	%	7	2	3
Schenectady	NY	62,797	2.70	%	8	2	2
Luzerne	PA	88,827	1.52	%	15	4	7
Rensselaer	NY	23,524	1.31	%	13	1	1
Albany	NY	137,862	1.18	%	12	4	7
Chittenden	VT	11,097	0.35	%	7	1	1
		$ 4,113,737				123	164

Deposit market share data is based on the most recent data available (as of June 30, 2010).

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 (the "Federal Reserve Board" or "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, 2010, the Company's leverage ratio was 9.16%, its ratio of Tier 1 capital to risk-weighted assets was 12.44%, and its ratio of qualifying total capital to risk-weighted assets was 13.70%. 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.

Pursuant to Federal Reserve Board regulations and supervisory policies, bank holding companies also are expected to serve as a source of financial and managerial strength to their subsidiary depository institutions. Therefore, to the extent the Bank is in need of capital, the Company could be expected to provide additional capital to the Bank, including, potentially, raising new capital for that purpose.

The Company is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC.

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, 2010, the Bank was in compliance with all minimum capital requirements and met the requirements to be considered well-capitalized. As of that date, the Bank's leverage ratio was 8.67%, its ratio of Tier 1 capital to risk-weighted assets was 11.77%, and its ratio of qualifying total capital to risk-weighted assets was 13.03%.

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.

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, 2010, the Bank's total brokered deposits were $69.7 million.

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 8, 2011, the FDIC issued new rules that take effect April 1, 2011 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.

Table of Contents

The Bank is also a member of the Federal Home Loan Bank ("FHLB") of New York, which provides a central credit facility primarily for member institutions for home mortgage and neighborhood lending. The Bank is subject to the rules and requirements of the FHLB, including the requirement to acquire and hold shares of capital stock in the FHLB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year. The Bank was in compliance with the rules and requirements of the FHLB at December 31, 2010.

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 incurred $6.1 million and $8.4 million of FDIC assessment expenses in 2010 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. Approximately $1.4 million and $5.5 million of the prepaid assessment fees were expensed in the fourth quarter of 2009 and for the year ended December 31, 2010, respectively.

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.

Transactions between the Bank and any of its affiliates, including the Company, are governed by sections 23A and 23B of the Federal Reserve Act ("FRA") and the FRB's implementing Regulation W. 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 Financial Modernization Act of 1999, also known as 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 and the rules promulgated thereunder 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 Credit Reporting Act ("FCRA"), as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), includes many provisions affecting the Company, Bank, and/or their affiliates, including provisions concerning obtaining consumer reports, furnishing information to consumer reporting agencies, maintaining a program to prevent identity theft, sharing of certain information among affiliated companies, and other provisions.

The FACT Act requires persons subject to FCRA 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 Federal Trade Commission ("FTC") have extensive rulemaking authority under the FACT Act, and the Company and the Bank are subject to the rules that have been promulgated under the FACT Act, 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.

Table of Contents

On July 21, 2010, the President signed into law the Dodd-Frank Act. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations. With that discretion, market litigation, and continued legislative efforts, many of the details and much of the impact of the Dodd-Frank Act may not be known for months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on the Company. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to offer interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company's interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Bank is a member of the Deposit Insurance Fund and deposit accounts at the Bank are insured by the FDIC, generally up to the maximum amount permitted by law. The Dodd-Frank Act permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor per insured institution, retroactive to January 1, 2008, and qualifying non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Collins Amendment, included in the Dodd-Frank Act, requires bank holding companies with assets greater than $500 million to be subject to the same capital requirements as insured depository institutions, meaning, for instance, that such bank holding companies will not be able to count trust preferred securities issued after May 19, 2010 as Tier 1 capital. The Company has not issued any trust preferred securities after May 19, 2010. The Collins Amendment also directs the appropriate federal banking supervisors, subject to recommendations by the Financial Stability Oversight Council, to develop capital requirements for all insured depository institutions, depository institution holding companies and systemically important non-bank financial companies to address systemically risky activities.

The Dodd-Frank Act and recently promulgated rules of the SEC will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and allow greater access by shareholders to the Company's proxy material in connection with shareholder director nominations.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with wide-ranging powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable to national banks and federal savings associations, and gives state attorneys general certain powers to enforce federal consumer protection laws.

Table of Contents

It is difficult to predict at this time with specificity the full range of the impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Company. The legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Company's ability to conduct business. The Company will have to apply resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase its costs of operations and adversely impact its earnings.

In 2007, the Federal Reserve and the 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 prohibits 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. The adoption of this regulation by the Bank had a negative impact on the Company's service charge income of approximately $1.5 million in 2010.

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, 2010, the Company and the Bank believe they are in compliance with the USA PATRIOT Act and regulations thereunder.

The Bank has a responsibility under the Community Reinvestment Act of 1977 ("CRA") to help meet the credit needs of its communities, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Regulators assess the Bank's record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. The Bank's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of the Company. The Bank's failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions against it by its regulators as well as other federal regulatory agencies and the Department of Justice. The Bank's latest CRA rating was "Outstanding".

Table of Contents

The Sarbanes-Oxley Act of 2002 (“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 to make available to the public expanded information regarding the pricing of home mortgage loans, including the “rate spread” between the annual percentage rate 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.

Employees

At December 31, 2010, the Company had 1,499 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.

Table of Contents

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 greater 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 these local economies 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 3.1% 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 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. The Company may also 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 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. 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.

Table of Contents

Changes in the equity markets could materially affect the level of assets under management and the demand for other fee-based services.

Economic downturns could affect the volume of income from and demand for fee-based services. Revenue from the wealth management and benefit plan administration businesses depend in large part on the level of assets under management and administration. Market volatility that leads customers to liquidate investments, as well as lower asset values, can reduce our level of assets under management and administration and thereby decrease our investment management and administration revenues.

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, 2010, approximately 44% of the Company's loan and lease portfolio consisted of commercial and industrial, agricultural, commercial 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 7. 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 potential increases in the allowance for loan and lease losses would 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 7. 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 lease losses.

Table of Contents

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 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; and
- the ability to attract and retain talented employees

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.

Table of Contents

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.

Compliance with the recently enacted Dodd-Frank Act may increase our costs of operations and adversely impact our earnings and capital ratios.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry. Among other things, the Dodd-Frank Act creates a new federal financial consumer protection agency, tightens capital standards, imposes clearing and margining requirements on many derivatives activities, and generally increases oversight and regulation of financial institutions and financial activities. It requires bank holding companies with assets greater than $500 million to be subject to the same capital requirements as insured depository institutions, meaning, for instance, that such bank holding companies will not be able to count trust preferred securities issued after May 19, 2010 as Tier 1 capital. The Company has not issued any trust preferred securities after May 19, 2010. In addition to the self-implementing provisions of the statute, the Dodd-Frank Act calls for many administrative rulemakings by various federal agencies to implement various parts of the legislation. It is impossible to predict when many final rules would be issued through any such rulemakings, and what the content of such rules will be.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau to take over responsibility for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Savings Act, among others. Institutions which have assets of $10 billion or less, will continue to be supervised in this area by their primary federal regulators. The Federal Reserve will also be adopting a rule addressing interchange fees for debit card transactions that is expected to lower fee income generated from this source. Although technically this rule will only apply to institutions with assets in excess of $10 billion, it is expected that smaller institutions, such as NBT Bank, may also be impacted. The Company contracts with large debit card processors with which management of the Company will have relatively weak bargaining power. It is possible these processors, as a result of the Act, will earn lower revenues, leaving less revenue per transaction for the Company. The Federal Reserve Board has until July 2011 to complete its regulations, so the timing and ultimate extent of impact to the Company is unknown.

In addition, the Dodd-Frank Act significantly rolls back the federal preemption of state consumer protection laws that is currently enjoyed by federal savings associations and national banks by requiring that a state consumer financial law prevent or significantly interfere with the exercise of a federal savings association's or national bank's powers before it can be preempted, mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and ending the applicability of preemption to subsidiaries and affiliates of national banks and federal

savings associations. As a result, we may now be subject to state consumer protection laws in each state where we do business, and those laws may be interpreted and enforced differently in different states.

Table of Contents

Many of the provisions of the Dodd-Frank Act will not become effective until a year or more after its enactment and, if required, the adoption and effectiveness of implementing regulations. In addition, the scope and impact of many of the Dodd-Frank Act's provisions will be determined through the rulemaking process. As a result, we cannot predict the ultimate impact of the Dodd-Frank Act on us at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. However, it is expected that at a minimum it will increase our operating and compliance costs. The financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and our business. We will apply resources to ensure that we are in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings.

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" 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.

Table of Contents

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.

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 few years, with falling home prices and increasing foreclosures, high 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.

Table of Contents

The economic pressure experienced by consumers during the recent fiscal recession 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 currently face increased regulation of our industry and 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; or

- competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

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 the security in question. 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 the 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.

The risks presented by acquisitions could adversely affect our financial condition and result of operations.

The business strategy of the Company may include growth through acquisition from time to time. Any future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks include among other things: the difficulty of integrating operations and personnel, the potential disruption of our ongoing business, the inability of our management to maximize our financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with employees and customers as a result of changes in ownership and management.

Table of Contents

Our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to risk of environmental liabilities with respect to properties to which we obtain title.

A portion of our loan portfolio at December 31, 2010 was secured by real estate. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a government entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations and prospects.

We may be adversely affected by the soundness of other financial institutions including the FHLB of New York.

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 $27.2 million as of December 31, 2010.

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. 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. Any such adverse effects on the FHLB of New York could adversely affect the value of our investment in its common stock and negatively impact our results of operations.

Trading activity in the Company's common stock could result in material price fluctuations.

The market price of the Company's common stock may fluctuate significantly in response to a number of factors including, but not limited to:

- changes in securities analysts' expectations of financial performance;
- volatility of stock market prices and volumes;
- incorrect information or speculation;
- changes in industry valuations;
- variations in operating results from general expectations;
- actions taken against the Company by various regulatory agencies;

Table of Contents

- changes in authoritative accounting guidance by the Financial Accounting Standards Board or other regulatory agencies;
- changes in general domestic economic conditions such as inflation rates, tax rates, unemployment rates, labor and healthcare cost trend rates, recessions, and changing government policies, laws and regulations; and
- severe weather, natural disasters, acts of war or terrorism and other external events.

ITEM 1B. Unresolved Staff Comments

None.

Table of Contents

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, 2010:

County	Branches	ATMs	County	Branches	ATMs
NBT Bank Division			Pennstar Bank Division		
New York			Pennsylvania		
Albany County	4	7	Lackawanna County	15	20
Broome County	8	11	Luzerne County	4	7
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 County	1	1			
Saratoga County	4	4			
Schenectady County	2	2			
Schoharie County	4	3			
St. Lawrence County	5	6			
Tioga County	1	1			
Warren County	2	3			
Vermont					
Chittenden County	1	1			

The Company leases 48 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]

Table of Contents

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
2010			
1st quarter	$ 23.99	$ 19.15	$ 0.20
2nd quarter	25.96	20.21	0.20
3rd quarter	23.06	19.27	0.20
4th quarter	24.96	21.41	0.20
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

The closing price of the Common Stock on February 15, 2010 was $23.29.

As of February 15, 2010, there were 6,622 shareholders of record of Company common stock.

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, 2005. 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.

Table of Contents

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
NBT Bancorp, Inc.	$100.00	$121.98	$112.98	$142.99	$108.10	$132.82
NASDAQ Financial Stocks	$100.00	$114.27	$106.02	$75.15	$77.72	$88.73
NASDAQ Composite Index	$100.00	$110.38	$122.13	$73.33	$106.53	$125.85

Source: Bloomberg, L.P.

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, 2010, the Bank was in compliance with all applicable minimum capital requirements and had the ability to pay dividends of $108.5 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.

Table of Contents

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)	2010	2009	2008	2007	2006
Interest, fee and dividend income	$255,738	$273,393	$294,414	$306,117	$288,842
Interest expense	53,210	76,924	108,368	141,090	125,009
Net interest income	202,528	196,469	186,046	165,027	163,833
Provision for loan and lease losses	29,809	33,392	27,181	30,094	9,395
Noninterest income excluding securities gains (losses)	80,614	79,987	70,171	57,586	49,504
Securities gains (losses), net	3,274	144	1,535	2,113	(875)
Noninterest expense	178,291	170,566	146,813	122,517	122,966
Income before income taxes	78,316	72,642	83,758	72,115	80,101
Net income	57,404	52,011	58,353	50,328	55,947
Per common share					
Basic earnings	$1.67	$1.54	$1.81	$1.52	$1.65
Diluted earnings	1.66	1.53	1.80	1.51	1.64
Cash dividends paid	0.80	0.80	0.80	0.79	0.76
Book value at year-end	15.51	14.69	13.24	12.29	11.79
Tangible book value at year-end	11.67	10.75	9.01	8.78	8.42
Average diluted common shares outstanding	34,509	33,903	32,427	33,421	34,206
At December 31,					
Securities available for sale, at fair value	$1,129,368	$1,116,758	$1,119,665	$1,140,114	$1,106,322
Securities held to maturity, at amortized cost	97,310	159,946	140,209	149,111	136,314
Loans and leases	3,610,006	3,645,398	3,651,911	3,455,851	3,412,654
Allowance for loan and lease losses	71,234	66,550	58,564	54,183	50,587
Assets	5,338,856	5,464,026	5,336,088	5,201,776	5,087,572
Deposits	4,134,352	4,093,046	3,923,258	3,872,093	3,796,238
Borrowings	604,730	786,097	914,123	868,776	838,558
Stockholders' equity	533,572	505,123	431,845	397,300	403,817
Key ratios					
Return on average assets	1.05%	0.96%	1.11%	0.98%	1.14%
Return on average equity	10.92	10.90	14.16	12.60	14.47
Average equity to average assets	9.63	8.79	7.83	7.81	7.85
Net interest margin	4.15	4.04	3.95	3.61	3.70
Dividend payout ratio	48.19	52.29	44.44	52.32	46.34
Tier 1 leverage	9.16	8.35	7.17	7.14	7.57
Tier 1 risk-based capital	12.44	11.34	9.75	9.79	10.42
Total risk-based capital	13.70	12.59	11.00	11.05	11.67

26

Table of Contents

Selected Quarterly Financial Data

(Dollars in thousands, except per share data)	2010 First	2010 Second	2010 Third	2010 Fourth	2009 First	2009 Second	2009 Third	2009 Fourth
Interest, fee and dividend income	$65,471	$64,606	$63,312	$62,349	$69,381	$68,372	$67,636	$68,004
Interest expense	14,670	14,005	12,685	11,850	21,269	20,321	18,954	16,380
Net interest income	50,801	50,601	50,627	50,499	48,112	48,051	48,682	51,624
Provision for loan and lease losses	9,243	6,350	7,529	6,687	6,451	9,199	9,101	8,641
Noninterest income excluding net securities gains (losses)	20,313	20,257	19,871	20,173	19,590	19,828	20,721	19,848
Net securities gains (losses)	28	63	1,120	2,063	0	17	129	(2)
Noninterest expense	42,160	44,197	44,684	47,250	42,305	41,939	41,032	45,290
Net income	13,976	14,424	14,570	14,434	13,072	11,560	13,578	13,801
Basic earnings per share	$0.41	$0.42	$0.42	$0.42	$0.40	$0.34	$0.40	$0.40
Diluted earnings per share	$0.41	$0.42	$0.42	$0.42	$0.40	$0.34	$0.40	$0.40
Annualized net interest margin	4.21 %	4.14 %	4.15 %	4.09 %	4.09 %	3.95 %	3.98 %	4.15 %
Annualized return on average assets	1.03 %	1.06 %	1.07 %	1.05 %	0.99 %	0.85 %	0.99 %	1.00 %
Annualized return on average equity	11.05 %	11.09 %	10.89 %	10.68 %	12.14 %	9.63 %	11.01 %	10.92 %
Average diluted common shares outstanding	34,425	34,565	34,513	34,590	32,645	34,314	34,342	34,348

Table of Contents

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

Forward Looking Statements

Certain statements in this filing and future filings by the Company with the SEC, 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," "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: (1) 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; (2) changes in the level of non-performing assets and charge-offs; (3) changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; (4) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board; (5) inflation, interest rate, securities market and monetary fluctuations; (6) political instability; (7) acts of war or terrorism; (8) the timely development and acceptance of new products and services and perceived overall value of these products and services by users; (9) changes in consumer spending, borrowings and savings habits; (10) changes in the financial performance and/or condition of the Company's borrowers; (11) technological changes; (12) acquisitions and integration of acquired businesses; (13) the ability to increase market share and control expenses; (14) changes in the competitive environment among financial holding companies; (15) 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 including those under the recently enacted Dodd-Frank Act; (16) 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; (17) changes in the Company's organization, compensation and benefit plans; (18) 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; (19) greater than expected costs or difficulties related to the integration of new products and lines of business; and (20) 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 advises 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 the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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 Services and NBT Holdings during 2010 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, 2010 and 2009 and for each of the years in the three-year period ended December 31, 2010 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2010 presentation.

Table of Contents

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, pension accounting, provision for income taxes and intangible assets.

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 is subject to examinations from various taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgments used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the taxing authorities determine that management's assumptions were inappropriate, an adjustment may be required which could have a material effect on the Company's results of operations.

As a result of acquisitions, the Company has acquired goodwill and identifiable intangible assets. Goodwill represents the cost of acquired companies in excess of the fair value of net assets at the acquisition date. Goodwill is evaluated at least annually or when business conditions suggest that an impairment may have occurred. Goodwill will be reduced to its carrying value through a charge to earnings if impairment exists. Core deposits and other identifiable intangible assets are amortized to expense over their estimated useful lives. The determination of whether or not impairment exists is based upon discounted cash flow modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires them to select a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums and Company-specific risk indicators, all of which are susceptible to change based on changes in economic conditions and other factors. Future events or changes in the estimates used to determine the carrying value of goodwill and identifiable intangible assets could have a material impact on the Company's results of operations.

Table of Contents

The Company's policies on the allowance for loan and lease losses, pension accounting, provision for income taxes and intangible assets are 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, income tax assumptions, and intangible asset assumptions and detail are disclosed in Notes 18, 15 and 10, respectively, 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 of how the Company's financial performance is reported.

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, 2010:

- Net interest margin was 4.15% for 2010, as compared with 4.04% in 2009.

- Noninterest income (excluding net securities gains) for the year ended December 31, 2010 was $80.6 million, the highest in the Company's history. This record noninterest income was spurred by increases in several noninterest income categories including retirement plan administration fees, insurance and other financial services revenue, and trust revenue. The Company recorded gains on securities sales totaling $3.3 million in 2010.

- Service charges on deposit accounts decreased approximately $3.1 million as a result of a decrease in overdraft activity due to changes in consumer behavior caused by economic conditions as well as the impact of implementing the changes to overdraft charges as required by Regulation E ("Reg E").

- The Company incurred debt prepayment penalties totaling $4.5 million to pay off long-term debt during 2010. The debt prepayments in 2010 benefited interest expense by approximately $1.0 million in 2010, with future benefits expected in 2011 and 2012.

- Pension expenses decreased in 2010 in comparison to 2009 primarily due to the impact of market appreciation on pension assets in 2010 and Company contributions in 2009. For the year ended December 31, 2010, pension expenses decreased $2.2 million from the year ended December 31, 2009.

- In 2010, the Company continued its investment in strategic expansion with branch openings in Queensbury and Schenectady, NY, and in Williston, VT in January 2011.

As a result of the recent 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. Led by problems in the sub-prime mortgage markets, the residential real estate market suffered a pronounced decline beginning in 2007 and continued throughout 2008, 2009 and 2010. With the U.S. economy in recession in 2008 and 2009, financial institutions faced higher credit losses from distressed real estate values and borrower defaults, resulting in reduced capital levels.

Table of Contents

While the Company experienced higher delinquencies and charge-offs related to its loan portfolios in 2009, the Company experienced slight improvements in both areas in 2010. The aforementioned U.S. economic recession resulted in some visible stress in the agricultural portfolio primarily as a result of reduced milk prices. Milk prices, while still volatile, have improved. Unemployment in the Company's markets, while lower than the national average, remains high since 2009 and has resulted in deterioration in certain asset quality trends, including nonperforming loans. In response to the recession, in 2010, we:

- Continued to increase our loan collection efforts.
- Continued the sale of conforming residential real estate mortgages in early 2010 due to favorable interest rate conditions. The Company discontinued residential real estate mortgage sales during the third quarter of 2010, due to changes in the market conditions.
- Increased efforts to grow noninterest income with focus on organic growth of our trust, financial services and insurance businesses.
- Continued to originate loans using strict underwriting criteria.

The Company had net income of $57.4 million or $1.66 per diluted share for 2010, up 10.4% from net income of $52.0 million or $1.53 per diluted share for 2009. Net interest income increased $6.1 million or 3.1% in 2010 compared to 2009. The increase in net interest income resulted primarily from decreases in rates paid on interest bearing deposits and liabilities in 2010 as compared with 2009. In addition, average interest bearing liabilities decreased $113.2 million, or 2.7%, in 2010 over 2009, primarily due to long-term debt prepayments in 2010. The provision for loan and lease losses totaled $29.8 million for the year ended December 31, 2010, down $3.6 million, or 10.7%, from $33.4 million for the year ended December 31, 2009. The decrease in total provision is due to ongoing modeling of the required levels of reserves which considers historical charge-offs, loan growth and economic trends.

Noninterest income for the year ended December 31, 2010 was $83.9 million, up $3.8 million or 4.7% from $80.1 million for the year ended December 31, 2009. The increase in noninterest income was due primarily to an increase in net securities gains of approximately $3.1 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to the sale of two equity positions and certain collateralized mortgage obligations ("CMOs") during 2010. In addition, the Company experienced an increase in retirement plan administration fees of approximately $1.3 million for the year ended December 31, 2010 as compared with the year ended December 31, 2009 as a result of organic growth and increased asset values from improved market conditions. Insurance and other financial services revenue increased approximately $1.1 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009, due primarily to new business and expansion into new markets within our footprint. Trust revenue increased approximately $1.0 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to an increase in fair market value of trust assets under administration. These increases were partially offset by a decrease in service charges on deposit accounts of approximately $3.1 million as a result of a decrease in overdraft activity due to changes in consumer behavior caused by economic conditions as well as the effects of implementing new regulations regarding overdraft fees.

Table of Contents

Noninterest expense for the year ended December 31, 2010 was $178.3 million, up from $170.6 million, or 4.5%, for the year ended December 31, 2009. Salaries and employee benefits increased $8.2 million, or 9.5%, for the year ended December 31, 2010 compared with the year ended December 31, 2009. This increase was due primarily to increases in full-time-equivalent employees (primarily driven by market expansions), merit increases, employee benefits, and incentive compensation. In addition, the Company incurred debt prepayment penalties totaling $4.5 million to pay off long-term debt during the year ended December 31, 2010, as compared with prepayment penalties totaling $0.8 million for the year ended December 31, 2009. The debt prepayments in 2010 benefited interest expense by approximately $1.0 million in 2010, with future benefits expected in 2011 and 2012. These increases were partially offset by a decrease in FDIC expenses of approximately $2.3 million for the year ended December 31, 2010, as compared with the year ended December 31, 2009. This decrease resulted from the special assessment levied by the FDIC in the second quarter of 2009. In addition, professional fees and outside services decreased by $1.5 million, or 14.0%, for the year ended December 31, 2010 as compared with the year ended December 31, 2009. This decrease was due primarily to nonrecurring legal fees incurred during 2009 related to de novo branch activity as well as non-recurring systems consulting services incurred in 2009. Income tax expense for the year ended December 31, 2010 was $20.9 million, up slightly from $20.6 million for the year ended December 31, 2009. The effective tax rate was 26.7% for the year ended December 31, 2010, as compared to 28.4% for the year ended December 31, 2009. This decrease in the effective tax rate is primarily the result of an amendment to New York State tax law to conform to the bad debt treatment afforded under Federal law, which resulted in a reduction to tax expense of $0.6 million, as well as a favorable New York State audit settlement, which resulted in a reduction to tax expense of $0.6 million for the year ended December 31, 2010.

2011 Outlook

The Company's 2010 earnings reflected the Company's continued ability to manage through the global economic conditions and challenges in the financial services industry, while investing in the Company's future. In 2011, the Company believes effects of the economic crisis will still exist, but that there will be some relief. In particular the Company expects that in 2011:

• Revenue from FHLB dividends could decrease due to several factors including reduced borrowing levels from FHLB.

• 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 currently outstanding on those loans and investments.

• Noninterest income could potentially decrease as a result of the full year impact 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. However, if the slight improvement shown in asset quality trends continues, the Company would expect the level of provisioning to decrease.

• The cost of compliance as a result of the new Dodd-Frank legislation could negatively impact certain fee generating products, which could negatively impact noninterest income and earnings.

The Company's 2011 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 resulting 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 of Contents

Table 1. Average Balances and Net Interest Income

	2010			2009			2008		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
Short-term interest bearing accounts	$ 137,818	$ 354	0.26 %	$ 88,012	$ 238	0.27 %	$ 9,190	$ 186	2.03 %
Securities available for sale (1)	1,088,376	38,759	3.56 %	1,095,609	48,951	4.47 %	1,113,810	56,841	5.10 %
Securities held to maturity (1)	128,727	6,104	4.74 %	151,078	7,385	4.89 %	149,775	8,430	5.63 %
Investment in FRB and FHLB Banks	31,850	1,821	5.72 %	37,878	1,966	5.19 %	39,735	2,437	6.13 %
Loans and leases (2)	3,629,047	214,258	5.90 %	3,641,852	221,128	6.07 %	3,567,299	233,016	6.53 %
Total interest earning assets	$ 5,015,818	$ 261,296	5.21 %	$ 5,014,429	$ 279,668	5.58 %	$ 4,879,809	$ 300,910	6.17 %
Other assets	438,516			414,580			384,846		
Total assets	$ 5,454,334			$ 5,429,009			$ 5,264,655		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Money market deposit accounts	$ 1,092,789	6,273	0.57 %	$ 1,013,514	$ 12,165	1.20 %	$ 778,477	$ 14,373	1.85 %
NOW deposit accounts	709,920	2,938	0.41 %	600,943	3,159	0.53 %	485,014	4,133	0.85 %
Savings deposits	552,660	797	0.14 %	499,079	826	0.17 %	467,572	2,161	0.46 %
Time deposits	985,504	20,346	2.06 %	1,227,199	32,346	2.64 %	1,507,966	55,465	3.68 %
Total interest bearing deposits	$ 3,340,873	$ 30,354	0.91 %	$ 3,340,735	$ 48,496	1.45 %	$ 3,239,029	$ 76,132	2.35 %
Short-term borrowings	158,280	402	0.25 %	140,066	552	0.39 %	223,830	4,847	2.17 %
Trust preferred debentures	75,422	4,140	5.49 %	75,422	4,247	5.63 %	75,422	4,747	6.29 %
Long-term debt	469,509	18,314	3.90 %	601,039	23,629	3.93 %	563,460	22,642	4.02 %
	$ 4,044,084	$ 53,210	1.32 %	$ 4,157,262	$ 76,924	1.85 %	$ 4,101,741	$ 108,368	2.64 %

Total interest bearing liabilities									
Demand deposits	805,594			718,580			682,656		
Other liabilities	79,182			75,868			68,156		
Stockholders' equity	525,474			477,299			412,102		
Total liabilities and stockholders' equity	$ 5,454,334			$ 5,429,009			$ 5,264,655		
Net interest income (FTE)		208,086			202,744			192,542	
Interest rate spread			3.89 %			3.73 %			3.53 %
Net interest margin			4.15 %			4.04 %			3.95 %
Taxable equivalent adjustment		5,558			6,275			6,496	
Net interest income		$ 202,528			$ 196,469			$ 186,046	

(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.

Table of Contents

2010 OPERATING RESULTS AS COMPARED TO 2009 OPERATING RESULTS

Net Interest Income

On a tax equivalent basis, the Company's net interest income for 2010 was $208.1 million, up from $202.7 million for 2009. The Company's net interest margin increased to 4.15% for 2010 from 4.04% for 2009. 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 37 basis points (bp), from 5.58% for 2009 to 5.21% for 2010. Meanwhile, the rate paid on interest bearing liabilities decreased 53 bp, from 1.85% for 2009 to 1.32% for 2010. Average earning assets increased marginally from 2009 to 2010. Average short-term interest bearing accounts increased approximately $49.8 million from 2009 to 2010, while average securities held to maturity decreased approximately $22.4 million. In addition, average loans and leases decreased approximately $12.8 million from 2009 to 2010 due primarily to residential mortgage sales and strategic runoff of the lease portfolio. 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) 2010 over 2009			Increase (Decrease) 2009 over 2008		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Short-term interest-bearing accounts	$128	$(12)	$116	$340	$(288)	$52
Securities available for sale	(321)	(9,871)	(10,192)	(915)	(6,975)	(7,890)
Securities held to maturity	(1,066)	(215)	(1,281)	73	(1,118)	(1,045)
Investment in FRB and FHLB Banks	(333)	188	(145)	(110)	(361)	(471)
Loans and leases	(774)	(6,096)	(6,870)	4,791	(16,679)	(11,888)
Total interest income	(2,366)	(16,006)	(18,372)	4,179	(25,421)	(21,242)
Money market deposit accounts	887	(6,779)	(5,892)	3,636	(5,844)	(2,208)
NOW deposit accounts	517	(738)	(221)	842	(1,816)	(974)
Savings deposits	83	(112)	(29)	137	(1,472)	(1,335)
Time deposits	(5,714)	(6,286)	(12,000)	(9,166)	(13,953)	(23,119)
Short-term borrowings	65	(215)	(150)	(1,348)	(2,947)	(4,295)
Trust preferred debentures	-	(107)	(107)	-	(500)	(500)
Long-term debt	(5,132)	(183)	(5,315)	1,485	(498)	987
Total interest expense	(9,294)	(14,420)	(23,714)	(4,414)	(27,030)	(31,444)
Change in FTE net interest income	$6,928	$(1,586)	$5,342	$8,593	$1,609	$10,202

Table of Contents

Loans and Leases and Corresponding Interest and Fees on Loans

The average balance of loans and leases decreased slightly, totaling $3.6 billion in 2010 and 2009. The yield on average loans and leases decreased from 6.07% in 2009 to 5.90% in 2010, 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 2010. Interest income from loans and leases on a FTE basis decreased 3.1%, from $221.1 million in 2009 to $214.3 million in 2010. The decrease in interest income from loans and leases was due to the decrease in yield on loans and leases in 2010 compared to 2009 noted above as well as the slight decrease in the average balance of loans and leases from 2009 to 2010.

Total loans and leases decreased $35.4 million, or 1.0%, from December 31, 2009 to December 31, 2010. The Company experienced increases in commercial and commercial real estate loans and consumer loans, which were offset by decreases in residential real estate loans, home equity loans, and leases. Commercial real estate loans increased $105.1 million, or 14.2%, from $739.4 million at December 31, 2009 to $844.5 million at December 31, 2010, in large part due to increases in new business and expansion into new markets. Residential real estate loans decreased $69.9 million, or 11.3%, from $618.3 million at December 31, 2009 to $548.4 million at December 31, 2010. This decrease was due primarily to the sales of fixed rate mortgages during 2010. Home equity loans decreased $27.9 million or 4.6% from $603.6 million at December 31, 2009 to $575.7 million at December 31, 2010 due to current market conditions decreasing consumer demand. Leases decreased $32.1 million, or 51.1%, from $62.7 million at December 31, 2009 to $30.6 million at December 31, 2010 as the Company discontinued lease originations beginning in 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)	2010	2009	2008	2007	2006
Residential real estate mortgages	$548,394	$618,334	$722,723	$719,182	$739,607
Commercial	577,731	571,107	572,059	593,077	581,736
Commercial real estate	844,458	739,395	669,720	621,820	658,647
Real estate construction and development	45,444	67,168	67,859	81,350	94,494
Agricultural and agricultural real estate	112,738	122,466	113,566	116,190	118,278
Consumer	874,918	860,676	795,123	655,375	586,922
Home equity	575,678	603,585	627,603	582,731	546,719
Lease financing	30,645	62,667	83,258	86,126	86,251
Total loans and leases	$3,610,006	$3,645,398	$3,651,911	$3,455,851	$3,412,654

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. Consumer loans also consist of direct installment loans to individuals secured by similar collateral as well. Indirect installment loans represent $828.9 million of total consumer loans at December 31, 2010, or 94.7%. Installment credit for automobiles accounts for approximately 67% 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.

Table of Contents

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.

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, 2010. 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, 2010			
(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	$316,395	$235,362	$404,344	$956,101
Real estate construction and development	16,869	12,395	2,320	31,584
Total floating rate loans	333,264	247,757	406,664	987,685
Fixed rate				
Commercial, commercial real estate, agricultural, and agricultural real estate	48,798	283,885	246,143	578,826
Real estate construction and development	10,419	498	2,943	13,860
Total fixed rate loans	59,217	284,383	249,086	592,686
Total	$392,481	$532,140	$655,750	$1,580,371

Securities and Corresponding Interest and Dividend Income

The average balance of the amortized cost for securities available for sale decreased $7.2 million, or 0.7%, from December 31, 2009 to December 31, 2010. The yield on average securities available for sale was 3.56% for 2010 compared to 4.47% in 2009.

The average balance of securities held to maturity decreased from $151.1 million in 2009 to $128.7 million in 2010. At December 31, 2010, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity decreased from 4.89% in 2009 to 4.74% in 2010.

Table of Contents

The average balance of FRB and FHLB stock decreased to $31.9 million in 2010 from $37.9 million in 2009. The yield from investments in FRB and FHLB Banks increased from 5.19% in 2009 to 5.72% in 2010.

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 of Contents

Table 5. Securities Portfolio

	As of December 31,					
	2010		2009		2008	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale						
U.S. Treasury	$91,338	$91,280	$20,102	$20,086	$59	$67
Federal Agency	350,641	349,750	310,012	313,157	213,997	219,167
State & Municipal	113,821	114,937	135,181	137,613	126,369	127,973
Mortgage-backed	233,861	244,808	269,255	280,861	351,973	360,629
Collateralized mortgage obligations	293,565	297,888	321,890	330,711	376,058	380,277
Corporate	20,005	20,489	20,011	20,674	20,016	20,785
Other securities	8,059	10,216	12,295	13,656	10,475	10,767
Total securities available for sale	$1,111,290	$1,129,368	$1,088,746	$1,116,758	$1,098,947	$1,119,665
Securities held to maturity						
Mortgage-backed	$1,719	$1,919	$2,041	$2,213	$2,372	$2,467
State & Municipal	95,591	96,840	157,905	159,638	137,837	138,841
Total securities held to maturity	$97,310	$98,759	$159,946	$161,851	$140,209	$141,308

In the available for sale category at December 31, 2010, federal agency securities were comprised of Government-Sponsored Enterprise ("GSE") securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of $208.9 million and a fair value of $217.9 million and US Government Agency securities with an amortized cost of $25.0 million and a fair value of $26.9 million; CMOs were comprised of GSEs with an amortized cost of $206.0 million and a fair value of $207.0 million and US Government Agency securities with an amortized cost of $87.6 million and a fair value of $90.8 million. At December 31, 2010, 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 CMOs are all "prime/conforming" and are guaranteed by Fannie Mae, Freddie Mac, FHLB, 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 securities backed by subprime mortgages in our investment portfolio.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2010:

(In thousands)	Amortized cost	Estimated fair value	Weighted Average Yield
Debt securities classified as available for sale			
Within one year	$ 31,998	$ 32,497	2.42 %
From one to five years	428,957	428,402	1.84 %
From five to ten years	231,548	240,855	4.30 %
After ten years	410,728	417,398	3.31 %
	$ 1,103,231	$ 1,119,152	

Debt securities classified as held to maturity						
Within one year	$	44,616	$	44,685	2.36	%
From one to five years		38,406		39,420	3.73	%
From five to ten years		10,144		10,310	4.40	%
After ten years		4,144		4,344	5.07	%
	$	97,310	$	98,759		

Table of Contents

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 decreased $113.2 million, totaling $4.0 billion in 2010. The rate paid on interest-bearing liabilities decreased from 1.85% in 2009 to 1.32% in 2010. These decreases caused a decrease in interest expense of $23.7 million, or 30.8%, from $76.9 million in 2009 to $53.2 million in 2010.

Deposits

Average interest bearing deposits remained at $3.3 billion for 2010 as compared with 2009. Average money market deposits increased $79.3 million or 7.8% during 2010 when compared to 2009. The increase in average money market deposits resulted primarily from an increase in non-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 $109.0 million or 18.1% during 2010 as compared to 2009. This increase was due primarily to increases in municipal NOW accounts as the Company acquired new accounts in 2010. The average balance of savings accounts increased $53.6 million or 10.7% during 2010 when compared to 2009. Average time deposits decreased $241.7 million or 19.7% during 2010 as compared to 2009. The decrease in average time deposits resulted primarily from decreases in municipal and brokered CD's due to lower interest rates. The average balance of demand deposits increased $87.0 million, or 12.1%, from $718.6 million in 2009 to $805.6 million in 2010. This growth in demand deposits was driven principally by increases in accounts from retail customers and commercial customers.

The rate paid on average interest-bearing deposits decreased from 1.45% during 2009 to 0.91% in 2010. 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 2009 as well as an overall decrease in all interest rates. The rate paid for money market deposit accounts decreased from 1.20% during 2009 to 0.57% during 2010. The rate paid for NOW accounts decreased from 0.53% during 2009 to 0.41% during 2010. The rate paid for savings deposits decreased from 0.17% in 2009 to 0.14% in 2010 and the rate paid on time deposits decreased from 2.64% during 2009 to 2.06% during 2010.

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

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

(In thousands)		2010		2009
Within three months	$	41,404	$	104,397
After three but within twelve months		85,026		101,416
After one but within three years		66,409		46,375
Over three years		71,610		46,606
Total	$	264,449	$	298,794

Table of Contents

Borrowings

Average short-term borrowings increased $18.2 million to $158.3 million in 2010. The average rate paid on short-term borrowings decreased from 0.39% in 2009 to 0.25% in 2010, which was primarily driven by the FRB decreasing the Fed Funds target rate (which directly impacts short-term borrowing rates). Average long-term debt decreased from $601.0 million in 2009 to $469.5 million in 2010, which resulted from the strategic pay-down of long-term debt in 2010 to benefit interest expense in 2010 and future years.

The average balance of trust preferred debentures remained at $75.4 million in 2010 compared to 2009. The average rate paid for trust preferred debentures in 2010 was 5.49%, down from 5.63% in 2009. The decrease in rate on the trust preferred debentures is due primarily to the change in interest rate terms in one trust preferred debenture to variable rate from fixed rate.

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 $1.0 billion and $848 million at December 31, 2010 and 2009, 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)	2010	2009	2008
Service charges on deposit accounts	$ 24,041	$ 27,165	$ 28,143
Insurance and other financial services revenue	18,867	17,725	8,726
Trust	7,722	6,719	7,278
Bank owned life insurance income	3,316	3,135	4,923
ATM and debit card fees	10,035	9,339	8,832
Retirement plan administration fees	10,356	9,086	6,308
Other	6,277	6,818	5,961
Total before net securities gains	80,614	79,987	70,171
Net securities gains	3,274	144	1,535
Total	$ 83,888	$ 80,131	$ 71,706

Noninterest income for the year ended December 31, 2010 was $83.9 million, up $3.8 million or 4.7% from $80.1 million for the year ended December 31, 2009. The increase in noninterest income was due primarily to an increase in net securities gains of approximately $3.1 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to the sale of two equity positions and certain CMO's during 2010. In addition, the Company experienced an increase in retirement plan administration fees of approximately $1.3 million for the year ended December 31, 2010 as compared with the year ended December 31, 2009 as a result of organic

growth and increased asset values from improved market conditions. Insurance and other financial services revenue increased approximately $1.1 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to new business and expansion into new markets within our footprint. Trust revenue increased approximately $1.0 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to an increase in fair market value of trust assets under administration as well as new business generated in 2010. These increases were partially offset by a decrease in service charges on deposit accounts of approximately $3.1 million as a result of a decrease in overdraft activity due to changes in consumer behavior caused by economic conditions as well as the effects of implementing new regulations regarding overdraft fees.

Table of Contents

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)	2010	2009	2008
Salaries and employee benefits	$ 93,718	$ 85,565	$ 71,159
Occupancy	15,350	14,864	13,781
Equipment	8,317	8,139	7,539
Data processing and communications	12,347	13,238	12,694
Professional fees and outside services	9,032	10,508	10,476
Office supplies and postage	6,102	5,857	5,346
Amortization of intangible assets	3,072	3,246	2,105
Loan collection and other real estate owned	3,036	2,766	2,494
Advertising	3,487	3,455	3,102
Impairment on lease residual assets	-	-	2,000
FDIC Expenses	6,081	8,408	1,813
Prepayment penalty on long-term debt	4,526	810	-
Other	13,223	13,710	14,304
Total noninterest expense	$ 178,291	$ 170,566	$ 146,813

Noninterest expense for the year ended December 31, 2010 was $178.3 million, up from $170.6 million, or 4.5%, for the year ended December 31, 2009. Salaries and employee benefits increased $8.2 million, or 9.5%, for the year ended December 31, 2010 compared with the year ended December 31, 2009. This increase was due primarily to increases in full-time-equivalent employees (primarily driven by market expansions), merit increases, employee benefits, and incentive compensation. In addition, the Company incurred debt prepayment penalties totaling $4.5 million to pay off long-term debt during the year ended December 31, 2010, as compared with prepayment penalties totaling $0.8 million for the year ended December 31, 2009. The debt prepayments in 2010 benefited interest expense by approximately $1.0 million in 2010, with future benefits expected in 2011 and 2012. These increases were partially offset by a decrease in FDIC expenses of approximately $2.3 million for the year ended December 31, 2010, as compared with the year ended December 31, 2009. This decrease resulted from the special assessment levied by the FDIC in the second quarter of 2009. In addition, professional fees and outside services decreased by $1.5 million, or 14.0%, for the year ended December 31, 2010 as compared with the year ended December 31, 2009. This decrease was due primarily to nonrecurring legal fees incurred during 2009 related to de novo branch activity as well as non-recurring systems consulting services incurred in 2009.

Table of Contents

Income Taxes

Income tax expense for the year ended December 31, 2010 was $20.9 million, up slightly from $20.6 million for the year ended December 31, 2009. The effective tax rate was 26.7% for the year ended December 31, 2010, as compared to 28.4% for the year ended December 31, 2009. This decrease in the effective tax rate is primarily the result of an amendment to New York State tax law to conform to the bad debt treatment afforded under Federal law, which resulted in a reduction to tax expense of $0.6 million, as well as a favorable New York State audit settlement, which resulted in a reduction to tax expense of $0.6 million for the year ended December 31, 2010.

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.

Table of Contents

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)	2010	%	2009	%	2008	%	2007	%	2006	%
Nonaccrual loans										
Commercial and agricultural loans and real estate	$ 24,402	57 %	$ 25,521	66 %	$ 15,891	66 %	$ 20,491	69 %	$ 9,346	69 %
Real estate mortgages	8,338	20 %	6,140	16 %	3,803	16 %	1,372	5 %	2,338	17 %
Consumer	8,765	21 %	6,249	16 %	3,468	14 %	2,934	10 %	1,981	14 %
Troubled debt restructured loans	962	2 %	836	2 %	1,029	4 %	4,900	16 %	-	0 %
Total nonaccrual loans	42,467	100 %	38,746	100 %	24,191	100 %	29,697	100 %	13,665	100 %
Loans 90 days or more past due and still accruing										
Commercial and agricultural loans and real estate	94	4 %	59	2 %	12	1 %	51	6 %	138	8 %
Real estate mortgages	919	40 %	602	24 %	770	33 %	295	33 %	682	42 %
Consumer	1,312	56 %	1,865	74 %	1,523	66 %	536	61 %	822	50 %
Total loans 90 days or more past due and still accruing	2,325	100 %	2,526	100 %	2,305	100 %	882	100 %	1,642	100 %
Total nonperforming loans	44,792		41,272		26,496		30,579		15,307	
	901		2,358		665		560		389	

Other real estate owned					
Total nonperforming loans and other real estate owned	45,693	43,630	27,161	31,139	15,696
Total nonperforming loans to loans and leases	1.24 %	1.13 %	0.73 %	0.88 %	0.45 %
Total nonperforming loans and other real estate owned to total assets	0.86 %	0.80 %	0.51 %	0.60 %	0.31 %
Total allowance for loan and lease losses to nonperforming loans	159.03 %	161.25 %	221.03 %	177.19 %	330.48 %

Loans over 60 days past due but not over 90 days past due were .15%, .15%, .15%, .12%, and .12% of total loans as of December 31, 2010, 2009, 2008, 2007, and 2006, 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.

Table of Contents

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 examinations.

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 $45.7 million at December 31, 2010, compared to $43.6 million at December 31, 2009. Nonperforming loans at December 31, 2010 were $44.8 million or 1.24% of total loans and leases compared with $41.3 million or 1.13% at December 31, 2009. The Company recorded a provision for loan and lease losses of $29.8 million for the year ended December 31, 2010 compared with $33.4 million for the year ended December 31, 2009. The decrease in the provision for loan and lease losses for the year ended December 31, 2010 was due primarily to ongoing modeling of the required levels of reserves which considers historical charge-offs, loan growth and economic trends. Net charge-offs to average loans and leases for the year ended December 31, 2010 were 0.69%, compared with 0.70% for the year ended December 31, 2009. The allowance for loan and lease losses was 159.03% of non-performing loans at December 31, 2010 as compared to 161.25% at December 31, 2009.

Impaired loans, which primarily consist of nonaccruing commercial, commercial real estate, agricultural, and agricultural real estate loans, decreased to $18.0 million at December 31, 2010 as compared to $19.8 million at December 31, 2009. At December 31, 2010, $5.7 million of the total impaired loans had a specific reserve allocation of $2.2 million compared to $6.3 million of impaired loans at December 31, 2009 which had a specific reserve allocation of $2.6 million.

Total net charge-offs for 2010 were $25.1 million as compared with $25.4 million for 2009. Gross charge-offs remained consistent at $29.8 million for 2010 and 2009. Recoveries increased slightly from $4.4 million for the year ended December 31, 2009 to $4.7 million for the year ended December 31, 2010. The allowance for loan and lease losses as a percentage of total loans and leases was 1.97% at December 31, 2010 and 1.83% at December 31, 2009.

Table of Contents

Table 8. Allowance for Loan and Lease Losses

(Dollars in thousands)	2010	2009	2008	2007	2006
Balance at January 1	$66,550	$58,564	$54,183	$50,587	$47,455
Loans and leases charged-off					
Commercial and agricultural	12,969	11,500	14,464	20,349	6,132
Residential real estate mortgages	1,176	705	543	1,032	542
Consumer*	15,692	17,609	11,985	9,862	6,698
Total loans and leases charged-off	29,837	29,814	26,992	31,243	13,372
Recoveries					
Commercial and agricultural	1,922	1,508	1,411	1,816	1,939
Residential real estate mortgages	43	133	68	125	239
Consumer*	2,747	2,767	2,713	2,804	2,521
Total recoveries	4,712	4,408	4,192	4,745	4,699
Net loans and leases charged-off	25,125	25,406	22,800	26,498	8,673
Allowance related to purchase acquisitions	-	-	-	-	2,410
Provision for loan and lease losses	29,809	33,392	27,181	30,094	9,395
Balance at December 31	$71,234	$66,550	$58,564	$54,183	$50,587
Allowance for loan and lease losses to loans and leases outstanding at end of year	1.97 %	1.83 %	1.60 %	1.57 %	1.48 %
Net charge-offs to average loans and leases outstanding	0.69 %	0.70 %	0.64 %	0.77 %	0.26 %

* 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 $82.2 million in potential problem loans at December 31, 2010 as compared to $79.1 million at December 31, 2009. Potential problem loans are loans that are currently performing, but about which management is aware of possible credit problems of the related borrowers and has concerns as to the ability of such borrowers to comply with the present loan repayment terms. Such loans may need to be disclosed as nonperforming at some time in the future. Potential problem loans are classified by the Company's loan rating system as "substandard." At December 31, 2010, there were 19 potential problem loans that equaled or exceeded $1.0 million, totaling $35.2 million in aggregate, compared to 17 potential problem loans exceeding $1.0 million, totaling $32.2 million at December 31, 2009. 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. To mitigate this risk, the Company maintains a diversified loan portfolio, has no significant concentration in any particular industry, and originates loans primarily within its footprint.

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 of Contents

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

	December 31,														
	2010			2009			2008			2007			2006		
(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	$40,101	44	%	$36,599	41	%	$ 33,231	39	%	$ 32,811	41	%	$ 28,149	43	%
Real estate mortgages	4,627	15	%	3,002	17	%	3,143	20	%	3,277	21	%	3,377	22	%
Consumer	26,126	41	%	26,664	42	%	21,908	41	%	17,362	38	%	17,327	35	%
Unallocated	380	0	%	285	0	%	282	0	%	733	0	%	1,734	0	%
Total	$71,234	100	%	$66,550	100	%	$ 58,564	100	%	$ 54,183	100	%	$ 50,587	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 to, delinquencies, nonaccruals, historical charge-off experience, and specific economic factors (e.g. 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 2010 in nonperforming loans and other factors compared to 2009, the allowance to loan and lease loss as a percentage of total loans increased from 1.83% as of December 31, 2009 to 1.97% as of December 31, 2010.

At December 31, 2010, approximately 59.2% of the Company's loans were 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.

Table of Contents

Liquidity

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, 2010, the Company's Basic Surplus measurement was 9.7% of total assets or $517 million, which was above the Company's minimum of 5% (calculated at $267 million of period end total assets at December 31, 2010) 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, 2010, the Company considered its Basic Surplus position to be adequate. However, certain events may adversely impact the Company's liquidity position in 2011. 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 2011. 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 $906 million at December 31, 2010. In addition, the Bank has enhanced its Borrower-in-Custody program with the Federal Reserve Bank with the addition of the ability to pledge automobile loans. At December 31, 2010, the Bank had the capacity to borrow $447 million from the BIC program.

At December 31, 2010 and 2009, FHLB advances outstanding totaled $345 million and $530 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $284 million at December 31, 2010 and $167 million at December 31, 2009. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $238 million at December 31, 2010 or used to collateralize other borrowings, such as repurchase agreements.

At December 31, 2010, 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 $89.4 million in 2010 and $54.7 million in 2009. The critical elements of net operating cash flows include net income, adjusted for non-cash income and expense items such as the

provision for loan and lease losses, deferred income tax expense, depreciation and amortization, and cash flows generated through changes in other assets and liabilities.

Table of Contents

Net cash flows provided by investing activities totaled $58.5 million in 2010 and net cash used in investing activities totaled $28.4 million in 2009. Critical elements of investing activities are loan and investment securities transactions. The increase in cash provided by investing activities in 2010 compared with 2009 was primarily due to a decrease in purchases of securities held to maturity.

Net cash flows used in financing activities totaled $166.3 million in 2010 and net cash flows provided by financing activities totaled $50.5 million in 2009. 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 2010, the Company had long-term debt prepayments and repayments totaling $184.8 million as compared with $77.5 million in 2009. In addition, approximately $33.4 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, 2010 are as follows:

Contractual Obligations
(In thousands)

	Payments Due by Period						
	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt obligations	$1,994	$-	$119,400	$-	$-	$248,480	$369,874
Trust preferred debentures	-	-	-	-	-	75,422	75,422
Operating lease obligations	4,523	3,972	3,308	2,985	2,644	21,858	39,290
Retirement plan obligations	5,035	5,195	5,288	5,378	7,214	29,802	57,912
Data processing commitments	4,202	2,787	2,121	1,713	1,713	-	12,536
Total contractual obligations	$15,754	$11,954	$130,117	$10,076	$11,571	$375,562	$555,034

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, 2010 and 2009, commitments to extend credit in the form of loans, including unused lines of credit, amounted to $643.6 million and $556.6 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.

Standby 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, 2010 and 2009, outstanding stand-by letters of credit were approximately $26.2 million and $34.6 million, respectively. The fair value of the Company's stand-by letters of credit at December 31, 2010 and 2009 was not significant. The following table sets forth the commitment expiration period for stand-by letters of credit at December 31, 2010:

Table of Contents

Commitment Expiration of Standby Letters of Credit		
Within one year	$	12,074
After one but within three years		11,274
After three but within five years		2,351
After five years		494
Total	$	26,193

Loans Serviced for Others and Loans Sold with Recourse

The total amount of loans serviced by the Company for unrelated third parties was approximately $323.2 million and $262.7 million at December 31, 2010 and 2009, respectively. This increase was due to the mortgages sold in 2010 in which servicing was retained. At December 31, 2010, the Company had approximately $1.5 million of mortgage servicing rights, as compared to $1.1 million at December 31, 2009. At December 31, 2010 and 2009, the Company serviced $14.0 million and $11.9 million, respectively, of loans sold with recourse. Due to collateral on these loans, no reserve is considered necessary at December 31, 2010 and 2009.

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, 2010, approximately $108.5 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 $33.4 million in capital through an additional public offering of our common stock.

Table of Contents

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. The Company purchased 23,810 shares of its common stock during the year ended December 31, 2010, for a total of $0.5 million at an average price of $20.03 per share. At December 31, 2010, there were 976,190 shares available for repurchase under the plan.

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.

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 $65.6 million, or 8.2%, from $795.1 million at December 31, 2008 to $860.7 million at December 31, 2009. The increase in consumer loans was driven primarily by an increase in indirect installment loans of $151 million, from $677.9 million in 2008 to $828.9 million in 2009. Commercial real estate loans increased $69.7 million, or 10.4%, from $669.7 million at December 31, 2008 to $739.4 million at December 31, 2009, in large part due to increases in new business. Residential real estate loans decreased $104.4 million, or 14.4%, from $722.7 million at December 31, 2008 to $618.3 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 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.

Table of Contents

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.

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 CDs. 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. The average balance of savings accounts increased $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 $682.7 million in 2008 to $718.6 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 and 2009 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 rate paid on NOW accounts decreased from 0.85% in 2008 to 0.53% in 2009.

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.

Noninterest Income

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 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.

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.

Table of Contents

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, 2010 balance sheet position:

Table 10. Interest Rate Sensitivity Analysis

Change in interest rates (In basis points)	Percent change in net interest income
+200	(1.82 %)
-100	(1.63 %)

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, 2010, the Company would expect net interest income to decline in 2012.

Table of Contents

Recent Accounting Pronouncements

ASU 2010-20, Disclosures about Credit Quality of Financing Receivables and Allowance for Credit Losses, which amends FASB ASC 310 Receivables, was issued in July 2010. ASU 2010-20 requires an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this standard, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings is also be required. The disclosures as of the end of a reporting period (such as accounting policies for each portfolio segment, ending balances of allowance for credit losses and credit-quality indicators) were effective as of December 31, 2010. The disclosures about activity that occurs during a reporting period (such as modifications and rollforward of allowance for credit losses) are effective in 2011.

ASU 2010-28, Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force) was issued in December 2010. ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors. The qualitative factors are consistent with the existing guidance and examples in paragraph 350-20-35-30, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This topic is effective for the Company beginning in 2011 and early adoption is not permitted. We do not expect it to have any impact upon adoption.

ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force) was issued in December 2010. ASU201-29 specifies that if a public entity presents comparative financial statements, the entity (acquirer) should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. It also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This topic is effective for the Company for business combinations for which the acquisition date is in or after 2011.

ASU No. 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 was issued in January 2011. ASU 2011-01 temporarily delays the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

Table of Contents

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, 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, 2010, 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 28, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG LLP

Albany, New York
February 28, 2011

Table of Contents

Consolidated Balance Sheets

(In thousands, except share and per share data)	As of December 31, 2010	2009
Assets		
Cash and due from banks	$99,673	$107,980
Short-term interest bearing accounts	69,119	79,181
Securities available for sale, at fair value	1,129,368	1,116,758
Securities held to maturity (fair value $98,759 and $161,851)	97,310	159,946
Trading securities	2,808	2,410
Federal Reserve and Federal Home Loan Bank stock	27,246	35,979
Loans and leases	3,610,006	3,645,398
Less allowance for loan and lease losses	71,234	66,550
Net loans and leases	3,538,772	3,578,848
Premises and equipment, net	67,404	66,221
Goodwill	114,841	114,938
Intangible assets, net	17,543	20,590
Bank owned life insurance	75,301	74,751
Other assets	99,471	106,424
Total assets	$5,338,856	$5,464,026
Liabilities		
Demand (noninterest bearing)	$911,741	$789,989
Savings, NOW, and money market	2,291,833	2,269,779
Time	930,778	1,033,278
Total deposits	4,134,352	4,093,046
Short-term borrowings	159,434	155,977
Long-term debt	369,874	554,698
Trust preferred debentures	75,422	75,422
Other liabilities	66,202	79,760
Total liabilities	4,805,284	4,958,903
Stockholders' equity		
Preferred stock, $0.01 par value; authorized 2,500,000 shares at December 31, 2010 and 2009	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at December 31, 2010 and 2009; issued 38,035,539 at December 31, 2010 and 2009	380	380
Additional paid-in-capital	314,023	311,164
Retained earnings	299,797	270,232
Accumulated other comprehensive (loss) income	(5,335)	1,163
Common stock in treasury, at cost, 3,532,732 and 3,650,068 shares at December 31, 2010 and 2009, respectively	(75,293)	(77,816)
Total stockholders' equity	533,572	505,123
Total liabilities and stockholders' equity	$5,338,856	$5,464,026

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Income

(In thousands, except per share data)	Years ended December 31, 2010	2009	2008
Interest, fee, and dividend income			
Interest and fees on loans and leases	$213,429	$220,324	$232,155
Securities available for sale	36,167	45,972	54,048
Securities held to maturity	3,968	4,894	5,588
Other	2,174	2,203	2,623
Total interest, fee, and dividend income	255,738	273,393	294,414
Interest expense			
Deposits	30,354	48,496	76,132
Short-term borrowings	402	552	4,847
Long-term debt	18,314	23,629	22,642
Trust preferred debentures	4,140	4,247	4,747
Total interest expense	53,210	76,924	108,368
Net interest income	202,528	196,469	186,046
Provision for loan and lease losses	29,809	33,392	27,181
Net interest income after provision for loan and lease losses	172,719	163,077	158,865
Noninterest income			
Service charges on deposit accounts	24,041	27,165	28,143
Insurance and other financial services revenue	18,867	17,725	8,726
Trust	7,722	6,719	7,278
Net securities gains	3,274	144	1,535
Bank owned life insurance income	3,316	3,135	4,923
ATM and debit card fees	10,035	9,339	8,832
Retirement plan administration fees	10,356	9,086	6,308
Other	6,277	6,818	5,961
Total noninterest income	83,888	80,131	71,706
Noninterest expense			
Salaries and employee benefits	93,718	85,565	71,159
Occupancy	15,350	14,864	13,781
Equipment	8,317	8,139	7,539
Data processing and communications	12,347	13,238	12,694
Professional fees and outside services	9,032	10,508	10,476
Office supplies and postage	6,102	5,857	5,346
Amortization of intangible assets	3,072	3,246	2,105
Loan collection and other real estate owned	3,036	2,766	2,494
Advertising	3,487	3,455	3,102
Impairment on lease residual assets	-	-	2,000
FDIC expenses	6,081	8,408	1,813
Prepayment penalty on long-term debt	4,526	810	-
Other	13,223	13,710	14,304
Total noninterest expense	178,291	170,566	146,813
Income before income tax expense	78,316	72,642	83,758
Income tax expense	20,912	20,631	25,405
Net income	$57,404	$52,011	$58,353
Earnings per share			
Basic	$1.67	$1.54	$1.81
Diluted	1.66	1.53	1.80

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2010, 2009, and 2008 (In thousands except share and per share data)	Common stock	Additional paid-in-capital	Retained earnings	Accumulated other comprehensive (loss) income	Common stock in treasury	Total
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
Net income	-	-	57,404	-	-	57,404
Cash dividends - $0.80 per share	-	-	(27,577)	-	-	(27,577)
Purchase of 23,810 treasury shares	-	-	-	-	(477)	(477)
	-	17	(262)	-	2,060	1,815

Net issuance of 96,823 shares to employee benefit plans and other stock plans, including tax benefit						
Stock-based compensation	-	3,782	-	-	-	3,782
Net issuance of 46,323 shares of restricted stock awards	-	(986)	-	-	986	-
Forfeiture of 2,000 shares of restricted stock	-	46	-	-	(46)	-
Other comprehensive income	-	-	-	(6,498)	-	(6,498)
Balance at December 31, 2010	$380	$314,023	$299,797	$ (5,335)	$(75,293)	$533,572

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows

(In thousands)	Years ended December 31, 2010	2009	2008
Operating activities			
Net income	$57,404	$52,011	$58,353
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan and lease losses	29,809	33,392	27,181
Depreciation and amortization of premises and equipment	5,327	5,398	5,220
Net accretion on securities	1,468	535	423
Amortization of intangible assets	3,072	3,246	2,105
Stock based compensation	3,782	3,133	2,105
Bank owned life insurance income	(3,316)	(3,135)	(4,923)
Trading security (purchases) sales	(184)	(460)	456
Unrealized (gains) losses in trading securities	(214)	(543)	669
Deferred income tax (benefit) expense	(14,955)	(1,501)	4,778
Proceeds from sale of loans held for sale	83,143	135,519	26,745
Originations and purchases of loans held for sale	(80,469)	(138,583)	(27,760)
Net gains on sales of loans held for sale	(911)	(953)	(170)
Net security gains	(3,274)	(144)	(1,535)
Net gains on sales of other real estate owned	(517)	(306)	(230)
Impairment on lease residual assets	-	-	2,000
Net decrease (increase) in other assets	6,627	(39,324)	1,576
Net increase (decrease) in other liabilities	2,645	6,399	(9,711)
Net cash provided by operating activities	89,437	54,684	87,282
Investing activities			
Net cash used in Mang Insurance Agency, LLC acquisition	-	-	(26,233)
Securities available for sale:			
Proceeds from maturities, calls, and principal paydowns	511,394	434,127	413,560
Proceeds from sales	103,253	2,753	6,800
Purchases	(635,319)	(426,979)	(392,957)
Securities held to maturity:			
Proceeds from maturities, calls, and principal paydowns	112,399	90,668	91,309
Purchases	(48,701)	(110,496)	(82,525)
Net decrease (increase) in loans	7,292	(18,775)	(220,700)
Net decrease (increase) in Federal Reserve and FHLB stock	8,733	3,066	(943)
Proceeds from bank owned life insurance	2,767	1,054	-
Purchases of premises and equipment, net	(6,510)	(6,378)	(6,039)
Proceeds from sales of other real estate owned	3,186	2,512	1,150
Net cash provided by (used in) investing activities	58,494	(28,448)	(216,578)
Financing activities			
Net increase in deposits	41,306	169,788	51,165
Net increase (decrease) in short-term borrowings	3,457	(50,515)	(161,975)
Proceeds from issuance of long-term debt	-	-	340,027
Repayments of long-term debt	(184,824)	(77,511)	(132,705)
Excess tax benefit from exercise of stock options	140	(243)	700
Proceeds from the issuance of shares to employee benefit plans and other stock plans	1,675	2,728	11,303
Issuance of common stock	-	33,401	-

Purchase of treasury stock	(477)	-	(5,939)
Cash dividends and payments for fractional shares	(27,577)	(27,119)	(25,830)
Net cash (used in) provided by financing activities	(166,300)	50,529	76,746
Net (decrease) increase in cash and cash equivalents	(18,369)	76,765	(52,550)
Cash and cash equivalents at beginning of year	187,161	110,396	162,946
Cash and cash equivalents at end of year	$168,792	$187,161	$110,396

Table of Contents

Supplemental disclosure of cash flow information	Years ended December 31,		
Cash paid during the year for:	2010	2009	2008
Interest	$54,668	$79,819	$113,597
Income taxes, net of refund	37,033	13,952	17,081
Noncash investing activities:			
Loans transferred to other real estate owned	$1,212	$3,899	$1,025
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)	2010	2009	2008
Net income	$57,404	$52,011	$58,353
Other comprehensive (loss) income, net of tax			
Unrealized net holding (losses) gains arising during the year (pre-tax amounts of $(6,660), $7,438, and $15,143)	(4,021)	4,490	9,138
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $3,274, $144, and $1,535)	(1,977)	(86)	(921)
Amortization of prior service cost and actuarial gains (pre-tax amounts of $1,767, $2,581 and $378)	1,060	1,548	227
(Decrease) increase in unrecognized actuarial loss (pre-tax amounts of $(2,595), $5,637 and $(21,087))	(1,560)	3,415	(13,073)
Total other comprehensive (loss) income	(6,498)	9,367	(4,629)
Comprehensive income	$50,906	$61,378	$53,724

See accompanying notes to consolidated financial statements

Table of Contents

NBT BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of NBT Bancorp Inc. (Bancorp) and its subsidiaries, NBT Bank, NA (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 financial instruments and status of contingencies and other-than-temporary impairment on investments are particularly susceptible to material change in the near term.

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.

Table of Contents

Segment Report

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 (1) does not have the intent to sell and (2) 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. The amount by which this calculated present value is less than the amortized cost is the credit loss. 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 FHLB 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.

Table of Contents

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 (TDR).

A loan is considered to be a TDR when the Company grants a concession to the borrower because of the borrower's financial condition that the Company 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 and regional 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 tests 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.

Table of Contents

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. 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. 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, 2010 was approximately $0.9 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 are 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.

64

Table of Contents

Income Taxes

Income taxes are accounted for under the asset and liability method. 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 when the interest rate environment is determined to be favorable by management, 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.

Table of Contents

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure and there were none identified.

Other Financial Instuments

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).

Table of Contents

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.

(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,								
		2010			2009			2008	
(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	$ 57,404	34,275	$ 1.67	$ 52,011	33,723	$ 1.54	$ 58,353	32,152	$ 1.81
Effect of dilutive securities									
		234			180			275	

Stock based compensation									
Diluted earnings per share	$ 57,404	34,509	$ 1.66	$ 52,011	33,903	$ 1.53	$ 58,353	32,427	$ 1.80

67

Table of Contents

There were approximately 1,309,000, 1,245,000, and 328,000 weighted average stock options for the years ended December 31, 2010, 2009, and 2008, 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, 2010 was $31.7 million.

(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, 2010				
U.S. Treasury	$91,338	$424	$482	$91,280
Federal Agency	350,641	1,905	2,796	349,750
State & municipal	113,821	1,771	655	114,937
Mortgage-backed	233,861	11,666	719	244,808
Collateralized mortgage obligations	293,565	6,574	2,251	297,888
Corporate	20,005	484	-	20,489
Other securities	8,059	2,162	5	10,216
Total securities available for sale	$1,111,290	$24,986	$6,908	$1,129,368
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

In the available for sale category at December 31, 2010, federal agency securities were comprised of Government-Sponsored Enterprise ("GSE") securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of $208.9 million and a fair value of $217.9 million and US Government Agency securities with an amortized cost of $25.0 million and a fair value of $26.9 million; CMOs were comprised of GSEs with an amortized cost of $206.0 million and a fair value of $207.0 million and US Government Agency securities with an amortized cost of $87.6 million and a fair value of $90.8 million.

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; CMOs 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.

Table of Contents

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

	Years ended December 31		
(In thousands)	2010	2009	2008
Proceeds from sales	$ 103,253	$ 2,753	$ 6,800
Gross realized gains	$ 3,354	$ 238	$ 1,780
Gross realized losses	(80)	(94)	(245)
Net securities gains	$ 3,274	$ 144	$ 1,535

In addition to gains from sales transactions, the Company also recorded gains of approximately $0.1 million from calls on securities available for sale for the year ended December 31, 2010.

At December 31, 2010 and 2009, securities available for sale with amortized costs totaling $858.8 million and $891.4 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2010, securities available for sale with an amortized cost of $187.7 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, 2010				
Mortgage-backed	$1,719	$200	$-	$1,919
State & municipal	95,591	1,249	-	96,840
Total securities held to maturity	$97,310	$1,449	$-	$98,759
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

At December 31, 2010 and December 31, 2009, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

Table of Contents

The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2010 and 2009, 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		
(in thousands, except number of positions data)	Fair Value	Unrealized losses	Number of Positions	Fair Value	Unrealized losses	Number of Positions	Fair Value	Unrealized losses	Number of Positions
December 31, 2010									
U.S. Treasury	$ 40,741	$ (482)	4	$ -	$ -	-	$ 40,741	$ (482)	4
Federal agency	147,012	(2,796)	12	-	-	-	147,012	(2,796)	12
State & municipal	22,273	(317)	31	7,533	(338)	19	29,806	(655)	50
Mortgage-backed	44,340	(719)	3	-	-	-	44,340	(719)	3
Collateralized mortgage obligations	72,595	(2,251)	3	-	-	-	72,595	(2,251)	3
Other securities	95	(5)	1	-	-	-	95	(5)	1
Total securities with unrealized losses	$ 327,056	$ (6,570)	54	$ 7,533	$ (338)	19	$ 334,589	$ (6,908)	73
December 31, 2009									
U.S. Treasury	$ 20,022	$ (21)	2	$ -	$ -	-	$ 20,022	$ (21)	2
Federal agency	29,931	(69)	3	-	-	-	29,931	(69)	3
State & municipal	7,121	(40)	13	9,629	(269)	33	16,750	(309)	46
Collateralized mortgage obligations	51,882	(124)	4	33,235	(58)	2	85,117	(182)	6
Other securities	4,900	(93)	1	52	(29)	1	4,952	(122)	2
Total securities with unrealized losses	$ 113,856	$ (347)	23	$ 42,916	$ (356)	36	$ 156,772	$ (703)	59

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, 2010, 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, 2010, 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.

Table of Contents

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2010:

(In thousands)	Amortized cost	Estimated fair value
Debt securities classified as available for sale		
Within one year	$ 31,998	$ 32,497
From one to five years	428,957	428,402
From five to ten years	231,548	240,855
After ten years	410,728	417,398
	$ 1,103,231	$ 1,119,152
Debt securities classified as held to maturity		
Within one year	$ 44,616	$ 44,685
From one to five years	38,406	39,420
From five to ten years	10,144	10,310
After ten years	4,144	4,344
	$ 97,310	$ 98,759

Maturities of mortgage-backed, CMOs 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, 2010 and 2009.

(6) Loans and Leases

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

(In thousands)	At December 31, 2010	2009
Residential real estate mortgages	$ 548,394	$ 618,334
Commercial	577,731	571,107
Commercial real estate	844,458	739,395
Real estate construction and development	45,444	67,168
Agricultural and agricultural real estate mortgages	112,738	122,466
Consumer	874,918	860,676
Home equity	575,678	603,585
Lease financing	30,645	62,667
Total loans and leases	$ 3,610,006	$ 3,645,398

Included in the above loans and leases are net deferred loan origination costs totaling $2.9 million and $3.8 million at December 31, 2010 and 2009, respectively. Also included is unearned income of $1.4 million and $4.0 million at December 31, 2010 and 2009, respectively. The Company had no residential loans held for sale as of December 31, 2010 and $4.7 million at December 31, 2009.

71

Table of Contents

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

(7) Allowance for Loan and Lease Losses and Credit Quality of Loans and Leases

Allowance for Loan and Lease Losses

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.

To develop and document a systematic methodology for determining the allowance for loan and lease losses, the Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. Each portfolio segment is broken down into class segments where appropriate. Class segments contain unique measurement attributes, risk characteristics and methods for monitoring and assessing risk that are necessary to develop the allowance for loan and lease losses. Unique characteristics such as borrower type, loan type, collateral type, and risk characteristics define each class segment. The following table illustrates the portfolio and class segments for the Company's loan portfolio:

Portfolio	Class
Commercial Loans	Commercial
	Commercial Real Estate
	Agricultural
	Agricultural Real Estate
	Small Business
Consumer Loans and Leases	Indirect
	Home Equity
	Direct
Residential Real Estate Mortgages	

Commercial – The Company offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital such as inventory and receivables, business expansion and equipment purchases. Generally, a collateral lien is placed on equipment or other assets owned by the borrower. These loans carry a higher risk than commercial real estate loans by the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable and is generally less liquid than real estate. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers.

Commercial Real Estate – The Company offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real property which generally consists of real estate with completed structures. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and other non owner-occupied facilities. These loans are typically less risky than commercial loans, since they are secured by real estate and buildings. The Company's underwriting

analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower’s underlying cash flows. These loans are typically originated in amounts of no more than 80% of the appraised value of the property.

Table of Contents

Agricultural – The Company offers a variety of agricultural loans to meet the needs of our agricultural customers including term loans, time notes, and lines of credit. These loans are made to purchase livestock, purchase and modernize equipment, and finance seasonal crop expenses. Generally, a collateral lien is placed on the livestock, equipment, produce inventories, and/or receivables owned by the borrower. These loans may carry a higher risk than commercial and agricultural real estate loans due to the industry price volatility and the perishable nature of the underlying collateral. To reduce these risks, management may attempt to secure these loans with additional real estate collateral, obtain personal guarantees of the borrowers, or obtain government loan guarantees to provide further support.

Agricultural Real Estate – The Company offers real estate loans to our agricultural customers to finance farm related real estate purchases, refinancings, expansions, and improvements to agricultural properties. Agricultural real estate loans are made to finance the purchases and improvements of farm properties that generally consist of barns, production facilities, and land. The agricultural real estate loans are secured by first liens on the farm real estate. Because they are secured by land and buildings, these loans may be less risky than agricultural loans. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 75% of the appraised value of the property. Government loan guarantees may be obtained to provide further support.

Small Business - The Company offers a variety of loan options to meet the specific needs of our small business customers including term loans, small business mortgages and lines of credit. Such loans are generally less than $350 thousand and are made available to businesses for working capital such as inventory and receivables, business expansion, equipment purchases, and agricultural needs. Generally, a collateral lien is placed on equipment or other assets owned by the borrower such as inventory and/or receivables. These loans carry a higher risk than commercial loans due to the smaller size of the borrower and lower levels of capital. To reduce the risk, the Company obtains personal guarantees of the owners for a majority of the loans.

Indirect – The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the company finances the purchases of automobiles and recreational vehicles (such as campers, boats, etc.) indirectly through dealer relationships. Approximately 73% of the indirect relationships represent automobile financing. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to six years, based upon the nature of the collateral and the size of the loan. The majority of indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

Home Equity – The Company offers fixed home equity loans as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Consumers are able to borrower up to 85% of the equity in their homes. The Company originates home equity lines of credit and second mortgage loans (loans secured by a second [junior] lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are in a second position with respect to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Direct – The Company offers a variety of consumer installment loans to finance vehicle purchases, mobile home purchases and personal expenditures. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to ten years, based upon the nature of the collateral and the size of the loan. The majority of consumer loans are underwritten on a secured basis using the underlying collateral being financed or a customer's deposit account. In addition to installment loans, the Company also offers personal lines of credit and overdraft protection. A minimal amount of loans are unsecured, which carry a higher risk of loss.

73

Table of Contents

Residential Real Estate – Residential real estate loans consist primarily of loans secured by first or second deeds of trust on primary residences. We originate adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. When market conditions are favorable, for longer term, fixed-rate residential mortgages without escrow, the Company retains the servicing, but sells the right to receive principal and interest to Freddie Mac when market conditions are favorable. This practice allows the Company to manage interest rate risk, liquidity risk, and credit risk. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower), or have private mortgage insurnace. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period.

Allowance for Loan and Lease Loss Calculation

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 make loan grade changes as well as recognize additions to the allowance based on their examinations.

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. Changes in the allowance for loan and lease losses for the three years ended December 31, 2010 are summarized as follows:

Table of Contents

(In thousands)	Years ended December 31, 2010	2009	2008
Balance at January 1	$ 66,550	$ 58,564	$ 54,183
Provision	29,809	33,392	27,181
Recoveries	4,712	4,408	4,192
Charge-offs	(29,837)	(29,814)	(26,992)
Balance at December 31	$ 71,234	$ 66,550	$ 58,564

The following table illustrates the changes in the allowance for loan and lease losses by portfolio segment for the year ended December 31, 2010:

Allowance for Credit Losses and Recorded Investment in Loans and Leases
As of December 31, 2010
(in thousands)

	Commercial Loans	Consumer Loans and Leases	Residential Real Estate Mortgages	Unallocated	Total
Allowance for credit losses:					
Beginning balance	$ 36,599	$ 26,664	$ 3,002	$ 285	$ 66,550
Charge-offs	(12,969)	(15,692)	(1,176)	-	(29,837)
Recoveries	1,922	2,747	43	-	4,712
Provision	14,549	12,407	2,758	95	29,809
Ending Balance	$ 40,101	$ 26,126	$ 4,627	$ 380	$ 71,234
Allowance ending balance for loans and leases individually evaluated for impairment	$ 2,211	$ -	$ -	$ -	$ 2,211
Allowance ending balance for loans and leases collectively evaluated for impairment	$ 37,890	$ 26,126	$ 4,627	$ 380	$ 69,023
Loans and Leases:					
Ending balance of loans and leases	$ 1,580,371	$ 1,481,241	$ 548,394	$ -	$ 3,610,006
Ending balance of loans and leases individually evaluated for impairment	$ 11,419	$ -	$ -	$ -	$ 11,419
Ending balance of loans and leases collectively evaluated for impairment	$ 1,568,952	$ 1,481,241	$ 548,394	$ -	$ 3,598,587

Credit Quality of Loans and Leases

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 or 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.

Table of Contents

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.

The following table illustrates the Company’s nonaccrual loans by loan class as of December 31, 2010:

Loans and Leases on Nonaccrual Status
As of December 31, 2010
(in thousands)

Commercial Loans		
Commercial	$	5,837
Commercial Real Estate		5,687
Agricultural		4,065
Agricultural Real Estate		2,429
Small Business		7,033
		25,051
Consumer Loans and Leases		
Indirect		1,971
Home Equity		6,395
Direct		399
		8,765
Residential Real Estate		
Mortgages		8,651
Total Nonaccrual	$	42,467

Table of Contents

The following table sets forth information with regard to past due and nonperforming loans by loan class:

Age Analysis of Past Due Loans and Leases
As of December 31, 2010
(in thousands)

	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 91 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans and Leases
Commercial							
Commercial	$136	$55	$94	$285	$ 5,837	$461,633	$467,755
Commercial							
Real Estate	1,263	-	-	1,263	5,687	730,285	