NBT BANCORP INC
Form 10-K
March 02, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
OR
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______ TO ______
COMMISSION FILE NUMBER: 0-14703

NBT BANCORP INC.
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to section 12(g) of the Act: Common Stock ($0. 01 par value per share)

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 T No £

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

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 T No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of

this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer T Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

Based on the closing price of the registrant's common stock as of June 30, 2008, the aggregate market value of the voting stock, common stock, par value, $0.01 per share, held by non-affiliates of the registrant is $655,866,020.

The number of shares of Common Stock outstanding as of February 15, 2009, was 32,648,164.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 5, 2009 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, 2008

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(a) (1) Consolidated Financial Statements (See Item 8 for Reference).
(2) Financial Statement Schedules normally required on Form 10-K are omitted since they are not applicable.
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(b) Refer to item 15(a)(3)above.
(c) Refer to item 15(a)(2) above.

SIGNATURES

*Information called for by Part III (Items 10 through 14) is incorporated by reference to the Registrant's Proxy Statement for the 2009 Annual Meeting of Stockholders.

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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, 2008 had assets of $5.3 billion and stockholders' equity of $431.8 million. The Registrant is the parent holding company of NBT Bank, N.A. (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc. ("NBT Holdings"), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (the "Trusts"). Through the Bank and NBT Financial, the Company is focused on community banking operations. Through NBT Holdings, the Company operates Mang Insurance Agency, LLC, a full-service insurance agency. The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. The Registrant's primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Registrant are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial, and NBT Holdings.

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 and northeastern Pennsylvania market areas. The Bank conducts business through two geographic operating divisions, NBT Bank and Pennstar Bank.

At year end 2008, the NBT Bank division had 84 divisional offices and 114 automated teller machines (ATMs), located primarily in central and upstate New York. At December 31, 2008, the NBT Bank division had total loans and leases of $2.9 billion and total deposits of $3.1 billion.

At year end 2008, the Pennstar Bank division had 38 divisional offices and 57 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2008, the Pennstar Bank division had total loans and leases of $761.0 million and total deposits of $827.2 million.

The Bank has six operating subsidiaries, NBT Capital Corp., Pennstar Bank Services Company, Broad Street Property Associates, Inc., NBT Services, Inc., Pennstar Realty Trust, 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. 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. Pennstar Realty Trust, formed in 2000, and CNB Realty Trust, formed in 1998, are real estate investment trusts. Pennstar Bank Services Company, formed in 2002, provides administrative and support services to the Pennstar Bank division of the Bank.

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 in Financial Accounting Standards Board Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003) (FIN 46R)." In accordance with FIN

46R, the accounts of the Trusts are not included in the Company's consolidated financial statements. See the Company's accounting policy related to consolidation in Note 1 — Summary of Significant Accounting Policies in the notes to consolidated financial statements included in Item 8 Financial Statements and Supplementary Data of this report. For more information relating to the Trusts, see Note 13 to the consolidated financial statements.

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On September 1, 2008, the Company completed the acquisition of Mang Insurance Agency, LLC (“Mang”), 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, 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.

On February 10, 2006, the Company acquired CNB Bancorp, Inc. (“CNB”), a bank holding company headquartered in Gloversville, New York. The acquisition was accomplished by merging CNB with and into the Company. By virtue of this acquisition, CNB’s banking subsidiary, City National Bank and Trust Company, was merged with and into NBT Bank. City National Bank and Trust Company operated 9 full-service community banking offices – located in Fulton, Hamilton, Montgomery and Saratoga counties, with approximately $400 million in assets. In connection with the merger with CNB, the Company issued an aggregate of 2.1 million shares of Company common stock and $39 million in cash to the former holders of CNB common stock. Based on the $22.42 per share closing price of the Company’s common stock on February 10, 2006, the transaction was valued at approximately $88 million.

CNB nonqualified stock options, entitling holders to purchase CNB common stock outstanding, were cancelled on the closing date and such option holders received an option payment subject to the terms of the merger agreement. The total number of CNB nonqualified stock options that were canceled was 103,545, which resulted in a cash payment to option holders before any applicable federal or state withholding tax, of approximately $1.3 million. In accordance with the terms of the merger agreement, all outstanding CNB incentive stock options as of the effective date were assumed by the Company. At that time, there were 144,686 CNB incentive stock options that were exchanged for 237,278 replacement incentive stock options of the Company. All CNB incentive stock options were converted to nonqualified stock options.

COMPETITION

The banking and financial services industry in New York and Pennsylvania generally, and in the Company’s market areas specifically, 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 and leases, 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. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than the Company. 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.

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 (“FRS”) as its primary federal regulator. The Company also has qualified for and elected to be registered with the FRS 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 FRS and the Federal Deposit Insurance Corporation (“FDIC”).

The Company is subject to capital adequacy guidelines of the FRS. 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 FRS 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, 2008, the Company’s leverage ratio was 7.17%, its ratio of Tier 1 capital to risk-weighted assets was 9.75%, and its ratio of qualifying total capital to risk-weighted assets was 11.00%. The FRS 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 FRS has not advised the Company of any special capital requirement applicable to it.

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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 FRS for achieving capital adequacy. Such a company's ability to pay dividends to its shareholders and expand its lines of business through the acquisition of new banking or nonbanking subsidiaries also could be restricted.

The Bank is subject to leverage and risk-based capital requirements and minimum capital guidelines of the OCC that are similar to those applicable to the Company. As of December 31, 2008, the Bank was in compliance with all minimum capital requirements. The Bank's leverage ratio was 6.93%, its ratio of Tier 1 capital to risk-weighted assets was 9.38%, and its ratio of qualifying total capital to risk-weighted assets was 10.64%.

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, 2008, the Bank's total brokered deposits were $269.8 million.

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, exceed the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. As of December 31, 2008, approximately $46.6 million was available for the payment of dividends without prior OCC approval. The Bank's ability to pay dividends is also subject to the Bank being in compliance with regulatory capital requirements. As indicated above, the Bank is currently in compliance with these requirements.

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

The deposits of the Bank are insured up to regulatory limits by the FDIC. The Federal Deposit Insurance Reform Act of 2005 gave the FDIC increased flexibility in assessing premiums on banks and savings associations, including the Bank, to pay for deposit insurance and in managing its deposit insurance reserves. The FDIC has adopted regulations to implement its new authority. Under these regulations, all insured depository institutions are placed into one of four risk categories. The Bank is in Risk Category I, the most favorable category. As of January 1, 2009, all insured institutions within this category will pay a base rate assessment of $0.12 to $0.50 per $100 of deposits for the first quarter of 2009 of assessable deposits based on the risk of loss to the Depository Insurance Fund ("DIF") posed by the particular institution. Institutions, such as the Bank, in risk Category I will be assessed within a range of $0.12 to $0.14 per $100 of deposits for the first quarter of 2009. This is a substantial increase from the base rate assessment of $0.02 to $0.04 per $100 of assessable deposits that was in effect during 2008. The increase in the base rate assessment from 2008 to 2009 is due to the financial crises affecting the banking system and financial markets. For institutions such as the Bank, which do not have a long-term public debt rating, the individual risk assessment is based on its supervisory ratings and certain financial ratios and other measurements of its financial condition. For institutions that have a long-term public debt rating, the individual risk assessment is based on its supervisory ratings and its debt rating. On February 27, 2009, the FDIC issued new rules to take effect April 1, 2009 to change the way the FDIC differentiates risk and appropriate assessment rates. Base assessment rates set to take effect on April 1, 2009

will range from 12 to 45 basis points, but giving effect to certain risk adjustments in the rule issued by the FDIC on February 27, 2009, assessments may range from 7 to 77.5 basis points. For institutions such as the Bank, in Risk Category I, risk-adjusted assessments will range from 7 to 24 basis points. In addition, the FDIC also issued an interim rule on February 27, 2009 that will impose an emergency special assessment of 20 basis points in addition to its risk-based assessment. This assessment will be imposed on June 30, 2009 and collected on September 30, 2009. The reform legislation also provided a credit to all insured depository institutions, based on the amount of their insured deposits at year-end 1996, that may be used as an offset to the premiums that are assessed. The Bank’s credit was fully utilized in 2008 to offset its 2008 deposit insurance assessment. Due to the full utilization of the Bank’s credit, the systemic increase in deposit insurance assessments and the emergency special assessment, the Bank will be subject to increased deposit premium expenses in future periods.

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On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program (“TLGP”), that provides unlimited deposit insurance on funds invested in noninterest-bearing transaction deposit accounts in excess of the existing deposit insurance limit of $250,000. Participating institutions will be assessed a $0.10 surcharge per $100 of deposits above the existing deposit insurance limit. The TLGP also provides that the FDIC, for an additional fee, will guarantee qualifying senior unsecured debt issued prior to October 2009 by participating banks and certain qualifying holding companies. The Bank and the Company have elected to opt in to both portions of the TLGP.

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 DIF and do not vary depending upon a depository institution’s capitalization or supervisory evaluation. During 2008, FDIC assessments for purposes of funding FICO bond obligations ranged from an annualized $0.0114 per $100 of deposits for the first quarter of 2008 to $0.0110 per $100 of deposits for the fourth quarter of 2008. The Bank paid $1.8 million of FICO assessments in 2008. For the first quarter of 2009, the FICO assessment rate is $0.0114 per $100 of deposits.

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

In 2007, the Federal Reserve and Securities and Exchange Commission (“SEC”) issued a final joint rulemaking (Regulation R) to clarify that traditional banking activities involving some elements of securities brokerage activitities, 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 take effect for the Bank beginning January 1, 2009.

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 FRS 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.

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The GLB Act requires all financial institutions, including the Company and the Bank, to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. In addition, the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act") includes many provisions concerning national credit reporting standards, and permits consumers, including customers of the Company, to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The FRS 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 by the FRS and FTC, including recent rules regarding limitaions of 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.

Periodic disclosures by companies in various industries of the loss or theft of computer-based nonpublic customer information have led several members of Congress to call for the adoption of national standards for the safeguarding of such information and the disclosure of security breaches. Several committees of both houses of Congress have conducted and have proposed legislation regarding these issues.

Under Title III of the USA PATRIOT Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, 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, 2008, the Company and the Bank believe they are in compliance with the USA PATRIOT Act and regulations thereunder.

The Sarbanes-Oxley Act ("SOA") 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. The SOA 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. The SOA 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.

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Home mortgage lenders, including banks, are required under the Home Mortgage Disclosure Act ("HMDA") to make available to the public expanded information regarding the pricing of home mortgage loans, including the "rate spread" between the interest rate on loans and certain Treasury securities and other benchmarks. 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.

In the past two years, declining housing values have resulted in deteriorating economic conditions across the U.S., resulting in significant writedowns in the values of mortgage-backed securities and derivative securities by financial institutions, government sponsored entities, and major commercial and investment banks. This has led to decreased confidence in financial markets among borrowers, lenders, and depositors as well as extreme volatility in the capital and credit markets and the failure of some entities in the financial sector The Company is fortunate that the markets it serves have been impacted to a lesser extent than many areas around the country.

In response to the financial crises affecting the banking system and financial markets, there have been several recent announcements of Federal programs designed to purchase assets from, provide equity capital to, and guarantee the liquidity of, the industry.

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

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

EMPLOYEES

At December 31, 2008, the Company had 1,411 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.

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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. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also present risk to the Company’s business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Company’s financial condition and results of operations could be materially and adversely affected.

The Company’s Profitability Depends Significantly on Local and National Economic Conditions

The Company’s success depends primarily on the general economic conditions of upstate New York and northeastern Pennsylvania 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 and the northeastern Pennsylvania areas of Scranton, Wilkes-Barre and East Stroudsburg. 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. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company’s financial condition and results of operations.

2008 was highlighted by significant disruption and volatility in the financial and capital marketplaces. This turbulence has been attributable to a variety of factors, including the fallout associated with the subprime mortgage market. One aspect of this fallout has been significant deterioration in the activity of the secondary market. The disruptions have been exacerbated by the continued decline of the real estate and housing market along with significant mortgage loan related losses incurred by many lending institutions. The turmoil in the mortgage market has impacted the global markets as well as the domestic markets and led to a significant credit and liquidity crisis in many domestic markets during 2008. As a lender, we may be adversely affected by general economic weaknesses, and, in particular, a sharp downturn in the housing industry in the states of New York and Pennsylvania. No assurance can be given that these conditions will improve or will not worsen or that such conditions will not result in an increase in delinquencies, causing a decrease in our interest income, or continue to have an adverse impact on our loan loss experience, causing an increase in our allowance for loan losses.

The Company is Subject to Interest Rate Risk

The Company’s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company’s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company

receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

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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.

The Company is Subject to Lending Risk

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 and Pennsylvania, 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, 2008, approximately 39% of the Company's loan and lease portfolio consisted of commercial, agricultural, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because the Company's loan portfolio contains a significant number of commercial and industrial, 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 and Corresponding Interest and Fees on Loans" 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, construction and commercial real estate loans.

The Company's Allowance For Loan and Lease Losses May Be Insufficient

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 losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses, the Company will need additional provisions to increase the allowance for loan and lease

losses. These increases in the allowance for loan and lease losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Risk Management – Credit Risk" 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 losses.

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The Company Operates In a Highly Competitive Industry and Market Area

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

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

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

There Can Be No Assurance That Recent Government Action Will Help Stabilize the U.S. Financial System and Will Not Have Unintended Adverse Consequences.

In recent periods, the U.S. government and various federal agencies and bank regulators have taken steps to stabilize and stimulate the financial services industry. Changes also have been made in tax policy for financial institutions. The Emergency Economic Stabilization Act of 2008 (the “EESA”) was an initial legislative response to the financial crises affecting the banking system and financial markets and going concern threats to financial institutions. Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. As an initial program, the U.S. Treasury is exercising its authority to purchase an aggregate of $250 billion of capital instruments from financial entities throughout the United States. Other government action, such as the recently announced Homeowner Affordability and Stability Plan are intended to prevent mortgage defaults and foreclosures, which may provide benefits to the economy as a whole, but may reduce the value of certain mortgage loans or related mortgage-related securities investors such as the Company may hold. There can be no assurance as to the actual impact that these or other government actions will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA and other measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect the Company’s business,

financial condition, results of operations, access to credit or the trading price of its common stock.

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The Company Is Subject To Extensive Government Regulation and Supervision

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" in Item 1. Business, which is located elsewhere in this report.

The Company's Controls and Procedures May Fail or Be Circumvented

Management regularly reviews and updates the Company's 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 Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

New Lines of Business or New Products and Services May Subject The Company to Additional Risks

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition.

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The Company Relies on Dividends From Its Subsidiaries For Most Of Its Revenue

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. See the section captioned “Supervision and Regulation” in Item 1. Business and Note 16 — Stockholders’ Equity in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

The Company May Not Be Able To Attract and Retain Skilled People

The Company’s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense and the Company may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Company’s key personnel could have a material adverse impact on the Company’s business because of their skills, knowledge of the Company’s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Company’s Information Systems May Experience An Interruption Or Breach In Security

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.

The Company Continually Encounters Technological Change

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.

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Severe Weather, Natural Disasters, Acts Of War Or Terrorism and Other External Events Could Significantly Impact The Company's Business

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Articles Of Incorporation, By-Laws and Stockholder Rights Plan As Well As Certain Banking Laws May Have An Anti-Takeover Effect

Provisions of the Company's articles of incorporation and by-laws, federal banking laws, including regulatory approval requirements, and the Company's stock purchase rights plan could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial to the Company's stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

Difficult Market Conditions Have Adversely Affected Our Industry.

Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial 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 on us and others in the financial institution industry. In particular, we may face the following risks in connection with these events:

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- Market developments may affect customer confidence levels and may cause increases in delinquencies and default rates, which we expect could impact our charge-offs and provision for loan losses.

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- 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 other events, including actions by rating agencies and deteriorating investor expectations.

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

- We will be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Current Levels Of Market Volatility Are Unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. Recently, the volatility and disruption has reached unprecedented levels. In most cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

The Company is Subject to Other-than-temporary Impairment Risk

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 our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Information about unrealized gains and losses is subject to changing conditions. The values of securities with unrealized gains and losses will fluctuate, as will the values of securities that we identify as potentially distressed. Our current evaluation of other-than-temporary impairments reflects our intent to hold securities for a reasonable period of time sufficient for a forecasted recovery of fair value. However, our intent to hold certain of these securities may change in future periods as a result of facts and circumstances impacting a specific security. If our intent to hold a security with an unrealized loss changes, and we do not expect the security to fully recover prior to the expected time of disposition, we will write down the security to its fair value in the period that our intent to hold the security changes.

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

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The Company May Be Adversely Affected by the Soundness of Other Financial Institutions

The Company owns common stock of Federal Home Loan Bank of New York ("FHLBNY") in order to qualify for membership in the FHLB system, which enables it to borrow funds under the FHLBNY advance program. The carrying value of our FHLBNY common stock was $39.0 million as of December 31, 2008.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters are located at 52 South Broad Street, Norwich, New York 13815. The Company operated the following number of community banking branches and ATMs as of December 31, 2008:

County	Branches	ATMs	County	Branches	ATMs
NBT Bank Division			Pennstar Bank Division		
New York			Pennsylvania		
Albany County	4	6	Lackawanna County	16	24
Broome County	8	13	Luzerne County	4	8
Chenango County	11	13	Monroe County	6	8
Clinton County	3	2	Pike County	3	4
Delaware County	5	5	Susquehanna County	6	8
Essex County	3	6	Wayne County	3	5
Franklin County	1	1			
Fulton County	7	12			
Hamilton County	1	1			
Herkimer County	2	1			
Montgomery County	6	5			
Oneida County	6	13			
Otsego County	9	16			
Rensselaer	1	1			
Saratoga County	5	7			
Schenectady County	1	1			
Schoharie County	4	3			
	5	6			

St. Lawrence County		
Tioga County	1	1
Ulster County	-	1
Warren County	1	-

The Company leases 45 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.

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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 their property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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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 market prices and dividends declared for the Common Stock for the periods indicated:

	High	Low	Dividend
2007			
1st quarter	$ 25.81	$ 21.73	$ 0.20
2nd quarter	23.45	21.80	0.20
3rd quarter	23.80	17.10	0.20
4th quarter	25.00	20.58	0.20
2008			
1st quarter	$ 23.65	$ 17.95	$ 0.20
2nd quarter	25.00	20.33	0.20
3rd quarter	36.47	19.05	0.20
4th quarter	30.83	21.71	0.20

The closing price of the Common Stock on February 15, 2009 was $21.70.

As of February 15, 2009, there were 6,887 shareholders of record of Company common stock.

Equity Compensation Plan Information

As of December 31, 2008, the following table summarizes the Company's equity compensation plans:

Plan Category	A. Number of securities to be issued upon exercise of outstanding options	B. Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A.)
Equity compensation plans approved by stockholders	1,640,237(1)	$ 21.26	4,255,768
Equity compensation plans not approved by stockholders	None	None	None

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

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Performance Graph

The following graph compares the cumulative total stockholder return (i.e., price change, reinvestment of cash dividends and stock dividends received) on our common stock against the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index and the Index for NASDAQ Financial Stocks. The stock performance graph assumes that $100 was invested on December 31, 2003. 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.

Five Year Cumulative Total Return

	Period Ending					
Index	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
NBT Bancorp	$ 100.00	$ 123.79	$ 107.43	$ 131.04	$ 121.37	$ 153.61
NASDAQ Financial Stocks	$ 100.00	$ 115.23	$ 117.94	$ 134.76	$ 125.03	$ 88.63
NASDAQ Composite Index	$ 100.00	$ 109.14	$ 111.46	$ 123.02	$ 136.12	$ 81.73

Source: Bloomberg, L.P.

Dividends

We depend primarily upon dividends from our subsidiaries for a substantial part of our revenue. Accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Payment of dividends to the Company from the Bank is subject to certain regulatory and other restrictions. Under OCC regulations, the Bank may pay dividends to the Company without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of such dividends and its total dividends do not exceed its net income to date over the calendar year plus retained net income over the preceding two years. At December 31, 2008, the Bank was in compliance with all applicable minimum capital requirements and had the ability to pay dividends of $46.6 million to the Company without the prior approval of the OCC.

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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.

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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)	2008	2007	2006	2005	2004
Interest, fee and dividend income	$ 294,414	$ 306,117	$ 288,842	$ 236,367	$ 210,179
Interest expense	108,368	141,090	125,009	78,256	59,692
Net interest income	186,046	165,027	163,833	158,111	150,487
Provision for loan and lease losses	27,181	30,094	9,395	9,464	9,615
Noninterest income excluding securities gains (losses)	70,171	57,586	49,504	43,785	40,673
Securities gains (losses) , net	1,535	2,113	(875)	(1,236)	216
Noninterest expense	146,813	122,517	122,966	115,305	109,777
Income before income taxes	83,758	72,115	80,101	75,891	71,984
Net income	58,353	50,328	55,947	52,438	50,047
Per common share					
Basic earnings	$ 1.81	$ 1.52	$ 1.65	$ 1.62	$ 1.53
Diluted earnings	1.80	1.51	1.64	1.60	1.51
Cash dividends paid	0.80	0.79	0.76	0.76	0.74
Book value at year-end	13.24	12.29	11.79	10.34	10.11
Tangible book value at year-end	9.01	8.78	8.42	8.75	8.66
Average diluted common shares outstanding	32,427	33,421	34,206	32,710	33,087
At December 31,					
Securities available for sale, at fair value	$ 1,119,665	$ 1,140,114	$ 1,106,322	$ 954,474	$ 952,542
Securities held to maturity, at amortized cost	140,209	149,111	136,314	93,709	81,782
Loans and leases	3,651,911	3,455,851	3,412,654	3,022,657	2,869,921
Allowance for loan and lease losses	58,564	54,183	50,587	47,455	44,932
Assets	5,336,088	5,201,776	5,087,572	4,426,773	4,212,304
Deposits	3,923,258	3,872,093	3,796,238	3,160,196	3,073,838
Borrowings	914,123	868,776	838,558	883,182	752,066
Stockholders' equity	431,845	397,300	403,817	333,943	332,233
Key ratios					
Return on average assets	1.11%	0.98%	1.14%	1.21%	1.21%
Return on average equity	14.16	12.60	14.47	15.86	15.69
Average equity to average assets	7.83	7.81	7.85	7.64	7.74
Net interest margin	3.95	3.61	3.70	4.01	4.03
Dividend payout ratio	44.44	52.32	46.34	47.50	49.01
Tier 1 leverage	7.17	7.14	7.57	7.16	7.13
Tier 1 risk-based capital	9.75	9.79	10.42	9.80	9.78
Total risk-based capital	11.00	11.05	11.67	11.05	11.04

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Selected Quarterly Financial Data

	2008				2007			
(Dollars in thousands, except per share data)	First	Second	Third	Fourth	First	Second	Third	Fourth
Interest, fee and dividend income	$ 74,652	$ 72,854	$ 73,621	$ 73,287	$ 75,459	$ 76,495	$ 77,181	$ 76,982
Interest expense	30,587	26,849	26,578	24,354	34,830	35,137	35,994	35,129
Net interest income	44,065	46,005	47,043	48,933	40,629	41,358	41,187	41,853
Provision for loan and lease losses	6,478	5,803	7,179	7,721	2,096	9,770	4,788	13,440
Noninterest income excluding net securities gains (losses)	16,080	16,401	17,452	20,238	12,695	13,971	15,043	15,877
Net securities gains (losses)	15	18	1,510	(8)	(5)	21	1,484	613
Noninterest expense	34,034	35,423	37,058	40,298	30,872	28,014	31,227	32,404
Net income	13,716	14,657	15,083	14,897	14,132	12,064	15,147	8,985
Basic earnings per share	$ 0.43	$ 0.46	$ 0.47	$ 0.46	$ 0.41	$ 0.36	$ 0.46	$ 0.28
Diluted earnings per share	$ 0.43	$ 0.45	$ 0.46	$ 0.45	$ 0.41	$ 0.36	$ 0.46	$ 0.28
Net interest margin	3.84%	3.94%	3.94%	4.06%	3.63%	3.63%	3.56%	3.61%
Return on average assets	1.07%	1.12%	1.13%	1.11%	1.13%	0.95%	1.17%	0.69%
Return on average equity	13.68%	14.49%	14.58%	13.88%	14.06%	11.90%	15.41%	9.06%
Average diluted common shares outstanding	32,252	32,242	32,453	32,758	34,457	33,936	32,921	32,398

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

GENERAL

The financial review which follows focuses on the factors affecting the consolidated financial condition and results of operations of NBT Bancorp Inc. (the "Registrant") and its wholly owned subsidiaries, the Bank, NBT Financial and NBT Holdings during 2008 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, 2008 and 2007 and for each of the years in the three-year period ended December 31, 2008 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2008 presentation.

The preparation of the consolidated financial statements requires management to make estimates and assumptions, in the application of certain accounting policies, about the effect of matters that are inherently uncertain. Those estimates and assumptions affect the reported amounts of certain assets, liabilities, revenues and expenses. Different amounts could be reported under different conditions, or if different assumptions were used in the application of these accounting policies.

The business of the Company is providing commercial banking and financial services through its subsidiaries. The Company's primary market area is central and upstate New York and northeastern Pennsylvania. The Company has been, and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company's principal business is attracting deposits from customers within its market area and investing those funds primarily in loans and leases within its market area, and, to a lesser extent, in marketable securities. The financial condition and operating results of the Company are dependent on its net interest income which is the difference between the interest and dividend income earned on its earning assets and the interest expense paid on its interest bearing liabilities, primarily consisting of deposits and borrowings. Net income is also affected by provisions for loan and lease losses and noninterest income, such as service charges on deposit accounts, broker/dealer fees, trust fees, insurance commissions, and gains/losses on securities sales; it is also impacted by noninterest expense, such as salaries and employee benefits, data processing, communications, occupancy, and equipment expenses.

The Company's results of operations are significantly affected by general economic and competitive conditions (particularly changes in market interest rates), government policies, changes in accounting standards, and actions of regulatory agencies. Future changes in applicable laws, regulations, or government policies may have a material impact on the Company. Lending activities are substantially influenced by the demand for and supply of housing, competition among lenders, the level of interest rates, the state of the local and regional economy, and the availability of funds. The ability to gather deposits and the cost of funds are influenced by prevailing market interest rates, fees and terms on deposit products, as well as the availability of alternative investments including mutual funds and stocks.

CRITICAL ACCOUNTING POLICIES

The Company has identified several 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 losses and pension accounting.

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

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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 Liability Index and market interest rates 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. In 2006, the Pension Protection Act of 2006 was enacted, which established certain criteria to ensure that pension plan assets are sufficient to satisfy future obligations. The law identifies at risk plans and applies stricter funding requirements to help stabilize at risk plans. The Company has determined that the law does not materially affect the Company's funding obligations with respect to its benefit plans.

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

FORWARD LOOKING STATEMENTS

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

• Local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.
• Changes in the level of non-performing assets and charge-offs.
• Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
• The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board.
• Inflation, interest rate, securities market and monetary fluctuations.
• Political instability.

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- Acts of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowings and savings habits.
- Changes in the financial performance and/or condition of the Company's borrowers.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The ability to increase market share and control expenses.
- Changes in the competitive environment among financial holding companies.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- Changes in the Company's organization, compensation and benefit plans.
- The costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews.
- Greater than expected costs or difficulties related to the integration of new products and lines of business.
- The Company's success at managing the risks involved in the foregoing items.

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

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

OVERVIEW

The Company had net income of $58.4 million or $1.80 per diluted share for 2008, up 15.9% from net income of $50.3 million or $1.51 per diluted share for 2007. Net interest income increased $21.0 million or 12.7% in 2008 compared to 2007. The increase in net interest income resulted from decreases in rates paid on interest bearing deposits and liabilities in 2008 as compared with 2007. In addition, average earning assets increased $132.7 million, or 2.8%, in 2008 over 2007. The provision for loan and lease losses totaled $27.2 million for the year ended December 31, 2008, down $2.9 million, or 9.7%, from $30.1 million for the year ended December 31, 2007. Noninterest income increased $12.0 million or 20.1% compared to 2007. The increase in noninterest income was driven primarily by an increase in service charges on deposit accounts and ATM and debit card fees, which collectively increased $6.0 million due to various initiatives in 2008. Also included in noninterest income for 2008 were net securities gains totaling $1.5 million compared to net securities gains of $2.1 million in 2007. Excluding net security gains and losses, total noninterest income increased 21.9% in 2008 compared with 2007. Noninterest expense increased $24.3 million, or 19.8%, in 2008 compared with 2007. The increase in noninterest expense was due to several factors including increases in salaries and employee benefits, occupancy, equipment and data processing and communications expenses, professional fees and outside services, loan collection and other real estate owned expenses, and other operating expenses. Please refer to "NONINTEREST EXPENSE" on page 42 for additional information.

The Company had net income of $50.3 million or $1.51 per diluted share for 2007, down 10.0% from net income of $55.9 million or $1.64 per diluted share for 2006. The provision for loan and lease losses totaled $30.1 million for the year ended December 31, 2007, up $20.7, or 220.3%, from $9.4 million for the year ended December 31, 2006. This increase was due in large part to increases in nonperforming loans and charge-offs in 2007. The increase in the provision for loan and lease losses was offset by several factors. Net interest income increased $1.2 million or 0.7% in 2007 compared to 2006. The increase in net interest income resulted mainly from an increase in average earning assets of $171.4 million, or 3.7% to $4.7 billion in 2007, driven by a 3.7% increase in average loans and leases for the period. Noninterest income increased $11.1 million or 22.8% compared to 2006. The increase in noninterest income was driven primarily by an increase in service charges on deposit accounts from fee initiatives during the year. Also included in noninterest income for 2007 were net securities gains totaling $2.1 million compared to net securities losses of $0.9 million in 2006. Excluding net security gains and losses, total noninterest income increased 16.3% in 2007 compared with 2006. Noninterest expense remained relatively stable from $123.0 million in 2006 to $122.5 million in 2007.

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2009 OUTLOOK

While the Company reported record earnings for 2008, it anticipates that current global economic conditions and challenges in the financial services industry may negatively impact earnings in 2009. In particular, the Company currently expects that in 2009:

• premiums paid to the Federal Deposit Insurance Corporation will increase significantly;

• pension and postretirement expenses will increase significantly;

• revenue from Federal Home Loan Bank dividends may decrease significantly;

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

• the economy may have an adverse affect on asset quality indicators 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.

Due to current uncertainty in economic conditions and the financial services industry in general, it is particularly difficult to estimate certain revenues, expenses and other related matters. There may be factors in addition to those identified above that impact 2009 results. For a discussion of risks and uncertainties that could impact the Company's future results, see ITEM 1A. RISK FACTORS.

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ASSET/LIABILITY MANAGEMENT

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

Table 1. Average Balances and Net Interest Income

	2008			2007			2006		
	Average		Yield/	Average		Yield/	Average		Yield/
(Dollars in thousands)	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate
Assets									
Short-term interest bearing accounts	$ 9,190	$ 186	2.03%	$ 8,395	$ 419	4.99%	$ 8,116	$ 395	4.87%
Securities available for sale 1	1,113,810	56,841	5.10	1,134,837	57,290	5.05	1,110,405	53,992	4.86
Securities held to maturity 1	149,775	8,430	5.63	144,518	8,901	6.16	115,636	7,071	6.11
Investment in FRB and FHLB Banks	39,735	2,437	6.13	34,022	2,457	7.22	39,437	2,076	5.26
Loans and leases 2	3,567,299	233,016	6.53	3,425,318	243,317	7.10	3,302,080	230,800	6.99
Total earning assets	4,879,809	300,910	6.17	4,747,090	312,384	6.58	4,575,674	294,334	6.43
Other non-interest earning assets	384,846			362,497			349,396		
Total assets	$ 5,264,655			$ 5,109,587			$ 4,925,070		
Liabilities and stockholders' equity									
Money market deposit accounts	$ 778,477	14,373	1.85%	$ 663,532	22,402	3.38%	$ 543,323	18,050	3.32%
NOW deposit accounts	485,014	4,133	0.85	449,122	3,785	0.84	443,339	3,297	0.74
Savings deposits	467,572	2,161	0.46	485,562	4,299	0.89	532,788	4,597	0.86
Time deposits	1,507,966	55,465	3.68	1,675,116	76,088	4.54	1,534,556	61,854	4.03
Total interest-bearing deposits	3,239,029	76,132	2.35	3,273,332	106,574	3.26	3,054,006	87,798	2.87
Short-term borrowings	223,830	4,847	2.17	280,162	12,943	4.62	331,255	15,448	4.66
Trust preferred debentures	75,422	4,747	6.29	75,422	5,087	6.74	70,055	4,700	6.71
Long-term debt	563,460	22,642	4.02	384,017	16,486	4.29	414,976	17,063	4.11
Total interest-bearing	4,101,741	108,368	2.64	4,012,933	141,090	3.52	3,870,292	125,009	3.23

liabilities						
Demand deposits	682,656		639,423		614,055	
Other non-interest-bearing liabilities	68,156		57,932		54,170	
Stockholders' equity	412,102		399,299		386,553	
Total liabilities and stockholders' equity	$ 5,264,655		$ 5,109,587		$ 4,925,070	
Interest rate spread		3.53%		3.06%		3.20%
Net interest income-FTE	192,542		171,294		169,325	
Net interest margin		3.95%		3.61%		3.70%
Taxable equivalent adjustment	6,496		6,267		5,492	
Net interest income	$ 186,046		$ 165,027		$ 163,833	

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.

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NET INTEREST INCOME

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

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

	Increase (Decrease) 2008 over 2007			Increase (Decrease) 2007 over 2006		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Short-term interest-bearing accounts	$ 44	$ (276)	$ (232)	$ 14	$ 10	$ 24
Securities available for sale	(1,021)	222	(799)	1,205	2,093	3,298
Securities held to maturity	228	(538)	(310)	1,779	51	1,830
Investment in FRB and FHLB Banks	380	(400)	(20)	(314)	695	381
Loans and leases	10,908	(21,250)	(10,342)	8,711	3,806	12,517
Total interest income	10,539	(22,242)	(11,703)	11,184	6,866	18,050
Money market deposit accounts	4,969	(12,998)	(8,029)	4,054	298	4,352
NOW deposit accounts	305	43	348	44	444	488
Savings deposits	(154)	(1,984)	(2,138)	(416)	118	(298)
Time deposits	(7,095)	(13,528)	(20,623)	5,967	8,267	14,234
Short-term borrowings	(2,223)	(5,873)	(8,096)	(2,362)	(143)	(2,505)
Trust preferred debentures	-	(340)	(340)	362	25	387
Long-term debt	7,133	(977)	6,156	(1,308)	731	(577)
Total interest expense	2,935	(35,657)	(32,722)	4,727	11,354	16,081
Change in FTE net interest income	$ 7,604	$ 13,415	$ 21,019	$ 6,457	$ (4,488)	$ 1,969

LOANS AND LEASES AND CORRESPONDING INTEREST AND FEES ON LOANS

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

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

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)	2008	2007	2006	2005	2004
Residential real estate mortgages	$ 722,723	$ 719,182	$ 739,607	$ 701,734	$ 721,615
Commercial and commercial real estate	1,241,779	1,214,897	1,240,383	1,127,705	1,069,451
Real estate construction and development	67,859	81,350	94,494	69,135	86,031
Agricultural and agricultural real estate	113,566	116,190	118,278	114,043	108,181
Consumer	795,123	655,375	586,922	463,955	412,139
Home equity	627,603	582,731	546,719	463,848	391,807
Lease financing	83,258	86,126	86,251	82,237	80,697
Total loans and leases	$ 3,651,911	$ 3,455,851	$ 3,412,654	$ 3,022,657	$ 2,869,921

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 to medium-sized entities. Consumer loans consist primarily of installment credit to individuals secured by automobiles and other personal property including manufactured housing. Indirect installment loans represent $675.7 million of total consumer loans. 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.

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.

One of the most significant risks associated with leasing operations is the recovery of the residual value of the leased vehicles at the termination of the lease. At termination, the lessor has the option to purchase the vehicle or may turn the vehicle over to the Company. The residual values included in lease financing receivables totaled $58.6 million and $58.4 million at December 31, 2008 and 2007, respectively. The estimated residual value related to the total lease portfolio is reviewed quarterly. If it is determined that there has been a decline in the estimated fair value of the residual that is judged by management to be other-than-temporary, including consideration of residual value insurance, a loss is recognized. Adjustments related to such other-than-temporary declines in estimated fair value are recorded within noninterest expenses in the consolidated statements of income. The Company recorded an

other-than-temporary impairment charge on lease residual assets totaling $2.0 million during the third quarter of 2008 as a result of a decline in the fair value of lease residual assets associated with certain leased vehicles.

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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, 2008. 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, 2008			
(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	$ 318,868	$ 100,704	$ 3,614	$ 423,186
Real estate construction and development	36,671	1,181	-	37,852
Total floating rate loans	355,539	101,885	3,614	461,038
Fixed rate				
Commercial, commercial real estate, agricultural,and agricultural real estate	384,238	379,122	168,797	932,157
Real estate construction and development	15,289	3,950	10,770	30,009
Total fixed rate loans	399,527	383,072	179,567	962,166
Total	$ 755,066	$ 484,957	$ 183,181	$ 1,423,204

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SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME

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

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

The average balance of FRB and Federal Home Loan Bank (FHLB) stock increased to $39.7 million in 2008 from $34.0 million in 2007. This increase was driven primarily by increases in average borrowings from 2007 to 2008, which directly impacts FHLB holdings. The yield from investments in FRB and FHLB Banks decreased from 7.22% in 2007 to 6.13% in 2008 due to decreases in dividend rates from FHLB during 2008.

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. A decline in the fair value of any available for sale or held to maturity security below cost that is deemed other-than-temporary is charged to earnings resulting in the establishment of a new cost basis for the security. Securities with an other than temporary impairment are generally placed on non-accrual status.

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

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

Table 5. Securities Portfolio

	As of December 31,					
	2008		2007		2006	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale						
U.S. Treasury	$ 59	$ 67	$ 10,042	$ 10,077	$ 10,516	$ 10,487
Federal Agency and mortgage-backed	565,970	579,796	704,308	705,354	744,078	731,754
State & Municipal, collateralized mortgage obligations and other securities	532,918	539,802	418,654	424,683	361,854	364,081
Total securities available for sale	$ 1,098,947	$ 1,119,665	$ 1,133,004	$ 1,140,114	$ 1,116,448	$ 1,106,322

Securities held to maturity						
Federal Agency and mortgage-backed	$ 2,372	$ 2,467	$ 2,810	$ 2,909	$ 3,434	$ 3,497
State & Municipal	136,259	137,263	145,458	145,767	132,213	132,123
Other securities	1,578	1,578	843	843	667	667
Total securities held to maturity	$ 140,209	$ 141,308	$ 149,111	$ 149,519	$ 136,314	$ 136,287

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In the available for sale category at December 31, 2008, federal agency securities were comprised of Government-Sponsored Enterprise ("GSE") securities; Mortgaged-backed securities were comprised of GSEs with an amortized cost of $313.7 million and a fair value of $321.0 million and US Government Agency securities with an amortized cost of $38.2 million and a fair value of $39.7 million; Collateralized mortgage obligations were comprised of GSEs with an amortized cost of $204.1 million and a fair value of $205.6 million and US Government Agency securities with an amortized cost of $172.0 million and a fair value of $174.6 million. At December 31, 2008, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2008:

(In thousands)	Amortized cost	Estimated fair value	Weighted Average Yield
Debt securities classified as available for sale			
Within one year	$ 27,075	$ 27,447	4.36%
From one to five years	175,125	178,107	4.18%
From five to ten years	388,180	399,259	4.76%
After ten years	498,092	504,085	4.75%
	$ 1,088,472	$ 1,108,898	
Debt securities classified as held to maturity			
Within one year	$ 75,141	$ 75,192	2.98%
From one to five years	34,547	34,929	3.89%
From five to ten years	22,530	23,075	4.02%
After ten years	7,991	8,112	5.11%
	$ 140,209	$ 141,308	

FUNDING SOURCES AND CORRESPONDING INTEREST EXPENSE

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as necessary to support the Company's growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities increased $88.8 million, totaling $4.1 billion in 2008 from $4.0 billion in 2007. The rate paid on interest-bearing liabilities decreased from 3.52% in 2007 to 2.64% in 2008. This decrease caused a decrease in interest expense of $32.7 million, or 23.2%, from $141.1 million in 2007 to $108.4 million in 2008.

DEPOSITS

Average interest bearing deposits decreased $34.3 million, or 1.0%, during 2008 compared to 2007. The decrease resulted primarily from a decrease in time deposits, partially offset by increases in money market deposits and NOW account deposits. Average time deposits decreased $167.2 million or 10.0% during 2008 as compared to 2007. The decrease in average time deposits resulted primarily from decreases in municipal and negotiated rate time deposits. Average money market deposits increased $114.9 million or 17.3% during 2008 when compared to 2007. The increase in average money market deposits resulted primarily from an increase in personal money market deposits. Average NOW accounts increased $35.9 million or 8.0% during 2008 as compared to 2007. This increase

was due primarily to increases in municipal NOW accounts. The average balance of savings accounts decreased $18.0 million or 3.7% during 2008 when compared to 2007. The average balance of demand deposits increased $43.2 million, or 6.8%, from $639.4 million in 2007 to $682.6 million in 2008. This growth in demand deposits was driven principally by increases in accounts from retail customers.

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

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The following table presents the maturity distribution of time deposits of $100,000 or more at December 31, 2008 and December 31, 2007:

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

	December 31,	
(In thousands)	2008	2007
Within three months	$ 240,788	$ 446,347
After three but within twelve months	134,097	214,368
After one but within three years	35,735	28,468
Over three years	18,130	5,082
Total	$ 428,750	$ 694,265

BORROWINGS

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

The average balance of trust preferred debentures remained at $75.4 million in 2008 compared to 2007. The average rate paid for trust preferred debentures in 2008 was 6.29%, down from 6.74% in 2007. The decrease in rate on the trust preferred debentures is due primarily to the previously mentioned decrease in short-term rates during 2008.

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 $771 million and $804 million at December 31, 2008 and 2007, 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.

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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.

NONPERFORMING ASSETS

Table 7. Nonperforming Assets

	As of December 31,				
(Dollars in thousands)	2008	2007	2006	2005	2004
Nonaccrual loans					
Commercial and agricultural loans and real estate	$ 15,891	$ 20,491	$ 9,346	$ 9,373	$ 10,550
Real estate mortgages	3,803	1,372	2,338	2,009	2,553
Consumer	3,468	2,934	1,981	2,037	1,888
Troubled debt restructured loans	1,029	4,900	-	-	-
Total nonaccrual loans	24,191	29,697	13,665	13,419	14,991
Loans 90 days or more past due and still accruing					
Commercial and agricultural loans and real estate	12	51	138	-	-
Real estate mortgages	770	295	682	465	737
Consumer	1,523	536	822	413	449
Total loans 90 days or more past due and still accruing	2,305	882	1,642	878	1,186
Total nonperforming loans	26,496	30,579	15,307	14,297	16,177
Other real estate owned	665	560	389	265	428
Total nonperforming loans and other real estate owned	27,161	31,139	15,696	14,562	16,605
Total nonperforming loans to loans and leases	0.73%	0.88%	0.45%	0.47%	0.56%
Total nonperforming loans and other real estate owned to total assets	0.51%	0.60%	0.31%	0.33%	0.39%
Total allowance for loan and lease losses to nonperforming loans	221.03%	177.19%	330.48%	331.92%	277.75%

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

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

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

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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 $27.2 million at December 31, 2008, compared to $31.1 million at December 31, 2007. Nonperforming loans totaled $26.5 million at December 31, 2008, down from $30.6 million outstanding at December 31, 2007. The decrease in 2008 was primarily due to net charge-offs during the 12 month period ending December 31, 2008 related to two large commercial loans, both of which had been previously identified and reserved for in 2007. The Company recorded a provision for loan and lease losses of $27.2 million during 2008 compared with $30.1 million for 2007. This decrease was due primarily to the provision in the fourth quarter of 2007 related to one of the aforementioned loans and the overall decrease in nonperforming loans. Nonperforming loans as a percentage of total loans and leases decreased to 0.73% for December 31, 2008 from 0.88% at December 31, 2007. The allowance for loan and lease losses was 221.03% of non-performing loans at December 31, 2008 as compared to 177.19% at December 31, 2007.

Impaired loans, which primarily consist of nonaccruing commercial, commercial real estate, agricultural, and agricultural real estate loans decreased to $11.3 million at December 31, 2008 as compared to $21.5 million at December 31, 2007. At December 31, 2008, $1.7 million of the total impaired loans had a specific reserve allocation of $0.6 million compared to $12.8 million of impaired loans at December 31, 2007 which had a specific reserve allocation of $5.1 million.

Total net charge-offs for 2008 were $22.8 million as compared with $26.5 million for 2007. The decrease in net charge-offs for the 12 months ended December 31, 2008 was due primarily to higher charge-offs in 2007 related to one of the aforementioned loans. The ratio of net charge-offs to average loans and leases was 0.64% for 2008 compared to 0.77% for 2007. Gross charge-offs decreased $4.6 million, totaling $26.7 million for 2008 compared to $31.2 million for 2007. Recoveries declined slightly from $4.7 million for the 12 months ended December 31, 2007 to $4.2 million for the 12 month period ending December 31, 2008. The allowance for loan and lease losses as a percentage of total loans and leases was 1.60% at December 31, 2008 and 1.57% at December 31, 2007.

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Table 8. Allowance for Loan and Lease Losses

(Dollars in thousands)	2008	2007	2006	2005	2004
Balance at January 1	$ 54,183	$ 50,587	$ 47,455	$ 44,932	$ 42,651
Loans and leases charged-off					
Commercial and agricultural	14,464	20,349	6,132	3,403	4,595
Real estate mortgages	543	1,032	542	741	772
Consumer*	11,985	9,862	6,698	6,875	6,239
Total loans and leases charged-off	26,992	31,243	13,372	11,019	11,606
Recoveries					
Commercial and agricultural	1,411	1,816	1,939	1,695	2,547
Real estate mortgages	68	125	239	438	215
Consumer*	2,713	2,804	2,521	1,945	1,510
Total recoveries	4,192	4,745	4,699	4,078	4,272
Net loans and leases charged-off	22,800	26,498	8,673	6,941	7,334
Allowance related to purchase acquisitions	-	-	2,410	-	-
Provision for loan and lease losses	27,181	30,094	9,395	9,464	9,615
Balance at December 31	$ 58,564	$ 54,183	$ 50,587	$ 47,455	$ 44,932
Allowance for loan and lease losses to loans and leases outstanding at end of year	1.60%	1.57%	1.48%	1.57%	1.57%
Net charge-offs to average loans and leases outstanding	0.64%	0.77%	0.26%	0.23%	0.27%

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

Total nonperforming assets were $31.1 million at December 31, 2007, compared to $15.7 million at December 31, 2006. Nonperforming loans totaled $30.6 million at December 31, 2007, up from the $15.3 million outstanding at December 31, 2006. The increase in 2007 was primarily due to one owner-occupied commercial real estate relationship and several dairy credits becoming nonperforming during the second quarter, as well as one large commercial loan becoming nonperforming during the fourth quarter. The Company recorded a provision for loan and lease losses of $30.1 million during 2007 compared with $9.4 million for 2006. This increase was due to an increase in nonperforming loans and charge-offs during the period. Nonperforming loans as a percentage of total loans and leases increased to 0.88% for December 31, 2007 from 0.45% at December 31, 2006. The total allowance for loan and lease losses was 177.19% of non-performing loans at December 31, 2007 as compared to 330.48% at December 31, 2006.

Total net charge-offs for 2007 totaled $26.5 million as compared to $8.7 million for 2006. The ratio of net charge-offs to average loans and leases was 0.77% for 2007 compared to 0.26% for 2006. Gross charge-offs increased $17.8 million, totaling $31.2 million for 2007 compared to $13.4 million for 2006. Recoveries remained consistent at $4.7 million for 2006 and 2007. The provision for loan and lease losses increased to $30.1 million in 2007 from $9.4 million in 2006. The allowance for loan and lease losses as a percentage of total loans and leases was 1.57% at December 31, 2007 and 1.48% at December 31, 2006.

In addition to the nonperforming loans discussed above, the Company has also identified approximately $95.4 million in potential problem loans at December 31, 2008 as compared to $73.3 million at December 31, 2007. Potential problem loans are loans that are currently performing, but where known information about possible credit problems of the related borrowers causes management to have concerns as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. At the Company, potential problem loans are typically loans that are performing but are classified by the Company's loan rating system as "substandard." At December 31, 2008 and 2007, potential problem loans primarily

consisted of commercial and agricultural loans. At December 31, 2008, there were 21 potential problem loans that exceeded $1.0 million, totaling $41.2 million in aggregate compared to 13 potential problem loans exceeding $1.0 million, totaling $28.5 million at December 31, 2007. 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.

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

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

	December 31,									
	2008		2007		2006		2005		2004	
(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	$ 33,231	39%	$ 32,811	41%	$ 28,149	43%	$ 30,257	43%	$ 28,158	44%
Real estate mortgages	3,143	20%	3,277	21%	3,377	22%	3,148	23%	4,029	25%
Consumer	21,908	41%	17,362	38%	17,327	35%	12,402	34%	10,887	31%
Unallocated	282	0%	733	0%	1,734	0%	1,648	0%	1,858	0%
Total	$ 58,564	100%	$ 54,183	100%	$ 50,587	100%	$ 47,455	100%	$ 44,932	100%

For 2008, the reserve allocation for commercial and agricultural loans increased slightly to $33.2 million from $32.8 million in 2007. The reserve allocation for real estate mortgages decreased slightly from $3.3 million in 2007 to $3.1 million in 2008. The reserve allocation for consumer loans increased from $17.4 million in 2007 to $21.9 million in 2008. This 26.2% increase was due in large part to the 13.7% increase in consumer loans from 2007 to 2008.

At December 31, 2008, approximately 59.8% of the Company's loans are secured by real estate located in central and northern New York and northeastern Pennsylvania. 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.

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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, 2008, the Company's Basic Surplus measurement was 6.6% of total assets or $352 million, which was above the Company's minimum of 5% (calculated at $267 million of period end total assets at December 31, 2008) 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, 2008, the Company considered its Basic Surplus position to be adequate. However, certain events may adversely impact the Company's liquidity position in 2009. 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 2009. 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 $771 million at December 31, 2008.

At December 31, 2008, 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.

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Net cash flows provided by operating activities totaled $87.4 million in 2008 and $85.8 million in 2007. The critical elements of net operating cash flows include net income, after adding back provision for loan and lease losses, and depreciation and amortization.

Net cash used in investing activities totaled $216.6 million in 2008 and $97.6 million in 2007. Critical elements of investing activities are loan and investment securities transactions. The increase in cash used in investing activities in 2008 was primarily due to loan growth in 2008 as compared with 2007. The net increase in loans was $220.7 million in 2008 as compared to $70.1 million in 2007.

Net cash flows provided by financing activities totaled $76.6 million in 2008 and $36.0 million in 2007. 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 2008, the Company had a net decrease in short term borrowings of approximately $162.0 million as compared with a net increase in short-term borrowings of $23.1 million in 2007. This decrease in short-term borrowings in 2008 was offset by an increase from proceeds from long-term debt in 2008 over 2007. Proceeds from the issuance of long-term debt totaled $340.0 million in 2008 and $150.0 million in 2007. In addition, the Company purchased 272,840 shares of its common stock for approximately $5.9 million during 2008 as compared with the purchase of 2,261,267 shares of its common stock for approximately $49.0 million in 2007.

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, 2008 are as follows:

Contractual Obligations
(In thousands)

	Payments Due by Period						
	2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt obligations	$ 40,000	$ 79,000	$ 89,444	$ 25,025	$ 150,000	$ 248,740	$ 632,209
Trust preferred debentures	-	-	-	-	-	75,422	75,422
Operating lease obligations	4,226	3,677	3,440	3,025	2,343	19,555	36,266
Retirement plan obligations	4,566	4,619	4,637	4,728	4,864	37,000	60,414
Data processing commitments	10,294	9,569	1,037	259	-	-	21,159
Total contractual obligations	$ 59,086	$ 96,865	$ 98,558	$ 33,037	$ 157,207	$ 380,717	$ 825,470

OFF-BALANCE SHEET RISK COMMITMENTS TO EXTEND CREDIT

The Company makes contractual commitments to extend credit, which include unused lines of credit, which are subject to the Company's credit approval and monitoring procedures. At December 31, 2008 and 2007, commitments to extend credit in the form of loans, including unused lines of credit, amounted to $537.6 million and $546.8 million, respectively. In the opinion of management, there are no material commitments to extend credit, including unused lines of credit, that represent unusual risks. All commitments to extend credit in the form of loans, including unused lines of credit, expire within one year.

STAND-BY LETTERS OF CREDIT

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its stand-by letters of credit. The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. At December 31, 2008 and 2007, outstanding stand-by letters of credit were approximately $27.6 million and $27.5 million, respectively. The fair value of the Company's stand-by letters of credit at December 31, 2008 and 2007 was not significant. The following table sets forth the commitment expiration period for stand-by letters of credit at December 31, 2008:

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Commitment Expiration of Stand-by Letters of Credit		
Within one year	$	11,601
After one but within three years		14,795
After three but within five years		1,235
After five years		-
Total	$	27,631

LOANS SERVICED FOR OTHERS AND LOANS SOLD WITH RECOURSE

The total amount of loans serviced by the Company for unrelated third parties was approximately $141.4 million and $125.5 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the Company serviced $11.2 million and $8.9 million, respectively, of loans sold with recourse. Due to collateral on these loans, no reserve is considered necessary at December 31, 2008 and 2007.

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 is 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, 2008, approximately $46.6 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.

STOCK REPURCHASE PLAN

Under previously disclosed stock repurchase plans, the Company purchased 272,840 shares of its common stock during the year ended December 31, 2008, for a total of $5.9 million at an average price of $21.77 per share. There were no shares purchased during the three month period ended December 31, 2008. At December 31, 2008, there were 1,203,040 shares available for repurchase under previously announced plans.

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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)	2008	2007	2006
Service charges on deposit accounts	$ 28,143	$ 22,742	$ 17,590
Broker/dealer and insurance revenue	8,726	4,255	3,936
Trust	7,278	6,514	5,629
Bank owned life insurance income	2,416	1,831	1,629
ATM fees	8,832	8,185	7,086
Retirement plan administration fees	6,308	6,336	5,536
Other	8,468	7,723	8,098
Total before net securities gains (losses)	70,171	57,586	49,504
Net securities gains (losses)	1,535	2,113	(875)
Total	$ 71,706	$ 59,699	$ 48,629

Noninterest income for the year ended December 31, 2008 was $71.7 million, up $12.0 million or 20.1% from $59.7 million for the same period in 2007. The increase in noninterest income was due primarily to an increase in service charges on deposit accounts and ATM and debit card fees, which collectively increased $6.0 million due to various initiatives in 2008. In addition, trust administration income increased $0.8 million for the year ended December 31, 2008, compared with the same period in 2007. This increase stems primarily from an increase in customer accounts resulting from successful business development. Broker/dealer and insurance revenue increased approximately $4.5 million for the year ended December 31, 2008, primarily due to the acquisition of Mang Insurance Agency, LLC during the third quarter of 2008. Other noninterest income increased $0.7 million for the year ended December 31, 2008, compared with the same period in 2007. This increase was due primarily to a death benefit realized during the fourth quarter of 2008 from a life insurance policy. Net securities gains for the year ending December 31, 2008 were $1.5 million, compared with $2.1 million for the year ending December 31, 2007. Excluding the effects of these securities transactions, noninterest income increased $12.6 million, or 21.9%, for the years ended December 31, 2008, compared with 2007.

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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)	2008	2007	2006
Salaries and employee benefits	$ 71,159	$ 59,516	$ 62,877
Occupancy	13,781	11,630	11,518
Equipment	7,539	7,422	8,332
Data processing and communications	12,694	11,400	10,454
Professional fees and outside services	10,476	9,135	7,761
Office supplies and postage	5,346	5,120	5,330
Amortization of intangible assets	2,105	1,645	1,649
Loan collection and other real estate owned	2,494	1,633	1,351
Impairment on lease residual assets	2,000	-	-
Other	19,219	15,016	13,694
Total noninterest expense	$ 146,813	$ 122,517	$ 122,966

Noninterest expense for the year ended December 31, 2008 was $146.8 million, up from $122.5 million for the same period in 2007. Salaries and employee benefits increased $11.6 million, or 19.6%, for the year ended December 31, 2008, compared with the same period in 2007. This increase was due primarily to increases in full time equivalent employees during 2008 and reduced levels of incentive compensation in 2007 compared with 2008. The increase in full time equivalent employees was largely due to new branch activity and the aforementioned acquisition. Occupancy, equipment and data processing and communications expenses were $34.0 million for the year ended December 31, 2008, up $3.5 million, or 11.7%, from $30.5 million for the year ended December 31, 2007. This increase was due primarily to an increase in expenses related to new branch activity during the past year. Professional fees and outside services increased $1.3 million for the year ended December 31, 2008, compared with the same period in 2007, due primarily to increases in legal and audit fees incurred in 2008, as well as increases in fees related to the aforementioned noninterest income initiatives. Loan collection and other real estate owned expenses were $2.5 million for the year ended December 31, 2008, up from $1.6 million for same period in 2007. The Company recorded an other than temporary impairment charge on lease residual assets totaling $2.0 million during the third quarter of 2008 as a result of declines in the fair value of lease residual assets associated with certain leased vehicles. Other operating expenses were $19.2 million for the year ended December 31, 2008, up $4.2 million from $15.0 million for the year ended December 31, 2007. This increase resulted primarily from losses incurred from sales of certain returned lease vehicles totaling approximately $1.4 million during the period due to reduced values of those vehicles. In addition, Federal Deposit Insurance Corporation ("FDIC") insurance premiums increased approximately $1.4 million for the year ended December 31, 2008, compared with the same period in 2007.

INCOME TAXES

Income tax expense for the year ended December 31, 2008 was $25.4 million, up from $21.8 million for the same period in 2007. The effective rates were 30.3% and 30.2% for the years ended December 31, 2008 and 2007, respectively.

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.

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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.

2007 OPERATING RESULTS AS COMPARED TO 2006 OPERATING RESULTS

NET INTEREST INCOME

On a tax equivalent basis, the Company's net interest income for 2007 was $171.3 million, up from $169.3 million for 2006. The Company's net interest margin declined to 3.61% for 2007 from 3.70% for 2006. The decline in the net interest margin resulted primarily from interest-bearing liabilities repricing up faster than earning assets, offset somewhat by the increase in average demand deposits, which increased $25.4 million or 4.1% during the period. Earning assets, particularly those tied to a fixed rate, have not fully realized the benefit of the higher interest rate environment, since rates for earning assets with terms three years or longer have remained relatively flat during this period due to the flat/inverted yield curve. The yield on earning assets increased 15 basis points (bp), from 6.43% for 2006 to 6.58% for 2007. Meanwhile, the rate paid on interest bearing liabilities increased 29 bp, from 3.23% for 2006 to 3.52% for 2007. Additionally, offsetting the decline in net interest margin was an increase in average earning assets of $171.4 million or 3.7%, driven primarily by a $123.2 million increase in average loans and leases. The increase in average loans and leases was due to in large part to a 17.1% increase in consumer installment loans.

LOANS AND LEASES AND CORRESPONDING INTEREST AND FEES ON LOANS

The average balance of loans and leases increased 3.7%, totaling $3.4 billion in 2007 compared to $3.3 billion in 2006. The yield on average loans and leases increased from 6.99% in 2006 to 7.10% in 2007, as loans, particularly loans indexed to the Prime Rate and other short-term variable rate indices, benefited from the rising rate environment in 2007. Interest income from loans and leases on a FTE basis increased 5.4%, from $230.8 million in 2006 to $243.3 million in 2007. The increase in interest income from loans and leases was due to the increase in the average balance of loans and leases as well as the increase in yield on loans and leases in 2007 compared to 2006 noted above.

Total loans and leases increased 1.3% at December 31, 2007, totaling $3.5 billion from $3.4 billion at December 31, 2006. The increase in loans and leases was driven by strong growth in consumer loans and home equity loans. Residential real estate mortgages decreased $20.4 million or 2.8% at December 31, 2007 compared to December 31, 2006. Commercial and commercial real estate decreased $25.5 million at December 31, 2007 when compared to December 31, 2006. Real estate construction and development loans decreased $13.1 million, or 13.9%, from $94.5 million at December 31, 2006 to $81.4 million at December 31, 2007. Consumer loans increased $68.5 million or 11.7%, from $586.9 million at December 31, 2006 to $655.4 million at December 31, 2007. The increase in consumer loans was driven primarily by an increase in indirect loans of $63.3 million, from $457.4 million in 2006 to $520.7 million in 2007. Home equity loans increased $36.0 million or 6.6% from $546.7 million at December 31, 2006 to $582.7 million at December 31, 2007. The increase in home equity loans was due to strong product demand and successful marketing of home equity products.

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SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME

The average balance of the amortized cost for securities available for sale increased $24.4 million, or 2.2%, from $1.1 billion in 2006. The yield on average securities available for sale was 5.05% for 2007 compared to 4.86% in 2006. The increase in yield on securities available for sale resulted from the increasing rate environment.

The average balance of securities held to maturity increased from $115.6 million in 2006 to $144.5 million in 2007. At December 31, 2007, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity increased from 6.11% in 2006 to 6.16% in 2007 from higher yields for tax-exempt securities purchased during 2007. Investments in FRB and FHLB stock decreased to $34.0 million in 2007 from $39.4 million in 2006. This decrease was driven primarily by a decrease in the investment in FHLB resulting from a decrease in the Company's borrowing capacity at FHLB. The yield from investments in FRB and FHLB Banks increased from 5.26% in 2006 to 7.22% in 2007.

DEPOSITS

Average interest bearing deposits increased $219.3 million during 2007 compared to 2006. The increase resulted primarily from increases in time deposits and money market deposits, partially offset by a decrease in savings deposits. Average time deposits increased $140.6 million or 9.2% during 2007 when compared to 2006. The increase in average time deposits resulted primarily from increases in municipal and negotiated rate time deposits. Average money market deposits increased $120.2 million or 22.1% during 2007 when compared to 2006. The increase in average money market deposits resulted primarily from an increase in personal money market deposits. While the average balance of NOW accounts remained relatively stable, the average balance of savings accounts decreased $47.2 million or 8.9% during 2007 when compared to 2006. The decrease in savings accounts was driven primarily from municipal customers shifting their funds into higher paying money market and time deposits in 2007. The average balance of demand deposits increased $25.4 million, or 4.1%, from $614.1 million in 2006 to $639.4 million in 2007. Solid growth in demand deposits was driven principally by increases in accounts from retail customers.

The rate paid on average interest-bearing deposits increased from 2.87% during 2006 to 3.26% in 2007. The increase in rate on interest-bearing deposits was driven primarily by pricing increases from money market accounts and time deposits. These deposit products are more sensitive to interest rate changes. The pricing increases for these products resulted from increases in short-term rates by the FRB during 2006 combined with competitive pricing from market competitors. The increases by the FRB in 2006 were partially offset by several rate decreases toward the end of 2007. The rates paid for NOW accounts increased from 0.74% in 2006 to 0.84% in 2007, while rates paid for savings deposits increased from 0.86% in 2006 to 0.89% in 2007.

BORROWINGS

Average short-term borrowings decreased $51.1 million to $280.2 million in 2007. The average rate paid on short-term borrowings decreased from 4.66% in 2006 to 4.62% in 2007, which was primarily driven by the Federal Reserve Bank decreasing the Fed Funds target rate (which directly impacts short-term borrowing rates) 100 bp in 2007. Average long-term debt decreased from $415.0 million in 2006 to $384.0 million in 2007.

NONINTEREST INCOME

Noninterest income for the year ended December 31, 2007 was $59.7 million, up $11.1 million or 22.8% from $48.6 million for the same period in 2006. Fees from service charges on deposit accounts and ATM and debit cards collectively increased $6.3 million as the Company focused on enhancing fee income through various initiatives. Retirement plan administration fees for the year ended December 31, 2007 increased $0.8 million,

compared with the same period in 2006, as a result of our growing client base. Trust administration income increased $0.9 million for the year ended December 31, 2007, compared with the same period in 2006. This increase stems from market appreciation of existing accounts and an increase in customer accounts resulting from successful business. Net securities gains for the year ended December 31, 2007 were $2.1 million, compared with net securities losses of $0.9 million for the year ended December 31, 2006. Excluding the effect of these securities transactions, noninterest income increased $8.1 million, or 16.3%, for the year ended December 31, 2007, compared with the same period in 2006.

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NONINTEREST EXPENSE

Noninterest expense for the year ended December 31, 2007 was $122.5 million, down slightly from $123.0 million for the same period in 2006. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges remained consistent at approximately $35.6 million for the years ended December 31, 2007 and December 31, 2006. Salaries and employee benefits decreased $3.4 million, or 5.3%, for the year ended December 31, 2007 compared with the same period in 2006. This decrease was due primarily to a reduction in the amount of incentive compensation paid, number of employees, and pension expenses incurred in 2007. Professional fees and outside services increased $1.4 million for the year ended December 31, 2007, compared with the same period in 2006, due primarily to fees and costs related to the aforementioned noninterest income initiatives. Other operating expense for the year ended December 31, 2007 increased $1.3 million compared with the same period in 2006, primarily due to flood-related insurance recoveries in 2006.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

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

In the declining rate scenario, net interest income is projected to decrease slightly when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The decrease in net interest income is a result of earning assets repricing downward, given potential higher prepayments and lower reinvestment rates, slightly faster than the interest bearing liabilities that are at or near their floors. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. The potential impact on earnings is dependent on the ability to lag deposit repricing. 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,

2008 balance sheet position:

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Table 10. Interest Rate Sensitivity Analysis

Change in interest rates (In basis points)	Percent change in net interest income
+200	(1.20%)
-100	(0.78%)

Under the flat rate scenario with a static balance sheet, net interest income is anticipated to remain roughly the same as total net interest income for 2008. 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, 2008, the Company would expect net interest income to decline in 2009.

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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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, 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, 2008, 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 27, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG LLP

Albany, New York
February 27, 2009

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Consolidated Balance Sheets

(In thousands, except share and per share data)	As of December 31, 2008	2007
Assets		
Cash and due from banks	$ 107,409	$ 155,495
Short-term interest bearing accounts	2,987	7,451
Securities available for sale, at fair value	1,119,665	1,132,230
Securities held to maturity (fair value $141,308 and $149,519)	140,209	149,111
Federal Reserve and Federal Home Loan Bank stock	39,045	38,102
Loans and leases	3,651,911	3,455,851
Less allowance for loan and lease losses	58,564	54,183
Net loans and leases	3,593,347	3,401,668
Premises and equipment, net	65,241	64,042
Goodwill	114,838	103,398
Intangible assets, net	23,367	10,173
Bank owned life insurance	46,030	43,614
Other assets	83,950	96,492
Total assets	$ 5,336,088	$ 5,201,776
Liabilities		
Demand (noninterest bearing)	$ 685,495	$ 666,698
Savings, NOW, and money market	1,885,551	1,614,289
Time	1,352,212	1,591,106
Total deposits	3,923,258	3,872,093
Short-term borrowings	206,492	368,467
Long-term debt	632,209	424,887
Trust preferred debentures	75,422	75,422
Other liabilities	66,862	63,607
Total liabilities	4,904,243	4,804,476
Stockholders' equity		
Preferred stock, $0.01 par value; authorized 2,500,000 shares at December 31, 2008 and 2007	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at December 31, 2008 and 2007; issued 36,459,344 and 36,459,421 at December 31, 2008 and 2007, respectively	365	365
Additional paid-in-capital	276,418	273,275
Retained earnings	245,340	215,031
Accumulated other comprehensive loss	(8,204)	(3,575)
Common stock in treasury, at cost, 3,853,548 and 4,133,328 shares at December 31, 2008 and 2007, respectively	(82,074)	(87,796)
Total stockholders' equity	431,845	397,300
Total liabilities and stockholders' equity	$ 5,336,088	$ 5,201,776

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income

(In thousands, except per share data)	Years ended December 31, 2008	2007	2006
Interest, fee, and dividend income			
Interest and fees on loans and leases	$ 232,155	$ 242,497	$ 230,042
Securities available for sale	54,048	54,847	51,599
Securities held to maturity	5,588	5,898	4,730
Other	2,623	2,875	2,471
Total interest, fee, and dividend income	294,414	306,117	288,842
Interest expense			
Deposits	76,132	106,574	87,798
Short-term borrowings	4,847	12,943	15,448
Long-term debt	22,642	16,486	17,063
Trust preferred debentures	4,747	5,087	4,700
Total interest expense	108,368	141,090	125,009
Net interest income	186,046	165,027	163,833
Provision for loan and lease losses	27,181	30,094	9,395
Net interest income after provision for loan and lease losses	158,865	134,933	154,438
Noninterest income			
Service charges on deposit accounts	28,143	22,742	17,590
Broker/dealer and insurance revenue	8,726	4,255	3,936
Trust	7,278	6,514	5,629
Net securities gains (losses)	1,535	2,113	(875)
Bank owned life insurance	2,416	1,831	1,629
ATM and debit card fees	8,832	8,185	7,086
Retirement plan administration fees	6,308	6,336	5,536
Other	8,468	7,723	8,098
Total noninterest income	71,706	59,699	48,629
Noninterest expense			
Salaries and employee benefits	71,159	59,516	62,877
Occupancy	13,781	11,630	11,518
Equipment	7,539	7,422	8,332
Data processing and communications	12,694	11,400	10,454
Professional fees and outside services	10,476	9,135	7,761
Office supplies and postage	5,346	5,120	5,330
Amortization of intangible assets	2,105	1,645	1,649
Loan collection and other real estate owned	2,494	1,633	1,351
Impairment on lease residual assets	2,000	-	-
Other	19,219	15,016	13,694
Total noninterest expense	146,813	122,517	122,966
Income before income tax expense	83,758	72,115	80,101
Income tax expense	25,405	21,787	24,154
Net income	$ 58,353	$ 50,328	$ 55,947
Earnings per share			
Basic	$ 1.81	$ 1.52	$ 1.65
Diluted	1.80	1.51	1.64

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2008, 2007, and 2006 (In thousands except share and per share data)	Common stock	Additional paid-in-capital	Retained earnings	Unvested restricted Stock	Accumulated other comprehensive loss	Common stock in treasury	Total
Balance at December 31, 2005	$ 344	$ 219,157	$ 163,989	$ (457)	$ (6,477)	$ (42,613)	$ 333,943
Net income	-	-	55,947	-	-	-	55,947
Cash dividends-$0.76 per share	-	-	(26,018)	-	-	-	(26,018)
Purchase of 766,004 treasury shares	-	-	-	-	-	(17,111)	(17,111)
Issuance of 2,058,661 shares of common stock in connection with purchase business combination	21	48,604	-	-	-	-	48,625
Issuance of 237,278 incentive stock options in purchase transaction	-	1,955	-	-	-	-	1,955
Acquisition of 2,500 shares of company stock in purchase transaction	-	-	-	-	-	(55)	(55)
Net issuance of 595,447 shares to employee benefit plans and other stock plans, including excess tax benefit	-	1,244	(2,148)	-	-	12,508	11,604
Reclassification adjustment from the adoption of FAS123R	-	(457)	-	457	-	-	-
Stock-based compensation expense	-	2,509	-	-	-	-	2,509
Net issuance of 73,515 shares of restricted stock	-	(1,499)	-	-	-	1,499	-

awards							
Forfeiture of 2,625 shares of restricted stock	-	15	-	-	-	(60)	(45)
Other comprehensive income	-	-	-	-	84	-	84
Adjustment to initially apply SFAS No. 158, net of tax	-	-	-	-	(7,621)	-	(7,621)
Balance at December 31, 2006	$ 365	$ 271,528	$ 191,770	$ -	$ (14,014)	$ (45,832)	$ 403,817
Net income	-	-	50,328	-	-	-	50,328
Cash dividends - $0.79 per share	-	-	(26,226)	-	-	-	(26,226)
Purchase of 2,261,267 treasury shares	-	-	-	-	-	(48,957)	(48,957)
Net issuance of 254,929 shares to employee benefit plans and other stock plans, including excess tax benefit	-	383	(841)	-	-	5,526	5,068
Stock-based compensation	-	2,831	-	-	-	-	2,831
Net issuance of 76,559 shares of restricted stock awards	-	(1,467)	-	-	-	1,467	-
Other comprehensive income	-	-	-	-	10,439	-	10,439
Balance at December 31, 2007	$ 365	$ 273,275	$ 215,031	$ -	$ (3,575)	$ (87,796)	$ 397,300
Cumulative effect adjustment to record liability for split-dollar life insurance policies	-	-	(1,518)	-	-	-	(1,518)
Net income	-	-	58,353	-	-	-	58,353
Cash dividends - $0.80 per share	-	-	(25,830)	-	-	-	(25,830)
Purchase of 272,840 treasury shares	-	-	-	-	-	(5,939)	(5,939)
Net issuance of 536,487 shares to							

employee benefit plans and other stock plans, including excess tax benefit	-	1,406	(696)	-	-	11,249	11,959
Stock-based compensation	-	2,213	-	-	-	-	2,213
Net issuance of 25,200 shares of restricted stock awards	-	(566)	-	-	-	566	-
Forfeiture of 9,067 shares of restricted stock	-	90	-	-	-	(154)	(64)
Other comprehensive loss	-	-	-	-	(4,629)	-	(4,629)
Balance at December 31, 2008	$ 365	$ 276,418	$ 245,340	$ -	$ (8,204)	$ (82,074)	$ 431,845

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

	Years ended December 31,		
(In thousands)	2008	2007	2006
Operating activities			
Net income	$ 58,353	$ 50,328	$ 55,947
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan and lease losses	27,181	30,094	9,395
Depreciation and amortization of premises and equipment	5,220	5,295	6,074
Net accretion on securities	423	105	178
Amortization of intangible assets	2,105	1,645	1,649
Stock based compensation	2,213	2,831	2,509
Bank owned life insurance income	(2,416)	(1,831)	(1,629)
Deferred income tax expense	4,778	2,244	9,767
Proceeds from sale of loans held for sale	26,745	30,427	36,407
Originations and purchases of loans held for sale	(27,760)	(31,086)	(33,601)
Net gains on sales of loans held for sale	(170)	(112)	(85)
Net security (gains) losses	(1,535)	(2,113)	875
Net gains on sales of other real estate owned	(230)	(442)	(374)
Impairment on lease residual assets	2,000	-	-
Net gain on sale of branch	-	-	(470)
Net decrease (increase) in other assets	194	(8,393)	(18,800)
Net (decrease) increase in other liabilities	(9,775)	6,848	(2,325)
Net cash provided by operating activities	87,326	85,840	65,517
Investing activities			
Net cash paid for sale of branch	-	-	(2,307)
Net cash used in CNB Bancorp, Inc. merger	-	-	(21,223)
Net cash used in Mang Insurance Agency, LLC acquisition	(26,233)	-	-
Securities available for sale:			
Proceeds from maturities, calls, and principal paydowns	413,560	233,312	217,232
Proceeds from sales	6,800	55,758	42,292
Purchases	(392,957)	(303,465)	(265,052)
Securities held to maturity:			
Proceeds from maturities, calls, and principal paydowns	91,309	70,234	45,990
Purchases	(82,525)	(83,186)	(80,485)
Net increase in loans	(220,700)	(70,061)	(211,280)
Net (increase) decrease in Federal Reserve and FHLB stock	(943)	710	1,447
Purchases of premises and equipment, net	(6,039)	(2,355)	(4,176)
Proceeds from sales of other real estate owned	1,150	1,408	1,028
Net cash used in investing activities	(216,578)	(97,645)	(276,534)
Financing activities			
Net increase in deposits	51,165	75,855	307,033
Net (decrease) increase in short-term borrowings	(161,975)	23,059	(99,569)
Proceeds from issuance of long-term debt	340,027	150,000	95,000
Repayments of long-term debt	(132,705)	(142,841)	(114,157)
Proceeds from the issuance of trust preferred debentures	-	-	51,547
Excess tax benefit from exercise of stock options	1,406	715	466
Proceeds from the issuance of shares to employee benefit plans and other stock plans	10,553	4,353	10,131

Purchases of treasury stock	(5,939)	(48,957)	(17,111)
Cash dividends and payments for fractional shares	(25,830)	(26,226)	(26,018)
Net cash provided by financing activities	76,702	35,958	207,322
Net (decrease) increase in cash and cash equivalents	(52,550)	24,153	(3,695)
Cash and cash equivalents at beginning of year	162,946	138,793	142,488
Cash and cash equivalents at end of year	$ 110,396	$ 162,946	$ 138,793

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Supplemental disclosure of cash flow information			
Cash paid during the year for:	2008	2007	2006
Interest	$ 113,597	$ 138,791	$ 121,447
Income taxes	17,081	18,007	19,914
Noncash investing activities:			
Loans transferred to other real estate owned	$ 1,025	$ 1,137	$ 778
Dispositions:			
Fair value of assets sold	$ -	$ -	$ 3,453
Fair value of liabilities transferred	-	-	5,760
Acquisitions:			
Fair value of assets acquired	$ 30,062	$ -	$ 422,097
Goodwill and identifiable intangible assets recognized in purchase combination	27,107	-	65,637
Fair value of liabilities assumed	3,829	-	360,648
Fair value of equity issued in purchase combination	-	-	50,525

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	As of December 31,		
(In thousands)	2008	2007	2006
Net income	$ 58,353	$ 50,328	$ 55,947
Other comprehensive (loss) income, net of tax			
Unrealized net holding gains (losses) arising during the year (pre-tax amounts of $15,143, $19,347, and $(737)	9,138	11,618	(442)
Reclassification adjustment for net (gains) losses related to securities available for sale included in net income (pre-tax amounts of $(1,535), $(2,113), and $875)	(921)	(1,270)	526
Pension and other benefits:			
Amortization of prior service cost and actuarial gains (pre-tax amounts of $378, $481 and $0)	227	288	-
Decrease in unrecognized actuarial amounts (pre-tax amounts of $(21,087), $(326) and $0)	(13,073)	(197)	-
Total other comprehensive (loss) income	(4,629)	10,439	84
Comprehensive income	$ 53,724	$ 60,767	$ 56,031

See accompanying notes to consolidated financial statements.

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NBT BANCORP INC. AND SUBSIDIARIES:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The following is a description of significant policies and practices:

CONSOLIDATION

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

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SEGMENT REPORTING

The Company's operations are primarily in the community banking industry and include the provision of traditional banking services. The Company operates solely in the geographical regions of central and northern New York and northeastern Pennsylvania. 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. A decline in the fair value of any available for sale or held to maturity security below cost that is deemed other-than-temporary is charged to earnings resulting in the establishment of a new cost basis for the security. Securities with other-than-temporary impairment are generally placed on non-accrual status.

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

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

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

LOANS AND LEASES

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

Lease receivables primarily represent automobile financing to customers through direct financing leases and are carried at the aggregate of the lease payments receivable and the estimated residual values, net of unearned income and net deferred lease origination fees and costs. Net deferred lease origination fees and costs are amortized under the effective interest method over the estimated lives of the leases. The estimated residual value related to the total lease portfolio is reviewed quarterly, 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.

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

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

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

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

Management believes that the allowance for loan and lease losses is adequate. While management uses available information to recognize loan and lease losses, future additions to the allowance for loan and lease losses may be necessary based on changes in economic conditions or changes in the values of properties securing loans in the process of foreclosure. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan and lease losses. Such agencies may require the Company to recognize additions to the allowance for loan and lease losses based on their judgments about information available to

them at the time of their examination which may not be currently available to management.

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PREMISES AND EQUIPMENT

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

OTHER REAL ESTATE OWNED

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

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets that have finite useful lives continue to be amortized over their useful lives. Core deposit intangibles at the Company are generally amortized over 7 to 25 years using the straight-line methods for all periods presented. Covenants not to compete are amortized on a straight-line basis. Customer lists are amortized using an accelerated method.

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

TREASURY STOCK

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

INCOME TAXES

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

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STOCK-BASED COMPENSATION

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

STANDBY LETTERS OF CREDIT

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

LOAN SALES AND LOAN SERVICING

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

REPURCHASE AGREEMENTS

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

EARNINGS PER SHARE

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as the Company’s dilutive stock options and restricted stock).

OTHER FINANCIAL INSTRUMENTS

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

COMPREHENSIVE INCOME

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

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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

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

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"), effective January 1, 2008. SFAS No. 157 clarifies that 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. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 establishes a fair value hierarchy that 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 under SFAS No. 157 are described below:

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

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

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

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

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. As required by SFAS No. 157, 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.

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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.

In accordance with FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, the Company has delayed the application of SFAS No. 157 for nonfinancial assets, such as goodwill and real property held for sale, and nonfinancial liabilities until January 1, 2009.

In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The FSP is effective October 10, 2008, and for prior periods for which financial statements have not been issued. Adoption did not have a material impact on the Company's financial position or results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued revised SFAS No. 141, "Business Combinations," ("SFAS No. 141") or SFAS No. 141(R). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting (formerly the purchase method) be used for all business combinations; that an acquirer be identified for each business combination; and that intangible assets be identified and recognized separately from goodwill. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. Additionally, SFAS No. 141(R) changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies and recognizing and measuring contingent consideration. SFAS No. 141(R) also enhances the disclosure requirements for business combinations. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51," or SFAS No. 160. SFAS No. 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other things, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. SFAS No. 160 also amends SFAS No. 128, "Earnings per Share," so that earnings per share calculations in consolidated financial statements will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and is applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. SFAS No. 160 is not expected to have a material impact on our financial condition or results of operations.

In February 2008, the FASB issued FASB Staff Position FAS 140-3, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ("FSP FAS 140-3"). FSP FAS 140-3 was issued to provide guidance

on accounting for a transfer of a financial asset and repurchase financing. FSP FAS 140-3 presumes that an initial transfer of a financial asset and repurchase financing are considered part of the same arrangement (“linked transaction”) under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. However, if certain criteria are met, the initial transfer and repurchase financing should not be evaluated as a linked transaction and should be evaluated separately under SFAS No. 140. FSP FAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Earlier application is not permitted. FSP FAS 140-3 should be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after the beginning of the fiscal year for which FSP FAS 140-3 is effective. The adoption did not have a material impact on the Company’s financial position or results of operations.

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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS No. 161"). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The new standard also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. SFAS No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk–related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 did not have a material impact on our financial condition or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. The hierarchy under SFAS 162 is as follows: A) FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, and American Institute of Certified Public Accountants ("AICPA") Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB; B) FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position; C) AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the FASB Emerging Issues Task Force ("EITF"), and the Topics discussed in Appendix D of EITF Abstracts (EITF D-Topics); and D) Implementation guides (Q&As) published by the FASB staff, AICPA Accounting Interpretations, AICPA Industry Audit and Accounting Guides and Statements of Position not cleared by the FASB, and practices that are widely recognized and prevalent either generally or in the industry. The Statement was effective November 15, 2008. SFAS No. 162 did not have a material impact on the Company's financial condition or results of operations.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ("FSP EITF 03-6-1"), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. FSP EITF 03-6-1 is not expected to have a material impact on the Company's financial condition or results of operations.

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(2) MERGER AND ACQUISITION ACTIVITY

On September 1, 2008, the Company completed the acquisition of Mang Insurance Agency, LLC ("Mang"), 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, which has been allocated to NBT Holdings, Inc. for reporting purposes. The results of operations are included in the consolidated financial statements from the date of acquisition, September 1, 2008.

(3) EARNINGS PER SHARE

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

	Years ended December 31,								
	2008			2007			2006		
(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	$ 58,353	32,152	$ 1.81	$ 50,328	33,165	$ 1.52	$ 55,947	33,886	$ 1.65
Effect of dilutive securities									
Stock based compensation		275			256			320	
Diluted earnings per share	$ 58,353	32,427	$ 1.80	$ 50,328	33,421	$ 1.51	$ 55,947	34,206	$ 1.64

There were approximately 328,000, 628,000, and 356,000 weighted average stock options for the years ended December 31, 2008, 2007, and 2006, 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.

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(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, 2008 was $26.9 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, 2008				
U.S. Treasury	$ 59	$ 8	$ -	$ 67
Federal Agency	213,997	5,211	41	219,167
State & municipal	126,369	2,374	770	127,973
Mortgage-backed	351,973	8,755	99	360,629
Collateralized mortgage obligations	376,058	5,656	1,437	380,277
Corporate	20,016	769	-	20,785
Other securities	10,475	1,279	987	10,767
Total securities available for sale	$ 1,098,947	$ 24,052	$ 3,334	$ 1,119,665
December 31, 2007				
U.S. Treasury	$ 10,042	$ 35	$ -	$ 10,077
Federal Agency	322,723	4,352	28	327,047
State & municipal	112,647	2,122	108	114,661
Mortgage-backed	381,585	1,195	4,473	378,307
Collateralized mortgage obligations	288,222	2,496	1,103	289,615
Corporate	1,186	27	-	1,213
Other securities	8,715	2,746	151	11,310
Total securities available for sale	$ 1,125,120	$ 12,973	$ 5,863	$ 1,132,230

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

In the available for sale category at December 31, 2007, federal agency securities were comprised of GSE securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of $342.0 million and a fair value of $338.5 million and US Government Agency securities with an amortized cost of $39.5 million and a fair value of $39.8 million; collateralized mortgage obligations were comprised of GSEs with an amortized cost of $179.1 million and a fair value of $180.1 million and US Government Agency securities with an amortized cost of $109.1 million and a fair value of $109.5 million.

Others securities primarily represent marketable equity securities.

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

	Years ended December 31		
(In thousands)	2008	2007	2006
Proceeds from sales	$ 6,800	$ 55,758	$ 42,292
Gross realized gains	$ 1,780	$ 2,248	$ 618
Gross realized losses	(245)	(135)	(1,493)
Net securities gains (losses)	$ 1,535	$ 2,113	$ (875)

At December 31, 2008 and 2007, securities available for sale with amortized costs totaling $891.6 million and $962.9 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2008, securities available for sale with an amortized cost of $165.7 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, 2008				
Mortgage-backed	$ 2,372	$ 95	$ -	$ 2,467
State & municipal	136,259	1,048	44	137,263
Other securities	1,578	-	-	1,578
Total securities held to maturity	$ 140,209	$ 1,143	$ 44	$ 141,308
December 31, 2007				
Mortgage-backed	$ 2,810	$ 99	$ -	$ 2,909
State & municipal	145,458	439	130	145,767
Other securities	843	-	-	843
Total securities held to maturity	$ 149,111	$ 538	$ 130	$ 149,519

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

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The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2008 and 2007, segregated according to the length of time the securities had been in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
Security Type:	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
December 31, 2008						
U.S. Treasury	$ -	$ -	$ -	$ -	$ -	$ -
Federal agency	9,959	(41)	-	-	9,959	(41)
State & municipal	17,024	(412)	15,112	(402)	32,136	(814)
Mortgage-backed	2,105	(28)	7,336	(71)	9,441	(99)
Collateralized mortgage obligations	46,865	(1,301)	15,682	(136)	62,547	(1,437)
Other securities	5,276	(947)	704	(40)	5,980	(987)
Total securities with unrealized losses	$ 81,229	$ (2,729)	$ 38,834	$ (649)	$ 120,063	$ (3,378)
December 31, 2007						
U.S. Treasury	$ -	$ -	$ -	$ -		