

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1998.

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 of Incorporation)(IRS Employer Identification No.)

52 SOUTH BROAD STREET, NORWICH, NEW YORK 13815  
(Address of principal executive offices)(Zip Code)

Registrant's Telephone Number, Including Area Code: 607-337-6000

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, No Par, \$1.00 Stated Value

Preferred Stock, No Par, \$1.00 Stated Value

(Title of Class)

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

There are no delinquent filers to the Registrant's knowledge.

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 periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of February 28, 1999, there were 12,396,134 shares outstanding of the Registrant's common stock, No Par, Stated Value \$1.00; of which 11,939,628 common shares having a market value of \$267,925,252 were held by nonaffiliates of the Registrant. There were no shares of the Registrant's preferred stock, No Par, Stated Value \$1.00, outstanding at that date.

Documents Incorporated by Reference

Portions of the Proxy Statement of NBT BANCORP INC. dated March 17, 1999 for the Annual Meeting of Stockholders to be held on April 17, 1999 are incorporated by reference into Part III of this FORM 10-K as detailed therein.

An index to exhibits follows the signature page of this Form 10-K.

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	(a)(1) Financial Statements (See Item 8 for Reference).	
	(2) Financial Statement Schedules normally required on Form 10-K are omitted since they are not applicable.	
	(3) Exhibits have been filed separately with the Commission and are available upon written request.	
	(b) No reports on Form 8-K were filed during the last quarter of the period covered by this report.	
	(c) Refer to item 14(a)(3) above.	
	(d) Refer to item 14(a)(2) above.	

\* Information called for by Part III (Items 10 through 13) is incorporated by reference to the Registrant's Proxy Statement for the 1999 Annual Meeting of Stockholders filed with the Securities and Exchange Commission.

## DESCRIPTION OF BUSINESS

### REGISTRANT

NBT Bancorp Inc. ("Registrant") is a registered bank holding company headquartered in Norwich, New York. The Registrant is the parent holding company of NBT Bank, N.A. ("Bank"), a national bank. The principal asset of the Registrant is all of the outstanding shares of common stock of the Bank and its principal source of revenue is dividends it receives from the Bank.

The Bank is a full service commercial bank providing a broad range of financial products. The Bank has thirty-five locations serving a nine county area in central and northern New York. As of December 31, 1998, the Bank had 452 full-time and 70 part-time employees. The Bank is not a party to any collective bargaining agreements, and employee relations are considered to be good.

### COMPETITION

The banking business is extremely competitive and the Bank encounters intense competition from other financial institutions located within its market area. The Bank competes not only with other commercial banks but also with other financial institutions such as thrifts, credit unions, money market and mutual funds, insurance companies, brokerage firms, and a variety of other companies offering financial services.

### SUPERVISION AND REGULATION

The Registrant, as a bank holding company, is regulated under the Bank Holding Company Act of 1956, as amended ("Act"), and is subject to the supervision of the Board of Governors of the Federal Reserve System ("FRB"). Generally, the Act limits the business of bank holding companies to banking, or managing or controlling banks, performing certain services for subsidiaries, and engaging in such other activities as the FRB may determine to be so closely related to banking as to be a proper incident thereto. The Registrant is a legal entity separate and distinct from the Bank. The principal source of the Registrant's income is the Bank's earnings, and the principal source of its cash flow is dividends from the Bank. Federal laws impose limitations on the ability of the Bank to pay dividends as discussed in the Notes to Consolidated Financial Statements. FRB policy requires bank holding companies to serve as a source of financial strength to their subsidiary banks by standing ready to use available resources to provide adequate capital funds to subsidiary banks during periods of financial stress or adversity.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") substantially revised the depository institution regulatory and funding provisions of the Federal Deposit Insurance Act and made revisions to several other federal banking statutes. Among other things, federal banking regulators are required to take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. FDICIA identifies the following capital categories for financial institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

Rules adopted by the federal banking agencies under FDICIA provide that an institution is deemed to be well capitalized if the institution has a ratio of total capital to risk-weighted assets of 10.0% or greater, a Tier I capital to risk-weighted assets ratio of 6.0% or greater, and a Tier 1 capital to total assets ratio of 5.0% or greater and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific level for any capital measure. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the capital category in which an institution is classified. At December 31, 1998, the Registrant and the Bank were well capitalized based on the ratios and guidelines noted above.

The Act requires prior approval of the FRB of the acquisition by the Registrant of more than 5 percent of the voting shares of any bank or any other bank holding company. The Act allows adequately capitalized and adequately managed bank holding companies to acquire control of banks in any state subject to certain limitations. An interstate acquisition may not be approved if immediately before the acquisition the acquirer controls an FDIC-insured institution or branch in the state of the institution to be acquired, and if immediately following the acquisition the acquirer would control 30 percent or more of the total FDIC-insured deposits in that state; but a state may waive the 30-percent limitation by statute, regulation, or order, or by certain nondiscriminatory administrative approvals. Likewise, an interstate acquisition may not be approved if it would violate a deposit ceiling established by laws of the state of the institution to be acquired or if an acquirer controls or upon consummation of the acquisition would control more than 10% of the total deposits of insured depository institutions in the United States. Laws of the state of the institution to be acquired which limit institutions eligible for interstate acquisition to those in existence for a minimum period of time (not to exceed five years) will also bar approval of an interstate acquisition if nondiscriminatory.

The Bank is subject to primary supervision, regulation, and examination by the Office of the Comptroller of the Currency ("OCC"), whose regulations are

intended primarily for the protection of the Bank's depositors and customers rather than holders of the Registrant's securities. The Bank is subject to extensive federal statutes and regulations that significantly affect its business and activities. The Bank must file reports with its regulators concerning its activities and financial condition and obtain regulatory approval to enter into certain transactions. The Bank is also subject to periodic examinations by the OCC to ascertain compliance with various regulatory requirements. Other applicable statutes and regulations relate to insurance of deposits, allowable investments, loans, acceptance of deposits, trust activities, mergers, consolidations, payment of dividends, capital requirements and activities, reserves against deposits, establishment of branches and certain other facilities, limitations on loans to one borrower and loans to affiliates and insiders, and other aspects of the business of banks. Pursuant to recent federal legislation the federal banking agencies have adopted standards or guidelines governing banks' internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits, asset quality and earnings as well as other operational and managerial standards deemed appropriate by the agencies. Regulatory authorities have broad authority to initiate proceedings designed to prohibit banks from engaging in violations of law and regulation and unsafe and unsound banking practices.

#### DEPOSIT INSURANCE AND OTHER ASSESSMENTS

To the extent allowable by law, the deposits of the Bank are insured by the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation ("FDIC"). During 1995, BIF reached its statutory target of 1.25% of total insured deposits and the BIF assessment rates were reduced from .23% to .04% for the highest rated banks. For 1996, the highest rated banks were not assessed on the level of their deposits but rather paid a minimum fee of \$2,000 to BIF. During 1997 and 1998, BIF-assessable deposits were subject to an assessment schedule providing for an assessment range of 0% to .27%, with banks in the lowest risk category paying no assessments. The Bank was in the lowest risk category and paid no FDIC insurance assessments during 1997 and 1998. BIF assessment rates are subject to semi-annual adjustment by the FDIC Board of Directors. The FDIC Board of Directors has retained the 1997 and 1998 BIF assessment schedule through June 30, 1999.

In 1996, Congress enacted the Deposit Insurance Funds Act which establishes a schedule to merge with BIF and Savings Association Insurance Fund ("SAIF"). The act also provides for funding Financing Corp ("FICO") bonds, issued to provide funding for the Federal Savings and Loan Insurance Corporation prior to 1991. BIF-assessable deposits are subject to assessment for payment on the FICO bond obligation at one-fifth the rate of SAIF-assessable deposits through year-end 1999, or until the insurance funds are merged, whichever occurs first. The FICO assessment is adjusted quarterly based on call report submissions to reflect changes in the assessment bases of the respective funds. During 1998, BIF insured banks paid a rate of .012% for purposes of funding FICO bond obligations, resulting in an assessment of \$120,228 for the Bank. The assessment rate for BIF member institutions has been set at 1.22 basis points, annually, for the first quarter of 1999.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in thousands, except per share data)	1998	1997	1996	1995	1994
<b>YEAR ENDED DECEMBER 31,</b>					
Interest and fee income	\$ 101,080	\$ 96,181	\$ 84,387	\$ 77,400	\$ 70,438
Interest expense	43,677	42,522	36,365	34,840	25,742
Net interest income	57,403	53,659	48,022	42,560	44,696
Provision for loan losses	4,599	3,505	3,175	1,553	3,071
Noninterest income excluding securities gains (losses)	9,355	8,403	7,683	6,957	6,484
Securities gains (losses)	624	(337)	1,179	145	555
Noninterest expense	39,128	35,170	34,422	33,024	38,674
Income before income taxes	23,655	23,050	19,287	15,085	9,990
Net income	19,102	14,749	12,179	9,329	6,508
<b>PER COMMON SHARE*</b>					
Basic earnings	\$ 1.52	\$ 1.18	\$ 0.98	\$ 0.72	\$ 0.50
Diluted earnings	\$ 1.49	\$ 1.16	\$ 0.97	\$ 0.72	\$ 0.50
Cash dividends paid	\$ 0.616	\$ 0.442	\$ 0.355	\$ 0.307	\$ 0.277
Stock dividends distributed	5%	5%	5%	5%	5%
Book value at year-end	\$ 10.52	\$ 9.77	\$ 8.65	\$ 8.47	\$ 7.56
Tangible book value at year-end	\$ 9.91	\$ 9.09	\$ 7.84	\$ 7.56	\$ 6.81
Average diluted common shares outstanding	12,832	12,700	12,514	12,936	13,140
<b>AT DECEMBER 31,</b>					
Assets available for sale	\$ 358,645	\$ 443,918	\$ 373,337	\$ 399,625	\$ 119,398
Securities held to maturity	35,095	36,139	42,239	40,311	272,466
Loans	821,505	735,482	654,593	588,385	574,718
Allowance for loan losses	12,962	11,582	10,473	9,120	9,026
Assets	1,290,009	1,280,585	1,138,986	1,106,266	1,044,557
Deposits	1,044,205	1,014,183	916,319	873,032	791,443
Short-term borrowings	96,589	134,527	88,244	115,945	140,587
Other borrowings	10,171	183	20,195	3,012	8,734
Stockholders' equity	130,632	123,343	106,264	108,044	98,307
<b>KEY RATIOS</b>					
Return on average assets	1.48%	1.20%	1.10%	0.90%	0.64%
Return on average equity	14.93%	12.97%	11.80%	9.18%	6.53%
Average equity to average assets	9.93%	9.25%	9.29%	9.75%	9.88%
Net interest margin	4.76%	4.67%	4.69%	4.43%	4.81%
Efficiency	57.92%	56.09%	60.74%	65.92%	70.22%
Cash dividend per share payout	41.34%	37.91%	36.50%	42.61%	56.13%
Tier 1 leverage (Regulatory guideline 3%)	9.33%	8.91%	8.70%	8.80%	9.05%
Tier 1 risk-based capital (Regulatory guideline 4%)	14.69%	14.88%	14.06%	15.21%	16.09%
Total risk-based capital (Regulatory guideline 8%)	15.94%	16.13%	15.31%	16.46%	17.35%

\*All share and per share data has been restated to give retroactive effect to stock dividends and splits.

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

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. (Bancorp) and its wholly owned subsidiary, NBT Bank, N.A. (Bank) collectively referred to herein as the Company. This discussion will focus on results of operations, financial position, capital resources, and asset/liability management.

### OVERVIEW

The Company achieved record operating results during 1998. Net income increased to \$19.1 million, a 29.5% increase over 1997 earnings of \$14.7 million. A major contributing factor to the record results during 1998 was a \$3.8 million net benefit resulting from a corporate realignment. Due to the nature of the realignment and recent changes in the tax laws, these tax benefits are limited to 1998 and will not be available in future years. Also contributing to the improved earnings were increases in net interest and noninterest income, partially offset by an increase in noninterest expense.

The increase in net interest income was a result of the \$56.2 million (4.8%) growth in average earning assets, primarily due to loan volume increases. Loan growth was experienced the commercial and mortgage portfolios with average volume increases of \$46.9 million and \$21.9 million, respectively.

Deposits of \$1,044.2 million at December 31, 1998, were \$30.0 million higher than the previous year-end. Deposits averaged \$1,029.8 million for the year, a 5.8% increase over 1997 average deposits. Demand and time deposits (certificates) accounted for the increase in average deposits.

In June of 1998, the Company distributed a four-for-three stock split effected in the form of a 33 1/3% stock dividend. In December 1998, the Company distributed a 5% stock dividend, the thirty-ninth consecutive year a stock dividend has been declared. Throughout this report, amounts per common share and common shares outstanding have been retroactively adjusted to reflect the stock dividends and splits.

In July of 1998, the Company announced the formation of a venture capital subsidiary, NBT Capital Corp. The venture capital subsidiary, licensed as a Small Business Investment Company by the U. S. Small Business Administration, was formed to assist young businesses develop and grow in the markets we serve.

Certain statements in this release and other public releases by the Company contain forward-looking information, 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," or other similar terms. Actual results may differ materially from these statements since such statements involve significant known and unknown rules and uncertainties. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) an increase in competitive pressures in the banking industry; (2) changes in the interest rate environment; (3) changes in the regulatory environment; (4) general economic environment conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality; (5) changes may incur in business conditions and inflation; and (6) unforeseen risks associated with the Year 2000 issue.

### YEAR 2000

The Year 2000 issue presents a number of difficult challenges to the Company. Information systems are often complex and have been developed over many years through a variety of computer languages and hardware platforms. The Year 2000 issue refers to the programming of existing software applications using a two digit year field. This coding presents a potential problem when the year begins with "20", instead of "19". Computers may interpret the year as 1900 instead of 2000, creating possible system failure or miscalculation of financial data.

A committee continues to direct the Company's Year 2000 activities under the framework of the FFIEC's Five-Step Program. The FFIEC's Five-Step Program includes the following phases: Awareness, Assessment, Renovation, Validation and Implementation. The Awareness Phase, 100% complete, defines the Year 2000 problem and gains executive level support for the necessary resources to prepare the Company for Year 2000 compliance. The Assessment Phase, 100% complete, assesses the size and complexity of the problem and details the magnitude of the effort necessary to address the Year 2000 issues. Although the Awareness and Assessment Phases are complete, the Company will continue to evaluate any new issues as they arise. The Renovation Phase, 100% complete, includes code enhancements, hardware and software updates, system replacements, vendor certification, and other associated changes. The Validation Phase, 60% complete, includes the testing of incremental changes to hardware and software components. The Validation Phase is scheduled to be substantially complete by March 31, 1999. The Implementation Phase, 60% complete, certifies that systems are Year 2000 compliant and have been accepted by the end users. The Implementation Phase is scheduled to be substantially complete by March 31, 1999. The Company has been addressing Informational Technology (IT) and non IT systems. The Company has categorized all systems as mission critical, high, medium or low priority with respect to its ability to influence business functions. The Company has completed the development of test and validation methodologies for its IT systems. Testing of applications has begun and is scheduled to be substantially complete during the first quarter of 1999. In some cases, the Company will rely on the service providers and software vendors to facilitate proxy testing with a selected group of users. The Company will review the test plans and validate the results of the proxy testing to ensure the Year 2000 compliance of those systems. To ensure compliance of non IT systems where testing is not possible, the Company has contacted the manufacturers and suppliers for Year 2000 certification. Based on responses from manufacturers and suppliers of non IT systems, the Company does not anticipate incurring any material expenses due to unpreparedness of the non IT systems.



The Company has identified material third party relationships to minimize the potential loss from unpreparedness of these parties. The Company continues to work closely with Fiserv, its data services and items processing provider, regarding Year 2000 compliance.

The Company has tested its mission critical trust accounting system to ensure Year 2000 compliance. The testing and validation of this system was completed during the fourth quarter of 1998. Test results were reviewed by internal staff and did not disclose any Year 2000 issues. In addition, the system was also tested by the software vendor and two user groups made up of other banks. Results of these tests did not identify any Year 2000 issues. Other non mission critical systems in use by the trust department are in the process of review for Year 2000 compliance and are expected to be complete by June 30, 1999. In addition, the trust department is following the FFIEC's Year 2000 Fiduciary Service Guidance. The fiduciary review includes the following steps: account and asset administration, third party risk, counter party risk, transfer agent risk, and client disclosure. A Year 2000 compliance review is being conducted on those companies in which significant trust assets are invested. As of December 31, 1998 approximately 86% of significant assets had been preliminarily reviewed. Updates on the status of these companies will continue throughout 1999. The trust account review process has been modified to include specific Year 2000 issues. Third party and counter party fiduciary risk is being addressed by communicating with various vendors and service providers to ascertain their Year 2000 compliance. All customers and beneficiaries of the trust department have been contacted regarding the Company's efforts to identify and reduce Year 2000 risk.

The Company has evaluated the Year 2000 readiness of its major borrowers and fund providers to assess their readiness and identify potential problems. The Company has assessed the preparedness of its 75 largest commercial borrowers, as well as 25 random commercial borrowers. These borrowers were evaluated and rated as low, medium or high risk. For the medium and high risk customers, an action plan for compliance has been developed, up to and including credit risk downgrades and requests for additional collateral. The Company has also assessed the preparedness of its 60 largest deposit account relationships, as well as 45 random depositors. The providers were also evaluated and rated as high, medium or low risk. The Company has scheduled follow up with the high risk and material fund providers to ensure they are taking necessary steps to become Year 2000 compliant. The Company also completed an assessment of its other material funding sources and counter parties, with no high risk relationships being identified. Continuous monitoring of significant new relationships is performed to ensure Year 2000 preparedness. In addition, the Company has modified its liquidity crisis plan to minimize funding risk due to the Year 2000 issue. The Company will continue to monitor its liquidity funding position and update the liquidity crisis plan as necessary.

As of December 31, 1998 the Company has incurred approximately \$345,000 in expenses directly related to the Year 2000 issue. In addition, the Company forecasts spending approximately \$135,000 by December 31, 1999 to ensure Year 2000 readiness. These amounts include the cost of additional hardware and software, as well as technology consultants contracted to assist in the preparation for the Year 2000; however, they do not include a valuation for the considerable time employees spent or will spend on Year 2000 preparedness. The Company has included the cost of the Year 2000 issue in its 1999 annual budget. Due to the uniqueness of the Year 2000 issue, it is difficult to quantify the potential loss in revenue. Based on efforts to ensure systems will function properly, the Company believes it reasonable that no material loss in revenue will occur. The Company believes that its reasonably likely worst case Year 2000 scenario is a material increase in credit losses due to Year 2000 problems of the Company's borrowers, as well as disruption in financial markets causing liquidity stress. As previously mentioned, the Company has attempted to minimize these risks by identifying the material borrowers and fund providers and assessing their progress toward Year 2000 compliance.

The Company is currently developing a business resumption contingency plan to help ensure continued operations in the event of Year 2000 system failures. This contingency plan will be consistent with the Company's disaster recovery plan with modifications for Year 2000 risks. The business resumption contingency plan is scheduled to be complete by March 31, 1999.

#### NET INTEREST INCOME

Net interest income is the difference between interest and fees earned on assets and the interest paid on deposits and borrowings. Net interest income is one of the major determining factors in a financial institution's performance as it is the principal source of earnings. Table 1 presents average balance sheets and a net interest income analysis on a taxable equivalent basis for each of the years in the three-year period ended December 31, 1998.

As reflected in Table 1, net interest income, on a taxable equivalent basis, increased \$3.7 million or 6.8% from \$54.5 million in 1997 to \$58.2 million in 1998. Yields on earning assets and the cost of interest bearing liabilities were stable between 1997 and 1998.

In 1998, average earning assets increased \$56.2 million or 4.8% compared to 1997. Average loans increased \$79.1 million or 11.4% during the year, while average investment securities decreased \$22.0 million or 4.8%. During 1998, average interest bearing liabilities increased \$30.2 million, primarily in the time deposit category.

In comparing 1997 to 1996, net interest income increased \$5.5 million or 11.3% from \$49.0 million to \$54.5 million. The yield on earning assets increased 13 basis points, while the cost of interest bearing liabilities increased 19 basis points.

Average earning assets increased \$124.0 million or 11.9% compared to 1996. Average loans increased \$78.4 million or 12.7% during 1997, while average investment securities increased \$41.7 million or 9.9%. Average total interest bearing liabilities increased \$105.4 million or 11.9% from 1996 to 1997, primarily a result of increases in time deposits.

TABLE 1  
AVERAGE BALANCES AND NET INTEREST INCOME

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 deposits and liabilities on a taxable equivalent basis. Interest income is adjusted for items exempt from Federal income taxes and assumes a 35% tax rate.

(dollars in thousands)	1998			1997			1996		
	AVERAGE BALANCE	INTEREST	YIELD/ RATES	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
<b>ASSETS</b>									
Interest bearing deposits	\$ 123	\$ 5	4.68%	\$ 127	\$ 5	4.48%	\$ 304	\$ 16	5.26%
Federal funds sold and securities purchased under agreements to resell	793	31	3.91	3,749	194	5.17	323	18	5.57
Other short-term investments	5,156	269	5.21	2,536	135	5.31	1,088	57	5.24
Securities available for sale	403,574	27,942	6.92	423,512	29,063	6.86	374,574	24,355	6.50
Loans held for sale	3,080	254	8.25	3,620	298	8.24	4,427	372	8.40
Securities held to maturity:									
Taxable	13,139	890	6.78	13,061	914	7.00	11,914	788	6.61
Tax exempt	23,130	1,581	6.83	25,303	1,721	6.80	33,661	2,316	6.88
Total securities held to maturity	36,269	2,471	6.81	38,364	2,635	6.87	45,575	3,104	6.81
Loans:									
Commercial	354,023	33,388	9.43	307,101	29,662	9.66	263,193	25,579	9.72
Real estate mortgage	147,128	11,927	8.11	125,263	10,668	8.52	119,993	10,184	8.49
Consumer	273,489	25,587	9.36	263,188	24,376	9.26	233,948	21,668	9.26
Total Loans	774,640	70,902	9.15	695,552	64,706	9.30	617,134	57,431	9.31
Total earning assets	1,223,635	101,874	8.33	1,167,460	97,036	8.31	1,043,425	85,353	8.18
Cash and due from banks	32,593			30,918			36,171		
Securities available for sale valuation allowance	5,335			(1,828)			(2,752)		
Allowance for loan losses	(12,388)			(11,138)			(9,657)		
Premises and equipment	20,028			17,269			16,465		
Other assets	19,131			25,962			27,316		
<b>TOTAL ASSETS</b>	<b>\$1,288,334</b>			<b>\$1,228,643</b>			<b>\$1,110,968</b>		

LIABILITIES AND STOCKHOLDERS'

EQUITY									
Money market deposit accounts	\$ 85,011	2,440	2.87	\$ 90,732	2,648	2.92	\$ 101,753	2,977	2.93
NOW accounts	129,734	2,122	1.64	118,761	1,904	1.60	108,806	1,873	1.72
Savings deposits	155,109	4,310	2.78	154,771	4,376	2.83	159,373	4,650	2.92
Certificates of deposit	526,701	28,329	5.38	493,551	26,306	5.33	430,464	22,442	5.21
	-----	-----		-----	-----		-----	-----	
Total interest bearing deposits	896,555	37,201	4.15	857,815	35,234	4.11	800,396	31,942	3.99
Short-term borrowings	114,241	6,014	5.26	119,259	6,581	5.52	73,192	3,745	5.12
Other borrowings	8,698	462	5.31	12,189	707	5.80	10,288	678	6.59
	-----	---		-----	-----		-----	-----	
Total interest bearing liabilities	1,019,494	43,677	4.28%	989,263	42,522	4.30%	883,876	36,365	4.11%
		-----			-----			-----	
Demand deposits	133,262			115,826			116,287		
Other liabilities	7,641			9,863			7,565		
Stockholders' equity	127,937			113,691			103,240		
	-----			-----			-----		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,288,334			\$1,228,643			\$1,110,968		
	-----			-----			-----		
NET INTEREST INCOME		\$58,197			\$54,514			\$48,988	
		-----			-----			-----	
NET INTEREST MARGIN			4.76%			4.67%			4.69%
			-----			-----			-----
Taxable equivalent adjustment		\$ 794			\$ 855			\$ 966	
		-----			-----			-----	

(1) For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding.

(2) Securities are shown at average amortized cost.

TABLE 2  
ANALYSIS OF CHANGES IN TAXABLE EQUIVALENT NET INTEREST INCOME

The following table presents changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

(in thousands)	INCREASE (DECREASE) 1998 OVER 1997			Increase (Decrease) 1997 over 1996		
	VOLUME	RATE	TOTAL	Volume	Rate	Total
Interest bearing deposits	\$ -	\$ -	\$ -	\$ (8)	\$ (3)	\$ (11)
Federal funds sold and securities purchased under agreements to resell	(124)	(39)	(163)	177	(1)	176
Other short-term investments	136	(2)	134	77	1	78
Securities available for sale	(1,379)	258	(1,121)	3,308	1,400	4,708
Loans held for sale	(45)	1	(44)	(67)	(7)	(74)
Securities held to maturity:						
Taxable	5	(29)	(24)	79	47	126
Tax exempt	(148)	8	(140)	(569)	(26)	(595)
Loans	7,254	(1,058)	6,196	7,295	(20)	7,275
<b>Total interest income</b>	<b>5,699</b>	<b>(861)</b>	<b>4,838</b>	<b>10,292</b>	<b>1,391</b>	<b>11,683</b>
Money market deposit accounts	(165)	(43)	(208)	(322)	(7)	(329)
NOW accounts	179	39	218	165	(134)	31
Savings accounts	10	(76)	(66)	(132)	(142)	(274)
Certificates of deposit	1,781	242	2,023	3,353	511	3,864
Short-term borrowings	(271)	(296)	(567)	2,522	314	2,836
Other borrowings	(189)	(56)	(245)	116	(87)	29
<b>Total interest expense</b>	<b>1,345</b>	<b>(190)</b>	<b>1,155</b>	<b>5,702</b>	<b>455</b>	<b>6,157</b>
<b>CHANGE IN FTE NET INTEREST INCOME</b>	<b>\$ 4,354</b>	<b>\$ (671)</b>	<b>\$3,683</b>	<b>\$ 4,590</b>	<b>\$ 936</b>	<b>\$ 5,526</b>

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The provision for loan losses is based upon management's judgement as to the adequacy of the allowance to absorb losses inherent in the current loan portfolio. In assessing the adequacy of the allowance for loan losses, consideration is given to historical loan loss experience, value and adequacy of collateral, level of nonperforming loans, loan concentrations, the growth and composition of the portfolio, and the results of a comprehensive in-house loan review program conducted throughout the year. Consideration is given to the results of examinations and evaluations of the overall portfolio by senior credit personnel, internal and external auditors, and regulatory examiners. The provision for loan losses increased to \$4.6 million in 1998 from \$3.5 million in 1997, the result of increased charge-offs and loan volumes.

Accompanying tables reflect the five year history of net charge-offs and the allocation of the allowance by loan category. Net charge-offs, both as dollar amounts and as percentages of average loans outstanding, have increased as the Company has experienced a rise in commercial charge-offs. The increase in commercial charge-offs in 1998 can be primarily attributed to one customer. Management considered it prudent to increase the dollar level of the allowance to various asset categories as depicted in the tables. The allowance has been allocated based on identified problem credits or categorical trends. The allowance for loan loss was increased to \$13.0 million at December 31, 1998 in response to the increases in charge-offs and loan volumes. At December 31, 1998, the allowance for loan losses to loans outstanding was 1.58%, compared to 1.57% at year-end 1997. Management considers the allowance to be adequate and will continue to target and maintain a minimum allowance equal to the allocated requirement plus an unallocated portion.

TABLE 3  
ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	1998	1997	1996	1995	1994
Balance at January 1	\$11,582	\$10,473	\$9,120	\$9,026	\$8,652
Loans charged off:					
Commercial and agricultural	1,941	1,193	1,274	967	1,409
Real estate mortgages	234	55	204	112	154
Consumer	1,977	2,040	1,300	1,182	2,159
Total loans charged off	4,152	3,288	2,778	2,261	3,722
Recoveries:					
Commercial and agricultural	258	197	274	193	291
Real estate mortgages	35	16	20	-	-
Consumer	640	679	662	609	734
Total recoveries	933	892	956	802	1,025
Net loans charged off	3,219	2,396	1,822	1,459	2,697
Provision for loan losses	4,599	3,505	3,175	1,553	3,071
Balance at December 31	\$12,962	\$11,582	\$10,473	\$9,120	\$9,026
Allowance for loan losses to loans outstanding at end of year	1.58%	1.57%	1.60%	1.55%	1.57%
Allowance for loan losses to nonaccrual loans	361%	220%	315%	189%	195%
Nonaccrual loans to total loans	0.44%	0.71%	0.51%	0.82%	0.81%
Nonperforming assets to total assets	0.37%	0.45%	0.40%	0.62%	0.52%
Net charge-offs to average loans outstanding	0.42%	0.34%	0.29%	0.25%	0.48%

TABLE 4  
ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

December 31,	1998		1997		1996		1995		1994	
(dollars in thousands)	CATEGORY PERCENT ALLOWANCE	OF LOANS								
Commercial and agricultural	\$ 7,039	47.3%	\$ 5,448	44.4%	\$ 4,341	43.1%	\$4,250	42.0%	\$3,726	37.5%
Real estate mortgages	400	19.5%	244	18.4%	360	18.3%	412	20.6%	630	22.5%
Consumer	3,999	33.2%	2,365	37.2%	2,335	38.6%	2,048	37.4%	3,538	40.0%
Unallocated	1,524	-	3,525	-	3,437	-	2,410	-	1,132	-
Total	\$12,962	100.0%	\$11,582	100.0%	\$10,473	100.0%	\$9,120	100.0%	\$9,026	100.0%

#### NONINTEREST INCOME

Noninterest income consists primarily of trust and custodian fees, service charges on deposit accounts, gains and losses on the sales of securities, and fees and service charges for other banking services. Total noninterest income for 1998 of \$10.0 million increased \$1.9 million or 23.7% compared to 1997. Other income in 1997 includes a one-time gain of \$0.2 million for the sale of the Hamden branch to The National Bank of Delaware County. Excluding securities gains and losses, noninterest income increased \$1.0 million or 11.3% in 1998 compared to 1997. Excluding security gains and losses, total noninterest income for 1997 increased \$0.7 million compared to 1996.

Trust income rose during 1998 as managed assets increased. At December 31, 1998, the Trust Department managed \$865 million in assets (market value), up from \$701 million at year-end 1997, resulting in a \$0.4 million increase in trust income.

Service charges on deposit accounts remained stable during 1998. Service charges increased \$0.3 million in 1997 compared to 1996. The 1997 increase can be attributed to an emphasis being placed on collection vs. waiver, particularly for overdraft charges which accounted for a major part of the increase.

The interest rate environment drives the potential for security gains and losses. The declining interest rate environment in 1998 provided opportunities to recognize gains on sales of securities. During 1998, net gains of \$0.6 million were realized from sales of U.S. Treasury and U.S. Government agencies securities as the Company generated liquidity to fund increased loan demand and reduced leverage where interest rate spreads no longer provided acceptable returns.

Other income increased 22.5% in 1998 primarily a result of increased ATM fee income due to increased use and the installation of additional machines throughout our market areas.

#### NONINTEREST EXPENSE AND OPERATING EFFICIENCY

Table 5 presents noninterest expense and operating efficiency ratios for each of the three years ending December 31, 1998. Noninterest expense as a percentage of average assets of 3.0% in 1998 increased from 2.9% in 1997. This increase is a result of a rise in noninterest expense during 1998. The 1997 percentage of noninterest expense to average assets of 2.9% declined from 3.1% in 1996, resulting from an increase in assets between the reporting periods, while at the same time maintaining stable noninterest expenses.

Salaries and employee benefits increased \$1.3 million, or 7.2% between 1998 and 1997. Salaries and employee benefits were stable between 1997 and 1996. Expense increases in 1998 were primarily due to a \$0.6 million increase in salaries and a \$0.4 million increase in performance based incentives.

Occupancy and equipment expense increased \$0.9 between 1998 and 1997. This increase can be attributed primarily to a rise in computer depreciation expense related to the automation of the branch network computer system completed in the fourth quarter of 1997.

Other operating expenses increased \$1.7 million between 1998 and 1997. Contributing to the increase in other operating expense was increased data processing fees, a result of the outsourcing of the Company's items processing function during 1997. Professional fee and outside service expenses also increased during 1998 as a result of professional fees associated with the corporate realignment.

TABLE 5  
NONINTEREST EXPENSE AND OPERATING EFFICIENCY ANALYSIS

	Years Ended December 31,									
	1998		1997		1996		1998/1997		1997/1996	
	AMOUNT	PERCENT OF AVERAGE ASSETS	Amount	Percent of Average Assets	Amount	Percent of Average Assets	Amount	Average Change	Amount	Average Change
Expenses:										
Personnel	\$19,202	1.49%	\$17,905	1.46%	\$17,817	1.60%	\$1,297	7.24%	\$ 88	0.49%
Occupancy and equipment	5,218	0.41%	4,298	0.35%	4,156	0.37%	920	21.41%	142	3.42%
Other	14,708	1.14%	12,967	1.05%	12,449	1.13%	1,741	13.43%	518	4.16%
Total noninterest expense	\$39,128	3.04%	\$35,170	2.86%	\$34,422	3.10%	\$3,958	11.25%	\$748	2.17%
Expense ratio (1)	2.31%		2.20%		2.41%					
Efficiency ratio (2)	57.92%		56.09%		60.74%					
Average assets per employee (in millions)	\$ 2.6		\$ 2.5		\$ 2.1					

(1) Noninterest expense less noninterest income, not including security gains (losses) and other non-recurring income or expense, as a percentage of average assets.

(2) Noninterest expense, less non-recurring expenses, as a percentage of tax-effected net interest income plus noninterest income, excluding security gains (losses).

#### INCOME TAXES

Income tax expense was \$4.6 million for 1998, \$8.3 million for 1997, and \$7.1 million for 1996. The decreased income taxes during 1998 resulted from a tax benefit associated with the corporate realignment. The increased income taxes from 1996 to 1997 correspond to increased income before income taxes. At December 31, 1998, the Company has deferred tax assets of \$6.9 million and deferred tax liabilities of \$3.7 million. Management has determined that a valuation allowance for the deferred tax assets is not needed at December 31, 1998. Additional information on income taxes is provided in the notes to the consolidated financial statements.

#### SECURITIES

The securities portfolio constituted 35.9% and 39.6% of average earning assets during 1998 and 1997, respectively. At December 31, 1998, the securities portfolio consists of 90% U.S. Government agencies guaranteed securities. All purchases of U.S. Governmental agencies guaranteed securities are classified as available for sale. Held to maturity securities are obligations of the State of New York political subdivisions and do not include any direct obligations of the state of New York.

TABLE 6  
SECURITIES PORTFOLIO  
As of December 31,

	1998		1997		1996	
(in thousands)	AMORTIZED COST	FAIR VALUE	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Securities Available for Sale:</b>						
U.S. Treasury	\$ 10,406	\$ 10,481	\$ 2,395	\$ 2,406	\$ 70,811	\$ 70,269
Federal Agency and mortgage-backed	335,189	340,383	431,259	435,167	299,202	297,133
State & Municipal and other securities	4,554	4,894	2,967	3,059	1,775	1,800
<b>Total securities available for sale</b>	<b>\$350,149</b>	<b>\$355,758</b>	<b>\$436,621</b>	<b>\$440,632</b>	<b>\$371,788</b>	<b>\$369,202</b>
<b>Securities Held to Maturity:</b>						
State & Municipal	22,649	22,649	23,692	23,692	32,546	32,546
Other securities	12,446	12,446	12,447	12,447	9,693	9,692
<b>Total securities held to maturity</b>	<b>\$ 35,095</b>	<b>\$ 35,095</b>	<b>\$ 36,139</b>	<b>\$ 36,139</b>	<b>\$ 42,239</b>	<b>\$ 42,238</b>

**LOANS**  
The following Table 7 sets forth the loan portfolio by major categories as of December 31 for the years indicated.

TABLE 7  
COMPOSITION OF LOAN PORTFOLIO

December 31,	1998	1997	1996	1995	1994
(in thousands)					
Real estate mortgages	\$149,647	\$128,873	\$110,288	\$107,611	\$125,385
Commercial real estate mortgages	178,778	151,129	135,061	108,902	71,631
Real estate construction and development	10,378	6,602	9,582	13,361	3,890
Commercial and agricultural	209,731	175,362	146,930	138,391	143,632
Consumer	188,549	203,016	204,641	185,276	201,359
Home equity	84,422	70,500	48,091	34,817	28,704
Lease financing	-	-	-	27	117
<b>Total loans</b>	<b>\$821,505</b>	<b>\$735,482</b>	<b>\$654,593</b>	<b>\$588,385</b>	<b>\$574,718</b>

The loan portfolio is the largest component of earning assets and accounts for the greatest portion of total interest income. At December 31, 1998, total loans were \$821.5 million, an 11.7% increase from December 31, 1997. In general, loans are internally generated and lending activity is confined to New York State, principally the nine county area served by the Company. The Company does not engage in highly leveraged transactions or foreign lending activities. There were no concentration of loans exceeding 10% of total loans other than those categories reflected in Table 7.

Real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residencies. Beginning in 1996, the Company began retaining most first mortgage loans within the portfolio. For several years prior to 1996, fixed-rate mortgages were originated for sale in the secondary market. The Company sold \$0.9 million in mortgage loans during both 1998 and 1997. There were no gains or losses recognized related to sales of mortgages originated in 1998. At December 31, 1998 and 1997, loans classified as held for sale consist of higher education loans with estimated fair market values equal to cost.

Loans in the commercial and agricultural category, as well as commercial real estate mortgages, consist primarily of short-term and/or floating rate commercial loans made to small to medium-sized companies. Agricultural loans totalled \$48.9 million at December 31, 1998, and there are no other substantial loan concentrations to any one industry or to any one borrower.

Consumer loans consist primarily of installment credit to individuals secured by automobiles and other personal property. Management believes consumer loan underwriting guidelines to be conservative. The guidelines are based primarily on satisfactory credit history, down payment, and sufficient income to service monthly payments.

Shown in Table 8, Maturities and Sensitivities of Loans to Changes in Interest Rates, are the maturities of the loan portfolio and the sensitivity of loans to interest rate fluctuations at December 31, 1998. Scheduled repayments are reported in the maturity category in which the contractual payment is due.

TABLE 8  
MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

REMAINING MATURITY AT DECEMBER 31, 1998	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS	TOTAL
(in thousands)				
Floating/adjustable rate:				
Commercial and agricultural	\$112,252	\$ 76,831	\$ 17,274	\$206,357
Real estate mortgages	5,931	18,125	37,776	61,832
Consumer	22,727	12,428	29,424	64,579
Total floating rate loans	140,910	107,384	84,474	332,768
Fixed Rate:				
Commercial and agricultural	38,472	87,507	56,173	182,152
Real estate mortgages	8,419	28,998	60,776	98,193
Consumer	66,635	122,306	19,451	208,392
Total fixed rate loans	113,526	238,811	136,400	488,737
Total loans	\$254,436	\$346,195	\$220,874	\$821,505

NONPERFORMING ASSETS AND PAST DUE LOANS

Nonperforming assets and past due loans are reflected in Table 9 below for the years indicated.

TABLE 9  
NONPERFORMING ASSETS AND RISK ELEMENTS

December 31,	1998	1997	1996	1995	1994
(dollars in thousands)					
Commercial and agricultural	\$2,394	\$3,856	\$2,441	\$3,945	\$3,552
Real estate mortgages	437	692	251	332	783
Consumer	762	708	628	540	304
Total nonaccrual loans	3,593	5,256	3,320	4,817	4,639
Other real estate owned	1,164	530	1,242	2,000	840
Total nonperforming assets	4,757	5,786	4,562	6,817	5,479
Loans 90 days or more past due and still accruing:					
Commercial and agricultural	291	176	418	559	133
Real estate mortgages	341	244	344	448	287
Consumer	526	325	289	325	451
Total	1,158	745	1,051	1,332	871
Restructured loans, in compliance with modified terms:	-	-	-	142	-
Total assets containing risk elements	\$5,915	\$6,531	\$5,613	\$8,291	\$6,350
Total nonperforming assets to loans	0.58%	0.79%	0.70%	1.16%	0.95%
Total assets containing risk element to loans	0.72%	0.89%	0.86%	1.41%	1.10%
Total nonperforming assets to assets	0.37%	0.45%	0.40%	0.62%	0.52%
Total assets containing risk elements to assets	0.46%	0.51%	0.49%	0.75%	0.61%

Total nonperforming assets decreased \$1.0 million or 17.8% from 1997 to 1998; total assets containing risk elements decreased \$0.6 million or 9.4% during the same period. The effect of nonaccrual and impaired loans on interest income is presented in the following Table 10.

TABLE 10  
NONACCRUAL AND IMPAIRED LOANS INTEREST INCOME

December 31,	1998	1997	1996	1995	1994
(in thousands)					
Income that would have been accrued at original contract rates	\$ 278	\$ 559	\$1,125	\$ 765	\$ 465
Amount recognized as income	170	148	593	344	216
Interest income not accrued	\$ 108	\$ 411	\$ 532	\$ 421	\$ 249

DEPOSITS

Deposits are the largest component of the Company's liabilities and account for the greatest portion of interest expense. At December 31, 1998, total deposits were \$1,044.2 million, an increase of 3.0% from December 31, 1997. Average deposits during 1998 of \$1,029.8 million were 5.8% higher than the 1997 average. The preceding Table 1 presents average deposits with accompanying average rates paid.

TABLE 11  
MATURITY DISTRIBUTION OF TIME DEPOSITS OF \$100,000 OR MORE

December 31,	1998	1997
(in thousands)		
Within three months	\$222,187	\$210,226
After three but within six months	39,929	32,467
After six but within twelve months	9,957	11,611
After twelve months	9,954	15,633
Total	\$282,027	\$269,937

BORROWED FUNDS

Short-term borrowings include federal funds purchased, securities sold under agreement to repurchase, and other short-term borrowings which consist primarily of FHLB advances with an original maturity of one day up to one year. Other borrowings consist of fixed rate FHLB advances with an original maturity greater than one year. At December 31, 1998, total borrowings of \$106.8 million were down 20.7% compared to the previous year-end total of \$134.7 million.

CAPITAL AND DIVIDENDS  
 TABLE 12  
 CAPITAL MEASUREMENTS

December 31,	1998	1997
(per share data restated to give retroactive effect to stock dividends and splits)		
Tier 1 leverage ratio	9.33%	8.91%
Tier 1 capital ratio	14.69%	14.88%
Total risk-based capital ratio	15.94%	16.13%
Cash dividends as a percentage of net income	40.37%	37.42%
Per common share:		
Book value	\$10.52	\$ 9.77
Tangible book value	\$ 9.91	\$ 9.09

TABLE 13  
 QUARTERLY COMMON STOCK AND DIVIDEND INFORMATION

QUARTER ENDING	1998			CASH DIVIDENDS DECLARED	1997			Cash Dividends Declared
	HIGH	LOW	CLOSE		High	Low	Close	
March 31	\$20.00	\$16.79	\$20.00	\$0.122	\$13.61	\$11.99	\$13.27	\$0.102
June 30	24.65	19.29	24.17	0.162	18.29	13.27	18.29	0.102
September 30	25.00	18.46	21.90	0.162	18.20	15.13	17.94	0.116
December 31	25.50	20.71	23.38	0.170	19.78	16.33	19.29	0.122
For the year	\$25.50	\$16.79	\$23.38	\$0.616	\$19.78	\$11.99	\$19.29	\$0.442

On a per share basis, cash dividends declared have been increased in both 1998 and 1997. The dividend increases reflect the Company's earnings and capital strength. The Company does not have a target dividend payout ratio, rather the Board of Directors considers the Company's earnings position and earnings potential when making dividend decisions. Additionally, 1998 was the thirty-ninth consecutive year that the Company declared a stock dividend.

The accompanying Table 13 sets forth the quarterly high, low and closing sales price for the common stock as reported on the NASDAQ National Market System, and cash dividends declared per share of common stock. At December 31, 1998, the total market capitalization of the Company's common stock was approximately \$290.3 million compared with \$243.4 million at December 31, 1997. The change in market capitalization is due to the market's perception of the Company's increasing value. The Company's price to book value ratio was 2.22, 1.97, and 1.42 at December 31, 1998, 1997 and 1996, respectively. The Company's price was 16, 17, and 13 times diluted earnings per share at December 31, 1998, 1997 and 1996, respectively.

Capital is an important factor in ensuring the safety of depositors' accounts. During both 1998 and 1997, the Company earned the highest possible national safety and soundness rating from two national bank rating services, Bauer Financial Services and Veribanc, Inc. Their ratings are based on capital levels, loan portfolio quality, and security portfolio strength.

Capital adequacy is an important indicator of financial stability and performance. The principal source of capital to the Company is earnings retention. The Company remains well capitalized as depicted by the capital ratios in the table. Capital measurements are significantly in excess of both regulatory minimum guidelines and meet the requirements to be considered well capitalized for all periods presented.

#### LIQUIDITY AND INTEREST RATE SENSITIVITY MANAGEMENT

The primary objectives of asset and liability management are to provide for the safety of depositor and investor funds, assure adequate liquidity, and maintain an appropriate balance between interest sensitive earning assets and interest bearing liabilities. Liquidity management 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 Management 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 must also provide the flexibility to implement appropriate strategies and tactical actions. Requirements change as loans grow, deposits and securities mature, and payments on borrowings are made. Interest rate sensitivity management seeks to avoid widely fluctuating net interest margins and to ensure consistent net interest income through periods of changing economic conditions.

Given the above, liquidity to the Company is defined as the ability to raise cash quickly at a reasonable cost without principal loss. The primary liquidity measurement the Company utilizes is called the 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. Accordingly, the Company has established borrowing facilities with other banks (federal funds), the Federal Home Loan Bank of New York (short and long-term borrowings which are denoted as advances), and repurchase agreements with investment companies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both tactical 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, 1998 and 1997, the Company's Basic Surplus ratios (net access to cash and secured borrowings as a percentage of total assets) were approximately 9% compared to the present internal minimum guideline range of 5% to 7%. The December 31, 1998 Basic Surplus ratio was in excess of the guidelines. The Company had unused lines of credit available totalling \$266 million to meet its short-term liquidity needs at December 31, 1998 and considered the Basic Surplus adequate to meet liquidity needs.

Interest rate risk is determined by the relative sensitivities of earning asset yields and interest bearing liability costs to changes in interest rates. Overnight federal funds on which rates change daily and loans which are tied to the prime rate differ considerably from long-term investment securities and fixed rate loans. Similarly, time deposits over \$100,000 and money market deposit accounts are much more interest sensitive than NOW and savings accounts.

The method by which banks evaluate interest rate risk is to look at the interest sensitivity gap, the difference between interest sensitive assets and interest sensitive liabilities repricing during the same period, measured at a specific point in time. The funding matrix depicted in the accompanying table is utilized as a primary tool in managing interest rate risk. The matrix arrays repricing opportunities along a time line for both assets and liabilities. The time line for sources of funds, liabilities and equity, is depicted on the left hand side of the matrix. The longest term, most fixed rate sources, are presented in the upper left hand corner while the shorter term, most variable rate items, are at the lower left. Similarly, uses of funds, assets, are arranged across the top moving from left to right.

The body of the matrix is derived by allocating the longest fixed rate funding sources to the longest fixed rate assets (upper left corner) and shorter term variable sources to shorter term variable uses (lower right corner). The result is a graphical depiction of the time periods over which the Company is expected to experience exposure to rising or falling rates. Since the scales of the liability (left) and asset (top) sides are identical, all numbers in the matrix would fall within the diagonal lines if the Company was perfectly matched across all repricing time frames. Numbers outside the diagonal lines represent two general types of mismatches: i) liability sensitive, where rate sensitive liabilities exceed the amount of rate sensitive assets repricing within applicable time frames (items to the left of/below the diagonal lines) and ii) asset sensitive, where rate sensitive assets exceed the amount of rate sensitive liabilities repricing within applicable time frames (items to the right of/above the diagonal lines).

Generally, the lower the amount of this gap, the less sensitive are earnings to interest rate changes. The matrix indicates that the Company's assets and liabilities are closely matched in the short-term and as a result, has minimal interest rate risk over the next twelve months. The Company becomes asset sensitive after the one-year time frame and, therefore, would benefit in the long-term from rising interest rates.

TABLE 14  
SUMMARY STATIC GAP FUNDING MATRIX

	(ASSETS) -USES-	OVER 60 MONTHS	37-60 MONTHS	25-36 MONTHS	13-24 MONTHS	7-12 MONTHS	4-6 MONTHS	MAR 99	FEB 99	JAN 99	ONE DAY	TOTALS
LIABILITIES												
-SOURCES-TOTALS		233	110	93	175	189	96	40	36	258	60	1,290
OVER 60 MONTHS	577	233	110	93	141							577
										Long Liabilities		
										Short Assets		
37-60 MONTHS	15				15							15
25-36 MONTHS	18				18							18
13-24 MONTHS	54				1	53						54
7-12 MONTHS	97					97						97
4-6 MONTHS	94					39	55					94
MAR 99	123						41	40	36	6		123
FEB 99	61									61		61
JAN 99	165		Long Assets							165		165
			Short Liabilities									
ONE DAY	86									26	60	86
TOTALS	1,290	233	110	93	175	189	96	40	36	258	60	1,290

While the static gap evaluation of interest rate sensitivity is useful, it is not indicative of the impact of fluctuating interest rates on net interest income. Once the Company determines the extent of gap sensitivity, the next step is to quantify the potential impact of the interest sensitivity on net interest income. The Company utilizes a simulation model which measures the effect certain assumptions will have on net interest income over a short period of time, usually one or two years. These assumptions include, but are not limited to prepayments, potential call options of the investment portfolio and various interest rate environments. The following table presents the impact on net interest income of a gradual twelve-month increase or decrease in interest rates compared to a stable interest rate environment. The simulation projects net interest income over the next year using the December 31, 1998 balance sheet position.

TABLE 15  
INTEREST RATE SENSITIVITY ANALYSIS

Change in interest rates (in basis points)	Percent change in net interest income
+200	(0.98%)
+100	(0.47%)
- 100	(0.19%)
- 200	(0.74%)

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Effective January 1, 1998 the Company adopted the remaining provisions of Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which relate to the accounting for securities lending, repurchase agreements, and other secured financing activities. These provisions, which were delayed for implementation by SFAS No. 127, did not have a material impact on the Company.

On January 1, 1998, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components. Comprehensive income includes the reported net income adjusted for items that are currently accounted for as direct entries to equity, such as the mark to market adjustment on securities available for sale, foreign currency items and minimum pension liability adjustments. At the Company, comprehensive income represents net income plus other comprehensive income, which consists of the net change in unrealized gains or losses on securities available for sale for the period. Accumulated other comprehensive income represents the net unrealized gains or losses on securities available for sale as of the balance sheet dates.

In February 1998, the FASB issued SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement revises employers' disclosures about pension and other post retirement benefit plans. It does not change the measurement or recognition of these plans. The Company adopted SFAS No. 132 on January 1, 1998 and has determined its impact to be revised year-end reporting requirements for pension and post retirement benefits.

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". This statement establishes comprehensive accounting and reporting requirements for derivative instruments and hedging activities. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. The accounting for gains or losses resulting from changes in the values of those derivatives would be dependent on the use of the derivative and the type of risk being hedged. The statement is effective for all quarters of fiscal years beginning after June 15, 1999. At the present time, the Company has not fully analyzed the effect or timing of the adoption of SFAS No. 133 on the Company's consolidated financial statements.

#### FOURTH QUARTER RESULTS

Selected quarterly results are presented in Table 16, Selected Quarterly Financial Data. Net income for the fourth quarter 1998 of \$4.6 million, \$0.36 per diluted share, was up from \$3.6 million, \$0.28 per diluted share, earned in the fourth quarter 1997. Average loans for the fourth quarter of 1998 increased 11.3% compared to the fourth quarter of 1997.

The 1998 fourth quarter return on average assets of 1.40% was up from the 1997 ratio of 1.11%. The return on average equity for the fourth quarter 1998 of 13.87% was up from the fourth quarter 1997 ratio of 11.71%. Expense and efficiency ratios of 2.49% and 60.84%, respectively, for the fourth quarter 1998, increased over the comparable 1997 ratios of 2.30% and 57.86%.

TABLE 16  
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	1998				1997			
(in thousands, except per share data)	FIRST	SECOND	THIRD	FOURTH	First	Second	Third	Fourth
Interest and fee income	\$25,256	\$25,276	\$25,448	\$25,100	\$22,283	\$23,759	\$24,848	\$25,291
Interest expense	11,221	11,168	10,885	10,403	9,659	10,559	11,075	11,229
Net interest income	14,035	14,108	14,563	14,697	12,624	13,200	13,773	14,062
Provision for loan losses	1,100	1,150	1,300	1,049	715	1,000	965	825
Noninterest income excluding securities gains	2,350	2,312	2,353	2,340	2,003	2,270	2,070	2,060
Securities gains (losses)	218	227	168	11	17	1	(90)	(265)
Noninterest expense	9,402	9,539	9,707	10,480	8,559	8,266	8,904	9,441
Net income	\$ 5,072	\$ 4,710	\$ 4,731	\$ 4,589	\$ 3,445	\$ 4,037	\$ 3,702	\$ 3,565
Basic earnings per share	\$ 0.40	\$ 0.37	\$ 0.38	\$ 0.37	\$ 0.28	\$ 0.32	\$ 0.29	\$ 0.28
Diluted earnings per share	\$ 0.39	\$ 0.37	\$ 0.37	\$ 0.36	\$ 0.27	\$ 0.32	\$ 0.29	\$ 0.28
Net interest margin	4.75%	4.68%	4.79%	4.80%	4.71%	4.65%	4.64%	4.68%
Return on average assets	1.60%	1.47%	1.46%	1.40%	1.19%	1.33%	1.17%	1.11%
Return on average equity	16.49%	14.92%	14.54%	13.87%	12.82%	14.78%	12.74%	11.71%
Average diluted common shares outstanding	12,857	12,896	12,845	12,732	12,599	12,674	12,738	12,788

PROPERTIES

The Company operates the following community banking offices:

Name of Office	Location	County	Date Established	Square Footage
Norwich	52 S. Broad St., Norwich, NY	Chenango	07-15-1856	77,000
Afton	182 Main St., Afton, NY	Chenango	09-01-1962	2,779
Bainbridge	9 N. Main St., Bainbridge, NY	Chenango	12-07-1938	4,897
Earlville	2 S. Main St., Earlville, NY	Chenango	08-07-1937	1,222
Grand Gorge	Rt. 23 & 30, Grand Gorge, NY	Delaware	11-01-1957	3,000
Margaretville	Main St., Margaretville, NY	Delaware	09-03-1963	3,152
New Berlin	2 S. Main St., New Berlin, NY	Chenango	12-21-1946	2,195
Sherburne	30 N. Main St., Sherburne, NY	Chenango	08-07-1937	3,393
South Otselic	Gladding St., S. Otselic, NY	Chenango	10-01-1945	1,326
North Plaza	Rt. 12 & 320, Norwich, NY	Chenango	10-15-1986	1,849
South Plaza	Rt. 12 S., Norwich, NY	Chenango	08-20-1986	1,200
Deposit	105 Front St., Deposit, NY	Broome	02-12-1971	3,550
Newark Valley	2 N. Main St., Newark Valley, NY	Tioga	10-01-1973	3,893
Maine	2647 Main St., Maine, NY	Broome	10-01-1973	1,458
Hobart	Maple Ave., Hobart, NY	Delaware	06-28-1974	2,308
Sidney	13 Division St., Sidney, NY	Delaware	12-31-1978	3,500
Oxford	10 North Canal St., Oxford, NY	Chenango	03-16-1998	2,000
Greene	80 S. Chenango St., Greene, NY	Chenango	12-15-1986	3,200
Binghamton	1256 Front St., Binghamton, NY	Broome	03-29-1993	1,900
Hancock	1 E. Main St., Hancock, NY	Delaware	10-01-1989	7,500
Oneonta	733 State Highway 28, Oneonta, NY	Otsego	01-14-1998	4,600
Clinton	1 Kirkland Ave., Clinton, NY	Oneida	10-01-1989	7,960
Rome Westgate	Westgate Plaza, 1148 Erie Blvd. W., Rome, NY	Oneida	10-01-1989	1,950
Utica Business Park	555 French Road, New Hartford, NY	Oneida	10-01-1994	3,396
New Hartford	8549 Seneca Turnpike, New Hartford, NY	Oneida	12-16-1995	4,179
Rome Black River	853 Black River Blvd., Rome, NY	Oneida	10-01-1997	3,000
Gloversville	199 Second Ave. Ext., Gloversville, NY	Fulton	10-01-1989	4,263
Northville	192 N. Main St., Northville, NY	Fulton	10-01-1989	3,000
Vail Mills	Rt. 30, Broadalbin, NY	Fulton	10-01-1989	1,000
Lake Placid	81 Main St., Lake Placid, NY	Essex	10-01-1989	8,500
Cold Brook Plaza	Saranac Ave., Lake Placid, NY	Essex	10-01-1989	1,300
Saranac Lake	2 Lake Flower Ave., Saranac Lake, NY	Essex	10-01-1989	2,400
Plattsburgh Rt. 3	482 Rt. 3, Plattsburgh, NY	Clinton	05-04-1998	6,800
Plattsburgh - Margaret St	83 Margaret St., Plattsburgh, NY	Clinton	05-18-1998	1,822
Ellenburg Depot	5084 Rt. 11, Ellenburg Depot, NY	Clinton	08-28-1993	2,346

The Oxford, South Otselic, Binghamton, Oneonta, Vail Mills, Rome Westgate, Utica Business Park and Rome Black River Offices are leased. The Company owns all other banking premises. The Company also has free-standing automated banking units. During 1998, the Plattsburgh and Plattsburgh North Offices closed.

FINANCIAL HIGHLIGHTS

(in thousands, except share and per share data)	1998	1997	% Change
<b>FOR THE YEAR</b>			
Interest and fee income	\$ 101,080	\$ 96,181	5.1%
Interest expense	43,677	42,522	2.7%
Net interest income	57,403	53,659	7.0%
Provision for loan losses	4,599	3,505	31.2%
Noninterest income	9,979	8,066	23.7%
Noninterest expense	39,128	35,170	11.3%
Net income	19,102	14,749	29.5%
<b>PER COMMON SHARE</b>			
Basic earnings	\$ 1.52	\$ 1.18	28.8%
Diluted earnings	1.49	1.16	28.4%
Cash dividends	0.616	0.442	39.4%
Book value at year-end	10.52	9.77	7.7%
Tangible book value at year-end	9.91	9.09	9.0%
Market price:			
High	25.50	19.78	28.9%
Low	16.79	11.99	40.0%
End of year	23.38	19.29	21.2%
<b>AT YEAR-END</b>			
Assets	\$ 1,290,009	\$ 1,280,585	0.7%
Earning assets	1,217,098	1,214,547	0.2%
Loans	821,505	735,482	11.7%
Allowance for loan losses	12,962	11,582	11.9%
Deposits	1,044,205	1,014,183	3.0%
Stockholders' equity	130,632	123,343	5.9%
<b>AVERAGE BALANCES</b>			
Assets	\$ 1,288,334	\$ 1,228,643	4.9%
Earning assets	\$ 1,223,635	\$ 1,167,460	4.8%
Loans	\$ 774,640	\$ 695,552	11.4%
Deposits	\$ 1,029,817	\$ 973,641	5.8%
Stockholders' equity	\$ 127,937	\$ 113,691	12.5%
Common shares outstanding	12,569,884	12,548,365	0.2%
Diluted common shares outstanding	12,832,175	12,700,416	1.0%
<b>ASSET QUALITY</b>			
Allowance to loans	1.58%	1.57%	0.6%
Nonperforming assets to assets	0.37%	0.45%	(17.8%)
Allowance to nonperforming loans	361%	220%	64.1%
<b>KEY RATIOS</b>			
Return on average assets	1.48%	1.20%	23.3%
Return on average equity	14.93%	12.97%	15.1%
Net interest margin	4.76%	4.67%	1.9%
Tier 1 leverage	9.33%	8.91%	4.7%
Tier 1 risk-based capital	14.69%	14.88%	(1.3%)
Total risk-based capital	15.94%	16.13%	(1.2%)

All share and per share data has been restated to give retroactive effect to stock dividends and splits.

## MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Responsibility for the integrity, objectivity, consistency, and fair presentation of the financial information presented in this Annual Report rests with NBT Bancorp Inc. management. The accompanying financial statements and related information have been prepared in conformity with generally accepted accounting principles consistently applied and include, where required, amounts based on informed judgments and management's best estimates.

Management maintains a system of internal controls and accounting policies and procedures to provide reasonable assurance of the accountability and safeguarding of Company assets and of the accuracy of financial information. These procedures include management evaluations of asset quality and the impact of economic events, organizational arrangements that provide an appropriate segregation of responsibilities and a program of internal audits to evaluate independently the adequacy and application of financial and operating controls and compliance with Company policies and procedures.

The Board of Directors has appointed an Audit Committee composed entirely of directors who are not employees of the Company. The Audit Committee is responsible for recommending to the Board the independent auditors to be retained for the coming year, subject to stockholder ratification. The Audit Committee meets periodically, both jointly and privately, with the independent auditors, with our internal auditors, as well as with representatives of management, to review accounting, auditing, internal control structure and financial reporting matters. The Committee reports to the Board on its activities and findings.

/s/ DARYL R. FORSYTHE

Daryl R. Forsythe  
President and Chief Executive Officer

/s/ JOE C. MINOR

Joe C. Minor  
Executive Vice President  
Chief Financial Officer and Treasurer

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
NBT Bancorp Inc.:

We have audited the accompanying consolidated balance sheets of NBT Bancorp Inc. and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for each of the years in the three year period ended December 31, 1998. 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 generally accepted auditing standards. 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 subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

KPMG LLP

Syracuse, New York  
January 22, 1999

NBT BANCORP INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

December 31, 1998 1997

(in thousands, except share and per share data)

ASSETS		
Cash	\$ 47,181	\$ 37,446
Loans held for sale	2,887	3,286
Securities available for sale, at fair value	355,758	440,632
Securities held to maturity (fair value-\$35,095 and \$36,139)	35,095	36,139
Loans:		
Commercial and agricultural	388,509	326,491
Real estate mortgage	160,025	135,475
Consumer	272,971	273,516
Total loans	821,505	735,482
Less allowance for loan losses	12,962	11,582
Net loans	808,543	723,900
Premises and equipment, net	20,241	18,761
Intangible assets, net	7,572	8,642
Other assets	12,732	11,779
<b>TOTAL ASSETS</b>	<b>\$1,290,009</b>	<b>\$1,280,585</b>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Demand (noninterest bearing)	\$ 154,146	\$ 138,985
Savings, NOW, and money market	391,614	358,366
Time	498,445	516,832
Total deposits	1,044,205	1,014,183
Short-term borrowings	96,589	134,527
Other borrowings	10,171	183
Other liabilities	8,412	8,349
<b>Total liabilities</b>	<b>1,159,377</b>	<b>1,157,242</b>

Commitments and contingencies

Stockholders' equity:

Preferred stock, no par, stated value \$1.00; shares authorized-2,500,000	-	-
Common stock, no par, stated value \$1.00; shares authorized-15,000,000; shares issued 13,015,789 and 9,429,963	13,016	9,430
Capital surplus	111,749	96,494
Retained earnings	15,512	22,249
Accumulated other comprehensive income	3,317	2,373
Common stock in treasury at cost, 599,507 and 415,871 shares	(12,962)	(7,203)
<b>Total stockholders' equity</b>	<b>130,632</b>	<b>123,343</b>

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$1,290,009 \$1,280,585**

See notes to consolidated financial statements

NBT BANCORP INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31,	1998	1997	1996
(in thousands, except per share data)			
Interest and fee income:			
Loans and loans held for sale	\$70,947	\$64,781	\$57,660
Securities - taxable	28,742	29,887	25,109
Securities - tax exempt	1,086	1,179	1,527
Other	305	334	91
Total interest and fee income	101,080	96,181	84,387
Interest expense:			
Deposits	37,201	35,234	31,942
Short-term borrowings	6,014	6,581	3,745
Other borrowings	462	707	678
Total interest expense	43,677	42,522	36,365
Net interest income	57,403	53,659	48,022
Provision for loan losses	4,599	3,505	3,175
Net interest income after provision for loan losses	52,804	50,154	44,847
Noninterest income:			
Trust	3,115	2,675	2,642
Service charges on deposit accounts	3,749	3,695	3,372
Securities gains (losses)	624	(337)	1,179
Other	2,491	2,033	1,669
Total noninterest income	9,979	8,066	8,862
Noninterest expense:			
Salaries and employee benefits	19,202	17,905	17,817
Office supplies and postage	1,912	1,801	1,796
Occupancy	2,843	2,598	2,391
Equipment	2,375	1,700	1,765
Professional fees and outside services	2,836	2,201	2,382
Data processing and communications	3,577	2,789	2,280
Amortization of intangible assets	1,070	1,351	1,580
Other operating	5,313	4,825	4,411
Total noninterest expense	39,128	35,170	34,422
Income before income taxes	23,655	23,050	19,287
Income taxes	4,553	8,301	7,108
Net income	\$19,102	\$14,749	\$12,179
Earnings per share:			
Basic	\$ 1.52	\$ 1.18	\$ 0.98
Diluted	\$ 1.49	\$ 1.16	\$ 0.97

See notes to consolidated financial statements

All per share data has been restated to give retroactive effect to stock dividends and splits.

NBT BANCORP INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
(in thousands, except per share data)						
BALANCE AT DECEMBER 31, 1995	\$ 8,442	\$ 75,464	\$24,076	\$2,822	\$ (2,760)	\$108,044
Net income			12,179			12,179
5% stock dividend	396	7,254	(7,650)			-
Cash dividends - \$0.355 per share			(4,384)			(4,384)
Payment in lieu of fractional shares			(13)			(13)
Purchase of 433,848 treasury shares					(7,241)	(7,241)
Sale of 122,675 treasury shares to employee benefit plans and other stock plans		13			2,017	2,030
Unrealized loss on securities available for sale, net of reclassification adjustment and deferred taxes of \$3,005				(4,351)		(4,351)
BALANCE AT DECEMBER 31, 1996	8,838	82,731	24,208	(1,529)	(7,984)	106,264
Net income			14,749			14,749
5% stock dividend	428	10,717	(11,145)			-
Cash dividends - \$0.442 per share			(5,544)			(5,544)
Payment in lieu of fractional shares			(19)			(19)
Issuance of 164,030 shares to stock plan	164	2,476				2,640
Purchase of 131,900 treasury shares					(2,568)	(2,568)
Sale of 197,478 treasury shares to employee benefit plans and other stock plans		570			3,349	3,919
Unrealized gain on securities available for sale, net of reclassification adjustment and deferred taxes of \$2,695				3,902		3,902
BALANCE AT DECEMBER 31, 1997	9,430	96,494	22,249	2,373	(7,203)	123,343
Net income			19,102			19,102
Stock dividends and splits	3,586	14,531	(18,117)			-
Cash dividends - \$0.616 per share			(7,711)			(7,711)
Payment in lieu of fractional shares			(11)			(11)
Purchase of 353,000 treasury shares					(9,094)	(9,094)
Sale of 169,364 treasury shares to employee benefit plans and other stock plans		724			3,335	4,059
Unrealized gain on securities available for sale, net of reclassification adjustment and deferred taxes of \$654				944		944
BALANCE AT DECEMBER 31, 1998	\$13,016	\$111,749	\$15,512	\$3,317	\$(12,962)	\$130,632

See notes to consolidated financial statements

NBT BANCORP INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,	1998	1997	1996
(in thousands)			
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 19,102	\$ 14,749	\$ 12,179
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	4,599	3,505	3,175
Depreciation of premises and equipment	2,047	1,471	1,513
Amortization of premiums and accretion of discounts on securities	(2,051)	(236)	254
Amortization of intangible assets	1,070	1,351	1,580
Deferred income tax benefit	(1,227)	(435)	(660)
Proceeds from sale of loans originated for sale	3,661	4,390	4,268
Loans originated for sale	(3,262)	(3,541)	(4,089)
Realized (gains) losses on sales of securities	(624)	337	(1,179)
Decrease in interest receivable	1,039	449	1,048
Increase (decrease) in interest payable	(509)	809	1
Gain on sale of other real estate owned, net	(147)	(121)	(6)
Sale of branch, net	-	(219)	-
Other, net	(210)	1,673	1,038
<b>Net cash provided by operating activities</b>	<b>23,488</b>	<b>24,182</b>	<b>19,122</b>
<b>INVESTING ACTIVITIES:</b>			
Securities available for sale:			
Proceeds from maturities	80,171	50,762	43,924
Proceeds from sales	130,293	183,481	218,313
Purchases	(121,317)	(299,225)	(244,333)
Securities held to maturity:			
Proceeds from maturities	24,244	24,987	31,811
Purchases	(23,200)	(18,888)	(33,741)
Net increase in loans	(91,686)	(84,261)	(67,013)
Purchase of premises and equipment, net	(3,527)	(3,925)	(1,353)
Proceeds from sales of other real estate owned	1,954	1,980	1,520
<b>Net cash used in investing activities</b>	<b>(3,068)</b>	<b>(145,089)</b>	<b>(50,872)</b>
<b>FINANCING ACTIVITIES:</b>			
Net increase in deposits	30,022	97,864	43,287
Net increase (decrease) in short-term borrowings	(37,938)	46,283	(27,701)
Proceeds from issuance of other borrowings	10,000	-	20,050
Repayments of other borrowings	(12)	(20,012)	(2,867)
Proceeds from issuance of treasury shares to employee benefit plans and other stock plans	4,059	6,559	2,030
Purchase of treasury stock	(9,094)	(2,568)	(7,241)
Cash dividends and payment for fractional shares	(7,722)	(5,563)	(4,397)
<b>Net cash provided by financing activities</b>	<b>(10,685)</b>	<b>122,563</b>	<b>23,161</b>
Net increase (decrease) in cash and cash equivalents	9,735	1,656	(8,589)
Cash and cash equivalents at beginning of year	37,446	35,790	44,379
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 47,181</b>	<b>\$ 37,446</b>	<b>\$ 35,790</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 44,186	\$ 41,713	\$ 36,364
Income taxes	6,778	6,126	7,569
Noncash investing activity:			
Transfer of loans held for sale to loans held to maturity	-	-	1,775

See notes to consolidated financial statements

NBT BANCORP INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31,	1998	1997	1996
(in thousands)			
Net income	\$19,102	\$14,749	\$12,179
Other comprehensive income, net of tax:			
Unrealized net holding gains (losses) arising during period [pre-tax amounts of \$2,222; \$6,260 and \$(6,177)]	1,313	3,702	(3,654)
Less: Reclassification adjustment for net (gains) losses included in net income [pre-tax amounts of \$(624); \$337 and \$(1,179)]	(369)	200	(697)
Total other comprehensive income	944	3,902	(4,351)
Comprehensive income	\$20,046	\$18,651	\$ 7,828

See notes to consolidated financial statements

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NBT Bancorp Inc. ("Bancorp") and its subsidiary follow generally accepted accounting principles ("GAAP") and reporting practices applicable to the banking industry. 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. The following is a description of significant policies and practices:

**CONSOLIDATION** The consolidated financial statements include the accounts of Bancorp and its wholly owned subsidiary, NBT Bank, N.A. ("Bank") collectively referred to herein as the Company. All significant intercompany transactions have been eliminated in consolidation. Certain amounts previously reported in the financial statements have been reclassified to conform with the current presentation. In the "Parent Company Financial Information," the investment in subsidiary bank is carried under the equity method of accounting.

**BUSINESS** The Company provides loan and deposit services to its customers, primarily in its nine county service area. Its only business segment is domestic commercial banking and the Company is subject to competition from other financial institutions. The Bank and the Company are subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory agencies.

**SEGMENT REPORTING** During 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131 "Disclosures about Segments of an Enterprise and Related Information". This Statement requires the Company to report financial and other information about operating segments of the Company for which such information is available and is utilized by the chief operating decision makers. Operating segments must also meet certain quantitative thresholds in order to be considered reportable segments under this Statement.

The Company's operations are solely in the financial services industry and include the provision of traditional banking services. The Company operates solely in the geographical region of Upstate New York. In the opinion of management, the Company does not have any reportable segments as defined by SFAS No. 131.

**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.

**CASH** The Company considers cash on hand, amounts due from correspondent banks, cash items in process of collection and institutional money market mutual funds, to be cash.

**SECURITIES** The Company classifies its debt securities at date of purchase as either available for sale or held to maturity. The Company does not hold any securities considered to be trading. Held to maturity securities are those that the Company has the ability and intent to hold until maturity. All other securities not included as held to maturity are classified as available for sale.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at amortized cost. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. 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.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the interest method. Dividends 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.

**LOANS AND LOANS HELD FOR SALE** Loans are recorded at their current unpaid principal balance, net of unearned income. Loans classified as held for sale, primarily higher education loans, are carried at the lower of aggregate cost or estimated fair value. Interest income on loans is primarily accrued based on the principal amount outstanding.

The Company's classification of a loan as a nonaccrual loan is based in part on bank regulatory guidelines. Loans are placed on nonaccrual status when timely collection of interest is doubtful. Loans are transferred to a nonaccrual

basis generally when principal or interest payments become ninety days delinquent, unless the loan is well secured and in the process of collection, or when management concludes circumstances indicate that borrowers may be unable to meet contractual principal or interest payments. When in the opinion of management the collection of principal appears unlikely, the loan balance is charged-off in total or in part. Accrual of interest is discontinued if the loan is placed on nonaccrual status. When a loan is transferred to a nonaccrual status, any unpaid accrued interest is reversed and charged against income.

Management, considering current information and events regarding the borrowers' ability to repay the obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

Payments received on nonaccrual and impaired loans are first applied to principal. Depending on management's assessment of the ultimate collectibility of the loan, interest income may be recognized on a cash basis. Nonaccrual loans are returned to accrual status when management determines that the financial condition of the borrower has improved significantly to the extent that there has been a sustained period of repayment performance so that the loan is brought current and the collectibility of both principal and interest appears assured.

**ALLOWANCE FOR LOAN LOSSES** The allowance for loan losses is the amount which, in the opinion of management, is necessary to absorb potential losses in the loan portfolio when taken as a whole. The allowance is determined by reference to the market area the Company serves, 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, and comprehensive reviews of the loan portfolio by the Loan Review staff and management. As a result of the test of adequacy, required additions to the allowance for loan losses are made periodically by charges to the provision for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan 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 losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgements about information available to them at the time of their examination which may not be currently available to management.

**COMPANY PREMISES AND EQUIPMENT** Company 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 carrying amount or fair market value, less any estimated costs of disposal. Loan losses arising from the acquisition of such assets are charged to the allowance for loan 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 generally accepted accounting principles.

**INTANGIBLE ASSETS** Certain identified intangible assets, including goodwill and core deposit intangible assets are carried at appraised fair values, net of accumulated amortization, and are being amortized by the straight line method in amounts sufficient to write-off those fair values over their estimated useful lives; such fair values and useful lives are reviewed annually for events or changes in circumstances that may indicate that the carrying amount of the assets are not recoverable. Goodwill, the excess of cost over the fair value of the net assets acquired, is being amortized over twenty-five years on the straight line method.

**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 capital surplus. Losses on the sale of treasury stock are charged to capital surplus to the extent of previous gains, otherwise charged to retained earnings.

**POSTRETIREMENT BENEFITS** The Company uses actuarial based accrual accounting for its postretirement health care plans, electing to recognize the transition obligation on a delayed basis over the plan participants' future service periods, estimated to be twenty years.

**INCOME TAXES** 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.

**EARNINGS PER SHARE** Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share 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. All share and per share data has been adjusted retroactively for stock dividends and splits. The following is a reconciliation of basic and diluted earnings per share for the years presented in the income statement:

Year ended December 31,	1998	1997	1996
(in thousands)			
<b>Basic EPS:</b>			
Weighted average common shares outstanding	12,570	12,548	12,436
Net income available to common shareholders	\$19,102	\$14,749	\$12,179
<b>Basic EPS</b>	<b>\$ 1.52</b>	<b>1.18</b>	<b>\$ 0.98</b>
<b>Diluted EPS:</b>			
Weighted average common shares outstanding	12,570	12,548	12,436
Dilutive common stock options	262	152	78
Weighted average common shares and common share equivalents	12,832	12,700	12,514
Net income available to common stockholders	\$19,102	\$14,749	\$12,179
<b>Diluted EPS</b>	<b>\$ 1.49</b>	<b>\$ 1.16</b>	<b>\$ 0.97</b>

**FEDERAL RESERVE BOARD REQUIREMENT**

The Company is required to maintain a reserve balance with the Federal Reserve Bank of New York. The required average total reserve for the 14 day maintenance period ending December 30, 1998, was \$11.1 million of which \$3.8 million was required to be on deposit with the Federal Reserve Bank and the remaining \$7.3 million was represented by cash on hand.

**FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Company does not engage in the use of derivative financial instruments and currently the Company's only financial instruments with off-balance sheet risk consist of commitments to originate loans and commitments under unused lines of credit.

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	Fair Value
-----				
DECEMBER 31, 1998				
-----				
U.S. Treasury	\$ 10,406	\$ 75	\$ -	\$ 10,481
Federal Agency	67,430	745	85	68,090
State & Municipal	1,273	49	-	1,322
Mortgage-backed	267,759	4,584	50	272,293
Other securities	3,281	303	12	3,572
-----				
Total	\$350,149	\$5,756	\$147	\$355,758
-----				
December 31, 1997				
-----				
U.S. Treasury	\$ 2,395	\$ 11	\$ -	\$ 2,406
Federal Agency	95,590	279	199	95,670
State & Municipal	1,648	31	2	1,677
Mortgage-backed	335,669	4,034	206	339,497
Other securities	1,319	67	4	1,382
-----				
Total	\$436,621	\$4,422	\$411	\$440,632
-----				

Gross realized gains and gross realized losses on the sale of securities available for sale were \$0.6 million and \$0.02 million, respectively, in 1998. Gross realized gains and gross realized losses on the sale of securities available for sale were \$0.4 million and \$0.7 million, respectively, in 1997. Gross realized gains and gross realized losses on the sale of securities available for sale were \$1.6 million and \$0.4 million, respectively, in 1996.

At December 31, 1998 and 1997, securities with amortized costs totalling \$319.5 million and \$382.5 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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

(in thousands)	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
-----				
DECEMBER 31, 1998				
-----				
State & Municipal	\$22,649	\$-	\$-	\$22,649
Other securities	1,517	-	-	1,517
Federal Home Loan Bank Stock	10,929	-	-	10,929
-----				
Total	\$35,095	\$-	\$-	\$35,095
-----				
December 31, 1997				
-----				
State & Municipal	\$23,692	\$-	\$-	\$23,692
Other securities	1,518	-	-	1,518
Federal Home Loan Bank Stock	10,929	-	-	10,929
-----				
Total	\$36,139	\$-	\$-	\$36,139
-----				

As a member of the Federal Home Loan Bank (FHLB), the Company holds the required investment in FHLB stock.

At December 31, 1998 and 1997 substantially all of the mortgage-backed securities held by the Company were issued or backed by Federal agencies.

REMAINING MATURITIES OF SECURITIES AT DECEMBER 31, 1998

(dollars in thousands)	Within One Year Amount	Yield	After One Year But Within Five Years Amount	Yield	After Five Years But Within Ten Years Amount	Yield	After Ten Years Amount	Yield	Total Portfolio Amount	Yield
<b>SECURITIES AVAILABLE FOR SALE:</b>										
U.S. Treasury	\$ -	-%	\$ -	-%	\$ -	-%	\$ 10,406	5.23%	\$ 10,406	5.23%
Federal Agency	-	-	-	-	13,800	6.70	53,630	7.44	67,430	7.29
State & Municipal	150	4.85	464	6.18	659	6.06	-	-	1,273	5.96
Mortgage-backed	447	6.36	27,709	6.52	26,607	6.74	212,996	6.93	267,759	6.86
Other securities	-	-	-	-	-	-	3,281	6.37	3,281	6.37
Amortized cost	\$ 597	5.98%	\$28,173	6.51%	\$41,066	6.72%	\$280,313	6.96%	\$350,149	6.88%
Fair value	\$ 599		\$28,584		\$41,571		\$285,004		\$355,758	
<b>SECURITIES HELD TO MATURITY:</b>										
State & Municipal	\$18,201	6.13%	\$ 3,300	7.87%	\$ 1,078	8.01%	\$ 70	8.35%	\$ 22,649	6.50%
Other securities	-	-	7	-	12,439	6.88	-	-	12,446	6.87
Amortized cost	\$18,201	6.13%	\$ 3,307	7.85%	\$13,517	6.97%	\$ 70	8.35%	\$ 35,095	6.63%
Fair value	\$18,201		\$ 3,307		\$13,517		\$ 70		\$ 35,095	

In the tables setting forth the maturity distribution and weighted average taxable equivalent yield of securities at December 31, 1998, yields on amortized cost have been calculated based on effective yields weighted for the scheduled maturity of each security using the marginal federal tax rate of 35%.

**LOANS HELD FOR SALE AND LOAN SERVICING**

The Company carries loans held for sale at the lower of aggregate cost or estimated fair value. It is the Company's practice to sell its higher education loans to the Student Loan Marketing Association at the Company's cost after the student leaves school. During 1998, \$2.8 million of such loans were sold. At December 31, 1998, the aggregate cost and estimated fair value of loans held for sale were \$2.9 million, while at December 31, 1997 aggregate cost and estimated market value were \$3.3 million.

During 1998, \$0.9 million in mortgage loans were sold with servicing retained. At December 31, 1998, the Company serviced \$26.4 million of real estate mortgages on behalf of other financial intermediaries; such loans are not reflected in the Company's balance sheet.

ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the three years ended December 31, 1998, are summarized as follows:

(in thousands)	1998	1997	1996
Balance at January 1,	\$11,582	\$10,473	\$ 9,120
Provision	4,599	3,505	3,175
Recoveries	933	892	956
	17,114	14,870	13,251
Loans charged off	4,152	3,288	2,778
Balance at December 31,	\$12,962	\$11,582	\$10,473

NONPERFORMING ASSETS

The Company's concentrations of credit risk are reflected in the balance sheet. The concentrations of credit risk with standby letters of credit, committed lines of credit and commitments to originate new loans generally follow the loan classifications. A substantial portion of the Company's loans is secured by real estate located in central and northern New York. Accordingly, the ultimate collectibility of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

The effect of nonaccrual loans on interest income for the years ended December 31, 1998, 1997, and 1996 was not material. The Company is not committed to advance additional funds to these borrowers. Nonaccrual loans were \$3.6 million and \$5.3 million at December 31, 1998 and 1997, respectively.

At December 31, 1998, the recorded investment in impaired loans was \$2.4 million. Included in this amount is \$1.1 million of impaired loans for which the specifically allocated allowance for loan loss is \$0.2 million. In addition, included in impaired loans is \$1.3 million of impaired loans that, as a result of the adequacy of collateral values and cash flow analysis do not have a specific reserve. At December 31, 1997, the recorded investment in impaired loans was \$4.3 million, of which \$1.9 million had a specific allowance allocation of \$0.6 million and \$2.4 million for which there was no specific reserve. The average recorded investment in impaired loans was \$4.0 million, \$3.1 million and \$4.0 million in 1998, 1997 and 1996, respectively. During the years ended December 31, 1998, 1997 and 1996 the Company recognized \$0.1 million, \$0.1 million and \$0.5 million, respectively, of interest income on impaired loans, all of which was recognized using the cash basis of income recognition.

#### RELATED PARTY TRANSACTIONS

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

	1998	1997
(in thousands)		
Balance at January 1,	\$ 3,563	\$ 4,238
New loans	3,463	3,226
Repayments	(2,584)	(3,901)
Balance at December 31,	\$ 4,442	\$ 3,563

#### PREMISES AND EQUIPMENT

A summary of premises and equipment follows:

December 31,	1998	1997
(in thousands)		
Company premises	\$21,836	\$20,047
Equipment	20,630	17,277
Construction in progress	306	2,601
Accumulated depreciation	42,772	39,925
	22,531	21,164
Total premises and equipment	\$20,241	\$18,761

Depreciation of premises and equipment totaled \$2.0 million in 1998, and \$1.5 million in 1997 and 1996.

Rental expense included in occupancy expense amounted to \$0.4 million annually in 1998, and \$0.3 million in 1997 and 1996. The future minimum rental commitments as of December 31, 1998, for noncancellable operating leases were as follows: 1999--\$0.3 million; 2000--\$0.3 million; 2001--\$0.3 million; 2002--\$0.2 million; and 2003--and beyond--\$0.2 million.

#### INTANGIBLE ASSETS

The Company, in a cash transaction, acquired deposits totalling \$42.6 million and selected loans totalling \$1.1 million, of three branches from Community Bank Systems Inc. effective December 16, 1995. Also included were related accrued interest payable and receivable and premises and equipment, the amounts of which were not material. All assets and liabilities acquired were recorded at appraised fair values at that date, creating additional core deposit intangible assets and goodwill. Branch acquisition costs for 1997 is an adjustment or reclassification of amounts recorded for the December 1995 transaction. At December 31, 1998 and 1997, the accumulated amortization of intangible assets was \$18.2 and \$17.1 million, respectively.

The table below presents significant balances, amortization and the respective periods of amortization:

December 31,	1998	1997
(in thousands)		
Goodwill (25 yrs.):		
Beginning balance	\$5,718	\$6,022
Branch acquisition	-	35
Amortization	(339)	(339)
Ending balance	5,379	5,718
Core deposit intangible assets (3-12 yrs.):		
Beginning balance	2,924	3,931
Branch acquisition	-	5
Amortization	(731)	(1,012)
Ending balance	2,193	2,924
Total intangible assets, net	\$7,572	\$8,642

#### DEPOSITS

Time deposits of \$100,000 or more aggregated \$282.0 million, \$269.9 million and \$191.3 million at year-end 1998, 1997 and 1996, respectively.

The following table sets forth the maturity distribution of time certificates of deposit:

December 31,	1998	1997
(in thousands)		
Within one year	\$409,142	\$433,472
After one but within two years	56,101	50,215
After two but within three years	18,129	18,225
After three but within four years	8,879	9,219
After four but within five years	6,057	5,617
After five years	137	84
Total	\$498,445	\$516,832

#### SHORT-TERM BORROWINGS

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 Federal Home Loan Bank (FHLB) advances, with original maturities of one year or less. The Company has unused lines of credit available for short-term financing of \$266 million at December 31, 1998. Securities collateralizing repurchase agreements are held in safekeeping by a non-affiliated financial institutions and are under the Company's control.

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

	1998	1997	1996
(in thousands)			
FEDERAL FUNDS PURCHASED			
Balance at year-end	\$28,000	\$25,000	\$48,000
Average during the year	35,674	29,501	30,929
Maximum month end balance	60,000	49,000	56,000
Weighted average rate during the year	5.58%	5.70%	5.53%
Weighted average rate at December 31	4.75%	6.13%	7.38%
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS			
Balance at year-end	\$38,388	\$59,721	\$40,244
Average during the year	33,659	51,427	23,893
Maximum month end balance	42,085	95,403	40,244
Weighted average rate during the year	4.01%	5.04%	4.32%
Weighted average rate at December 31	3.61%	5.03%	4.43%
OTHER SHORT-TERM BORROWINGS			
Balance at year-end	\$30,201	\$49,806	\$ -
Average during the year	44,908	38,331	18,370
Maximum month end balance	50,165	49,806	50,000
Weighted average rate during the year	5.96%	6.02%	5.45%
Weighted average rate at December 31	5.62%	5.82%	-%

#### OTHER BORROWINGS

Other borrowings consists of obligations having an original maturity at issuance of more than one year. A summary of other borrowings follows:

(dollars in thousands)	Maturity Date	Interest Rate	Year-end outstanding	
			1998	1997
FHLB advance	2005	5.23	10,000	-
FHLB advance	2008	5.33	128	137
FHLB advance	2008	7.20	43	46
Total			\$10,171	\$183

FHLB advances are collateralized by the FHLB stock owned by the Company, certain of its real estate mortgage loans and mortgage-backed securities.

INCOME TAXES

Deferred income taxes are recognized for temporary differences between the financial statement carrying amount and tax basis of assets and liabilities.

Total income taxes were allocated as follows:

Year ended December 31,	1998	1997	1996
(in thousands)			
Income before income taxes	\$ 4,553	\$ 8,301	\$ 7,108
Stockholders' equity, capital surplus, for stock options exercised	(117)	(329)	(36)
Stockholders' equity, for unrealized gain (loss) on securities	654	2,695	(3,005)
Total	\$ 5,090	\$10,667	\$ 4,067

The significant components of income taxes attributable to operations are:

Year ended December 31,	1998	1997	1996
(in thousands)			
Current:			
Federal	\$4,435	\$7,297	\$6,331
State	1,345	1,439	1,437
	5,780	8,736	7,768
Deferred:			
Federal	(998)	(330)	(472)
State	(229)	(105)	(188)
	(1,227)	(435)	(660)
Total	\$4,553	\$8,301	\$7,108

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

December 31,	1998	1997
(in thousands)		
Deferred tax assets:		
Allowance for loan losses	\$5,132	\$4,586
Deferred compensation	324	306
Postretirement benefit obligation	993	751
Other	492	455
Total gross deferred tax assets	6,941	6,098
Deferred tax liabilities:		
Prepaid pension obligation	396	532
Premises and equipment, primarily due to accelerated depreciation	644	588
Undistributed earnings of Bank subsidiary	-	136
Unrealized gain on securities available for sale	2,292	1,638
Securities discount accretion	328	472
Other	25	49
Total gross deferred tax liabilities	3,685	3,415
Net deferred tax assets	\$3,256	\$2,683

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

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

Year ended December 31,	1998	1997	1996
(in thousands)			
Federal income tax at statutory rate	\$8,279	\$8,068	\$6,751
Benefit of federal tax rates below statutory rate	(100)	-	(10)
Tax exempt income	(570)	(613)	(627)
Non-deductible expenses	243	220	241
State taxes, net of federal tax benefit	725	867	812
Federal income tax benefit from corporate realignment	(4,186)	-	-
Other, net	162	(241)	(59)
Income taxes	\$4,553	\$8,301	\$7,108

#### NONINTEREST EXPENSE

Included in the data processing and communications expense category are data processing fees of \$2.6 million, \$1.9 million, and \$1.5 million in years 1998, 1997, and 1996, respectively. The future minimum annual commitments for data processing services as of December 31, 1998 were as follows: 1999--\$3.2 million; 2000--\$2.9 million; 2001--\$2.9 million; 2002--\$2.4 million; and 2003--and beyond--\$1.1 million.

#### COMMITMENTS AND CONTINGENT LIABILITIES

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit standards in making commitments and conditional obligations as it does for on balance sheet instruments. At December 31, 1998, off balance sheet commitments to extend credit for primarily variable rate loans amounted to \$165.3 million secured by \$95.0 million in collateral value. The amount of standby letters of credit at December 31, 1998, amounted to \$1.4 million secured by \$0.1 million in cash. At December 31, 1997, off balance sheet commitments to extend credit for primarily variable rate loans amounted to \$127.4 million secured by \$70.1 million in collateral value. The amount of standby letters of credit at December 31, 1997, amounted to \$1.8 million secured by \$0.1 million in cash.

At December 31, 1998 and 1997, the Company held no off balance sheet derivative financial instruments such as interest rate swaps, forward contracts, futures, options on financial futures, or interest rate floors, and was not subject to the market risk associated with such derivative financial instruments. The Company holds one interest rate cap with an amortized cost of \$49 thousand at December 31, 1998 and \$194 thousand at December 31, 1997. The cap expires in May of 1999.

In the normal course of business there are various outstanding legal proceedings. In the opinion of management, the aggregate amount involved in such proceedings is not material to the financial condition or results of operations of the Company.

#### STOCKHOLDERS' EQUITY

The Company has a Dividend Reinvestment Plan for stockholders under which no new shares of common stock were issued in 1998 and 1997. There were 736,065 shares of common stock reserved for future issuance under the plan at December 31, 1998 (the number of shares available has been adjusted for stock dividends and splits).

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends. The approval of the Comptroller of the Currency is required to pay dividends in excess of the Bank's earnings retained in the current year plus retained net profits for the preceding two years or when the Bank fails to meet certain minimum regulatory capital standards. At December 31, 1998, the Bank has the ability to pay \$18.8 million in dividends to the Company without obtaining prior regulatory approval. Under the State of Delaware Business Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

The Company currently is authorized to issue 2.5 million shares of preferred stock, no par value, \$1.00 stated value. The Board of Directors is authorized to fix the particular designations, preferences, rights, qualifications, and restrictions for each series of preferred stock issued. In November 1994, the Company adopted a Stockholder Rights Plan (Plan) designed to ensure that any potential acquirer of the Company negotiate with the Board of Directors and that all Company stockholders are treated equitably in the event of a takeover attempt. At that time, the Company paid a dividend of one Preferred Share Purchase Right (Right) for each outstanding share of common stock of the Company. Similar Rights are attached to each share of the Company's common stock issued after November 15, 1994, subject to adjustment. Under the Plan, the Rights will not be exercisable until a person or group acquires beneficial ownership of 20 percent or more of the Company's outstanding common stock, begins a tender or exchange offer for 25 percent or more of the Company's outstanding common stock, or an adverse person, as declared by the Board of Directors, acquires 10 percent or more of the Company's outstanding common stock. Additionally, until the occurrence of such an event, the Rights are not severable from the Company's common stock and, therefore, the Rights will be transferred upon the transfer of shares of the Company's common stock. Upon the occurrence of such events, each Right entitles the holder to purchase one one-hundredth of a share of Series R Preferred Stock, no par value, and \$1.00 stated value per share of the Company at a price of \$100.

The Plan also provides that upon the occurrence of certain specified events, the holders of Rights will be entitled to acquire additional equity interests, in the Company or in the acquiring entity, such interests having a market value of two times the Right's exercise price of \$100. The Rights, which expire November 14, 2004, are redeemable in whole, but not in part, at the Company's option prior to the time they are exercisable, for a price of \$0.01 per Right.

**REGULATORY CAPITAL REQUIREMENTS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 1998 the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 1998 the most recent notification from The Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company and the Bank's actual capital amounts and ratios are presented in the following table.

(in thousands)	ACTUAL		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	AMOUNT	RATIO	Amount	Ratio	Amount	Ratio
As of December 31, 1998:						
Total Capital (to Risk Weighted Assets):						
Company Consolidated	\$129,967	15.94%	\$ 65,214	8.00%	\$ 81,517	10.00%
Bank	\$124,646	15.36%	\$ 64,912	8.00%	\$ 81,140	10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Company Consolidated	\$119,743	14.69%	\$ 32,607	4.00%	\$ 48,910	6.00%
Bank	\$114,469	14.11%	\$ 32,456	4.00%	\$ 48,684	6.00%
Tier 1 Capital (to Average Assets):						
Company Consolidated	\$119,743	9.33%	\$ 38,513	3.00%	\$ 64,188	5.00%
Bank	\$114,469	8.96%	\$ 38,341	3.00%	\$ 63,901	5.00%
As of December 31, 1997:						
Total Capital (to Risk Weighted Assets):						
Company Consolidated	\$121,792	16.13%	\$ 60,403	8.00%	\$ 75,504	10.00%
Bank	\$115,279	15.31%	\$ 60,241	8.00%	\$ 75,301	10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Company Consolidated	\$112,328	14.88%	\$ 30,201	4.00%	\$ 45,302	6.00%
Bank	\$105,840	14.06%	\$ 30,120	4.00%	\$ 45,180	6.00%
Tier 1 Capital (to Average Assets):						
Company Consolidated	\$112,328	8.91%	\$ 37,828	3.00%	\$ 63,047	5.00%
Bank	\$105,840	8.43%	\$ 37,646	3.00%	\$ 62,743	5.00%

**EMPLOYEE BENEFIT PLANS**

**POSTRETIREMENT BENEFITS OTHER THAN PENSIONS** Nonpension benefits are accrued over the employees' active service period, defined as the date of employment up to the date of the employees' eligibility for such benefits. The Company provides certain health care benefits for retired employees. The health care plans are

contributory for participating retirees and also requires them to absorb deductibles and coinsurance with contributions adjusted annually to reflect cost sharing provisions and benefit limitations. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Company or its subsidiaries. The benefits are provided by the participants choice of health maintenance organizations with community rated premiums or self-insured plans administered by insurance companies, whose premiums are based on the claims paid during the year. The Company funds the cost of post retirement health care as benefits are paid. The Company elected to recognize the transition obligation in the balance sheets and statements of income on a delayed basis over the plan participant's future service periods, estimated to be twenty years.

The Company used a health care trend rate in calculating its postretirement benefit obligation of 7.5% to 8.5% for 1999, grading down uniformly to 5.5% for 2005 and thereafter.

The net postretirement health benefits expense and funded status are as follows:

Year ended December 31,	1998	1997	1996
(in thousands)			
Components of net periodic benefit cost:			
Service cost	\$ 205	\$ 182	\$124
Interest cost	261	255	183
Amortization of transition obligation	85	85	85
Amortization of gains and losses	25	28	-
Net periodic postretirement benefit cost	\$ 576	\$ 550	\$392
Change in benefit obligation:			
Benefit obligation at beginning of the year	\$ 4,158	\$ 2,708	
Service cost	205	182	
Interest cost	261	255	
Plan participant's contributions	95	83	
Actuarial (gain) loss	(172)	1,108	
Benefits paid	(197)	(178)	
Benefit obligation at end of year	\$ 4,350	\$ 4,158	
Components of accrued benefit cost:			
Funded status	\$(4,350)	\$(4,158)	
Unrecognized transition obligation	1,188	1,273	
Unrecognized actuarial net loss	1,108	1,306	
Accrued benefit cost	\$(2,054)	\$(1,579)	
Weighted average discount rate	6.75%	7.00%	

Assumed health care cost trend rates have a significant effect on amounts reported for the health care plans. A one-percentage point change in the health care trend rates would have the following effects:

1-PERCENTAGE POINT INCREASE	1-PERCENTAGE POINT DECREASE
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(in thousands)

Effect on total of service and interest cost components	\$ 127	\$ (97)
Effect on postretirement benefit obligation	951	(766)

RETIREMENT SAVINGS AND EMPLOYEE STOCK OWNERSHIP PLAN Effective January 1, 1997, the Company terminated the existing Retirement Savings Plan and Employee Stock Ownership Plan (ESOP) and merged the assets and liabilities into the 401(k) and Employee Stock Ownership Plan. The Company contributes an amount equal to 100% of employees 401(k) contributions up to 5% of their annual salary for 1998 and 1997, and up to 3% for 1996. In addition, the Company may also make discretionary ESOP contributions based on the Company's profitability. Participation in the Plan is contingent upon certain age and service requirements. Provisions for contributions to the combined Plan amounted to \$1.0 million in 1998 and \$0.7 million in 1997. During 1996, a combined \$0.9 million was contributed to the Retirement Savings and ESOP plans.

PENSION PLAN The Company has a qualified, noncontributory pension plan covering substantially all employees. Benefits paid from the plan are based on age, years of service, compensation prior to retirement, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards.

The net pension expense and the funded status of the plan are as follows:

Year ended December 31,	1998	1997	1996
(in thousands)			
Components of net periodic benefit cost:			
Service cost	\$ 701	\$ 508	\$ 454
Interest cost	1,354	1,181	1,119
Expected return on plan assets	(1,705)	(1,406)	(1,305)
Amortization of initial unrecognized asset	(109)	(109)	(109)
Amortization of prior service cost	257	257	218
Amortization of unrecognized net gain	-	(36)	(20)
Net periodic pension cost	\$ 498	\$ 395	\$ 357
Change in benefit obligation:			
Benefit obligation at beginning of year	\$(19,490)	\$(15,910)	\$(12,284)
Service cost	(701)	(508)	(454)
Interest cost	(1,354)	(1,181)	(1,119)
Prior service cost	-	-	(3,515)
Actuarial gain	(1,119)	(3,098)	(152)
Benefits paid	1,230	1,207	1,614
Benefit obligation at end of year	\$(21,434)	\$(19,490)	\$(15,910)
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 19,431	\$ 15,589	\$ 14,879
Actual return on plan assets	3,672	3,266	2,072
Employer contributions	58	1,784	252
Benefits paid	(1,230)	(1,207)	(1,614)
Fair value of plan assets at end of year	\$ 21,931	\$ 19,432	\$ 15,589
Plan assets in excess of projected benefit obligation			
Unrecognized portion of net asset at transition	\$ 497	\$ (58)	\$ (321)
Unrecognized net actuarial loss	(1,194)	(1,304)	(1,413)
Unrecognized net actuarial loss	(2,247)	(1,399)	(2,673)
Unrecognized prior service cost	3,934	4,191	4,448
Prepaid benefit cost	\$ 990	\$ 1,430	\$ 41
Weighted average assumptions as of December 31,			
Discount rate	6.75%	7.00%	7.50%
Expected long-term return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%	4.00%

STOCK OPTION PLANS The Company has two stock option plans (Plans). At December 31, 1998, there were 1,658,334 shares of the Company's common stock reserved for issuance under the Plans. Under the terms of the Plans, options were granted to key employees to purchase shares of the Company's common stock at a price equal to the fair market value of the common stock on the date of the grant. Options granted terminate eight or ten years from the date of the grant.

At December 31, 1998, there were 1,020,464 additional shares available for grant under the Plans. The per share weighted-average fair value of stock options granted during 1998, 1997 and 1996 was \$6.77, \$5.14 and \$3.14, respectively on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: 1998 - expected dividend yield of 2.75%, expected volatility of 21.86%, risk-free interest rates of 5.49% and 5.62%, and expected life 7 years; 1997 - expected dividend yield of 2.60%, expected volatility of 22.56%, risk-free interest rates of 6.52% and 6.58%, and an expected life of 7 years; 1996 expected dividend yield of 3.16%, expected volatility of 15.35%, risk-free interest rates of 5.52% and 6.41%, and an expected life of 7 years.

The Company applies APB Opinion No. 25 in accounting for its Plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on

the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1998	1997	1996
Net income	As reported	\$19,102	\$14,749	\$12,179
	Pro forma	18,613	14,404	11,977
Basic earnings per share	As reported	\$ 1.52	\$ 1.18	\$ 0.98
	Pro forma	1.48	1.15	0.96
Diluted earnings per share	As reported	\$ 1.49	\$ 1.16	\$ 0.97
	Pro forma	1.45	1.13	0.96

Pro forma net income reflects only options granted in 1998, 1997 and 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of 4 years and compensation cost for options granted prior to January 1, 1996 is not considered.

Because the Company's employee stock options have characteristics significantly different from those of traded options for which the Black-Scholes model was developed, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models, in management's opinion, do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following is a summary of changes in options outstanding:

	Number of Options	Weighted Average of Exercise Price of Options Under Plan
Balance, December 31, 1995	522,204	\$ 9.44
Granted	167,470	10.68
Exercised	(25,334)	8.39
Lapsed	(16,049)	10.47
Balance, December 31, 1996	648,291	\$ 9.78
Granted	166,698	12.25
Exercised	(293,165)	9.65
Lapsed	(29,294)	10.86
Balance, December 31, 1997	492,530	\$10.62
Granted	171,080	19.08
Exercised	(22,563)	8.47
Lapsed	(3,177)	11.94
BALANCE, DECEMBER 31, 1998	637,870	\$12.96

The following table summarizes information concerning currently outstanding and exercisable options:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$6.01 - \$11.00	311,470	5.90	\$ 9.97	236,464	\$ 9.79
\$11.01 - \$16.00	155,320	8.08	12.22	62,128	12.22
\$16.01 - \$21.00	171,080	9.08	19.08	-	-
\$6.01 - \$21.00	637,870	7.28	\$12.96	298,592	\$10.29

PARENT COMPANY FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

DECEMBER 31,	1998	1997
(in thousands)		
ASSETS		
Cash	\$ 1,875	\$ 2,750
Due from subsidiary bank	24	2
Securities available for sale	3,572	3,788
Loans	18	19
Investment in subsidiary bank	125,187	116,811
Other assets	51	117
<b>TOTAL ASSETS</b>	<b>\$130,727</b>	<b>\$123,487</b>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	\$ 95	\$ 144
Total liabilities	95	144
Stockholders' equity	130,632	123,343
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$130,727</b>	<b>\$123,487</b>

CONDENSED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31,	1998	1997	1996
(in thousands)			
Dividends from subsidiary bank	\$11,500	\$ 6,000	\$ 9,700
Interest and dividend income	345	322	180
Gain on sale of securities available for sale	16	-	3
	11,861	6,322	9,883
Interest expense	-	-	234
Operating expense	257	299	402
Income before income taxes and equity in undistributed income of subsidiary bank	11,604	6,023	9,247
Income tax expense (benefit)	61	26	(170)
Equity in undistributed income of subsidiary bank	7,559	8,752	2,762
<b>NET INCOME</b>	<b>\$19,102</b>	<b>\$14,749</b>	<b>\$12,179</b>

CONDENSED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,	1998	1997	1996
(in thousands)			
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 19,102	\$ 14,749	\$ 12,179
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums and accretion of discounts on securities	(4)	(4)	(15)
Realized gains on sale of securities available for sale	(15)	-	(3)
(Increase) decrease in other assets	66	(83)	62
Increase (decrease) in other liabilities	(49)	(3)	15
Undistributed net income of subsidiary bank	(7,559)	(8,752)	(2,762)
Other, net	(88)	(18)	8
Net cash provided by operating activities	11,453	5,889	9,484
<b>INVESTING ACTIVITIES:</b>			
Securities available for sale:			
Proceeds from sales of securities	3,416	-	4,979
Purchases	(2,965)	(3,384)	(977)
Net cash provided by (used in) investing activities	451	(3,384)	4,002
<b>FINANCING ACTIVITIES:</b>			
Repayment of long-term debt	-	-	(2,857)
Treasury shares reissued	4,059	6,559	2,030
Purchase of treasury stock	(9,094)	(2,568)	(7,241)
Cash dividends and payment for fractional shares	(7,722)	(5,563)	(4,397)
Net cash used in financing activities	(12,757)	(1,572)	(12,465)
Net increase (decrease) in cash and cash equivalents	(853)	933	1,021
Cash and cash equivalents at beginning of year	2,752	1,819	798
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,899</b>	<b>\$ 2,752</b>	<b>\$ 1,819</b>

**FAIR VALUES OF FINANCIAL INSTRUMENTS** A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes the obligation to deliver, receive, or exchange cash or other financial instruments between willing entities on potentially favorable or unfavorable terms. There are no off balance sheet derivative financial instruments at December 31, 1998 and 1997. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

**CASH AND CASH EQUIVALENTS** For these short-term instruments, carrying value approximates fair value.

**SECURITIES** Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

**LOANS** For variable rate loans that reprice frequently and have no significant credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated through discounted cash flow analyses using interest rates currently being offered for loans with similar terms and credit quality. The fair value of loans held for sale on an aggregate basis, are based on quoted market prices. Nonperforming loans are valued based upon recent loss history for similar loans.

**ACCRUED INTEREST RECEIVABLE AND PAYABLE** For these short-term instruments, carrying value approximates fair value.

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

**SHORT-TERM BORROWINGS** For short-term borrowings, carrying value approximates fair value.

OTHER BORROWINGS The fair value of other borrowings has been estimated using discounted cash flow analyses that apply interest rates currently being offered for notes with similar terms.

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT The fair value of commitments to extend credit and standby letters of credit are estimated using fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparts. Carrying amounts which are comprised of the unamortized fee income are immaterial.

ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS

December 31,	1998		1997	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>FINANCIAL ASSETS</b>				
Cash	\$ 47,181	\$ 47,181	\$ 37,446	\$ 37,446
Loans held for sale	2,887	2,887	3,286	3,286
Securities available for sale	355,758	355,758	440,632	440,632
Securities held to maturity	35,095	35,095	36,139	36,139
Loans:				
Commercial and agricultural	388,509	400,716	326,491	326,472
Real estate mortgage	160,025	181,659	135,475	141,229
Consumer	272,971	277,458	273,516	273,719
Total loans	821,505	859,833	735,482	741,420
Less allowance for loan losses	12,962	-	11,582	-
Net loans	808,543	859,833	723,900	741,420
Accrued interest receivable	6,431	6,431	7,470	7,470
<b>FINANCIAL LIABILITIES</b>				
Deposits:				
Interest bearing:				
Savings, NOW and money market	391,614	391,614	358,366	358,366
Certificates of deposit	498,445	500,013	516,832	517,252
Noninterest bearing	154,146	154,146	138,985	138,985
Total deposits	1,044,205	1,045,773	1,014,183	1,014,603
Short-term borrowings	96,589	96,589	134,527	134,527
Other borrowings	10,171	10,848	183	183
Accrued interest payable	\$ 2,731	\$ 2,731	\$ 3,240	\$ 3,240

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

DESCRIPTION OF EXHIBITS

Certificate of Incorporation of NBT BANCORP INC., as amended through April 18, 1998.  
By-laws of NBT BANCORP INC., as amended and restated through November 15, 1994.  
NBT BANCORP INC. 401(k) and Employee Stock Ownership Plan made as of January 1, 1997.  
NBT BANCORP INC. Defined Benefit Pension Plan Amended and restated as of October 1, 1989, including Amendments adopted through August 31, 1998.  
NBT BANCORP INC. 1993 Stock Option Plan as amendment through April 28, 1998.  
NBT BANCORP INC. 1999 Executive Incentive Compensation Plan.  
Change in control agreement with Daryl R. Forsythe.  
Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made as of January 1, 1995.  
Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995.  
Wage Continuation Plan between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made as of August 1, 1995.  
NBT Bancorp Inc. and Subsidiaries Master Deferred Compensation Plan of Directors, adopted February 11, 1992.  
Wage Continuation Plan between NBT Bancorp Inc., NBT Bank, National Association and (Key Management Group) made as of January 2, 1997.  
Restricted Stock Agreement between NBT Bancorp Inc. and (Director) made January 1, 1997.  
Restricted Stock Agreement between NBT Bank, National Association and (Director) made January 1, 1997.  
Restricted Stock Agreement between NBT Bank, National Association and Daryl R. Forsythe made January 1, 1997.  
Restricted Stock Agreement between NBT Bancorp Inc. and (Director) made January 1, 1998.  
Restricted Stock Agreement between NBT Bank, National Association and (Director) made January 1, 1998.  
Restricted Stock Agreement between NBT Bancorp Inc. and (Director) made January 1, 1999.  
Restricted Stock Agreement between NBT Bank, National Association and (Director) made January 1, 1999.  
Supplemental Retirement Income Plan between NBT Bank, National Association and Certain Management and Highly Compensated Employees made as of January 1, 1996.  
A list of the subsidiaries of the registrant.  
Consent of KPMG LLP.  
Financial Data Schedule.

COPIES OF EXHIBITS ARE AVAILABLE UPON PAYMENT OF REPRODUCTION COSTS. SUBMIT YOUR WRITTEN REQUEST TO JOE C. MINOR, EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER AND TREASURER OF NBT BANCORP INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on FORM 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, this ninth day of March, 1999.

NBT BANCORP INC.

-----  
(Registrant)

By:

/s/ DARYL R. FORSYTHE

-----  
Daryl R. Forsythe, President  
and Chief Executive Officer

/s/ JOE C. MINOR

-----  
Joe C. Minor  
Executive Vice President  
Chief Financial Officer and Treasurer

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

/s/ DARYL R. FORSYTHE ----- Daryl R. Forsythe, Director	March 9, 1999 ----- DATE
/s/ EVERETT A. GILMOUR ----- Everett A. Gilmour, Director	March 9, 1999 ----- DATE
/s/ PETER B. GREGORY ----- Peter B. Gregory, Director	March 9, 1999 ----- DATE
/s/ ANDREW S. KOWALCZYK, JR. ----- Andrew S. Kowalczyk, Jr., Director	March 9, 1999 ----- DATE
/s/ JOHN C. MITCHELL ----- John C. Mitchell, Director	March 9, 1999 ----- DATE
/s/ PAUL O. STILLMAN ----- Paul O. Stillman, Director	March 9, 1999 ----- DATE

EXHIBIT INDEX

The following documents are attached as Exhibits to this FORM 10-K or, if annotated by the symbol \*, are incorporated by reference as Exhibits as indicated by the page number or exhibit cross-reference to the prior filings of the Registrant with the Commission.

FORM 10-K Exhibit Number		Exhibit Cross Reference
3.1	Certificate of Incorporation of NBT BANCORP INC., as amended through April 18, 1998. FORM 10-Q for the quarterly period ended March 31, 1998, filed May 15, 1998 -- Exhibit 10.3.	*
3.2	By-laws of NBT BANCORP INC., as amended and restated through November 15, 1994. FORM 10-K for the year ended December 31, 1994, filed March 31, 1995 -- Exhibit 3.3.	*
10.1	NBT BANCORP INC. 401(k) and Employee Stock Ownership Plan made as of January 1, 1997. FORM 10-K for the year ended December 31, 1997, filed March 16, 1998 -- Exhibit 10.1	*
10.2	NBT BANCORP INC. Defined Benefit Pension Plan Amended and restated as of October 1, 1989, including Amendments adopted through August 31, 1998. Document is attached as Exhibit 10.2.	Herein
10.3	NBT BANCORP INC. 1993 Stock Option Plan as amended through April 18, 1998. FORM 10-Q for the quarterly period ended March 31, 1998, filed May 15, 1998 -- Exhibit 10.4.	*
10.4	NBT BANCORP INC. 1999 Executive Incentive Compensation Plan. Document is attached as Exhibit 10.4.	Herein
10.5	Change in control agreement with Daryl R. Forsythe. FORM 10-K for the year ended December 31, 1994, filed March 31, 1995 -- Exhibit 10.21.	*
10.6	Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made as of January 1, 1995. FORM 10-Q for the quarterly period ended September 30, 1995, filed November 13, 1995 -- Exhibit 10.1.	*
10.7	Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995. FORM 10-Q for the quarterly period ended September 30, 1995, filed November 13, 1995 -- Exhibit 10.2.	*
10.8	Wage Continuation Plan between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made as of August 1, 1995. FORM 10-Q for the quarterly period ended September 30, 1995, filed November 13, 1995 -- Exhibit 10.4.	*
10.9	NBT Bancorp Inc. and Subsidiaries Master Deferred Compensation Plan of Directors, adopted February 11, 1992. FORM 10-Q for the quarterly period ended September 30, 1995, filed November 13, 1995 -- Exhibit 10.3.	*

EXHIBIT INDEX (continued)

FORM 10-K Exhibit Number		Exhibit Cross Reference
10.10	<p>Wage Continuation Plan between NBT Bancorp Inc., NBT Bank, National Association and (Key Management Group) made as of January 2, 1997.                      FORM 10-K for the year ended December 31, 1996, filed March 14, 1997 -- Exhibit 10.40.                      Substantially identical contracts for the following have been omitted: John R. Bradley, Senior Vice President, Commercial Banking Division Head; Martin A. Dietrich, Senior Vice President, Retail Division Head; Joe C. Minor, Senior Vice President, Chief Financial Officer and Treasurer; and John D. Roberts, Senior Vice President, Trust Division Head.</p>	*
10.11	<p>Restricted Stock Agreement between NBT Bancorp Inc. and (Director) made January 1, 1997.                      FORM 10-K for the year ended December 31, 1996, filed March 14, 1997 -- Exhibit 10.45.                      Substantially identical contracts for the following directors have been omitted: Andrew S. Kowalczyk, Jr.; Paul O. Stillman; John C. Mitchell; Everett A. Gilmour and Peter B. Gregory.</p>	*
10.12	<p>Restricted Stock Agreement between NBT Bank, National Association and (Director) made January 1, 1997.                      FORM 10-K for the year ended December 31, 1996, filed March 14, 1997 -- Exhibit 10.50.                      Substantially identical contracts for the following directors have been omitted: Dan B. Marshman; Kenneth M. Axtell; J. Peter Chaplin; Andrew S. Kowalzyk, Jr.; Paul O. Stillman; William L. Owens; C. Vernon Stratton; John C. Mitchell; Janet H. Ingraham; Everett A. Gilmour; Richard F. Monroe and Peter B. Gregory.</p>	*
10.13	<p>Restricted Stock Agreement between NBT Bank, National Association and Daryl R. Forsythe made January 1, 1997.                      FORM 10-K for the year ended December 31, 1996, filed March 14, 1997 -- Exhibit 10.55.</p>	*
10.14	<p>Restricted Stock Agreement between NBT Bancorp Inc. and (Director) made January 1, 1998.                      FORM 10-Q for the quarterly period ended March 31, 1998, filed May 15, 1998 -- Exhibit 10.1.                      Substantially identical contracts for the following directors have been omitted: Andrew S. Kowalczyk, Jr.; Paul O. Stillman; John C. Mitchell; Everett A. Gilmour and Peter B. Gregory.</p>	*
10.15	<p>Restricted Stock Agreement between NBT Bank, National Association and (Director) made January 1, 1998.                      FORM 10-Q for the quarterly period ended March 31, 1998, filed May 15, 1998 -- Exhibit 10.2                      Substantially identical contracts for the following directors have been omitted: Dan B. Marshman; Kenneth M. Axtell; J. Peter Chaplin; Andrew S. Kowalzyk, Jr.; Paul O. Stillman; William L. Owens; John C. Mitchell; Janet H. Ingraham; Everett A. Gilmour; Richard F. Monroe and Peter B. Gregory.</p>	*
10.16	<p>Restricted Stock Agreement between NBT Bancorp Inc. and (Director) made January 1, 1999.                      Document is attached as exhibit 10.16                      Substantially identical contracts for the following directors have been omitted: Andrew S. Kowalczyk, Jr.; Paul O. Stillman; John C. Mitchell; Everett A. Gilmour and Peter B. Gregory.</p>	Herein

EXHIBIT INDEX (continued)

FORM 10-K Exhibit Number		Exhibit Cross Reference
10.17	<p>Restricted Stock Agreement between NBT Bank, National Association and (Director) made January 1, 1999. Document is attached as exhibit 10.17 Substantially identical contracts for the following directors have been omitted: Dan B. Marshman; Kenneth M. Axtell; J. Peter Chaplin; Andrew S. Kowalzyk, Jr.; Paul O. Stillman; William L. Owens; John C. Mitchell; Janet H. Ingraham; Everett A. Gilmour; Richard F. Monroe and Peter B. Gregory.</p>	Herein
10.18	<p>Supplemental Retirement Income Plan between NBT Bank, National Association and Certain Management and Highly Compensated Employees made as of January 1, 1996. FORM 10-Q for the quarterly period ended June 30, 1997, filed August 13, 1997 - Exhibit 10.3.</p>	*
21	A list of the subsidiaries of the registrant is attached as Exhibit 21.	Herein
23	Consent of KPMG LLP. Document is attached as Exhibit 23.	Herein
27	Financial Data Schedule. Document is attached as Exhibit 27.	Herein

EXHIBIT 10.2

NBT BANCORP INC. Defined Benefit Pension Plan  
Amended and restated as of October 1, 1989,  
including Amendments adopted through August 31, 1998.

NBT BANCORP, INC.  
DEFINED BENEFIT PENSION PLAN

Amended and restated as of October 1, 1989,  
including amendments adopted through August 31, 1998



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ARTICLE I

GENERAL PROVISIONS  
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1.01 Designation. This Plan, previously designated The National Bank and Trust Company of Norwich Employees' Defined Benefit Pension Plan and Trust, is designated the NBT BANCORP, INC. DEFINED BENEFIT PENSION PLAN. The Plan and Trust are intended to meet the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. The Plan is intended to qualify as a defined benefit plan.

1.02 Effective Date. This Plan originally became effective on October 1, 1986, following the Employer's termination of its participation in the Master Plan of the New York State Bankers Retirement System. The Employer hereby amends and restates the Plan effective October 1, 1989 ("Effective Date"), unless a different effective date is otherwise stated. This restatement governs the rights of all Employees who have an Hour of Service with the Employer on or after the Effective Date. The rights of any former Employee who does not have an Hour of Service on or after the Effective Date shall be governed by the provisions of the Predecessor Plan in effect when he terminated employment, unless otherwise provided in this Plan or required by law.

1.03 Purpose. The purpose of this Plan is to provide benefits for Participants and Beneficiaries (including any Alternate Payees). Contributions to the Plan, and any income, shall be for the exclusive benefit of Participants and Beneficiaries and shall not be used for, or diverted to, any other purpose.

ARTICLE II

DEFINITIONS

-----

The following terms shall have the following meanings in and for this Plan.

2.01 Accrued Benefit shall mean the amount that will be paid to the Participant, under the formula in Section 7.01, expressed as an annual benefit (straight life annuity) beginning at his Normal Retirement Date. The Participant's accrued benefit as of a determination date shall be the portion of the normal retirement benefit accrued under that formula, based on years of Credited Service through the determination date.

2.02 Actual Retirement Date shall mean the date on which a Participant retires from service with the Employer, within the meaning of "Retirement" in this Article of the Plan.

2.03 Actuarial Equivalent or Actuarially Equivalent shall mean a benefit payable in a different form and/or at a different time than a Participant's Accrued Benefit, but having the same value as that benefit when computed using the following actuarial assumptions:

Mortality:	1984 Unisex Mortality Table
Interest:	7 percent per annum

a. Notwithstanding the preceding sentence, for Annuity Starting Dates that occur before September 1, 1997, the present value of any distribution (other than a non-decreasing life annuity payable for a period not less than the life of the Participant or Surviving Spouse) shall be determined using the Code Section 417(e)(3) interest rates(s) described in subsection (b) below, if such rate(s) would produce a greater benefit than the assumptions above.

b. The Code Section 417 interest rates are:

- i. The Applicable Interest Rate if the present value of the benefit (using such rate(s)) is not in excess of \$25,000; or
- ii. 120 percent of the Applicable Interest Rate if the present value of the benefit exceeds \$25,000 (as determined under subsection (i) above). In no event shall the present value determined under this subsection (ii) be less than \$25,000.

c. Notwithstanding the foregoing of this Section 2.03, and subject to subsection 2.03(d) below, for Annuity Starting Dates that occur after August 31, 1997, the present value of a lump sum distribution shall be determined by applying the Applicable Interest Rate and the "Applicable Mortality Table."

For purposes of this subsection 2.03(c), the "Applicable Mortality Table" is the mortality table based on the prevailing commissioners' standard table (described in Code Section 807(d)(5)(A)) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined (without regard to any other subparagraph of Code Section 807(d)(5)), that is prescribed by the Internal Revenue Service in revenue rulings, notices or other guidance, published in the Internal Revenue Bulletin.

d. The lump sum distribution payable to a Participant whose Annuity Starting Date occurs after August 31, 1997 shall not be less than the present value of the benefit accrued by the Participant through August 31, 1997, when calculated by using the interest rate and mortality assumptions in the first sentence of this Section 2.03, based on the Participant's age on the Annuity Starting Date.

2.04 Adjustment Factor shall mean the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code.

2.05 Affiliated Employer shall mean (a) a member of a "controlled group of corporations" or group of trades or businesses under common control (as defined in Code Section 414(b) and (c)) of which the Employer is a member, (b) a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Employer, or (c) any other entity that must be aggregated with the Employer pursuant to Code Section 414(o). The term "controlled group of corporations" has the meaning given in Code Section 1563(a), but determined without regard to Code Sections 1563(a)(4) and (e)(3)(C). Further, for purposes of applying the Code Section 415 limitations on benefits, Code Section 1563(a)(1) shall be applied by substituting the phrase "more than 50 percent" for the phrase "at least 80 percent," each place that phrase appears. If an Affiliated Employer is also an Employer maintaining the Plan, the provisions of the Plan shall apply to that entity as an Employer, rather than only as an Affiliated Employer.

2.06 Alternate Payee shall mean any spouse, former spouse, child or other dependent of a Participant who is recognized by a Domestic Relations Order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to such Participant.

2.07 Annual Benefit shall mean a benefit attributable to Employer contributions payable in the form of a straight life annuity within the meaning of Code Section 415(b)(2), as further described in Article XII.

2.08 Annuity Starting Date shall mean the first day of the first period for which an amount is paid to a Participant in any form.

2.09 Applicable Interest Rate shall mean:

a. for Annuity Starting Dates that occur before September 1, 1997, the interest rate or rates that would be used, as of the first day of the Plan Year that contains the Annuity Starting Date, by the PBGC for purposes of determining the present value of the Participant's benefits under the Plan, if the Plan had terminated on that date with insufficient assets to provide benefits guaranteed by the PBGC; and

b. for Annuity Starting Dates that occur after August 31, 1997, the annual interest rate on 30-year Treasury securities for the second month that precedes the Plan Year during which the Annuity Starting Date occurs. (For example, for Annuity Starting Dates that occur in 1998, the Applicable Interest Rate shall be the annual interest rate on 30-year Treasury securities for November 1997, as specified by the Internal Revenue Service in revenue rulings, notices or other guidance published in the Internal Revenue Bulletin.)

2.10 Beneficiary shall mean any person properly designated by a Participant pursuant to Article VIII to receive any benefits payable after the Participant's death.

2.11 Board of Directors shall mean the Board of Directors of the Employer.

2.12 Break in Service or One-Year Break in Service shall mean a Plan Year during which a Participant is not credited with more than 500 Hours of Service; provided that, for the Plan Year that begins on October 1, 1994 and ends December 31, 1994, a Participant shall not incur a Break in Service if the Participant is credited with at least 125 Hours of Service during that Plan Year.

2.13 Code shall mean the Internal Revenue Code of 1986, as amended from time to time, and implementing Regulations and rulings issued by the Internal Revenue Service. References to any Section of the Code shall include any successor provision.

2.14 Compensation shall mean remuneration paid by the Employer to a Participant in the form of fixed basic annual salary or wages, commissions, overtime, and cash bonuses actually received; provided that, for Plan Years that begin prior to January 1, 1995, Compensation shall include remuneration in the form of severance pay and for Plan Years beginning before October 1, 1993, Compensation shall not include remuneration in the form of commissions. For all years, Compensation shall include any amount contributed by the Employer at the direction of the Participant pursuant to a salary reduction agreement, which amount is not includable in the Participant's gross income under Code Section 125 (cafeteria plans) or Code Section 402(a)(8) ("401(k)" plans). Compensation shall not include any other form of remuneration, regardless of the manner calculated or paid. For example, "Compensation" shall not include amounts realized from the exercise of stock options or from the disposition of stock or stock rights, Employer contributions to any public or private benefit plan or system, or (after December 31, 1994) amounts paid as severance pay.

For the Plan Year in which an Employee first becomes a Participant, the term "Compensation" shall mean only the Compensation he receives after the date he satisfies the eligibility requirements to participate in the Plan.

The annual Compensation of each Participant taken into account under the Plan for any Plan Year beginning after December 31, 1988 and before January 1, 1994 shall not exceed \$200,000. Each January 1, beginning in 1990 and ending in 1993, this amount shall be adjusted by the Adjustment Factor, using 1989 as the base period. The adjusted Compensation limitation shall be effective for Plan Years beginning within the calendar year of the adjustment.

For Plan Years beginning on or after January 1, 1994, the annual Compensation of each Employee taken into account under the Plan shall not exceed \$150,000, as adjusted by the Commissioner of the Internal Revenue Service for increases in the cost of living in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the \$150,000 limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

If Compensation for any prior determination period is taken into account in determining an Employee's benefits accruing in the current Plan Year, the Compensation for that prior determination period is subject to the Compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first Plan Year beginning on or after January 1, 1994, the limit is \$150,000.

In applying the \$200,000 and \$150,000 limitations in Plan Years that begin prior to January 1, 1997, the Compensation of a Participant who is (i) a Five Percent Owner, or (ii) a Highly Compensated Employee and one of the ten most Highly Compensated Employees, ranked on the basis of compensation (within the meaning of Code Section 414(q)(7)) paid by the Employer during the Plan Year, shall be treated as including the Compensation of his Spouse and any lineal descendants who have not attained age 19 before the close of the Plan Year (but only if his Spouse or lineal descendant also is an Employee). If, as a result of the application of such rules, the \$200,000 limitation or the \$150,000 limitation is exceeded, then (except for purposes of determining the portion of Compensation included in "Covered Compensation" defined in Article VII), the limitation shall be prorated among the affected individuals, in proportion to each such individual's Compensation as determined under this Section prior to the application of the limitation.

2.15 Defined Benefit Dollar Limitation shall mean the dollar limitation in effect under Code Section 415(b)(1)(A); specifically, \$90,000, as adjusted each January 1 by the Adjustment Factor. Any adjusted limitation shall apply to Limitation Years ending with or within the calendar year of the adjustment.

2.16 Defined Benefit Fraction shall mean the fraction defined in Code Section 415(e)(2) that is used, with the Defined Contribution Fraction, to determine the Maximum Retirement Benefit for a Participant who also has participated in a defined contribution plan of the Employer or an Affiliated Employer.

2.17 Defined Contribution Fraction shall mean the fraction defined in Code Section 415(e)(3) that is used, with the Defined Benefit Fraction, to determine the Maximum Retirement Benefit for a Participant who also has participated in a defined contribution plan of the Employer or an Affiliated Employer.

2.18 Determination Date shall mean, with respect to any Plan Year, the last day of the preceding Plan Year. In the case of a first Plan Year, the Determination Date shall be the last day of that Plan Year.

2.19 Disability Retirement Date shall mean the date on which a Participant terminates employment with the Employer because of a Total and Permanent Disability.

2.20 Domestic Relations Order shall mean any judgment, decree, or order (including approval of a property settlement agreement) which: (a) relates to the provision of child support, alimony payments or marital property rights to a spouse, child or other dependent of a Participant, and (b) is made pursuant to a state domestic relations law (including a community property law).

2.21 Earliest Retirement Age shall mean the earliest date on which the Participant can elect to receive retirement benefits under the Plan.

2.22 Early Retirement Date shall mean the date of a Participant's Retirement, before the Normal Retirement Date, after the Participant has attained age 55 and earned a "Vested Percentage" (described in Article V) of 100 percent.

2.23 Effective Date shall mean October 1, 1989.

2.24 Employee shall mean any person who receives compensation for personal services, other than a retainer or fee under a contract, from the Employer of the Employee and who is treated by the Employer as a common law employee for employment tax withholding purposes. Any Leased Employees shall be considered Employees solely for the purposes specified in Code Section 414(n). Leased Employees shall not be eligible to participate in the Plan.

2.25 Employer shall mean NBT Bancorp, Inc., NBT Bank, N.A. (formerly known as The National Bank and Trust Company and The National Bank and Trust Company of Norwich), and any Affiliated Employer that adopts this Plan. Notwithstanding the preceding sentence, the term Employer means NBT Bank, N.A. for purposes of Plan administration, and NBT Bancorp, Inc. for purposes of Sections 14.01 and 14.02.

2.26 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and any implementing regulations and rulings issued by the Department of Labor or the Internal Revenue Service. References to any Section of ERISA shall include any successor provision.

2.27 Final Average Compensation shall mean the average of the Participant's annual Compensation for the five Years of Benefit Service during the Participant's last ten Years of Benefit Service that produces the highest average. If a Participant has less than five Years of Benefit Service, the Participant's Final Average Compensation shall be the average of his annual Compensation for his total Years of Benefit Service. For Plan Years that begin prior to October 1, 1993, Final Average Compensation shall be based upon the Compensation received by the Participant for each applicable calendar year. For Plan Years that begin after September 30, 1993, Final Average Compensation shall be based upon the Compensation received by the Participant for each applicable Plan Year. In all cases, Final Average Compensation shall be based upon consecutive Years of Benefit Service.

2.28 Five Percent Owner shall mean, as further defined in Code Section 416(i), any person who owns, or is considered as owning under the constructive ownership rules of Code Section 318, more than five percent of the outstanding stock of the Employer or stock possessing more than five percent of the total combined voting power of all stock of the Employer. However, the constructive ownership rules in Code Section 318(a)(2)(C) shall be applied by substituting "five percent" for "50 percent." If the Employer is not a corporation, any person who owns more than five percent of the capital or profits interest in such organization is a Five Percent Owner.

2.29 Fund shall mean the assets of the Plan.

2.30 Highly Compensated Employee shall mean a highly compensated employee within the meaning of Code Section 414(q), for Plan Years beginning after December 31, 1986. As set forth below, the term "Highly Compensated Employee" includes highly compensated active employees and highly compensated former employees. In the following subsections, the term "determination year" means the current Plan Year and the term "look-back year" means the twelve-month period immediately preceding the determination year.

a. Highly Compensated Active Employee: For Plan Years that begin before January 1, 1997, highly compensated active employee includes any employee who performs service for the Employer during the determination year and who:

- i. Received compensation in excess of \$75,000, as adjusted by the Adjustment Factor, during the look-back year;
- ii. Received compensation in excess of \$50,000, as adjusted by the Adjustment Factor, during the look-back year, and was a member of the top-paid group for such year (generally, the top 20 percent of employees ranked on the basis of compensation);
- iii. Was an officer (as defined in Code Section 416(i)) of the Employer and received compensation during the look-back year that is greater than 50 percent of the Defined Benefit Dollar Limitation in effect during the year (if no officer has satisfied this compensation requirement, the highest-paid officer shall be treated as a Highly Compensated Employee);
- iv. Is described in the above subsections if the term "determination year" is substituted for the term "look-back year", and the employee is one of the 100 employees who received the most compensation from the Employer during the determination year; or
- v. Was a Five Percent Owner at any time during the look-back year or determination year.

For Plan Years that begin on or after January 1, 1997, a highly compensated active employee includes any Employee who performs services for the Employer during the determination year and who (I) for the preceding determination year, received compensation from the Employer in excess of \$80,000 (as adjusted by the Secretary of the Treasury), or (II) was a Five Percent Owner at any time during the determination year or the preceding determination years.

b. Highly Compensated Former Employee: A highly compensated former employee includes any employee who separated from service (or was deemed to have separated) prior to the determination year, performs no service for the Employer during the determination year and was a highly compensated active employee for either the separation year or any determination year ending on or after the employee's 55th birthday.

c. Family Member Aggregation Rule: For Plan Years that begin before January 1, 1997, if an employee is, during a determination year or look-back year, a Family Member of either (i) a Five Percent Owner who is an active or former employee or (ii) a Highly Compensated Employee who is one of the ten most Highly Compensated Employees ranked on the basis of compensation paid by the Employer during such year, then the Family Member and the Five Percent Owner or top-ten Highly Compensated Employee shall be aggregated. In such case, the Family Member and Five Percent Owner or top-ten Highly Compensated Employee shall be treated as a single employee receiving compensation and Plan contributions or benefits equal to the sum of such compensation and contributions or benefits of the Family Member and Five Percent Owner or top-ten

Highly Compensated Employee. For purposes of this Section, the term "Family Member" includes the spouse, lineal ascendants and descendants of the employee or former employee and the spouses of such lineal ascendants and descendants.

d. Incorporation of Section 414(q): The determination of who is a Highly Compensated Employee under the above rules, including the determinations of the number and identity of employees in the top-paid group, the top 100 employees, the number of employees treated as officers and the compensation that is considered, shall be made in accordance with Code Section 414(q) and implementing Regulations, which are hereby incorporated by reference.

2.31 Hour of Service shall mean an hour determined in accordance with the following provisions. In this definition, the term "computation period" means the Plan Year, with the following exception. To the extent that a "Year of Service" is defined as a different period for eligibility purposes, that period shall be considered a computation period in crediting Hours of Service for eligibility.

a. General Rules for Crediting Hours: For all purposes under the Plan, an Employee shall be credited with an Hour of Service for all of the following:

- i. Each hour for which the Employee is paid, or entitled to payment, for the performance of duties for the Employer. These hours will be credited to the Employee for the computation period in which the duties are performed.
- ii. Each hour for which the Employee is paid, or entitled to payment, by the Employer, on account of a period during which no duties are performed (whether or not the employment relationship has terminated), due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Except as provided in Section 7.04 (relating to disability), no more than 501 Hours of Service shall be credited under this subsection for any single, continuous period, whether or not such period occurs in a single computation period.
- iii. Each hour for which back pay (irrespective of mitigation of damages) is either awarded or agreed to by the Employer. The same Hours of Service will not be credited both under subsection (i) or (ii), whichever is applicable, and this subsection (iii). Under this subsection, Hours of Service will be credited to the Employee for the computation period to which the award or agreement pertains, rather than the computation period in which the award, agreement or payment is made.

Hours under this subsection shall be calculated and credited pursuant to Department of Labor Regulation 2530.200b-2(b) and (c), which is incorporated herein by reference.

b. Crediting Hours for Maternity or Paternity Leave to Prevent Break in Service: Solely to determine whether a Break in Service has occurred, an Employee who is absent from work for maternity or paternity reasons, or is on a leave of absence taken in accordance with the Family and Medical Leave Act, shall receive credit for the Hours of Service that would otherwise have been credited to the Employee but for such absence. In any case in which such hours cannot be determined, eight Hours of Service per day of such absence shall be credited.

- i. The Hours of Service credited under this subsection shall be credited in the computation period in which the absence begins, if necessary to prevent a Break in Service in that period. In all other cases, the Hours of Service shall be credited to the next computation period.
- ii. For purposes of this subsection, an absence from work for maternity or paternity reasons means an absence by reason of (A) the Employee's pregnancy, (B) the birth of the Employee's child or the placement of a child with the Employee in connection with the Employee's adoption of the child, or (C) the Employee caring for the child for a period immediately following such birth or placement.
- iii. In order to be credited with Hours of Service under this subsection, the Employee must provide the Plan Administrator with proof that the period of absence is for a reason specified in subsection (ii) above.

c. Hours Not Kept: An Employee for whom hours are not normally kept shall receive credit for 45 Hours of Service for each weekly pay period during which the Employee performs one Hour of Service under the conditions described in subsection (a)(i) or (ii) above.

d. Affiliated Employers: For eligibility and vesting purposes (see Articles III and IV), Hours of Service shall also be credited for employment with any Affiliated Employer.

e. For eligibility and vesting purposes hereunder, Hours of Service shall include each hour for which an Employee, who was employed by any banking institution or banking facility as of the date immediately preceding the date of the Employer's acquisition of that institution or facility (and which acquisition occurred on or before December 31, 1994), was credited with an hour of service under the terms of such former employer's tax-qualified retirement plan as of the date immediately preceding the date of the Employer's acquisition of the institution or facility.

f. Hours of Service shall be granted for eligibility and vesting purposes during a period of military service which does not exceed two years in duration. Hours of Service shall be credited on the basis of the Employee's

normal workweek when such leave commenced. For purposes of this subsection (f), military service is service with the Armed Forces of the United States during periods of war, national emergency or conscription, subject to the condition that the Employee returns to active employment with the Employer within the period his reemployment rights are protected by applicable law. Notwithstanding the foregoing, Hours of Service shall include qualified military service to the extent required by Code Section 414(u), if such Code Section would grant more service to the Employee.

g. Except to the extent required by subsection (a)(ii) above, Hours of Service shall not be granted for any purpose under the Plan as a result of an Employee's receipt of severance pay from the Employer.

2.32 Joint and Survivor Annuity shall mean an immediate annuity benefit payable monthly for life to a Participant, with a survivor annuity for the life of the Beneficiary which is not less than 50 and not more than 100 percent of the amount of the annuity which is payable during the joint lives of the Participant and the Beneficiary.

2.33 Key Employee shall mean an employee within the meaning of Code Section 416(i). As further set forth in that Code Section, any Employee, former Employee or Beneficiary will be considered a Key Employee if, for the Plan Year that contains the Determination Date or any of the four preceding Plan Years, the employee is:

a. An officer (within the meaning of Code Section 416(i)) having "annual compensation" from the Employer greater than 50 percent of the Defined Benefit Dollar Limitation for any such Plan Year;

b. An owner (or considered an owner under Code Section 318) of one of the ten largest interests in the Employer, who has "annual compensation" from the Employer greater than the dollar limitation in effect under Code Section 415(c)(1)(A) (currently \$30,000);

c. A Five Percent Owner; or

d. A One Percent Owner with "annual compensation" from the Employer of more than \$150,000.

For purposes of this definition, "annual compensation" means Limitation Year Compensation, plus any amounts contributed by the Employer pursuant to a salary reduction agreement, which are excludable from the Employee's gross income under Section 125, Section 402(a)(8), Section 402(h) or Section 403(b) of the Code.

2.34 Leased Employee shall mean any person (other than one who is an employee without regard to a leasing arrangement) who performs services pursuant to an agreement between the Employer and a leasing organization if:

a. The services have been performed for the Employer or for the Employer and related persons (determined in accordance with Code Section 414(n)(6)) on a substantially full-time basis for a period of at least one year; and

b. For Plan Years that begin before January 1, 1997, the services are of a type historically performed by employees in the business field of the Employer and, for Plan Years that begin on or after January 1, 1997, the services are performed under the primary direction or control of the Employer.

2.35 Limitation Year shall mean the calendar year.

2.36 Limitation Year Compensation shall mean wages, salaries, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements, and expense allowances), and excluding the following:

a. Employer contributions to a plan of deferred compensation, which are not includable in the Employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan (described in Code Section 408(k)) to the extent such contributions are not includable in the gross income of the Employee, or any distributions from a plan of deferred compensation;

b. Amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

c. Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

d. Other amounts which received special tax benefits.

Notwithstanding the above definition, for a self-employed individual that participates in the Plan (if any), Limitation Year Compensation shall mean the net earnings from self-employment in the trade or business with respect to which the Plan is established, for which personal services of the individual are a material income-producing factor. Net earnings will be determined without regard to items not included in gross income and the deductions allocable to such items. Net earnings are reduced by contributions by the Employer to a qualified plan to the extent deductible under Code Section 404. Net earnings shall be determined with regard to the deduction allowed to the taxpayer by Code Section 164(f) for taxable years beginning after December 31, 1989.

For Limitation Years beginning after December 31, 1991, for purposes of applying this Section, Limitation Year Compensation for a Limitation Year is the Limitation Year Compensation actually paid or made available during such Limitation Year.

For Limitation Years beginning after December 31, 1997, for purposes of applying this Section, Limitation Year Compensation paid or made available during such Limitation Year shall include any elective deferral (as defined in Code Section 402(g)(3)), and any amount which is contributed or deferred by the Employer at the election of the Employee and which is not includible in the gross income of the Employee by reason of Code Sections 125 or 457.

2.37 Maximum Retirement Benefit shall mean the maximum Annual Benefit determined in accordance with Article XII of the Plan and Section 415 of the Code.

2.38 Minimum Required Benefit shall mean the benefit described in Article XV which must be provided to Non-Key Employees if the Plan is Top-Heavy for a Plan Year.

2.39 Minimum Vesting Schedule shall mean the vesting schedule required by Article XV if the Plan becomes Top-Heavy for one or more Plan Years.

2.40 Non-Key Employee shall mean an Employee who is not a Key Employee.

2.41 Non-Vested Participant shall mean a Participant who is not a Vested Participant.

2.42 Normal Retirement Age shall mean the date upon which a Participant attains age 65.

2.43 Normal Retirement Date shall mean the first day of the calendar month coinciding with or next following a Participant's Normal Retirement Age.

2.44 One Percent Owner shall mean, as further defined in Code Section 416(i), any person who owns, or is considered as owning under the constructive ownership rules of Code Section 318, more than one percent of the outstanding stock of the Employer or stock possessing more than one percent of the total combined voting power of all stock of the Employer. However, the constructive ownership rules in Code Section 318(a)(2)(C) shall be applied by substituting "one percent" for "50 percent." If the Employer is not a corporation, any person who owns more than one percent of the capital or profits interest in such organization is a One Percent Owner.

2.45 Participant shall mean an Employee who becomes a Participant in the Plan as provided in Article III.

2.4 PBGC shall mean the Pension Benefit Guaranty Corporation.

2.47 Permissive Aggregation Group shall mean a group of plans maintained by the Employer and any Affiliated Employer, which may be aggregated in determining whether the Plan is Top-Heavy, as further defined in Article XV of the Plan.

2.48 Plan shall mean the NBT Bancorp, Inc. Defined Benefit Pension Plan, as amended from time to time. Prior to January 1, 1995, the name of the Plan was The National Bank & Trust Company of Norwich Employees' Defined Benefit Pension Plan and Trust.

2.49 Plan Administrator shall mean the person, committee or other entity appointed to administer the Plan in accordance with Article XI. The Plan Administrator shall be the "named fiduciary" for the management, operation and administration of the Plan, within the meaning of Section 402(a) of ERISA.

2.50 Plan Year shall mean the twelve consecutive month period beginning on October 1st and ending on September 30th; provided, however, that (a) there shall be a short Plan Year beginning on October 1, 1994 and ending on December 31, 1994, and (b) beginning January 1, 1995, the Plan Year shall be the period beginning on January 1st and ending on December 31st.

2.51 Predecessor Plan shall mean any prior statement (or restatement) of the Plan that is being amended and restated by this document.

2.52 Preretirement Survivor Annuity shall mean an annuity for the life of the Spouse that is payable if a Participant dies before his Annuity Starting Date, as provided in Articles VI and VII.

2.53 Qualified Domestic Relations Order shall mean a Domestic Relations Order that creates or recognizes the existence of an Alternate Payee's right to, or assigns to an Alternate Payee the right to, receive all or a portion of the benefits that would otherwise be payable with respect to a Participant under the Plan, and that meets the requirements described in Article XIII.

2.54 Regulation(s) shall mean the Income Tax Regulations promulgated by the Secretary of the Treasury or his delegate, as amended from time to time, including proposed and temporary Regulations. References to any Section of the Regulations shall include any successor provision.

2.55 Required Aggregation Group shall mean a group of plans maintained by the Employer and any Affiliated Employer, which must be aggregated in determining whether the Plan is Top-Heavy, as further defined in Article XV of the Plan.

2.56 Required Beginning Date shall mean the date when distributions must begin to a Participant, as further defined in Article IX of the Plan.

2.57 Retirement shall mean voluntary termination of employment with the Employer for a reason other than death, after a Participant has fulfilled all requirements for a normal, early or disability retirement benefit.

2.58 Social Security Retirement Age shall mean the earliest age at which an individual can collect full, unreduced Social Security benefits. The Social Security Retirement Age is:

a. Age 65 for a Participant who attains age 62 before January 1, 2000 (i.e., born before January 1, 1938);

b. Age 66 for a Participant who attains age 62 after December 31, 1999, but before January 1, 2017 (i.e., born after December 31, 1937, but before January 1, 1955); and

c. Age 67 for a Participant who attains age 62 after December 31, 2016 (i.e., born after December 31, 1954).

2.59 Spouse or Surviving Spouse shall mean the lawful wife of a male Participant or the lawful husband of a female Participant. Notwithstanding the preceding sentence, a former spouse shall be treated as the Spouse or Surviving Spouse (and a current spouse shall not be treated as the Spouse or Surviving Spouse) to the extent provided under a Qualified Domestic Relations Order.

2.60 Super Top-Heavy Plan shall mean a plan for which the Top-Heavy Ratio exceeds 90 percent. As stated in Article XV, if the Plan is Super Top-Heavy and the Employer has also maintained a defined contribution plan, the denominators in the Defined Benefit Fraction and the Defined Contribution Fraction must be reduced when calculating the Maximum Retirement Benefit for individuals who have participated in both plans.

2.61 Top-Heavy shall mean the status of the Plan when it is a Top-Heavy Plan (or a Super Top-Heavy Plan).

2.62 Top-Heavy Plan shall mean a plan for which the Top-Heavy Ratio exceeds 60 percent, including a Super Top-Heavy Plan unless otherwise specified.

2.63 Top-Heavy Ratio shall mean the ratio of the Accrued Benefits of Key Employees to the Accrued Benefits of all Employees, considering this Plan and any plans included in a Required Aggregation Group or Permissive Aggregation Group.

2.64 Top-Heavy Rules shall mean the rules under Code Section 416 and implementing Regulations that will be applicable if the Plan is a Top-Heavy Plan for any Plan Year beginning after December 31, 1983.

2.65 Total and Permanent Disability or Totally and Permanently Disabled. A Participant shall be considered Totally and Permanently Disabled, if he is determined to be entitled to, and is in receipt of, disability benefits under (a) Title II or XVI of the Social Security Act, and (b) any long term disability income plan sponsored by the Employer.

2.66 Trust shall mean the legal entity resulting from the Trust Agreement between the Employer and the Trustee.

2.67 Trust Agreement shall mean the agreement between the Employer and the Trustee, or any successor Trustee, establishing the Trust and specifying the duties of the Trustee.

2.68 Trustee shall mean the trustee or trustees designated by the Board of Directors.

2.69 Vested Participant shall mean a Participant who has a nonforfeitable (vested) interest in his Accrued Benefit derived from Employer contributions to the Plan.

2.70 Years of Benefit Service shall mean a period during which a Participant participates in the Plan and is entitled to a benefit accrual in accordance with Section 4.01.

2.71 Year of Eligibility Service shall mean a computation period during which an Employee is credited with at least 1,000 Hours of Service. The first eligibility computation period is the 12-consecutive-month period that begins on the date the Employee first performs an Hour of Service ("employment commencement date"). Succeeding 12-consecutive-month computation periods begin on each anniversary of the employment commencement date.

2.72 Year of Vesting Service shall mean:

a. For Plan Years that begin on and after October 1, 1976, each Plan Year during which an Employee completes at least 1,000 Hours of Service, and makes any portion of the contribution required of him under the provisions of the Plan then in effect; provided that, for the Plan Year that begins on October 1, 1994 and ends on December 31, 1994, an Employee shall receive credit for a Year of Vesting Service if the Employee completes at least 250 Hours of Services during that Plan Year.

b. For Plan Years that begin prior to October 1, 1976, the applicable of the following:

- i. If a Participant on September 30, 1976, the sum of (A) "creditable service" to which a Participant was entitled on September 30, 1976 under the Plan as in effect on such date, and (B) any uninterrupted service in the employ of the Employer prior to his Plan membership date which is not included in (A) above.

- ii. If not a Participant on September 30, 1976, each period of twelve consecutive months beginning on the date he first performs an Hour of Service and each anniversary thereof, during which he completed at least 1,000 Hours of Service, but excluding any such period during which such Employee could have been a participant had he consented to make the contributions required of him in order to become a Participant.

ARTICLE III

ELIGIBILITY AND PARTICIPATION REQUIREMENTS  
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3.01 Eligibility.

a. An Employee who is employed by the Employer on the Effective Date shall be eligible to participate in the Plan on the Effective Date, if he has satisfied the eligibility requirements in subsection (b) below or if he was a Participant in the Predecessor Plan. In determining previous participation, any provisions of the Predecessor Plan which excluded Employees from participation based on the attainment of a specified age shall not be applied after September 30, 1988 to any Employee who performs an Hour of Service on or after October 1, 1988.

b. After the Effective Date, an Employee employed by the Employer shall be eligible to participate in the Plan as of the first day of the calendar month that coincides with or next follows the date as of which he has both attained age 21 and completed a Year of Eligibility Service provided he is employed by the Employer on that date.

c. In applying the above service requirement, (i) an Employee's service with any Affiliated Employer shall be taken into account, and (ii) an Employee who transfers to employment with the Employer pursuant to the September 11, 1995 Purchase and Assumption Agreement between Community Bank, National Association and the Employer shall receive credit for eligibility service to the extent the Employee is credited with eligibility service under the qualified retirement plans of Community Bank, National Association as of the date the Employee transfers to employment with the Employer.

d. Any person included in a unit of employees covered by a collective bargaining agreement (as defined in Code Section 7701(a)) between Employee representatives and the Employer or an Affiliated Employer shall not be eligible to participate in the Plan, unless such collective bargaining agreement expressly provides for the inclusion of such persons as Participants in the Plan.

3.02 Becoming a Participant. Once an Employee satisfies the requirements in Section 3.01, he shall participate in the Plan automatically. The Plan Administrator shall, no later than 90 days after the Employee meets the eligibility requirements, advise the Employee that he has become a Participant, and provide him with information about the Plan.

3.03 Eligibility after Reemployment.

a. Reemployment before a Break in Service: Upon being reemployed before a One-Year Break in Service has occurred, the reemployed Employee shall be treated as follows:

- i. A former Participant shall continue to participate in the Plan as if his employment had not terminated; provided that, for Plan Years that begin prior to January 1, 1995, the period during which the Participant was absent from employment shall not be included in the Participant's Years of Benefit Service.
- ii. A former Employee who had not yet become a Participant shall have the period of prior employment counted toward satisfying the service requirement in Section 3.01 as if his employment had not terminated. The Employee shall begin to participate in the Plan in accordance with Sections 3.01 and 3.02, upon satisfying the eligibility requirements.

b. Reemployment after a Break in Service: Upon being reemployed after a Break in Service, the reemployed Employee shall participate in the Plan as follows:

- i. Participation shall be reinstated as of the date of reemployment for: (A) a former Vested Participant and (B) a former Non-Vested Participant whose consecutive One-Year Breaks in Service did not exceed the greater of five, or his number of Years of Vesting Service before the Break in Service.
- ii. A former Non-Vested Participant with a Break in Service longer than provided in subsection (i), and a former Employee who had not yet become a Participant when he terminated employment, shall begin to participate in the Plan as of the first day of the calendar month that coincides with or next follows the date he again satisfies the eligibility requirements in Section 3.01.

In applying the above provisions, the computation period shall be the eligibility computation period specified in the definition of "Year of Eligibility Service" in Article II, as though the reemployment date were the employment commencement date.

Notwithstanding the above provisions, prior service will be credited for a Participant who received a distribution of his vested benefits, only if the distribution is repaid as provided in Article V.

3.04 Eligibility Based on Service in Ineligible Classification.

a. If an Employee who had not been in an eligible class of employees of the Employer or an Affiliated Employer becomes a member of such a class, his eligibility to participate in the Plan shall be determined in accordance with the above provisions of this Article, counting service in the ineligible classification.

b. An individual who ceases to be a Participant because he is no longer in an eligible class of employees shall become eligible to participate in the Plan immediately upon returning to an eligible class of employees.

ARTICLE IV

SERVICE CREDITING

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4.01 Benefit Service.

a. For service rendered prior to January 1, 1995, a Participant shall be entitled to a Year of Benefit Service for each 12-month period of service with the Employer, beginning on the later of May 9, 1945, or the date the Participant first became a Participant. To the extent not taken into account under the preceding sentence, a Participant shall also receive credit for each completed month (counted as 1/12th of a year) of service with the Employer after the applicable date described in the preceding sentence and before January 1, 1995.

b. Effective January 1, 1995, Years of Benefit Service shall be measured by the Hours of Service performed by a Participant during a Plan Year. A Participant shall receive credit for a Year of Benefit Service for service rendered after December 31, 1994 only if the Participant performs 1,000 Hours of Service in a Plan Year. For the Plan Year during which an Employee first becomes a Participant, the Employee shall be credited with a Year of Benefit Service for that Plan Year only if the Employee performs 1,000 Hours of Service from the date participation begins through the end of the Plan Year. No partial Years of Benefit Service shall be granted.

c. In determining Years of Benefit Service, service with any of the following listed banking institutions by a Participant who was employed by any such institution as of September 29, 1989 shall be considered service with the Employer to the extent the Employee's service was recognized for benefit accrual purposes under such former employer's qualified defined benefit pension plan as of September 29, 1989. The banking institutions referred to are: National Bank of Hancock, Hayes National Bank, Fulton County National Bank and Trust, and Bank of Lake Placid. For an Employee who was employed at the Key Bank of New York branches known as Plattsburgh, Plattsburgh North or Ellenburg Depot as of the date immediately preceding the date of the Employer's acquisition of those branches, Years of Benefit Service also shall include the Employee's service with Key Bank of New York to the extent such service was recognized for benefit accrual purposes under such former employer's qualified defined benefit plan as of the date immediately preceding the date of the Employer's acquisition of those branches.

4.02 Vesting Service.

a. An Employee shall be entitled to credit for a Year of Vesting Service for purposes of determining his vested interest in his Accrued Benefit derived from Employer contributions for all Years of Vesting Service unless excluded by subsection (b) or Section 4.03.

b. For purposes of this Section, service shall not include the following:

- i. Service before age 22, if the Employee fails to be credited with an Hour of Service after September 30, 1985;
- ii. Service with the Employer during any period for which the Employer did not maintain this Plan or a predecessor Plan; or
- iii. Service for periods during which the Employee declined to make any portion of required Employee contributions to the Plan.

c. An Employee who transfers to employment with the Employer pursuant to the September 11, 1995 Purchase and Assumption Agreement between Community Bank, National Association and the Employer shall receive credit for Years of Vesting Service to the extent the Employee is credited with vesting service under the qualified retirement plans of Community Bank, National Association as of the date the Employee transfers to employment with the Employer.

#### 4.03 Treatment of Prior Service after a Break in Service.

a. Vested Participant: If a Vested Participant is reemployed after a One-Year Break in Service, his prior Years of Vesting Service and Years of Benefit Service shall be taken into account in determining his vested percentage in his Accrued Benefit derived from Employer contributions as of the date he is reemployed. Notwithstanding the preceding sentence, a Vested Participant who receives a full distribution of his vested Accrued Benefit following his termination of employment, shall receive credit for the prior Years of Vesting Service and Years of Benefit Service only if he repays the distribution in accordance with Section 5.03.

#### b. Non-Vested Participant:

- i. If a Non-Vested Participant is reemployed after a One-Year Break in Service, his prior Years of Vesting Service and Years of Benefit Service shall not be taken into account, if the number of consecutive One-Year Breaks in Service equals or exceeds the greater of: (i) five or (ii) the Participant's Years of Vesting Service prior to the Break in Service.
- ii. If the Non-Vested Participant has a shorter Break in Service than that described in subsection (i), he shall receive credit for his prior Years of Vesting Service and Years of Benefit Service in the same manner as provided for a Vested Participant in subsection (a) above.

c. Prior Break in Service: In applying the above provisions, the aggregate number of Years of Vesting Service and Years of Benefit Service before the Break in Service shall be deemed not to include any Years of Vesting Service or Years of Benefit Service not required to be taken into account under this Section by reason of any prior Break in Service.

4.04 Retention of Service. A Participant's benefit accrual and vested interest in benefits under the Plan up to the Effective Date shall be determined according to the Predecessor Plan as in effect immediately prior to the Effective Date. On the Effective Date and thereafter, a Participant's benefit accrual and vested interest shall not be reduced by termination of employment, Breaks in Service or for any other reason, except as provided in the Plan.

4.05 Limitation of Service Credited. No more than one Year of Vesting Service and one Year of Benefit Service shall be credited with respect to any 12-month period. The foregoing sentence shall not prevent the crediting of a full Year of Vesting Service for the Plan Year that begins on October 1, 1994 and ends on December 31, 1994 for an Employee who completes at least 250 Hours of Service in that Plan Year.

ARTICLE V

VESTING AND FORFEITURES

5.01 Vesting Schedule. Except as provided in Section 5.02 below, a Participant's Accrued Benefit shall become vested in accordance with the applicable schedule below.

a. An Employee who is credited with at least one Hour of Service after the Effective Date, but who is not credited with at least one Hour of Service after December 31, 1994, shall become vested in accordance with the following schedule:

Years of Vesting Service	Vested Percentages
Less than 3 years	0%
3 years but less than 4 years	20%
4 years but less than 5 years	40%
5 years but less than 6 years	60%
6 years but less than 7 years	80%
7 years or more	100%

b. An Employee who is credited with Hours of Service only after December 31, 1994 shall become vested in accordance with the following schedule:

Years of Vesting Service	Vested Percentage
Less than 5 years	0%
5 years or more	100%

c. An Employee who (i) is credited with at least one Hour of Service during the period that begins on the Effective Date and ends on December 31, 1994, and (ii) is credited with at least one Hour of Service after December 31, 1994, shall become vested in accordance with the schedule above that provides the greatest Vested Percentage for the Employee.

5.02 Exceptions to Vesting Schedule. Notwithstanding the above schedule, the following rules shall apply in determining a Participant's vested interest in his Accrued Benefit:

a. In case of a change in the vesting schedule, the rules in Section 5.04 shall be applied to Participants affected by the change.

b. The Minimum Vesting Schedule in Article XV shall become applicable if the Plan is Top-Heavy for one or more Plan Years. (The rules in Section 5.04 apply to any change to or from the Minimum Vesting Schedule.)

c. A Participant shall become 100 percent vested in his Accrued Benefit upon (i) the Participant's attainment of Normal Retirement Age while still actively employed by the Employer, (ii) the Participant's death at a time when he is actively employed by the Employer, or (iii) the Participant's termination of employment due to Total and Permanent Disability.

5.03 Forfeitures. If a Participant terminates his employment with the Employer at a time when he is not 100 percent vested in his Accrued Benefit derived from Employer contributions, the nonvested portion of the benefit shall be forfeited subject to the following provisions:

a. Time of Forfeiture: If a Participant terminates employment with the Employer and receives a distribution from the Plan, his nonvested benefits shall be forfeited when the distribution is made. If the Participant does not receive a distribution, his nonvested benefits shall be forfeited as of the end of the Plan Year in which he incurs five consecutive One-Year Breaks in Service. For purposes of this subsection, if the present value of the Participant's vested Accrued Benefit is zero, he shall be deemed to have received a distribution of the Accrued Benefit when he terminated employment.

b. Use of Forfeiture: Any benefits forfeited pursuant to this Section shall be used to reduce future Employer contributions to the Plan. In no event shall the remaining Participants receive additional benefits as a result of the forfeitures.

c. Restoration of Forfeited Amounts:

i. A Participant who forfeited benefits when he received a distribution from the Plan shall have the right to restore his Accrued Benefit to the extent forfeited, provided that he resumes employment and repays to the Plan the full amount of the distribution plus interest (using the interest rates determined under Section 411(c)(2)(C) of the Code). Any repayment pursuant to this subsection must be made before the earlier of (A) five years after the first date on which the Participant is subsequently reemployed by the Employer; or (B) the close of the first period of five consecutive One-Year Breaks in Service after the distribution was made.

ii. If a Participant who was deemed to receive a distribution pursuant to subsection (a) above resumes employment with the Employer before incurring five consecutive One-Year Breaks in Service, the amount of the Accrued Benefit as of the date of the deemed distribution shall be restored when he again participates in the Plan (see Section 3.03)

5.04 Amendments Affecting Vesting Schedule.

a. In the case of an Employee who is a Participant on (i) the date an amendment changing the vesting schedule is adopted, or (ii) if later, the date the amendment is effective, the vested percentage of his Accrued Benefit (determined as of the applicable date) shall not be less than the percentage calculated under the terms of the Plan without regard to the amendment.

b. If the vesting schedule in Section 5.01 is amended, or the Plan is amended in any way that, directly or indirectly, adversely affects the computation of a Participant's nonforfeitable percentage in his future benefit accruals (including an automatic change to or from the Minimum Vesting Schedule if the Plan becomes Top-Heavy), a Participant who is an Employee with at least three Years of Service may elect to have the nonforfeitable percentage of his Accrued Benefit determined without regard to the amendment. For Participants who do not have at least one Hour of Service in a Plan Year beginning after December 31, 1988, the preceding sentence shall be applied by substituting "five Years of Service" for "three Years of Service." In determining a Participant's Years of Service for purposes of this subsection, the exclusions set forth in Section 4.02 shall not apply.

c. A Participant's right to make an election under subsection (b) shall be governed by the following:

- i. The Plan Administrator shall provide each affected Participant with written notice and an election form regarding his right to elect to remain under the former vesting schedule.
- ii. The election period shall begin with the date the amendment is adopted (or deemed to be made) and shall end on the date which is the latest of: (A) 60 days after the date the amendment is adopted; (B) 60 days after the date the amendment becomes effective; or (C) 60 days after the date the notice described in subsection (i) above is issued by the Plan Administrator.
- iii. A Participant who does not timely file a properly completed election form shall be subject to the amended vesting schedule.

ARTICLE VI

BENEFITS ELIGIBILITY  
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6.01 Normal Retirement Benefit.

a. A Participant shall be eligible to receive benefits upon Retirement on his Normal Retirement Date, provided he completes an application in accordance with subsection (b).

b. To commence receipt of benefit payments, a Participant must submit a signed written application to the Plan Administrator in which he elects an Annuity Starting Date and form of distribution (in compliance with Article IX). Upon proper application, the Plan Administrator shall begin to distribute benefits as soon as administratively feasible.

c. If a Participant continues in employment after his Normal Retirement Date for at least 40 Hours of Service monthly, the Participant shall not receive any benefit payments during the period of such employment. However, benefits shall continue to accrue, and the Participant shall be eligible to receive a late retirement benefit as provided in this Article and Article VII.

d. In the case of a Participant described in subsection (c), the Plan Administrator shall establish procedures to give the Participant the notice required by Department of Labor Regulation 29 C.F.R. ss. 2530.203-3(b)(4) no later than the end of the first calendar month or payroll period in which the Plan does not pay benefits due to the continued employment. Benefit payments to the Participant shall commence no later than the first day of the third calendar month after the calendar month in which he ceases to be employed at the level described in subsection (c).

e. Notwithstanding the above provisions, the payment of benefits shall begin once a Participant has reached his Required Beginning Date.

6.02 Early Retirement Benefit.

a. Upon written notice to the Plan Administrator, a Participant may elect to receive benefits upon Retirement on an Early Retirement Date. The payment of benefits shall be effective as of the first day of the month coinciding with or next following the elected Early Retirement Date.

b. A Participant who terminates employment with a nonforfeitable right to an Accrued Benefit after satisfying the service requirement for an early retirement benefit, but before satisfying the age requirement, may elect to receive early retirement benefits when he later satisfies the age requirement.

6.03 Late Retirement Benefit. A Participant who delays his Retirement until after his Normal Retirement Date shall continue to accrue benefits and shall be eligible to receive a late retirement benefit as of the earlier of (a) the first day of the month coinciding with or next following his Actual Retirement Date, or (b) his Required Beginning Date.

6.04 Disability Retirement Benefit.

a. A Participant who terminates employment because he is Totally and Permanently Disabled, before reaching his Normal Retirement Date, shall be eligible to receive benefits commencing on the Participant's Normal Retirement Date.

b. A Participant must file a written application with the Plan Administrator to receive disability retirement benefits. Upon receiving an application, the Plan Administrator shall determine whether the Participant is Totally and Permanently Disabled as defined in Article II.

6.05 Preretirement Death Benefit. Effective as of January 1, 1995, if a Participant dies before the Annuity Starting Date, death benefits shall be provided in accordance with this Section and the provisions of Article VII regarding preretirement death benefits. If a Participant dies prior to January 1, 1995 and prior to the Annuity Starting Date, only the Preretirement Survivor Annuity shall be payable and shall be payable only to the Surviving Spouse. If the Participant is unmarried at the time of death (prior to the Annuity Starting Date and prior to January 1, 1995), no preretirement death benefit shall be payable.

a. The Participant's Accrued Benefit shall be paid as a Preretirement Survivor Annuity for the life of the Surviving Spouse, as provided in Article VII, unless:

- i. The Participant is unmarried or another exception to spousal rights in Section 8.02 applies; or
- ii. The Participant waives the Preretirement Survivor Annuity with spousal consent in accordance with subsection (c) below.

b. If benefits are not being paid as a Preretirement Survivor Annuity pursuant to subsection (a), the Participant's designated Beneficiary shall receive preretirement death benefits as provided in Article VII.

c. Waiver of Preretirement Survivor Annuity: A Participant may effectively waive the Preretirement Survivor Annuity, and elect to have the other preretirement death benefit paid to another Beneficiary as follows:

- i. The election must be made in writing and delivered to the Plan Administrator during the period that begins on the first day of the Plan Year in which the Participant attains age 35, and ends on the date of the Participant's death. However, if a Participant terminates employment before the first day of the Plan Year in which he would attain age 35, the election period shall begin on the termination date.
- ii. The Participant's Spouse must consent to the election, in a consent which satisfies the requirements in Section 8.02(e).
- iii. The election must be made after the Plan Administrator provides the Participant with a notice regarding the Preretirement Survivor Annuity that is comparable to the notice regarding the Joint and Survivor Annuity described in Section 9.01. The Plan Administrator must provide this notice during whichever of the following periods ends last:
  - A. The period beginning with the first day of the Plan Year in which the Participant attains age 32 and ending with the close of the Plan Year preceding the Plan Year in which the Participant attains age 35;
  - B. A reasonable period ending after the Employee becomes a Participant; or
  - C. A reasonable period ending after the Preretirement Survivor Annuity requirements first apply to a Participant.

Notwithstanding the foregoing, notice must be provided within a reasonable period after termination of employment in the case of a Participant who terminates employment with the Employer before attaining age 35.

For purposes of this subsection, a reasonable period after a specified event is the end of the two year period beginning one year prior to the date the event occurs and ending one year after that date. In the case of a Participant who terminated employment before the Plan Year in which he attains age 35, the notice shall be provided within the two-year period beginning one year prior to termination and ending one year after termination. If such a Participant thereafter returns to employment with the Employer, his notice period shall be redetermined.

- iv. Notwithstanding the election period described in subsection (i), a Participant who will not yet attain age 35 as of the end of any current Plan Year may make a special election, in the form and method required by

subsection (i), for the period that begins on the date of such election and ends on the first day of the Plan Year in which the Participant will attain age 35. Such an election shall not be valid unless the Spouse consents and the Participant receives a written explanation of the Preretirement Survivor Annuity, as described in subsections (ii) and (iii). Preretirement Survivor Annuity coverage automatically will be reinstated as of the first day of the Plan Year in which the Participant will attain age 35. Any new waiver thereafter will be subject to all of the requirements of this Article.

Notwithstanding the preceding provisions, a revocation of a prior waiver of the Preretirement Survivor Annuity may be made by a Participant without the consent of the Spouse at any time prior to the commencement of benefits. The number of revocations shall not be limited.

d. The Plan Administrator shall require satisfactory written proof of the Participant's death before paying benefits under this Section. The Plan Administrator shall also require whatever proof is necessary, in the particular case, to establish the right of any person to receive the benefit.

6.06 Benefits Following Termination of Employment. If a Vested Participant terminates employment at a time when he is not eligible for benefits under any of the preceding Sections of this Article, his benefits shall be distributed in accordance with the following provisions and the provisions of Article VII regarding deferred vested retirement benefits.

a. Benefits Not in Excess of \$3,500: If the value of Participant's vested Accrued Benefit does not exceed \$3,500, the entire vested amount shall be paid to the Participant in a single lump sum. Payment shall be made as soon as administratively feasible following the termination of employment. No consent is required for this distribution.

b. Benefits in Excess of \$3,500: If the present value of a Participant's vested Accrued Benefit derived from Employer (and any Employee) contributions exceeds (or at the time of any prior distribution exceeded) \$3,500, he will be entitled to a deferred vested benefit. This means that benefits will only be distributed at times when the Participant or his Beneficiary is eligible to receive benefits under the preceding Sections of this Article.

c. Notwithstanding the foregoing of this Section 6.06, for Annuity Starting Dates that occur on or after January 1, 1998, this Section 6.06 shall be applied by deleting \$3,500 and inserting \$5,000 in each place that \$3,500 appears.

ARTICLE VII  
COMPUTATION OF BENEFITS  
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7.01 Normal Retirement Benefit.

a. The annual normal retirement benefit of a Participant who becomes eligible for benefits under Section 6.01 shall equal the sum of the amounts described in (i), (ii) and (iii) below, with that sum then reduced by the amount described in (iv) below.

- i. The Participant's accrued benefit under the Predecessor Plan as of September 30, 1989.
- ii. For Years of Benefit Service earned after September 30, 1989 and before January 1, 1995, the sum of (A) 1.60 percent of the Participant's Final Average Compensation for each such Year of Benefit Service, plus (B) .60 percent of the Participant's Final Average Compensation that is in excess of Covered Compensation for each such Year of Benefit Service.
- iii. For Years of Benefit Service earned after December 31, 1994, the sum of (A) 1.25 percent of the Participant's Final Average Compensation for each such Year of Benefit Service, plus (B) .60 percent of the Participant's Final Average Compensation that is in excess of Covered Compensation for each such Year of Benefit Service.
- iv. The annual normal retirement benefit payable to the Participant from the Retirement Plan of Irving Bank Corporation and Affiliated Companies, or any successor plan, as a result of the Participant's employment with National Bank of Hancock, Hayes National Bank, Fulton County National Bank and Trust, and/or Bank of Lake Placid through September 29, 1989.

In applying the foregoing formula, the Plan shall at all times satisfy the overall permitted disparity limit of Regulation 1.401(l)-5.

b. For purposes of this Section, "Covered Compensation" means the amounts prescribed in tables published by the Commissioner of the Internal Revenue Service pursuant to Regulation 1.401(l)-1(c)(7)(ii).

c. For purposes of this Section 7.01, the number of Years of Benefit Service taken into account under the Plan shall be limited to the greater of (i) 30, or (ii) the number of Years of Benefit Service completed by the Participant as of December 31, 1994 (up to a maximum of 40). For purposes of this subsection (c), Years of Benefit Service completed by the Participant through September 30, 1989 shall be taken into account.

d. Notwithstanding Section 7.01(a), the annual normal retirement benefit of a Participant who is actively employed and performs at least one Hour of Service after September 30, 1989 shall not be less than the excess of the amount described in (i) below, over the amount described in (ii) below.

- i. The sum of (A) 1.60 percent of the Participant's Final Average Compensation determined as of December 31, 1994 for each Year of Benefit Service earned through December 31, 1994 (up to a maximum of 40 years), plus (B) .65 percent of the Participant's Final Average Compensation determined as of December 31, 1994 that is in excess of 1994 Covered Compensation for each Year of Benefit Service earned through December 31, 1994 (up to a maximum of 35 years).
- ii. The annual normal retirement benefit payable to the Participant from the Retirement Plan of Irving Bank Corporation and Affiliated Companies, or any successor plan, as a result of the Participant's employment with National Bank of Hancock, Hayes National Bank, Fulton County National Bank and Trust, and/or Bank of Lake Placid through September 29, 1989.

7.02 Early Retirement Benefit. The early retirement benefit of a Participant who becomes eligible for benefits under Article VI shall be calculated as provided in Section 7.01, based on the Participant's service up to his Early Retirement Date, and then reduced by one-quarter of one percent (.25%) per month for each month by which the Participant's Early Retirement Date precedes the Participant's Normal Retirement Date.

#### 7.03 Late Retirement Benefit.

a. The late retirement benefit of a Participant who becomes eligible for benefits under Article VI shall be determined as provided in Section 7.01, based on the Participant's Compensation and service up to his Actual Retirement Date.

b. The benefit provided under subsection (a) for a Participant who earns Years of Benefit Service after the Participant's Normal Retirement Date shall be redetermined annually in accordance with Section 7.07.

c. Notwithstanding the preceding provisions, the accrual of a Participant's benefit for a Plan Year shall be reduced (but not below zero) by the Actuarial Equivalent of any distributions made from the Plan to the Participant by the close of the Plan Year pursuant to Article IX of the Plan. The reduction shall be determined in accordance with Section 7.07.

7.04 Disability Retirement Benefit. The disability retirement benefit of a Participant who becomes eligible for benefits under Article VI shall be determined as provided in Section 7.01, based on (a) the Participant's Final Average Compensation and Covered Compensation as of the Disability Retirement Date, and (b) the benefit formula in effect under the Plan on the date the Participant ceased active employment. For purposes of determining an eligible Participant's benefit under this Section 7.04, the Participant will be given credit for a Year of Benefit Service for each year between the Participant's Disability Retirement Date and Normal Retirement Date that the Participant remains Totally and Permanently Disabled.

7.05 Preretirement Death Benefit.

a. Effective as of January 1, 1995, the survivor annuity described in subsection (b) or (c), as applicable, shall be payable to the Beneficiary, if the Participant dies before the Annuity Starting Date. If a Participant dies prior to January 1, 1995 and prior to the Annuity Starting Date, only the Preretirement Survivor Annuity shall be payable and shall be payable only to the Surviving Spouse. If a Participant is unmarried at the time of death (prior to the Annuity Starting Date and prior to January 1, 1995), no preretirement death benefit shall be payable.

b. If the Participant dies after his Earliest Retirement Age, the Beneficiary shall receive the same benefit that would be payable if the Participant had retired with a Joint and Survivor Annuity on the day before his death.

c. If the Participant dies on or before his Earliest Retirement Age, the Beneficiary shall receive the same benefit that would be payable if the Participant had:

- i. Separated from service on the date of death (or actual date of separation from service, if earlier);
- ii. Survived to the Earliest Retirement Age, and retired on that date with an immediate Joint and Survivor Annuity; and
- iii. Died on the day after the Earliest Retirement Age.

d. Payment of the preretirement death benefit described in subsections (b) and (c) shall commence as soon as administratively feasible (but not later than one year) after the date of the Participant's death; provided that, if the Beneficiary is the Surviving Spouse, the Surviving Spouse may elect to defer the commencement of payments to the first day of any month before December 31 of the

calendar year in which the Participant would have attained age 70 1/2. If the payment of benefits commences as of a date other than the Participant's Earliest Retirement Age, the benefits paid shall be the Actuarial Equivalent of the benefits that would have been paid at the Participant's Earliest Retirement Age.

e. Notwithstanding the preceding provisions, if the present value of the preretirement death benefit described in subsections (b) and (c) does not exceed \$3,500 (\$5,000, for distributions that commence on or after January 1, 1998), the full vested amount shall be paid to the designated Beneficiary in a single lump sum. The payment shall be made as soon as administratively feasible following the date on which the Plan Administrator is provided with proof of the Participant's death.

#### 7.06 Deferred Vested Retirement Benefit.

a. The deferred vested retirement benefit of a Participant who becomes eligible for benefits under Article VI shall be the Participant's Accrued Benefit up to his termination of employment, multiplied by the applicable vesting percentage set forth in Article V.

b. The benefit provided by subsection (a) shall be payable at the Participant's Normal Retirement Date or, if the Participant so elects, at an Early Retirement Date if the Participant meets the pertinent requirements set forth in Article VI.

7.07 Reemployment After Benefit Commencement. A Participant in receipt of benefit payments under the Plan who returns to active service with the Employer as an Employee, or, in the case of an active Participant employed after his Required Beginning Date, who continues in active service as an Employee, shall have his allowance recalculated as of the end of each Plan Year as follows:

a. First, the Participant's benefit as of the end of the Plan Year will be calculated without regard to the fact that the Participant is receiving benefits.

b. The Participant's benefit in effect as of the Participant's original Annuity Starting Date will then be subtracted from the benefit determined pursuant to (a) above to determine the extent of any additional accrual.

c. Any additional accrual determined pursuant to (b) above shall then be reduced (but not below zero) by the Actuarial Equivalent value of Plan benefit payments received by the Participant through the end of the Plan Year.

d. Any additional accrual determined pursuant to (c) above shall be converted to the form of payment selected by the Participant as of the Participant's original Annuity Starting Date, using the ages of the Participant and the Participant's Beneficiary (if applicable) at the time of recalculation and conversion.

e. Payment of the recalculated benefit, including any increase, shall be effective as of the first day of the ensuing Plan Year.

7.08 July 1, 1995 Cost-of-Living Increase. Effective as of July 1, 1995, the benefit otherwise determined pursuant to Section 7.01 for each Participant (a) whose employment with the Employer terminated for any reason prior to January 1, 1990, (b) who, at the time employment terminated, had already fulfilled all requirements for a normal, early, or disability retirement benefit, and (c) who is receiving (or upon filing appropriate election forms would be eligible to receive) monthly benefit payments from the Plan as of July 1, 1995, shall be increased by five percent. The foregoing increase shall be applied prior to any adjustment for the date distributions commence and/or for optional forms of payment.

ARTICLE VIII

BENEFICIARIES

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8.01 Designation of a Beneficiary.

a. Each Participant may designate one or more Beneficiaries (and contingent Beneficiaries) by delivering a written designation to the Plan Administrator on a form provided by the Plan Administrator, in compliance with the provisions of Section 8.02.

b. A Participant may also make a new designation at any time (in accordance with Section 8.02). Such a designation is effective only upon receipt by the Plan Administrator, at which time it supersedes all prior designations.

c. Upon the death of a Participant, his Beneficiaries shall be entitled to the benefits described in Articles VII and IX.

d. A designation of a Beneficiary shall be effective only if the designated Beneficiary survives the Participant.

e. Upon the legal dissolution of the marriage of a Participant, any designation of the Participant's former Spouse as a Beneficiary shall remain valid, unless otherwise provided in a Qualified Domestic Relations Order, or unless the Participant delivers a new designation to the Plan Administrator or is remarried.

8.02 Spouses's Rights. The Spouse of a married Participant shall be the Participant's Beneficiary, whether or not designated as such, unless one of the following requirements in subsections (a) through (d) below is satisfied.

a. Spouse's Consent to the Beneficiary: The Participant designates a different Beneficiary and the Spouse waives the right to be the Beneficiary in a consent which meets the requirements of subsection (e). In this regard:

- i. The Participant must designate a specific Beneficiary that cannot be changed without a new spousal consent, unless the Spouse executes a general consent, as provided in subsection (e)(ii) below.
- ii. Notwithstanding subsection (i) above, the Participant may at any time revoke the designation of a non-spouse Beneficiary and restore the Spouse as the Beneficiary, without spousal consent.

b. Separation: The Participant designates a different Beneficiary and is legally separated from his Spouse or has been abandoned, within the meaning of local law, and provides the Plan Administrator with a court order regarding the applicable circumstance. (However, such a Spouse must be considered the Spouse to the extent provided in a Qualified Domestic Relations Order.)

c. Missing Spouse: The Participant designates a different Beneficiary and establishes to the satisfaction of the Plan Administrator that the Spouse cannot be located. The Plan Administrator shall adopt procedures to implement this provision, which shall be applied uniformly to all Participants.

d. Unmarried Participant: The Participant is unmarried. This "deemed" waiver of spousal rights for an unmarried Participant is null and void if the Participant later marries.

e. Consent Requirement: The Spouse's consent to waive survivor benefits in favor of another Beneficiary is valid only if the following requirements are satisfied:

- i. The Spouse's consent must be in writing and signed, must acknowledge the effect of the election, and must be witnessed by a notary public.
- ii. The Spouse's consent must either acknowledge the specific non-spouse Beneficiary or must expressly permit the Participant to alter the Beneficiary designation without further spousal consent. For Plan Years beginning after October 22, 1986, a consent that permits further designations must also acknowledge (A) that the Spouse has the right to limit consent to a specific Beneficiary and (B) that the Spouse is voluntarily relinquishing this right.
- iii. The consent required by this subsection may be given by the legal guardian of a legally incompetent Spouse. This applies even if the Participant is the legal guardian.
- iv. A consent is only valid for the Spouse who gives the consent (or for whom the consent is given by a legal guardian).

A valid consent, once given, can be revoked; provided the revocation occurs before the Annuity Starting Date.

8.03 Absence of a Designated Beneficiary. If no effective Beneficiary designation exists at the Participant's death, the Participant shall be deemed to have designated the following Beneficiaries in the following order of priority: (a) the Spouse; (b) children, including adopted children and step-children, in equal shares; (c) parents, in equal shares, and (d) the Participant's estate. This order of priority shall apply to individuals living at the time of the Participant's death.

8.04 Beneficiaries' Rights. Whenever the rights of a Participant are stated or limited in the Plan, his Beneficiaries shall also be bound by the Plan provisions.

ARTICLE IX

DISTRIBUTION REQUIREMENTS

9.01 Form of Distribution.

a. Normal Forms: The normal form of benefit for a Participant who is married on his Annuity Starting Date is a 50 percent Joint and Survivor Annuity with the Spouse as Beneficiary, which is the Actuarial Equivalent of the benefit that would be payable to the Participant if the Participant was not married on his Annuity Starting Date. The normal form of benefit for a Participant who is not married on his Annuity Starting Date is a straight life annuity, payable in monthly installments, for the life of the Participant; provided, however, that if the Participant shall die before having received 60 monthly payments, such monthly payments shall be continued to his Beneficiary until the total number of monthly payments to such Participant and Beneficiary equals 60. If the Participant and Beneficiary die before having received a total of 60 monthly payments, the Actuarial Equivalent value of the balance of such monthly payments shall be paid in a single sum to the estate of the survivor of the Participant and Beneficiary.

b. Optional Forms of Payment: Unless the mandatory cash-out provisions of Section 6.06(a) apply, a Participant may elect to receive his Plan benefit in one of the optional forms of payment described below, provided the Participant and form of payment satisfy the other requirements of this Article IX.

- i. A reduced retirement benefit payable during the Participant's lifetime, with the provision that after his death the same benefit shall be paid during the life of such contingent annuitant Beneficiary) as the Participant shall have nominated by written designation duly acknowledged and filed with the Plan Administrator prior to the time payment is to commence.
- ii. A reduced retirement benefit payable during the Participant's lifetime, with the provision that after his death the same benefit shall be paid during the life of such contingent annuitant (Beneficiary) as the Participant shall have nominated by written designation duly acknowledged and filed with the Plan Administrator prior to the time payment is to commence. If both the Participant and the contingent annuitant die before 60 monthly payments have been made since the benefit commencement date, the Actuarial Equivalent value of the balance of such 60 monthly payments shall be paid in a single sum to the estate of the survivor of the Participant and contingent annuitant. Participants who elect to commence receipt of benefit payments on or after January 1, 1995 may elect this optional form of payment with 120 monthly payments guaranteed.

- iii. A reduced retirement benefit payable during the Participant's life with the provision that after such period a benefit of one-half of the benefit payable during the Participant's life shall be continued during the life of such contingent annuitant (Beneficiary) as the Participant shall have nominated by written designation duly acknowledged and filed with the Plan Administrator prior to the time payment is to commence. If both the Participant and the contingent annuitant die before 60 monthly payments have been made since the benefit commencement date, the Actuarial Equivalent value of the balance of such 60 monthly payments shall be paid in a single sum to the estate of the survivor of the Participant and contingent annuitant. Participants who elect to commence receipt of benefit payments on or after January 1, 1995 may elect this optional form of payment with 120 monthly payments guaranteed.
- iv. Effective for benefit payments that commence on or after January 1, 1995, a reduced retirement benefit payable during the Participant's life, with no benefit payable after his death; provided, however, that if the Participant shall die before having received 120 monthly payments, such monthly payments shall continue to be paid to his Beneficiary until the total number of payments to the Participant and the Beneficiary equals 120. If the Participant and Beneficiary both die before having received a total of 120 monthly payments, the Actuarial Equivalent value of the balance of unpaid monthly payments shall be paid in a single sum to the estate of the survivor of the Participant and Beneficiary.
- v. An increased retirement benefit payable during the Participant's life, with no other benefit payable after his death.

c. Election and Consent Requirements

A Participant may effectively waive his normal form of benefit and elect any of the other forms provided in subsection (b) only as follows:

- i. The election must be made in writing and delivered to the Plan Administrator during the 90-day period ending on the Annuity Starting Date. For Plan Years beginning after December 31, 1986, the election must specify the optional form of benefit elected.

- ii. The election must be made after the Plan Administrator provides the Participant with the notice described in subsection (d) below.
- iii. Unless an exception stated in Section 8.02 applies, the Spouse of a married Participant must consent to any election, except a different-percentage Joint and Survivor Annuity with the Spouse as the Beneficiary. The Spouse's consent must satisfy the requirements in Section 8.02(e), and, for Plan Years beginning after December 31, 1986 must also agree to the specific optional form of benefits that the Participant elects. Notwithstanding the preceding provisions, the Participant may at any time prior to the commencement of benefits revoke an election and restore the 50 percent Joint and Survivor Annuity for the Spouse. The number of revocations shall not be limited; provided, however, that the form of payment in effect on the Annuity Starting Date may not be changed after the Annuity Starting Date.

d. Notice: No less than 30 and no more than 90 days prior to the Annuity Starting Date, the Plan Administrator shall furnish each Participant with a written notice that explains:

- i. The terms and conditions of the 50 percent Joint and Survivor Annuity;
- ii. The Participant's right to make, and the effect of, an election to waive the 50 percent Joint and Survivor Annuity;
- iii. The rights of the Participant's Spouse;
- iv. The right to revoke a previous election and the effect of the revocation; and
- v. The relative values of the other forms of payment described in subsection (b).

The Annuity Starting Date for a distribution in a form other than a Joint and Survivor Annuity may be less than 30 days after receipt of the written explanation described above provided: (A) the Participant has been provided with information that clearly indicates that the Participant has at least 30 days to consider whether to waive the Joint and Survivor Annuity and elect (with spousal consent) to a form of distribution other than a Joint and Survivor Annuity; (B) the Participant is permitted to revoke any affirmative distribution election at least until the Annuity Starting Date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Joint and Survivor Annuity is provided to the Participant; and (C) the Annuity Starting Date is a date after the date that the written explanation was provided to the Participant.

e. Amount: The amount payable under any optional form of benefit shall be the Actuarial Equivalent of the benefit payable as a straight life annuity.

f. Annuity Contracts: Benefits to be paid in the form of any type of annuity may be provided through a nontransferable annuity contract issued by a reputable insurance company and purchased by the Trustee, or by direct payment from the Trust, as determined by the Plan Administrator. The terms of any annuity contract purchased and distributed by the Trustee to a Participant or Beneficiary shall comply with the required distribution rules under this Article, and Code Section 401(a)(9) and implementing Regulations.

9.02 Compliance with Code Section 401(a)(9).

a. Incorporation by Reference: Distributions shall be made in compliance with Code Section 401(a)(9) and implementing Regulations, including the minimum distribution incidental benefit requirement of proposed Regulation 1.401(a)(9)-2. These Code and regulatory provisions are hereby incorporated by reference, and shall take precedence over any inconsistent provisions of the plan. (However, the Section 401(a)(9) rules will not extend the period for making a distribution, if other provisions of the Plan require an earlier distribution.) These rules are summarized in this Section and Sections 9.03 through 9.05 below.

b. Life Expectancies: In applying Code Section 401(a)(9) and implementing Regulations:

- i. Life expectancies of Participants and Beneficiaries shall be calculated using the expected return multipliers in Tables V and VI of Regulation 1.72-9.
- ii. The life expectancies of a Participant and his Spouse shall not be redetermined pursuant to Code Section 401(a)(9)(D).

9.03 Required Distribution to Participant. As stated in Article VI, a Participant generally may elect to defer the receipt of benefits following Retirement. Notwithstanding this general rule, the entire interest of a Participant must be distributed, or begin to be distributed, no later than the Participant's Required Beginning Date, as defined below.

a. Age 70-1/2 before January 1, 1988: For a Participant who attains age 70-1/2 before January 1, 1988, the Required Beginning Date shall be determined as follows:

- i. For a Participant who is not a Five Percent Owner, the Required Beginning Date is April 1 of the calendar year following the calendar year in which the later of Retirement or attainment of age 70-1/2 occurs.

- ii. For a Participant who is a Five Percent Owner during any year beginning after December 31, 1979, the Required Beginning Date is April 1 following the later of: (A) the calendar year in which the Participant attains age 70-1/2, or (B) the earlier of the calendar year with or within which ends the Plan Year in which the Participant becomes a Five Percent Owner, or the calendar year in which the Participant retires.

b. Age 70-1/2 on or after January 1, 1988 and before January 1, 1996: For a Participant who attains age 70-1/2 on or after January 1, 1988 and before January 1, 1996, the Required Beginning Date is April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2, with the following exception. For a Participant who attains age 70-1/2 during 1988 and has not retired as of January 1, 1989, the Required Beginning Date is April 1, 1990.

c. Age 70-1/2 after December 31, 1995: For a Participant who attains age 70-1/2 after December 31, 1995, the Required Beginning Date shall be determined as follows:

- i. For a Participant who is a Five Percent Owner, the Required Beginning Date is April 1 of the calendar year following the calendar year during which the Participant attains age 70-1/2.
- ii. For a Participant who is not a Five Percent Owner, the Required Beginning Date is April 1 following the calendar year in which the later of Retirement or attainment of age 70-1/2 occurs; provided, however, that any such Participant who attains age 70-1/2 after December 31, 1995 may elect by April 1 following the calendar year during which the Participant attains age 70-1/2 (or by December 31, 1997 in the case of a Participant who attains age 70-1/2 in 1996) to commence receipt of the Participant's Plan benefit as of April 1 following the calendar year during which the Participant attains age 70-1/2.

For purposes of this Section, a Participant shall be treated as a Five Percent Owner if he is a Five Percent Owner at any time during the Plan Year ending with or within the calendar year in which he attains age 66-1/2 or any subsequent Plan Year. Once distributions have begun to a Five Percent Owner, they must continue even if the Participant ceases to be a Five Percent Owner in a subsequent year.

d. Except with respect to a Five Percent Owner, a Participant's accrued benefit is actuarially increased to take into account the period after age 70-1/2 in which the employee does not receive any benefits under the Plan because the Participant remains in active employment. The actuarial increase begins on April 1 following the calendar year in which the Participant attains age 70-1/2 (January 1, 1997 in the case of a Participant who attained age 70-1/2 prior to 1996), and ends on the date on which benefits

commence after retirement in an amount sufficient to satisfy Code Section 401(a)(9). The benefit payable as of such benefit commencement date shall equal the sum of (i) the Actuarial Equivalent of the Participant's benefit that would have been payable as of the date actuarial increases must commence, plus (ii) the Actuarial Equivalent of any additional benefits accrued after the date actuarial increases must commence.

The sum described above shall be reduced by the Actuarial Equivalent of any distributions made with respect to the Participant's benefit after the date actuarial increases must commence; provided, however, that, in no event will the Participant's benefit at benefit commencement be less than the Participant's benefit determined as of the date actuarial increases must commence.

The actuarial increase described in this Section is generally the same as, and not in addition to, the actuarial increase required for that same period under Code Section 411 to reflect the delay in payments after normal retirement, except that the actuarial increase required under Code Section 401(a)(9)(C) must be provided even during the period during which a Participant is in ERISA Section 203(a)(3)(B) service.

For purposes of Code Section 411(b)(1)(H), the actuarial increase will be treated as an adjustment attributable to the delay in distribution of benefits after the attainment of normal retirement age. Accordingly, to the extent permitted under Code Section 411(b)(1)(H), the actuarial increase required under Code Section 401(a)(9)(C)(iii) may reduce the benefit accrual otherwise required under Code Section 411(b)(1)(H)(i), except that the rules on the suspension of benefits are not applicable.

#### 9.04 Limits on Distribution Periods.

a. As of the first "distribution calendar year," distributions, if not made in a single sum, may be made only over one of the following periods (or a combination thereof):

- i. The life of the Participant;
- ii. The life of the Participant and a Beneficiary;
- iii. A period certain not extending beyond the life expectancy of the Participant; or
- iv. A period certain not extending beyond the joint and last survivor expectancy of the Participant and a designated Beneficiary.

b. For distributions beginning before the Participant's death, the first "distribution calendar year" is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date.

c. For distributions beginning after the Participant's death, the first "distribution calendar year" is the calendar year in which distributions are required to begin pursuant to Section 9.05(b).

9.05 Required Distribution to Beneficiary. As provided in Article VII, the designated Beneficiary generally may elect to defer the receipt of benefits payable following the death of a Participant. However, this right is subject to the following restrictions:

a. Distribution Beginning before Death: If the Participant dies after he begins to receive benefits, any benefits that remain undistributed at his death shall be distributed at least as rapidly as the method of distribution being used at the time of his death.

b. Distribution Beginning after Death: If the Participant dies before he begins to receive benefits, payment of the survivor benefit shall commence no later than one year after the date of the Participant's death. As an exception to this rule, if the designated Beneficiary is the Surviving Spouse, the later of the calendar year in which the Participant dies, or the Surviving Spouse may elect to have payments commence on or before December 31 of the later of the calendar year in which the Participant died, or the calendar year in which the Participant would have attained age 70-1/2.

9.06 Location of Participant or Beneficiary Unknown.

a. When a distribution is payable to a Participant or Beneficiary, the Plan Administrator shall make all reasonable efforts to locate that person. These efforts shall include (i) sending a registered letter, return receipt requested, to the person's last known mailing address, and (ii) sending a written request to any person shown in the Employer's records as a relative or other person to contact, asking for information regarding the whereabouts of the Participant or Beneficiary.

b. If the Plan Administrator is unable to locate the person within six months from the date a certified letter was mailed to him, the Plan Administrator shall direct the Trustee to maintain the Participant as an inactive Participant. The Plan Administrator shall continue to maintain the Participant in inactive status until (i) the person entitled to the benefit makes an application for it, or (ii) the benefit reverts by escheat to the State, whichever occurs first.

9.07 Facility of Payment. If the Plan Administrator finds that any person to whom a benefit is payable from the Fund is unable to care for his affairs because of illness or accident, any payment due may be paid to the Spouse, a child, a parent, or a brother or sister, or to any person deemed by the Plan Administrator to have incurred expense for the person, unless a prior claim for the benefit has been made by a duly appointed guardian, committee or other legal representative. Any such payments will be a complete discharge of any liability under the Plan.

9.08 Eligible Rollover Distributions.

a. Application of Section. This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

b. Definitions.

- i. Eligible Rollover Distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).
- ii. Eligible Retirement Plan: An eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the Surviving Spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.
- iii. Distributee: A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's Surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the Alternate Payee under a Qualified Domestic Relations Order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the Spouse or former Spouse.

iv. Direct Rollover: A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

ARTICLE X

FINANCING

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10.01 Fund. The funding of the Plan and payment of benefits shall be provided for through the medium of the Fund held by the Trustee under the provisions of the Trust Agreement, which is deemed to form a part of the Plan. All rights or benefits which may accrue to any person under the Plan shall be subject to the Trust Agreement. The names of the current Trustees are available from the Secretary of the Employer. The contributions of the Employer, together with any income, gains, or profits, less distributions and losses, shall constitute the Fund. The Employer shall determine the form and terms of any such Trust Agreement, and may modify the Trust Agreement from time to time to accomplish the purposes of the Plan, and may remove any Trustee.

10.02 Contributions to the Plan. The Employer intends to make, from time to time, such contributions to the Fund as determined by the Plan Administrator. Expenses of the Plan, unless paid by the Employer, shall be paid out of the assets of the Fund. There are no Employee contributions to the Plan.

10.03 Funding Policy. The Plan Administrator shall establish a written funding policy and method consistent with the objectives of the Plan and the requirements of Title I of ERISA. The Plan Administrator shall review such funding policy and method at least annually. In its actions, the Plan Administrator shall endeavor to determine the Plan's short-term and long-term objectives and financial needs, taking into account the need for liquidity to pay benefits and the need for investment growth. All actions under this Section, including the supporting reasons, shall be recorded in writing by the Plan Administrator and communicated to the Trustee and Board of Directors.

10.04 Return of Employer Contributions. Contributions shall be returned to the Employer by the Trustee, if the Plan Administrator certifies in writing to the Trustee that one or more of the following circumstances exists:

a. If the Employer made a contribution by mistake of fact, the contribution shall be returned to the Employer within one year after its payment to the Trustee.

b. If the Employer made the contribution conditioned on the qualification of the Plan under the Code, and if the Plan receives an adverse determination with respect to its initial qualification, the contribution shall be returned to the Employer within one year after such final determination as described in Section 16.05(a), but only if the application for the determination is made by the time prescribed by law for filing the Employer's tax return for the taxable year in which the Plan was adopted, or such later date as the Secretary of the Treasury may prescribe.

c. To the extent that a deduction for a contribution under Section 404 of the Code is disallowed, the contribution shall be returned to the Employer within one year after the disallowance (or within one year after the date a court decision upholding the disallowance becomes final).

With respect to the return of contributions occasioned by the circumstances listed in subsections (a) and/or (c) above, the amount which shall be returned to the Employer is the excess of the amount contributed over the amount that would have been contributed had there not occurred a mistake of fact or a mistake in determining the deduction. Earnings attributable to the excess contribution shall not be returned to the Employer, but losses attributable to the contribution must reduce the amount to be returned.

ARTICLE XI

ADMINISTRATION

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11.01 Plan Administrator.

a. The Plan Administrator shall be the named fiduciary for the Plan and shall be responsible for the management, operation and administration of the Plan.

b. The Board of Directors shall have the authority to appoint an individual or other entity, or a committee consisting of three members to be the Plan Administrator, and to fill any vacancies which occur, in its sole discretion. Any appointee is subject to removal by the Board of Directors at any time, and may resign at his own volition upon 10 days prior written notice to the Board of Directors. If at any time there is no appointed Plan Administrator because vacancies have not been filled, the Board of Directors shall be deemed the Plan Administrator. Names of all current appointees shall be available from the Secretary of the Employer.

c. If the Plan Administrator is a committee, any act that this Plan authorizes or requires the Plan Administrator to do may be done at a meeting of the committee by a majority of the members then voting.

d. The Board of Directors will appoint a chairman and a secretary and such other agents and representatives of the pension committee as it may deem advisable (see Section 11.05). In its relationship with the Trustee and any insurance company or companies on any matter or thing included in this Plan, one member of the committee may be authorized by it to sign or execute any document on its behalf. The Chairman of the Board of Directors will certify to the Trustee and to such insurance company or companies the name and signature of the member of the committee who is so authorized.

e. The Plan Administrator will serve without compensation for services as such, but all the Plan Administrator's expenses shall be paid by the Employer (see Section 11.11).

f. The Board of Directors, in its sole discretion, may also designate the Trustee as the Plan Administrator. Any such designation shall be valid only if the Trustee acknowledges responsibility for the management, operation and administration of the Plan in writing. Thereafter, all references in the Plan and Trust to the Plan Administrator shall mean the Trustee unless and until the Board of Directors appoints a different Plan Administrator in accordance with this Section.

#### 11.02 Fiduciary and Administrative Duties

a. The Plan Administrator shall have the following powers, duties, and responsibilities, which it may retain or delegate among the below-mentioned bodies:

- i. Powers, duties, and responsibilities of administration which shall be delegable to an administrator;
- ii. Powers, duties, and responsibilities of custody and disbursement of the assets of the Fund, which shall be delegable to the Trustee, the administrator, or an insurance company, and
- iii. Powers, duties, and responsibilities of investment which shall be delegable to the Trustee, an investment advisor, or an insurance company.

The Plan Administrator may appoint an administrator, an investment advisor, or an insurance company, and review or redelegate the exercise of these powers, duties and responsibilities at any time.

b. As provided in Section 10.03, the Plan Administrator will prescribe a funding policy for the Plan.

#### 11.03 General Powers and Discretion of Plan Administrator.

a. The Plan Administrator shall have all powers necessary to administer the Plan in accordance with its terms, including the power to construe the Plan and determine all questions that arise under it.

b. Notwithstanding any other provision in the Plan, and to the full extent permitted by law, the Plan Administrator shall have exclusive authority and discretion to interpret, construe and apply all of the terms of the Plan, including any uncertain or disputed term or provision in the Plan. The Plan Administrator's authority and discretion shall include, but not limited to, the following:

- i. Determining and deciding all questions of law and/or fact that arise under the Plan;
- ii. Determining whether any individual is eligible for any benefits under this Plan; and
- iii. Determining the amount of benefits, if any, an individual is entitled to under this Plan.

c. The Plan Administrator's exercise of discretionary authority to interpret, construe and apply the terms of the Plan, and all its determinations, interpretations and applications shall:

- i. Be binding upon any individual claiming benefits under this Plan, including, but not limited to, the Participant, the Participant's estate, any Beneficiary of the Participant, and any Alternate Payees;
- ii. Be given deference in all courts of law, to the greatest extent allowed by applicable law; and
- iii. Not be overturned or set aside by any court of law unless found to be arbitrary and capricious, or made in bad faith.

d. If the discretionary authority in subsection (c) is exercised with respect to an individual who is a member of the pension committee, the authority shall be exercised solely and exclusively by the other members. If the individual is the only Plan Administrator at the time, the discretionary authority shall be exercised by the Board of Directors, not including the affected individual if he is also a member of the Board of Directors.

e. Any discretionary actions of the Plan Administrator or Board of Directors shall be taken in a manner that does not discriminate in favor of Highly Compensated Employees.

#### 11.04 Administration of the Fund.

a. The Trustee shall be responsible for the management and investment of the Fund in accordance with the provisions of the Trust agreement.

b. Directives of the Plan Administrator to the Trustee shall be delivered in writing, and properly signed.

#### 11.05 Delegation of Powers.

a. When the Plan Administrator appoints assistants or representatives, it may delegate to them any powers and duties, both ministerial and discretionary, as it deems expedient or appropriate (except as provided in Section 11.06).

b. Any appointment under this Section or Section 11.06 shall be made pursuant to a signed, written instrument.

11.06 Appointment of Professional Assistants and Investment Managers.

a. The Plan Administrator may engage accountants, attorneys, physicians and such other professional personnel as it deems necessary or advisable. The Plan Administrator may also appoint one or more investment managers to manage all or any of the assets of the Trust, including the power to acquire or dispose of assets. However, the appointment of an investment manager must be approved by the Board of Directors, and the investment manager must acknowledge in writing that it is a fiduciary with respect to the Plan. An investment manager can only be a party that is either (i) registered as an investment adviser under the Investment Advisers Act of 1940, (ii) a bank, as defined in that Act, or (iii) an insurance company qualified to manage, acquire and dispose of Plan assets under the laws of more than one State.

b. The functions of persons engaged under this Section shall be limited to the specific services and duties for which they are engaged. Such persons shall have no other duties, obligations or responsibilities under the Plan or Trust, and shall exercise no discretion regarding the management of the Plan. Unless engaged specifically as an investment manager, such a person shall exercise no authority or control respecting management or disposition of the assets of the Trust.

c. The fees and costs of services under this Section are an administrative expense of the Plan to be paid out of the Fund, except to the extent paid by the Employer.

11.07 Records. All acts and determinations with respect to the Plan shall be duly recorded. All such records and other documents that may be necessary for the administration of the Plan shall be preserved in the custody of the Plan Administrator (or its appointed assistants or representatives).

11.08 Notice of Rollover Treatment. When making a qualifying rollover distribution within the meaning of Code Section 402(a), the Plan Administrator shall provide to the recipient a written explanation of:

- i. The circumstances under which such distribution will not be subject to tax if transferred to an eligible retirement plan (as defined in Code Section 402(a)) within 60 days after the date on which the recipient receives the distribution; and
- ii. If applicable, the income averaging provisions of Code Section 402(e).

11.09 Responsibility of Fiduciaries. The Plan Administrator and any assistant or representative, other than any Investment Manager, shall be free from all liability for acts and conduct in the administration of the Plan and Trust, except for acts of willful misconduct.

However, the preceding sentence shall not relieve any fiduciary from any responsibility, obligation or duty that the fiduciary may have pursuant to ERISA.

11.10 Indemnity by Employer. To the extent not insured against by an applicable insurance policy, and to the extent permitted by law, the Employer shall indemnify and hold harmless the Plan Administrator and its assistants and representatives from any and all claims, demands, suits or proceedings in connection with the Plan or Trust that may be brought against them, provided the individual or entity being indemnified is/was an employee, or committee of employees, of the Employer.

11.11 Payment of Fees and Expenses. To the extent consistent with ERISA, the Plan Administrator and assistants and representatives, shall be entitled to payment from the Fund for all reasonable costs, charges and expenses incurred in the administration of the Plan and Trust. This includes, but is not limited to, reasonable fees for accounting, legal and other services, to the extent incurred in the performance of duties under the Plan and Trust, except to the extent that the fees and costs are paid by the Employer. Notwithstanding any other provision of the Plan or Trust, no person who is a "disqualified person," within the meaning of Code Section 4975(e)(2) and who receives full-time pay from the Employer shall receive compensation from the Trust Fund, except for reimbursement of expenses properly and actually incurred.

11.12 ERISA Reporting and Disclosure. The Plan Administrator shall be responsible for the performance of all reporting and disclosure obligations under ERISA.

11.13 Service of Legal Process. The Plan Administrator shall be the designated agent of the Plan for service of legal process.

11.14 Claim for Benefits. Any claim for benefits by a Participant or Beneficiary shall be made in writing to the Plan Administrator.

11.15 Denial of Claim.

a. If the Plan Administrator denies a claim in whole or in part, it shall send the Participant or Beneficiary ("claimant") a written notice of the denial.

b. The Plan Administrator shall send the denial notice within 90 days after the date it receives a claim, unless it needs additional time to make its decision. In that case, the Plan Administrator may authorize an extension of up to an additional 90 days, if it notifies the claimant of the extension within the initial 90-day period. The extension notice shall state the reasons for the extension and the expected decision date.

c. The denial notice shall be written in a manner calculated to be understood by the claimant and shall contain:

- i. The specific reason or reasons for the denial of the claim;
- ii. Specific reference to pertinent Plan provisions on which the denial is based;
- iii. A description of any additional material or information necessary to perfect the claim, with an explanation of why the material or information is necessary; and
- iv. An explanation of the review procedures provided by sections 11.16 and 11.17.

11.16 Request for Review of Denial.

a. Within 60 days after the claimant receives a denial notice, he may file a request for review with the Plan Administrator. Any such request must be made in writing.

b. A claimant who timely requests review shall have the right to review pertinent documents, to submit additional information and written comments, and to be represented.

11.17 Review Decision.

a. The Plan Administrator shall send the claimant a written decision on any request for review that it receives.

b. The Plan Administrator shall send the review decision within 60 days after the date it receives a request for review, unless an extension of time is needed, due to special circumstances. In that case, the Plan Administrator may authorize an extension of up to an additional 60 days, provided it notifies the claimant of the extension within the initial 60-day period.

c. The review decision shall be written in a manner calculated to be understood by the claimant and shall contain:

- i. The specific reason or reasons for the decision; and
- ii. Specific reference to the pertinent Plan provisions on which the decision is based.

d. If the Plan Administrator does not send the claimant a review decision within the applicable time period, the claim shall be deemed denied on review.

e. The review decision (including a deemed decision) shall be the final decision of the Plan.

ARTICLE XII

LIMITATIONS ON BENEFITS  
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12.01 General Rules.

a. Incorporation of Code Section 415: In addition to the specific provisions of this Article, the terms of Code Section 415 and implementing Regulations are hereby incorporated by reference and shall govern the determination of the Maximum Retirement Benefits of all Participants.

b. Aggregation of Employers and Plans: As further set forth in this Article and Code Section 415, the Maximum Retirement Benefit is an aggregate limitation that applies to this Plan and any other plans, described below, that are maintained by the Employer or an Affiliated Employer. Therefore, for purposes of this Article, all qualified defined benefit plans, whether terminated or not, ever maintained by the Employer shall be treated as one defined benefit plan, and all qualified defined contribution plans, whether terminated or not, ever maintained by the Employer shall be treated as one defined contribution plan. Any required employee contributions to a defined benefit plan shall be treated as annual additions to a defined contribution plan. However, the annual additions for Limitation Years beginning before January 1, 1987 shall not be recomputed to treat all employee contributions as annual additions.

12.02 Code Section 415 Limitations. For Limitation Years beginning after December 31, 1986, the Annual Benefit payable to a Participant shall not exceed the Maximum Retirement Benefit for any Limitation Year. If the benefit a Participant would otherwise accrue would produce an Annual Benefit in excess of the Maximum Retirement Benefit, the rate of accrual will be reduced so that the Annual Benefit will equal the Maximum Retirement Benefit.

a. Annual Benefit means a retirement benefit under the Plan that is payable annually in the form of a straight life annuity.

- i. The Annual Benefit does not include any benefits attributable to employee contributions.
- ii. A benefit payable in a form other than a straight life annuity must be adjusted to an Actuarially Equivalent straight life annuity before applying the limitations of this Article. For Limitation Years beginning before January 1, 1995, such Actuarially Equivalent straight life annuity is equal to the greater of the annuity benefit computed using the interest rate specified in the Plan for adjusting benefits in the same form or 5 percent. For Limitation Years beginning after December 31, 1994, the Actuarially Equivalent straight life annuity

is equal to the greater of the annuity benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for adjusting benefits in the same form, and the annuity benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table (defined in Section 2.03(c) of the Plan). In determining the Actuarially Equivalent straight life annuity for a benefit form other than a nondecreasing annuity payable for a period of not less than the life of the Participant (or, in the case of a Pre-Retirement Survivor Annuity, the life of the surviving spouse), the Applicable Interest Rate (defined in Section 2.09 of the Plan) will be substituted for "a 5 percent interest rate assumption" in the preceding sentence.

b. Maximum Retirement Benefit means the lesser of:

- i. The Defined Benefit Dollar Limitation; or
- ii. The Participant's highest average compensation. For purposes of the preceding sentence, "highest average compensation" means the average Limitation Year Compensation for the three consecutive Limitation Years that produces the highest average for the Participant. The actual number of Limitation Year shall be used for Participants who have been employed for less than three consecutive Limitation Years. In the case of a Participant who has separated from service, the Participant's highest average compensation will be automatically adjusted by multiplying such compensation by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Code Section 415(d) in such manner as the Secretary shall prescribe. The adjusted compensation amount will apply to Limitation Years ending within the calendar year of the date of the adjustment.

c. Actuarial Increase of Defined Benefit Dollar Limitation: In the case of a benefit that begins after the Participant attains his Social Security Retirement Age, the Defined Benefit Dollar Limitation, as reduced under subsection (e) if necessary, shall be actuarially increased, using (in Limitation Years beginning before January 1, 1995) an interest rate that is the lesser of five percent or the interest rate specified in the first paragraph of Section 2.03. For Limitation Years beginning after December 31, 1994, the equivalent annual benefit beginning after Social Security Retirement age shall be determined as the lesser of the equivalent annual benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for purposes of determining actuarial equivalence for delayed retirement benefits, and the equivalent annual benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table as defined in Section 2.03(c) of the Plan.

d. Actuarial Decrease of Defined Benefit Dollar Limitation:

- i. If the Annual Benefit of the Participant commences before the Participant's Social Security Retirement Age, but on or after age 62, the Defined Benefit Dollar Limitation as reduced under subsection (e) if necessary, shall be determined as follows:
  - A. If a Participant's Social Security Retirement Age is 65, the dollar limitation for benefits commencing on or after age 62 is determined by reducing the Defined Benefit Dollar Limitation by 5/9 of one percent for each month by which benefits commence before the month in which the Participant attains age 65.
  - B. If a Participant's Social Security Retirement Age is greater than 65, the dollar limitation for benefits commencing on or after age 62 is determined by reducing the Defined Benefit Dollar Limitation by 5/9 of one percent for each of the first 36 months and 5/12 of one percent for each of the additional months (up to 24 months) by which benefits commence before the month of the Participant's Social Security Retirement Age.
- ii. If the Annual Benefit of a Participant commences prior to age 62, the Defined Benefit Dollar Limitation shall be the actuarial equivalent of the Defined Benefit Dollar Limitation for age 62, as determined above, reduced for each month by which benefits commence before the month in which the Participant attains age 62. To determine actuarial equivalence in Limitation Years that begin before January 1, 1995, the interest rate assumption shall be the greater of the rate specified in the first paragraph of Section 2.03 or five percent. For Limitation Years that begin after December 31, 1994, the annual benefit beginning prior to age 62 shall be determined as the lesser of the equivalent annual benefit computed using the interest rate and mortality table (or other tabular factor) equivalence for early retirement benefits, and the equivalent annual benefit computed using a five percent interest rate and the Applicable Mortality Table as defined in Section 2.03(c) of the Plan. Any decrease in the adjusted Defined Benefit Dollar Limitation determined in accordance with this subsection (ii) shall not reflect any mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant.

e. Reduction of Maximum Retirement Benefit:

- i. If a Participant has less than ten Years of Participation, the Defined Benefit Dollar Limitation shall be multiplied by a fraction, the numerator of which is the number of Years of Participation (or part thereof), and the denominator of which is ten. To the extent provided in Regulations or other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.
- ii. If the Participant has less than ten Years of Service, the compensation limitation in subsection (b)(ii) shall be multiplied by a fraction, the numerator of which is the Participant's number of Years of Service (or part thereof), and the denominator of which is ten.
- iii. The adjustments of this subsection (e) shall be applied in the denominator of the Defined Benefit Fraction based upon Years of Service. For purposes of computing the Defined Benefit Fraction only, Years of Service shall include future Years of Service (or part thereof) commencing before the Participant's Normal Retirement Age. Such future years shall include the year that contains the date the Participant reaches Normal Retirement Age, only if it can reasonably be anticipated that the Participant will receive a Year of Service for such year, or the year in which the Participant terminates employment, if earlier.

12.03 Deemed Satisfaction of Maximum Retirement Benefit Limitation.

- i. The Maximum Retirement Benefit limitation shall be deemed satisfied if the aggregate Annual Benefits payable to a Participant under this Plan and all other defined Benefit plans of the Employer do not exceed \$10,000.
- ii. This deeming provision shall apply to a Participant if he has not at any time participated in a defined contribution plan maintained by the Employer (or in a welfare benefit plan under Code Section 419(e) or an individual medical account under Code Section 415(1)(2)). For purposes of this subsection, a defined benefit plan that provides for employee contributions, which are treated as annual additions, does not constitute the maintenance of a separate defined contribution plan maintained by the Employer.

12.04 Maximum Retirement Benefit for Multiple Plans.

a. Multiple Defined Benefit Plans: If a Participant has ever been covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's Annual Benefits from all such plans shall not exceed the Maximum Retirement Benefit. The Employer shall reduce and, if necessary, freeze the accrual of benefits under this Plan to the extent necessary to meet this limitation.

b. Defined Benefit Plan and Defined Contribution Plan: For Limitation Years beginning before January 1, 2000, if a Participant is or has been covered by a defined contribution plan maintained by the Employer (including a welfare benefit fund, as defined in Code Section 419(e) or an individual medical account as defined in Code Section 415(1)(2)), the sum of the Participant's Defined Benefit Fraction and Defined Contribution Fraction, as defined below, shall not exceed 1.0 in any Limitation Year.

i. Defined Benefit Fraction: The numerator of the Defined Benefit Fraction is the sum of the Participant's "projected annual benefits" under all defined benefit plans of the Employer (whether or not terminated). The denominator is the lesser of 1.25 times the dollar limitation determined for the Limitation Year under Sections 415(b) and (d) of the Code and in accordance with Section 12.02(e) above, or 1.4 times the Participant's "highest average compensation," including any adjustments under Section 415(b) of the Code. In determining the Defined Benefit Fraction:

- A. "Projected annual benefit" means the annual retirement benefit (adjusted to an actuarially equivalent straight life annuity, if such benefit is expressed in a form other than a straight life annuity, or qualified joint and survivor annuity) to which the Participant would be entitled under the terms of the Plan, assuming that: (1) The Participant will continue employment until Normal Retirement Age under the Plan (or current age, if later), and (2) The Participant's Compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.
- B. "Highest average compensation" is defined in Section 12.02(b)(ii).
- C. Notwithstanding the preceding provisions, if a Participant was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986 in a defined benefit plan maintained by the Employer which was in existence on May 6, 1986, the denominator of the fraction will

not be less than 125 percent of the sum of the annual benefits under such plan, which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if any such defined benefit plans, individually and in the aggregate, satisfied the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

ii. **Defined Contribution Fraction:** The numerator of the Defined Contribution Fraction is the sum of the annual additions to the Participant's accounts under all defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years. The denominator is the sum of the "maximum aggregate amounts" for the current and all prior Limitation Years of Service with the Employer regardless of whether a defined contribution plan was maintained by the Employer. In determining the Defined Contribution Fraction:

- A. "Maximum aggregate amount" means the lesser of (1) 125 percent of the defined contribution dollar limitation, determined in accordance with Code Sections 415(c) and (d), or (2) 35 percent of the Participant's Limitation Year Compensation for such year.
- B. If the Participant was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans of the Employer, which were in existence on May 6, 1986, the numerator of the fraction will be adjusted if the sum of this fraction and the Defined Benefit Fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction will be permanently subtracted from the numerator of the fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the plan made after May 5, 1986, but using the code Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

- iii. Adjustment: If the sum of the Defined Benefit Fraction and the Defined Contribution Fraction exceeds 1.0 in any Limitation Year for a Participant, the Plan Administrator shall adjust the numerator of the Defined Benefit Fraction, so that the sum of the fractions for the Participant does not exceed 1.0 in any Limitation Year.
- iv. Super Top-Heavy Rules: In applying the above rules, if the Plan is a Super Top-Heavy Plan, the denominators of both the Defined Benefit Fraction and the Defined Contribution Fraction shall be adjusted as provided in Article XV.

12.05 Exceptions to the Maximum Retirement Benefit Limitation.

a. The Maximum Retirement Benefit of a Participant, who was a Participant in one or more defined benefit plans of the Employer on July 1, 1982, shall not be less than the Participant's Accrued Benefit as of the end of the last Plan Year beginning prior to January 1, 1983.

b. The Maximum Retirement Benefit for a Participant, who was a Participant in one or more defined benefit plans of the Employer as of the first day of the first Limitation Year beginning after December 31, 1986, shall not be less than the Participant's "Current Accrued Benefit," as defined in subsection (c) below. The preceding sentence applies only if such defined benefit plans met the requirements of Section 415 of the Code, for all Limitation Years beginning before January 1, 1987.

c. "Current Accrued Benefit" means a Participant's Accrued Benefit, determined as if the Participant had separated from service as of the close of the last Limitation Year beginning before January 1, 1987, when expressed as an Annual Benefit. In determining the amount of a Participant's Current Accrued Benefit, changes in the Plan and cost-of-living adjustments that occur after May 5, 1986 shall be disregarded.

d. In the case of a Participant who was a Participant in one or more defined benefit plans of the Employer as of January 1, 1995, the application of the limitations of this Article shall not cause the Maximum Retirement Benefit for the Participant under all such defined benefit plans to be less than the individual's accrued benefit under the terms of the plan as of September 1, 1997, taking into account the limitations of Code Section 415, as in effect on December 7, 1994, but disregarding any Plan amendments increasing benefits after September 1, 1997 and any cost of living adjustments that become effective after September 1, 1997. For purposes of this Section, a Participant's accrued benefit as of September 1, 1997 is not increased after that date, but if the limitations of Code Section 415, as in effect on December 7, 1994, are less than the limitations that were applied to determine the Participant's accrued benefit as of September 1, 1997, then the Participant's accrued benefit as of that date will be reduced in accordance with such reduced limitation. If, at any date after September 1, 1997, the Participant's total Plan benefit, before

the application of Code Section 415, is less than the Participant's accrued benefit as of September 1, 1997, the benefit as of that date will be reduced to the Participant's total Plan benefit. Determinations under Code Section 415(b)(2)(E) that are made before January 1, 1995 shall be made with respect to a Participant's benefit as of September 1, 1997 on the basis of Code Section 415(b)(2)(E) as in effect on December 7, 1994, and the provisions of the Plan as in effect on that date, but only to the extent such provisions of the Plan meet the requirements of Code Section 415(b)(2)(E) as so in effect.

12.06 Increases in the Maximum Retirement Benefit. Notwithstanding the foregoing of this Article XII, and to the extent permitted by Code Section 415, the Maximum Retirement Benefit shall be increased each Plan Year beginning July 1, 1995 to reflect cost-of-living adjustments in the limits imposed by Code Section 415. In no event, however, shall the benefit payable to or on behalf of a Participant exceed the benefit which is otherwise payable under the Plan.

ARTICLE XIII

QUALIFIED DOMESTIC RELATIONS ORDERS  
-----

13.01 General. Notwithstanding the restriction against alienation and assignment stated in Article XVI, the Plan Administrator shall comply with the terms of any Qualified Domestic Relations Order.

13.02 Required Provisions. A Domestic Relations Order is a Qualified Domestic Relations Order only if it clearly specifies:

a. The name and the last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order;

b. The amount or percentage of the Participant's benefits that the Plan shall pay to each Alternate Payee, or the manner in which the amount or percentage is to be determined;

c. The number of payments or period to which the order applies; and

d. Each plan to which the order applies.

Notwithstanding the preceding provisions, a Domestic Relations Order that does not provide the specified address information can be a Qualified Domestic Relations Order, if the Plan Administrator has the necessary information from other sources.

13.03 Prohibited Provisions. A Domestic Relations Order is a Qualified Domestic Relations Order only if it:

a. Does not require the Plan to provide any type or form of benefit, or any option, not otherwise provided under the Plan, except as stated in Section 13.04 below;

b. Does not require the Plan to provide increased benefits determined on the basis of actuarial value; and

c. Does not require the payment of benefits to an Alternate Payee that are required to be paid to another Alternate Payee under an order previously determined to be a Qualified Domestic Relations Order.

13.04 Exception for Certain Payments Made after Earliest Retirement Age

a. A Domestic Relations Order shall not be treated as failing to meet the requirements of Section 13.03(a), solely because the order requires payment to an Alternate Payee:

- i. In the case of any payment before a Participant has separated from service, on or after the date on which the Participant attains (or would have attained) the "earliest retirement age" as defined in subsection (b) below;
- ii. As if the Participant had retired on the date on which payment is to begin under the order; and
- iii. In any form in which benefits may be paid under the Plan to the Participant.

b. For purposes of this Section, the term "earliest retirement age" means the earlier of:

- i. The date on which the Participant is entitled to a distribution under the Plan; or
- ii. The later of:
  - A. The date the Participant attains age 50; or
  - B. The earliest date on which he Participant could receive Plan benefits if he had separated from service with the Employer.

13.05 Plan Procedures with Respect to Domestic Relations Orders.

a. The Plan Administrator shall apply the procedures in this Article, and may adopt additional appropriate procedures, to determine the qualified status of Domestic Relations Orders it receives and to administer distributions under Qualified Domestic Relations Orders.

b. The Plan Administrator shall promptly notify the Participant and each Alternate Payee of the receipt of the Domestic Relations Order, and provide them with copies of the procedures the Plan will use in determining the qualified status of the order. If addresses are not specified in the order, the Plan Administrator shall send notices to the last known addresses of these parties. The Participant and any Alternate Payee may designate a representative to receive copies of future communications from the Plan Administrator regarding

the order, by submitting a written request to the Plan Administrator.

c. Within a reasonable period after receiving a Domestic Relations Order, the Plan Administrator shall determine whether it is a Qualified Domestic Relations Order and shall notify the Participant, each Alternate Payee and any designated representatives of the determination.

d. During the period in which the issue of qualified status is being determined by the Plan Administrator, by a court of competent jurisdiction, or otherwise, the Plan Administrator shall separately account for the amounts which would have been payable to the Alternate Payee during the period if the order had been determined to be a Qualified Domestic Relations Order. The separate accounting is for recordkeeping and a segregation of Fund assets is not required. The separately accounted amounts shall be treated in the following manner:

- i. If the Domestic Relations Order (or a modification of it) is determined to be a Qualified Domestic Relations Order within 18 months of the date on which the first payment would be required to be made under the order, the Plan Administrator shall pay the amounts (including any interest) to the person or persons entitled to the payment.
- ii. If the Domestic Relations Order is determined not to be a Qualified Domestic Relations Order or the issue is not resolved, within the 18-month period specified above, the Plan Administrator shall pay the amounts (including any interest) to the person or persons who would have been entitled to the amounts if there had been no order. In applying this provision, the Plan Administrator may delay payments for the full 18-month period, even if an earlier determination of non-qualified status is made, if the Plan Administrator has notice that the parties are attempting to remedy the order's deficiencies.
- iii. Any determination of qualified status that is made after the close of the 18-month period shall be applied prospectively only.

ARTICLE XIV

AMENDMENT, MERGER AND TERMINATION

14.01 Amendment.

a. The Board of Directors of NBT Bancorp, Inc. may amend the Plan at any time, and from time to time, pursuant to written resolutions and written amendments. However, no amendment shall have the effect of reducing the Accrued Benefit of any Participant, except to the extent permitted under Section 412(c)(8) of the Code.

b. For purposes of this Section, a Plan amendment that has the effect of (i) eliminating or reducing an early retirement benefit or a retirement-type subsidy, or (ii) eliminating an optional form of benefit, with respect to benefits attributable to service before the amendment, shall be treated as reducing Accrued Benefits.

c. In the case of a retirement-type subsidy, subsection (b) shall apply only with respect to a Participant who satisfies (either before or after the amendment) the preamendment conditions for the subsidy. In general, a retirement-type subsidy is a subsidy that continues after retirement, but does not include qualified disability benefits, a medical benefit, a Social Security supplement, or a death benefit (including life insurance).

d. No amendment to the Plan shall have the effect of decreasing a Participant's vested interest determined without regard to such amendment as of the later of the date such amendment is adopted, or becomes effective.

14.02 Termination of Plan and Trust.

a. The Employer contemplates that the Plan shall be permanent and that the Employer shall be able to make contributions to the Plan. Nevertheless, in recognition of the fact that future conditions and circumstances cannot now be entirely foreseen, the Board of Directors of NBT Bancorp, Inc. reserves the right to terminate either the Plan, or both the Plan and the Trust, at any time, pursuant to written resolutions and written amendments.

b. If the Board of Directors of NBT Bancorp, Inc. makes a determination to terminate the Plan and Trust, they shall be terminated as of the date specified in certified copies of resolutions delivered to the Plan Administrator and the Trustee.

14.03 Benefits upon Termination and Partial Termination. In the event of a termination or partial termination of the Plan, any affected Participant's Accrued Benefit shall be nonforfeitable as of the date of such event to the extent funded. On termination of the Plan, the Trustee will liquidate the assets held in the Fund. After payment of all expenses of liquidation, the Plan Administrator shall allocate the remainder of the Fund assets among Participants

and Beneficiaries entitled to benefits, and cause them to be distributed by the Trustee, in accordance with Section 4044 and other applicable provisions of ERISA. Any residual assets of the Plan remaining after the above allocation and distribution shall revert to the Employer, provided that all liabilities of the Plan have been satisfied.

14.04 Restriction of Benefits to Certain Highly Compensated Employees.

a. In General: In the event of Plan termination, the benefit of any Highly Compensated Employee shall be limited to a benefit that is nondiscriminatory under Code Section 401(a)(4).

b. Before January 1, 1992: For Plan Years beginning before January 1, 1992, Employer contributions to the Plan shall be restricted, pursuant to subsection (c) below, if:

- (i) The contributions may be used to benefit any of the 25 Highly Compensated Employees with the greatest Limitation Year Compensation, whose anticipated Annual Benefit exceeds \$1,500, and
- (ii) Within 10 years of its establishment, (A) the Plan is terminated or (B) the benefits of any Highly Compensated Employee, described in (i) above, become payable.

c. Restriction: As required by subsection (b) above, Employer contributions shall not exceed the greater of (i) \$20,000 or (ii) 20 percent of the first \$50,000 of the Highly Compensated Employee's Compensation times (A) the number of years from the date the Plan was established until, (B) the date the Plan is terminated or the date the benefits become payable under subsection (b)(ii)(B) above, whichever is applicable.

d. After December 31, 1991: Except as provided in (i) and (ii) below, for Plan Years beginning on or after January 1, 1992, the annual payments to a Participant who is one of the 25 Highly Compensated Employees with the greatest Limitation Year Compensation are restricted to an amount equal to the payments that would be made on behalf of the Participant under a single life annuity that is the Actuarial Equivalent of the sum of the Participant's Accrued Benefit and other Plan benefits, within the meaning of Regulation 1.401(a)(4)-5(b)(3). However, benefits need not be restricted if:

- (i) After payment of all benefits to the group of Highly Compensated Employees described in subsection (b) above, the value of the Plan assets equals or exceeds 110 percent of the value of current liabilities, as defined in Code Section 412(l)(7); or

- (ii) The value of the benefits for said group of Highly Compensated Employees is less than one percent of the value of current liabilities.

For purposes of this Section, "benefit" includes loans in excess of the amount set forth in Code Section 72(p)(2)(A), any periodic income, any withdrawal values payable to a living Employee, and any death benefits not provided for by insurance on the Employee's life.

e. Notwithstanding the restrictions in subsection (b), an Employee's benefit may be distributed in full upon his depositing with an acceptable depository, property having a fair market value equal to 125 percent of the amount which would be repayable had the Plan terminated on the date of the distribution. If the fair market value of the property held by the depository falls below 110 percent of the amount which would be repayable if the Plan were then to terminate, additional property necessary to bring the value of the property held by the depository up to 125 percent of such amount shall be deposited.

14.05 Merger, Consolidation or Transfer of Assets. Neither the Plan nor the Trust may be merged with any other plan or trust unless each Participant would receive a benefit immediately after the merger that is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, if the Plan had then terminated. The preceding sentence shall also apply to a consolidation or transfer of assets.

ARTICLE XV

TOP-HEAVY REQUIREMENTS

-----

15.01 General Rules.

a. Notwithstanding any other Plan provisions to the contrary, the Top-Heavy Rules of this Article shall become effective for any Plan Year beginning after December 31, 1983 in which the Plan is a Top-Heavy Plan. The provisions of Section 416 of the Code and implementing Regulations are hereby incorporated by reference and control the application of this Article.

b. As stated in Article II in defining "Compensation," not more than \$200,000 of Compensation (adjusted by the Adjustment Factor) is taken into account under the Plan for a Participant, for any Plan Year beginning after December 31, 1988. This \$200,000 limitation, without any adjustment, shall also apply for any earlier Plan Year in which the Plan is Top-Heavy.

c. As further set forth in this Article (and the Code and Regulations), the Top-Heavy Rules mean that:

- i. Whether the Plan is Top-Heavy, or Super Top-Heavy shall be determined by finding the Top-Heavy Ratio in accordance with Section 15.02.
- ii. If the Plan is Top-Heavy or Super Top-Heavy for a Plan Year, the Minimum Vesting Schedule in Section 15.03 shall become applicable and Non-Key Employees must accrue a Minimum Required Benefit as provided in Section 15.04.
- iii. If the Plan is Super Top-Heavy for a Plan Year, the provisions of Section 15.05 shall apply in determining the Maximum Retirement Benefit under Article XII if the Employer also maintains a defined contribution plan.

d. Notwithstanding the preceding provisions or any other provisions of the Plan, the requirements in Sections 15.03 and 15.04 shall not apply to Employees covered by a collective bargaining agreement.

15.02 Determination of Top-Heaviness.

a. Top-Heavy Plan: The Plan shall be considered a Top-Heavy Plan for a Plan Year if the Top-Heavy Ratio exceeds 60 percent, applying the principles in subsection (c).

b. Super Top-Heavy Plan: The Plan shall be considered a Super Top-Heavy Plan for a Plan Year if the Top-Heavy Ratio exceeds 90 percent, applying the principles in subsection (c).

c. Top-Heavy Ratio: The Top-Heavy Ratio shall be determined in accordance with the following principles.

- i. Determination Date: The Top-Heavy Ratio is determined as of the Determination Date, which is the last day of the preceding Plan Year (except for the first Plan Year). For example, if the Top-Heavy Ratio exceeds 60 percent on the last day of the 1989 Plan Year, the Plan is Top-Heavy for the 1990 Plan Year.
- ii. Valuation Date: Benefits shall be valued as of the most recent valuation date during the twelve-month period ending on the Determination Date.
- iii. Prior Distributions: The present value of an Accrued Benefit includes any distribution with respect to the Participant during the five-year period ending on the Determination Date. This includes distributions to Beneficiaries and distributions before the 1984 Plan Year when the Top-Heavy Rules became effective.
- iv. Key Employee Status: As defined in Article II, an Employee is considered a Key Employee if he is a Key Employee at any time during the Plan Year containing the Determination Date or the four preceding Plan Years. If a Key Employee ceases to be a Key Employee but continues to be employed, he will be treated as a Non-Key Employee after the last year in which he must be considered a Key Employee under the preceding sentence. As of that date, his Accrued Benefits will be disregarded in computing the numerator and denominator of the Top-Heavy Ratio.
- v. Required Aggregation of Plans: If the Plan is part of a Required Aggregation Group, the Top-Heavy Ratio must be determined by considering all plans in the group. A Required Aggregation Group consists of all qualified plans of the Employer and any Affiliated Employer in which at least one Key Employee participates or participated at anytime during the determination period.

(regardless of whether the plan has terminated), and any other plans that enable a plan with a Key Employee to satisfy the nondiscrimination rules of Section 401(a)(4) or Section 410 of the Code.

- A. Except as may otherwise be allowed under the permissive aggregation rule of subsection (vi) below, each plan in the group shall be considered Top-Heavy if the Top-Heavy Ratio for the group exceeds 60 percent. Conversely, if the Top-Heavy Ratio is 60 percent or less, no plan in the Required Aggregation Group shall be considered Top-Heavy.
- B. If the Employer (or an Affiliated Employer) maintains one or more defined benefit plans and the Employer (or an Affiliated Employer) maintains or has maintained one or more defined contribution plans (including any simplified employee pension plan) which during the five-year period ending on the Determination Date(s) has or has had any account balances, the Top-Heavy Ratio for any Required or Permissive Aggregation Group as appropriate is a fraction, the numerator of which is the sum of the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees, determined as above, and the sum of account balances under the aggregated defined contribution plan or plans for all Key Employees as of the Determination Date(s), and the denominator of which is the sum of the present value of accrued benefits under the defined benefit plan or plans for all Participants, determined as above, and the account balances under the aggregated defined contribution plan or plans for all Participants as of the Determination Date(s), all determined in accordance with Code Section 416 and the Regulations thereunder. The account balances under a defined contribution plan in both the numerator and denominator of the Top-Heavy Ratio are increased for any distribution of an account balance made in the five-year period ending on the Determination Date. Actuarial assumptions must be identical for all defined benefit plans tested for Top-Heavy purposes.
- C. For Top-Heavy purposes, the accrued benefit of a Participant other than a Key employee shall be determined under (I) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer (or an Affiliated Employer), or (II) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Code Section 411(b)(1)(C).

vi. Permissive Aggregation Group: The Employer may, but is not required to, determine the Top-Heavy Ratio on the basis of a Permissive Aggregation Group.

A. A Permissive Aggregation Group consists of all plans in a Required Aggregation Group, plus other plans that satisfy the nondiscrimination requirements of Code Sections 401(a) (4) and 410, when considered with the Required Aggregation Group.

B. If the Top-Heavy Ratio for the Permissive Aggregation Group is 60 percent or less, no plan in the group is Top-Heavy. If the Top-Heavy Ratio is greater than 60 percent, the Top-Heavy Rules apply to those plans that are part of the Required Aggregation Group, but not to the other plans which were permissively aggregated.

vii. Transfer Amounts: Rollover amounts and any plan-to-plan transfer amounts held under any other plan, shall be taken into account in determining the Top-Heavy Ratio only if required by the following rules:

A. If a transfer is initiated by the Employee and made between plans maintained by different employers, the transferring plan continues to count the transferred amount under the rules for counting distributions. The receiving plan does not count the amount if accepted after December 31, 1983, but does count the amount if accepted prior to January 1, 1984.

B. If the transfer is not initiated by the Employee or if it is made to a plan maintained by the same employer, the transferring plan shall no longer count the amount transferred and the receiving plan shall count the amount transferred.

C. For purposes of this subsection, Affiliated Employers shall be treated as the same employer.

#### 15.03 Vesting in Employer Contributions under a Top-Heavy Plan.

a. Except as provided in Section 15.01(d), for any Plan Year that the Plan must be considered Top-Heavy, a Participant's vested interest in his Accrued Benefit derived from Employer contributions shall be determined in

accordance with the following Minimum Vesting Schedule rather than the vesting schedule in Article V. As an exception, the Participant shall remain under his previous vesting schedule to the extent provided in Article V.

b. The Minimum Vesting Schedule is:

Years of Service	Vested Percentage
Less than 3 years	0%
3 years or more	100%

c. Once applicable for a Plan Year, the Minimum Vesting Schedule applies to benefits accrued before and after the Plan became Top-Heavy (including benefits that accrued before the 1984 Plan Year when the Top-Heavy Rules became effective).

Notwithstanding the preceding sentence:

- i. Accrued Benefits of a Participant who does not have an Hour of Service after the Plan becomes Top-Heavy shall not be subject to the Minimum Vesting Schedule; and
- ii. Accrued Benefits which were forfeited before the Plan became Top-Heavy do not vest.

d. The vesting schedule in Article V shall again become applicable for benefits that accrue during Plan Years after the Plan ceases to be Top-Heavy. However, if this change in vesting schedule occurs:

- i. The vested percentage of a Participant in benefits that accrued before the Plan ceased to be Top-Heavy shall not be reduced; and
- ii. Participants described in Section 5.04 shall be given the option to remain under the Minimum Vesting Schedule, even for Plan Years after the Plan is no longer Top-Heavy, in accordance with the procedures described in that Article.

15.04 Minimum Required Benefit.

a. In General: Except as provided in Section 15.01(d), if the Plan becomes Top-Heavy, the Accrued Benefit derived from Employer contributions of a Non-Key Employee must at least equal the Minimum Required Benefit described in this Section.

For a Top-Heavy Plan Year, the requirement applies to each Non-Key Employee with 1000 or more Hours of Service in the Accrual Computation Period, even though the Non-Key Employee would not otherwise have received an accrual, or would have received a lesser accrual because (i) his Compensation is less than a specified level, or (ii) he is not employed on the last day of the Plan Year.

b. Minimum Required Benefit Formula: The Minimum Required Benefit is a benefit, provided solely by Employer contributions (and not integrated with Social Security benefits) which, when expressed as a life annuity commencing at Normal Retirement Age, equals the lesser of:

- i. Two percent of the Participant's Top-Heavy Average Compensation multiplied by the Participant's Top-Heavy Years of Service; or
- ii. 20 percent of the Participant's Top-Heavy Average Compensation.

c. Definitions: In applying the formula in subsection (b):

- i. Top-Heavy Years of Service means Years of Service, but disregarding any Vesting Year of Service completed in a Plan Year beginning before 1984, or any Vesting Year of Service if the Plan was not Top-Heavy for any Plan Year ending during that Vesting Year of Service.
- ii. Top-Heavy Average Compensation means Limitation Year Compensation, averaged over the period of five consecutive calendar years (or fewer if the total years which can be considered under this subsection is less than five) which produces the highest average. To determine this period, the following are excluded:
  - A. Years for which the Non-Key Employee did not earn a Vesting Year of Service;
  - B. Years ending within a Plan Year beginning before January 1, 1984;
  - C. Years excluded from Top-Heavy Years of Service; and
  - D. Years beginning after the close of the last Plan Year in which the Plan was Top-Heavy.

d. Employer-Derived Benefits: All accruals of benefits derived from Employer contributions, whether or not attributable to Plan Years for which the Plan is Top-Heavy shall be considered in determining whether a Non-Key Employee has an Accrued Benefit which equals the Minimum Required Benefit.

e. Non-Key Employee in Defined Contribution Plan: If a Non-Key Employee participates in this Plan and a defined contribution plan included in a Required Aggregation Group that is Top-Heavy, the Minimum Required Benefit shall be provided under this Plan. For any Plan Year when the Plan is Top-Heavy, but not Super Top-Heavy, the Minimum Required Benefit for such Non-Key Employee shall be determined by substituting three percent for two percent, and 30 percent for 20 percent, in the formula in subsection (b) above.

15.05 Maximum Annual Benefit under a Super Top-Heavy Plan.

a. If the Plan is Super Top-Heavy for any Plan Year, then for purposes of the Code Section 415 limitation, described in Article XII, the dollar limitations in the denominators of the Defined Benefit Plan Fraction and the Defined Contribution Fraction shall each be multiplied by 1.0, not 1.25.

b. If the reduction to 1.0 under subsection (a) would cause a Participant to exceed the combined limit on contributions and benefits under Code Section 415, the application of subsection (a) shall be suspended as to such Participant until such time as he no longer exceeds the combined limitation, as modified by subsection (a). During such a suspension period, the Participant will not accrue any benefits under this or any other defined benefit plan of the Employer and or receive contributions (or forfeitures) under any defined contribution plan of the Employer or an Affiliated Employer.

ARTICLE XVI

MISCELLANEOUS PROVISIONS

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16.01 No Alienation or Assignment. The right of any Participant or Beneficiary to any benefit or payment under the Plan or Trust shall not be subject to voluntary or involuntary transfer, alienation or assignment. Further, to the fullest extent permitted by law, the right shall not be subject to attachment, execution, garnishment, sequestration or other legal or equitable process. In the event a Participant or Beneficiary attempts to assign, transfer or dispose of a right under the Plan, or if any attempt is made to subject the right to such process, the assignment, transfer or disposition shall be null and void.

16.02 Adoption of Plan by Another Employer. Any other employer, whether an Affiliated Employer or not, may, with the approval of the Board of Directors of NBT Bancorp, Inc., adopt this Plan pursuant to appropriate written resolutions of its board of directors. The adopting employer shall also execute such documents with the Trustee as may be necessary to make the other employer a party to the Trust. As part of its adopting resolutions, the other employer shall delegate authority to amend and terminate the Plan to the Board of Directors of NBT Bancorp, Inc. The National Bank and Trust Company, by its adoption and execution of this document, is deemed to have made the foregoing delegation.

16.03 Status of Employment Relations. The adoption and maintenance of the Plan and Trust shall not be deemed to constitute a contract between the Employer and its Employees or to be consideration for, or an inducement or condition of, the employment of any person. Nothing contained in the Plan shall be deemed (a) to give to any Employee the right to be retained in the employ of the Employer, (b) to affect the right of the Employer to discipline or discharge any Employee at any time, (c) to give the Employer the right to require any Employee to remain in its employ, or (d) to affect any Employee's right to terminate his employment at any time.

16.04 Benefits Payable by Trust. All Benefits payable under the Plan shall be paid or provided for solely from the Trust. The Employer assumes no liability or responsibility for the payments.

16.05 Failure of Qualification.

a. The establishment of the Plan and Trust by the Employer is contingent upon obtaining the initial approval of the Internal Revenue Service. Notwithstanding any other provision of the Plan, in the event that the Internal Revenue Service fails to approve the Plan, the Trustee shall liquidate the Trust by paying all expenses and returning all remaining assets to the Employer as soon as administratively feasible. In no event shall this process be completed later than one year after the date of the final denial of qualification of the Plan, including the final resolution of any appeals before the Internal Revenue Service or the courts. The Trust shall terminate upon completion of these "wind up" procedures.

b. Contributions shall be returned to the Employer pursuant to Section 10.04(b).

16.06 Increases in Social Security Benefits. Increases in Social Security benefits or the taxable wage base subsequent to a Participant's termination of employment or Retirement shall not cause a reduction in benefits under the Plan.

16.07 Headings Not Part of This Plan. Headings of Articles and Sections are inserted only for convenience of reference, and shall not be considered in construing the Plan.

16.08 Gender and Number. Unless the context clearly requires a different meaning, the use of the masculine pronoun includes the feminine gender, and the singular number includes the plural (and vice versa).

16.09 Applicable Law. The Plan and Trust shall be construed, regulated, interpreted and administered under and in accordance with the laws of the State of New York, unless preempted by federal law.

NBT Bancorp, Inc. and NBT Bank, N.A. have caused this Plan to be signed by duly authorized officers on this

13th day of November 1998.

NBT BANCORP, INC.

By: /S/ John D Roberts

Title: Vice President and Secretary

NBT BANK, N.A.

By: /S/ Jane E Neal

Title: Senior Vice President

0383167.01 10/26/98

EXHIBIT 10.4

NBT BANCORP INC. 1999 Executive Incentive Compensation Plan.

January 26, 1999

NBT BANCORP INC.

Norwich, New York

1999 EXECUTIVE INCENTIVE COMPENSATION PLAN

NBT BANCORP INC.

Norwich, New York

1999 EXECUTIVE INCENTIVE COMPENSATION PLAN

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NBT BANCORP INC.

Norwich, New York

Introduction

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It is important to examine the benefits which accrue to the organization through the operation of the Executive Incentive Compensation Plan. The Plan impacts directly on senior and middle management - those critical to the organization's success - and its purpose can be summarized as follows:

- \* Provides Motivation: The opportunity for incentive awards provides executives with the impetus to "stretch" for challenging, yet attainable, goals.
  
- \* Provides Retention: by enhancing the organization's competitive compensation posture.
  
- \* Provides Management Team Building: by making the incentive award dependent on the attainment of organization goals, a "team orientation" is fostered among the participant group.
  
- \* Provides Individual Motivation: by making a portion of the incentive award dependent on the attainment of individual goals, a participant is encouraged to make significant personal contribution to the corporate effort.
  
- \* Provides Competitive Compensation Strategy: The implementation of incentive arrangements is competitive with current practice in the banking industry.

Highlights of the 1999 Executive Incentive Compensation Plan included in the following pages are as follows:

1. The Plan is competitive compared with similar sized banking organizations and the banking industry in general.
2. The Compensation Committee of the Board of Directors controls all aspects of the Plan.
3. Management employees are eligible for participation.
4. The financial criteria necessary for Plan operation consist of Return on Average Assets (25% Weight) and Return of Equity (50% Weight) and Profit Improvement (25% Weight).
5. Incentive distributions will be made during the first quarter of the year following the Plan Year.
6. Incentive awards will be based on attainment of corporate goals. Total incentive Awards contain both Corporate and Individual components; the corporate component awarded by virtue of corporate performance related to corporate goals and the individual component awarded by virtue of individual performance related to individual goals. Component percentages are shown in Appendix B.
7. Incentive distributions will be based on the matrix in Appendix B.

NBT BANCORP INC.

Norwich, New York

The Board of Director of NBT Bancorp Inc. has established this 1999 Executive Incentive Compensation Plan. The purpose of the Plan is to meet and exceed financial goals and to promote a superior level of performance relative to the bank's competition in its market area. Through payment of incentive compensation beyond base salaries, the Plan provides reward for meeting and exceeding the bank's financial goals.

SECTION I - DEFINITIONS

Various terms used in the Plan are defined as follows:

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

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

President & CEO: President and CEO of NBT Bancorp Inc.

Corporate Goals: Those pre-set objectives and goals which are required to activate distribution of awards under the Plan.

Individual Goals: Key objectives mutually agreed upon between participants and superior, and approved by the CEO.

Compensation Committee: The Compensation Committee of the Board of Directors of the Bank.

Plan Participant: An eligible employee of the bank designated by the President & CEO and approved by the Compensation Committee for participation for the Plan Year.

Plan Year: The 1999 calendar year.

## SECTION II - ELIGIBILITY TO PARTICIPATE

To be eligible for an award under the Plan, a Plan participant must be an officer in the full-time service of the bank at the start and close of the calendar year and at the time of the award unless the CEO by special exception recommends to the Compensation Committee a special arrangement for a newly hired executive who may be designated by the CEO and approved by the Compensation Committee as eligible for an award as determined in the employment agreement. A Plan participant must be in the same or equivalent position, at year end as they were when named a participant or have been promoted during the course of the year, to be eligible for an award. If a Plan participant voluntarily leaves the employ of the bank prior to the payment of the award, he/she is not eligible to receive an award. However, if the active full-time service of a participant in the Plan is terminated by death, disability, retirement, or if the participant is on an approved leave of absence, the President should recommend an award to such a participant based on the proportion of the Plan year that he/she was in active service with the bank.

## SECTION III - ACTIVATING THE PLAN

The operation of the Plan is predicated on attaining and exceeding management performance goals. The goals will consist of return on average assets, return on shareholders' equity, and profit improvement. The Corporation must achieve a minimum net income set forth in Appendix B to trigger an award pursuant to the terms of this plan.

## SECTION IV - CALCULATION OF AWARDS

The Compensation Committee designates the incentive formula as shown in Appendix B. The actual rate of distribution is based upon Company performance. The Compensation Committee will make final decisions with respect to all incentive awards and will have final approval over all incentive awards. The individual participant data regarding maximum award and formulas used in calculation has been customized and appears as Appendix A.

## SECTION V - PRESIDENT'S SPECIAL RECOMMENDATIONS

The President & CEO will recommend to the Compensation Committee the amounts to be awarded to individual participants in the incentive Plan. The President & CEO may recommend a change beyond the formula to a bonus award (increase or decrease) to an individual participant by a specified percentage based on assessment of special individual performance beyond the individual goals. The Compensation Committee may amend the President & CEO's bonus award. The amount of the adjustment is from 0%-20% of the actual award. No award will be granted to an officer whose performance is unacceptable.

## SECTION VI - DISTRIBUTION OF AWARDS

Unless a participant elects the deferred option outlined in the following paragraph, distribution of awards will be made during the first quarter of the year following the Plan year. Distribution of the bonus award must be approved by the Compensation Committee.

A participant may elect by written notice to the Committee at any time during the month of December of the Plan Year preceding the year to which the award relates to have all or a portion of his award deferred (Deferred Award). Any such election shall be irrevocable except unforeseeable financial emergency.

Any portion of participant's award that is deferred shall bear interest commencing on the Award Date based on the lowest balance in the participant's account during the month, as if invested at an annual rate equal to the highest annual rate offered at NBT on any customer deposit account in effect on the last day of the preceding calendar year. Interest shall be computed monthly, and credited to the participant's account as of the last day of each calendar month.

The Deferred Award shall be paid in five (5) annual installments upon the participant's ceasing to be actively employed by the Company for any reason. Payment shall begin on the 31st day of January following the year in which the participant ceases to be actively employed with the Company. However, a participant with the consent of the Committee, prior to termination of employment, may elect in writing to have the aggregate amount in his or her Deferred Award Account paid to him or her in a lump sum on a designated date.

Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create or be constructed to create a trust of any kind, or a fiduciary relationship between NBT and the participant, his or her designated beneficiary or any other person, nor shall the participant or any designated beneficiary have any preferred claim on, any title to, or any beneficial interest in, the assets of NBT or the payments deferred hereunder prior to the time such payments are actually paid to the participant pursuant to the terms herein. To the extent that the participant, his or her designated beneficiary or any person acquires a right to receive payments from NBT under this Plan, such right shall be no greater than the right of any unsecured general creditor of NBT.

The intent of this Section of the Plan is to create a voluntary, non-qualified, unfunded, deferred executive incentive compensation Plan which will defer the deduction of such incentive compensation for tax purposes by NBT and which will correspondingly defer the recognition of such compensation by the participant until such compensation is actually paid. It is therefore intended, and this Plan shall be construed and where necessary modified, so that the participants shall not be deemed to have constructively received such deferred compensation.

In the event of death, any approved award earned under the provisions of this plan will become payable to the beneficiary designated under this Plan; or if no such designation, to the designated beneficiary of the participant as recorded under the bank's group life insurance program; or in the absence of a valid designation, to the participant's estate.

#### SECTION VII - PLAN ADMINISTRATION

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

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

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

The bank reserves the right, by and through its Board of Directors to amend, modify, suspend, reinstate or terminate all or part of the Plan at any time. The Compensation Committee will give prompt written notice to each participant of any amendment, suspension or termination or any material modification of the Plan. In the event of a merger or acquisition, the Plan and related financial formulas will be reviewed and, if necessary, revised to take into account the financial status of any merged institution.

#### SECTION IX - EFFECTIVE DATE OF THE PLAN

The effective date of the Plan shall be January 1, 1999.

#### SECTION X - EMPLOYER RELATION WITH PARTICIPANTS

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

#### SECTION XI - GOVERNING LAW

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

DEFERRED COMPENSATION PLAN  
-----  
FOR OFFICERS OF NBT BANCORP & SUBSIDIARIES  
-----  
ELECTION AGREEMENT  
-----

I, \_\_\_\_\_, hereby elect  to  not to participate in the Deferred Compensation Plan for Officers of NBT with respect to Executive Incentive Compensation (EICP) awards which I may receive for the calendar year of \_\_\_\_\_. I hereby elect to defer the payment of \_\_\_\_\_ (\_\_\_\_\_% ) of the EICP award which I would otherwise be entitled to receive.

- Please defer payment of the percentage of my EICP award specified above until the earlier of the following dates:
- Until \_\_\_\_\_(Specify date which may not be later than the date on which I will retire).
- Until the date of my death.
- Begin annual payments of deferred balance on \_\_\_\_\_ in the amount of 1/5th the balance each year until the balance has been paid in full (5 year payout).
- Because terms of the plan have changed since my election to defer EICP awards, please discontinue my deferral election and:
- Roll my eferred account proceeds into the following account at the institution indicated:  
-----  
-----
- Please pay me out in cash, the balance of my account, at this time.
- I hereby designate the following person or persons as beneficiary hereunder in the event of my death:

Primary Beneficiary \_\_\_\_\_  
Secondary Beneficiary \_\_\_\_\_

I hereby revoke any prior election that may be inconsistent with the above.

I acknowledge that I have reviewed the plan and understand that my participation will be subject to the terms and conditions contained in the plan. Words and phrases used in this Election Agreement shall have the meanings assigned by the plan.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 199\_.

\_\_\_\_\_

EXHIBIT 10.16

Restricted Stock Agreement between NBT BANCORP INC. and (Director).

RESTRICTED STOCK AGREEMENT  
-----  
BETWEEN  
-----  
NBT BANCORP INC. AND DIRECTOR  
-----

AGREEMENT made as of January 1, 1999 by and between NBT Bancorp Inc. ("Company") and ("Participant"):

WHEREAS, the Participant is a Director of the Company and, as such, receives an annual retainer fee in addition to fees for meeting attendance. The Company and Participant agree that the Participant is entitled to receive the retainer fee in Company Stock subject to the conditions specified below.

THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed as follows:

1. Award of Shares.

Under the terms of this Agreement, the Company has awarded the Participant a Restricted stock award on January 1, 1998 ("Award Date"), covering 125 shares of NBT Bancorp Inc. Common Stock, with a fair market value equal to \$3,016.25 (annual director's retainer), subject to the terms, conditions and restrictions set forth in this agreement.

2. Award Restrictions.

The shares covered by restricted stock award shall vest in accordance with the schedule set forth below:

Full Years Elapsed from Award Date -----	Percent Vested -----
1	33%
2	66%
3	100%

Upon the vesting of any part of the restricted stock award by virtue of the lapse of the restriction period set forth above or under Section 4 of this Agreement, the Company shall cause a stock certificate covering the requisite number of shares in the name of the Participant or beneficiary(ies) to be distributed within 30 days after vesting. Upon receipt of such stock certificate(s), the Participant or beneficiary(ies) are free to hold or dispose of such certificate at will.

During the restriction period, the shares covered by the restricted stock award not already vested are not transferable by the Participant by means of sale, assignment, exchange, pledge, or otherwise. However, the restriction period will lapse upon a change of ownership control within the meaning of Internal Revenue Code ss.368(c) of Company or NBT Bancorp Inc. The lapse of the restriction period will cause the restricted stock award to be fully vested.

3. Stock Certificates.

The stock certificate(s) evidencing the restricted stock award shall be registered in the name of the Participant as of the Award Date. Physical possession or custody of such stock certificate(s) shall be retained by the Company until such time as the shares are vested (i.e. the restriction period lapses). The Company reserves the right to place a legend on the stock certificate(s) restricting the transferability of such certificate(s).

During the restriction period, except as otherwise provided in Section 2 of this Agreement, the Participant shall be entitled to all rights of a stockholder of the Company, including the right to vote the shares and receive cash dividends. Stock dividends declared by the Company will be characterized as restricted stock, and distributed with the principle restricted stock.

4. Term of Directorship.

If the Participant terminates board membership with the Company due to death, disability, retirement, or failure to be re-elected or re-appointed, the restricted stock award, to the extent not already vested, shall vest in full as of the date of such termination. Voluntary resignation or removal for cause will result in forfeiture of the non-vested grants. The Participant may designate a beneficiary(ies) to receive the stock certificate representing that portion of the restricted stock award automatically vested upon death. The participant has the right to change such beneficiary designation at will.

5. Duty to Notify.

It is the Participant's duty to notify the Company in the event an Internal Revenue Code ss.83(b) election is made in the year of the award.

6. Withholding Taxes.

The Company shall have the right to retain and withhold from any payment under the restricted stock awarded the amount of taxes required by any government to be withheld or otherwise deducted and paid with respect to such payment. At its discretion, the Company may require a Participant receiving shares of Common Stock under a restricted stock award to reimburse the Company for any such taxes required to be withheld by the Company and withhold any distribution in whole or in part until the Company is so reimbursed. In lieu thereof, the Company shall

have the right to withhold from any other cash amounts due or to become due from the Company to the Participant an amount equal to such taxes required to be withheld by the Company to reimburse the Company for any such taxes or retain and withhold a number of shares having a market value not less than the amount of such taxes and cancel (in whole or in part) any such shares so withheld in order to reimburse the Company for any such taxes.

7. Impact on Other Benefits.

The value of the restricted stock award (either on the Award Date or at the time the shares are vested) shall not be includable as compensation or earnings for purposes of any other benefit plan offered by the Company.

8. Administration.

The Compensation Committee shall have full authority and discretion to decide all matters relating to the administration and interpretation of this Agreement. The Compensation Committee shall have full power and authority to pass and decide upon cases in conformity with the objectives of this Agreement under such rules as the Board of Directors of the Company may establish.

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

9. Company Relation with Participants.

Nothing in this Agreement shall confer on the Participant any right to continue as a director of the Company.

10. Force and Effect.

The various provisions of this Agreement are severable in their entirety. Any determination of invalidity or unenforceability of any one provision shall have no effect on the continuing force and effect of the remaining provisions.

11. Governing Laws.

Except to the extent pre-empted under federal law, the provisions of this Agreement shall be construed, administered and enforced in accordance with the domestic internal law of the State of New York.

12. Entire Agreement.

This Agreement contains the entire understanding of the parties and shall not be modified or amended except in writing and duly signed by the parties. No waiver by either party of any default under this Agreement shall be deemed a waiver of any later default.

IN WITNESS WHEREOF, the parties have executed this Agreement on this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

NBT BANCORP INC.

By \_\_\_\_\_  
President

And  
by \_\_\_\_\_  
CFO and Treasurer

-----  
Signature of Participant

-----  
Name of Participant  
(please print)

EXHIBIT 10.17

Restricted Stock Agreement between NBT BANK, N.A. and (Director).

RESTRICTED STOCK AGREEMENT

-----  
BETWEEN  
-----

NBT BANK, N.A. AND DIRECTOR  
-----

AGREEMENT made as of January 1, 1999 by and between NBT Bank, N.A. ("Company") and Director (Participant"):

WHEREAS, the Participant is a Director of the Company and, as such, receives an annual retainer fee in addition to fees for meeting attendance. The Company and Participant agree that the Participant is entitled to receive the retainer fee in Company Stock subject to the conditions specified below.

THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed as follows:

1. Award of Shares.

Under the terms of this Agreement, the Company has awarded the Participant a Restricted stock award on January 1, 1999 ("Award Date"), covering 125 shares of NBT Bancorp Inc. Common Stock, with a fair market value equal to \$3,016.25 (annual director's retainer), subject to the terms, conditions and restrictions set forth in this agreement.

2. Award Restrictions.

The shares covered by restricted stock award shall vest in accordance with the schedule set forth below:

Full Years Elapsed from Award Date	Percent Vested
-----	-----
1	33%
2	66%
3	100%

Upon the vesting of any part of the restricted stock award by virtue of the lapse of the restriction period set forth above or under Section 4 of this Agreement, the Company shall cause a stock certificate covering the requisite number of shares in the name of the Participant or beneficiary(ies) to be distributed within 30 days after vesting. Upon receipt of such stock certificate(s), the Participant or beneficiary(ies) are free to hold or dispose of such certificate at will.

During the restriction period, the shares covered by the restricted stock award not already vested are not transferable by the Participant by means of sale, assignment, exchange, pledge, or otherwise. However, the restriction period will lapse upon a change of ownership control within the meaning of Internal Revenue Code ss.368(c) of Company or NBT Bancorp Inc. The lapse of the restriction period will cause the restricted stock award to be fully vested.

3. Stock Certificates.

The stock certificate(s) evidencing the restricted stock award shall be registered in the name of the Participant as of the Award Date. Physical possession or custody of such stock certificate(s) shall be retained by the Company until such time as the shares are vested (i.e. the restriction period lapses). The Company reserves the right to place a legend on the stock certificate(s) restricting the transferability of such certificate(s).

During the restriction period, except as otherwise provided in Section 2 of this Agreement, the Participant shall be entitled to all rights of a stockholder of the Company, including the right to vote the shares and receive cash dividends. Stock dividends declared by the Company will be characterized as restricted stock, and distributed with the principle restricted stock.

4. Term of Directorship.

If the Participant terminates board membership with the Company due to death, disability, retirement, or failure to be re-elected or re-appointed, the restricted stock award, to the extent not already vested, shall vest in full as of the date of such termination. Voluntary resignation or removal for cause will result in forfeiture of the non-vested grants. The Participant may designate a beneficiary(ies) to receive the stock certificate representing that portion of the restricted stock award automatically vested upon death. The participant has the right to change such beneficiary designation at will.

5. Duty to Notify.

It is the Participant's duty to notify the Company in the event an Internal Revenue Code ss.83(b) election is made in the year of the award.

6. Withholding Taxes.

The Company shall have the right to retain and withhold from any payment under the restricted stock awarded the amount of taxes required by any government to be withheld or otherwise deducted and paid with respect to such payment. At its discretion, the Company may require a Participant receiving shares of Common Stock under a restricted stock award to reimburse the Company for any such taxes required to be withheld by the Company and withhold any distribution in whole or in part until the Company is so reimbursed. In lieu thereof, the Company shall

have the right to withhold from any other cash amounts due or to become due from the Company to the Participant an amount equal to such taxes required to be withheld by the Company to reimburse the Company for any such taxes or retain and withhold a number of shares having a market value not less than the amount of such taxes and cancel (in whole or in part) any such shares so withheld in order to reimburse the Company for any such taxes.

7. Impact on Other Benefits.

The value of the restricted stock award (either on the Award Date or at the time the shares are vested) shall not be includable as compensation or earnings for purposes of any other benefit plan offered by the Company.

8. Administration.

The Compensation Committee shall have full authority and discretion to decide all matters relating to the administration and interpretation of this Agreement. The Compensation Committee shall have full power and authority to pass and decide upon cases in conformity with the objectives of this Agreement under such rules as the Board of Directors of the Company may establish.

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

9. Company Relation with Participants.

Nothing in this Agreement shall confer on the Participant any right to continue as a director of the Company.

10. Force and Effect.

The various provisions of this Agreement are severable in their entirety. Any determination of invalidity or unenforceability of any one provision shall have no effect on the continuing force and effect of the remaining provisions.

11. Governing Laws.

Except to the extent pre-empted under federal law, the provisions of this Agreement shall be construed, administered and enforced in accordance with the domestic internal law of the State of New York.

12. Entire Agreement.  
This Agreement contains the entire understanding of the parties and shall not be modified or amended except in writing and duly signed by the parties. No waiver by either party of any default under this Agreement shall be deemed a waiver of any later default.

IN WITNESS WHEREOF, the parties have executed this Agreement on this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

NBT BANK, N.A.  
By \_\_\_\_\_  
President

And  
by \_\_\_\_\_  
CFO and Treasurer

-----  
Signature of Participant

-----  
Name of Participant  
(please print)

EXHIBIT 21

List of Subsidiaries of the Registrant

SUBSIDIARIES OF THE REGISTRANT

NBT BANCORP INC. has one subsidiary, which is wholly owned:

NBT Bank, National Association  
52 South Broad Street  
Norwich, New York 13815

Telephone: (607) 337-6000

E.I.N. 15-0395735

EXHIBIT 23

Consent of KPMG LLP

INDEPENDENT AUDITORS' CONSENT

-----

The Board of Directors  
NBT Bancorp Inc.:

We consent to incorporation by reference in the registration statements on Form S-3 (File No. 33-12247) and Form S-8 (File Nos. 33-18976, 33-77410, 333-02925 and 333-67615) of NBT Bancorp Inc. of our report dated January 22, 1999, relating to the consolidated balance sheets of NBT Bancorp Inc. and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 1998.

/s/ KPMG LLP

KPMG LLP  
Syracuse, New York  
March 16, 1999

EXHIBIT 27

Financial Data Schedule

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NBT BANCORP INC'S FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO FINANCIAL STATEMENTS

	1,000	
	U.S. DOLLARS	
	12-MOS	
DEC-31-1998		
JAN-1-1998		
DEC-31-1998		
	1	39,719
7,462	0	
	0	
355,758		
35,095		
35,095		821,505
		12,962
1,290,009		1,044,205
		96,589
8,412		10,171
0		0
		13,016
		117,616
1,290,009		
	70,947	
	29,828	
	305	
	101,080	
	37,201	
	43,677	
57,403		4,599
	624	
	39,128	
	23,655	
19,102		0
		0
	19,102	
	1.52	
	1.49	
	4.76	
	3,593	
	1,158	
	0	
	33,336	
	11,582	
	4,152	
	933	
	12,962	
	11,438	
	0	
1,524		