UNITED STATES
SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

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

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

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

(607) 337-2265 (Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act: None
Securities registered pursuant to section 12(g) of the Act: Common Stock ($0. 01 par value per share)
Stock Purchase Rights Pursuant to Stockholders Rights Plan

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

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (Section 299.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ].

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

Based upon the closing price of the registrant's common stock as of June 30, 2003, the aggregate market value of the voting stock, common stock, par value, $0.01 per share, held by non-affiliates of the registrant is $632,219,601.

The number of shares of Common Stock outstanding as of February 27, 2004, was 32,868,354.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on May 4, 2004 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

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* Information called for by Part III (Items 10 through 14) is incorporated by reference to the Registrant's Proxy Statement for the 2004 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

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NBT Bancorp Inc. (the "Registrant" or the "Company") is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Registrant is the parent holding company of NBT Bank, N.A. ("the Bank"), NBT Financial Services, Inc. ("NBT Financial"), and CNBF Capital Trust I (see Note 12 to the Notes to Consolidated Financial Statements). Through these subsidiaries, the Company operates as one segment focused on community banking operations. The Registrant's primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Registrant are all of the out-standing shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank and NBT Financial.

The principal subsidiaries of the Company through which it conducts its operations are the Bank and NBT Financial. The Bank is a full service commercial bank formed in 1856, which provides a broad range of financial products to individuals, corporations and municipalities throughout the central and upstate New York and northeastern Pennsylvania market area. The Bank con-ducts business through three geographic operating divisions, NBT Bank, Pennstar Bank and Central National Bank.

The NBT Bank division has 44 divisional offices and 63 automated teller machines (ATMs), located primarily in central and upstate New York. At December 31, 2003, NBT Bank had total loans of $1.4 billion and total deposits of $1.5 billion.

The Pennstar Bank division has 40 divisional offices and 51 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2003, Pennstar Bank had total loans and leases of $581.4 million and total deposits of $799.7 million.

The Central National Bank division has 27 divisional offices and 24 ATMs located primarily in upstate New York. At December 31, 2003, Central National Bank had total loans and leases of $701.6 million and total deposits of $715.0 million.

The Bank has six operating subsidiaries, NBT Capital Corp., LA Lease, Inc., Pennstar Services Company, Colonial Financial Services, Inc. ("CFS"), Pennstar Realty Trust, and CNB Realty Trust. NBT Capital Corp., formed in 1998, is a venture capital corporation formed to assist young businesses develop and grow in the markets we serve. LA Lease, Inc., formed in 1987, provides automobile and equipment leases to individuals and small business entities. Pennstar Realty Trust, formed in 2000, and CNB Realty Trust formed in 1998, are real estate investment trusts. Pennstar Services Company, formed in 2002, provides services to the Pennstar Bank division of the Bank. CFS, formed in 2001, offered a variety of financial services products and currently conducts no operations as of December 31, 2003. Pennstar Management Trust ("PMT") formed in 2002, was the former holding company for Pennstar Realty Trust and CNB Realty Trust. PMT was liquidated on December 31, 2003.

NBT Financial, formed in 1999, is the parent company of two operating subsidiaries, Pennstar Financial Services, Inc. and M. Griffith, Inc. Pennstar Financial Services, Inc., formed in 1997, offered a variety of financial services products. Pennstar Financial Services conducted no operations during 2003. M. Griffith, Inc., formed in 1951 and acquired by the Company in 2000, is a registered securities broker-dealer which also offers financial and retirement planning as well as life, accident and health insurance.

COMPETITION

The banking and financial services industry in New York and Pennsylvania generally, and in the Company's market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial ser-vices providers. The Company competes for loans and leases, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than the

Company. In order to compete with other financial ser-vices providers, the Company stresses the community nature of its banking operations and principally relies upon local promotional activities, personal relationships established by officers, directors, and employees with their customers, and specialized financial services tailored to meet the needs of the communities served.

## SUPERVISION AND REGULATION

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

M. Griffith, Inc. ("MGI") is registered as a broker-dealer and investment adviser and is subject to extensive regulation, supervision and examination by the Securities and Exchange Commission ("SEC"). MGI is also a member of the National Association of Securities Dealers, Inc. ("NASD") and is subject to its regulations. MGI is authorized as well to engage as a broker, dealer, and underwriter of municipal securities, and as such is subject to regulation by the Municipal Securities Rulemaking Board. In addition, MGI is a licensed insurance agency with offices in the state of New York and is subject to registration and supervision by the New York State Insurance Department. Pennstar Financial Services, Inc. is a licensed insurance agency with offices in the Commonwealth of Pennsylvania and is subject to registration and supervision by the Pennsylvania Insurance Department.

The Company is subject to capital adequacy guide-lines of the FRS. The guidelines apply on a consolidated basis and require bank holding companies to maintain a minimum ratio of Tier 1 capital to total average assets (or "leverage ratio") of 4%. For the most highly rated bank holding companies, the minimum ratio is 3%. The FRS capital adequacy guidelines also require bank holding companies to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 4% and a minimum ratio of qualifying total capital to risk-weighted assets of 8%. As of December 31, 2003, the Company's leverage ratio was 6.76%, its ratio of Tier 1 capital to risk-weighted assets was 9.96%, and its ratio of qualifying total capital to risk-weighted assets was 11.21%. The FRS may set higher minimum capital requirements for bank holding companies whose circumstances warrant it, such as companies anticipating significant growth or facing unusual risks. The FRS has not advised the Company of any special capital requirement applicable to it.

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

The Bank is subject to leverage and risk-based capital requirements and minimum capital guidelines of the OCC that are similar to those applicable to the Company. As of December 31, 2003, the Bank was in compliance with all minimum capital requirements. The Bank's lever-age ratio was 6.50%, its ratio of Tier 1 capital to risk-weighted assets was 9.59%, and its ratio of qualifying total capital to risk-weighted assets was 10.85%.

Under FDIC regulations, no FDIC-insured bank can accept brokered deposits unless it is well capitalized, or is adequately capitalized and receives a waiver from the FDIC. In addition, these regulations prohibit any bank that is not well capitalized from paying an interest rate on brokered deposits in excess of three-quarters of one percentage point over certain prevailing market rates. As of December 31, 2003, the total amount of brokered deposits were $170.0 million.

The Bank also is subject to substantial regulatory restrictions on its ability to pay dividends to the Company. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the pro-posed dividend, exceed the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. As of December 31, 2003, approximately $28.9 million was available for the payment of dividends without prior OCC approval. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements.

The deposits of the Bank are insured up to regulatory limits by the FDIC and, accordingly, are subject to deposit insurance assessments to maintain the insurance funds administered by the FDIC. The deposits of the Bank historically have been subject to deposit insurance assessments to maintain the Bank Insurance Fund ("BIF"). Due to certain branch deposit acquisitions by the Bank and its predecessors, some of the deposits of the Bank are subject to deposit insurance assessments to maintain the Savings Association Insurance Fund ("SAIF").

The FDIC has adopted regulations establishing a permanent risk-related deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of nine risk categories based on the bank's capitalization and supervisory evaluations provided to the FDIC by the institution's primary federal regulator. Each insured bank's insurance assessment rate is then determined by the risk category in which it is classified by the FDIC.

In the light of the then prevailing favorable financial situation of the federal deposit insurance funds and the low number of depository institution failures, since January 1, 1997, the annual insurance premiums on bank de-posits insured by the BIF or the SAIF have varied between $0.00 per $100 of deposits for banks classified in the highest capital and supervisory evaluation categories to $0.27 per $100 of deposits for banks classified in the lowest cap-ital and supervisory evaluation categories. BIF and SAIF assessment rates are subject to semi-annual adjustment by the FDIC within a range of up to five basis points without public comment. The FDIC also possesses authority to impose special assessments from time to time.

The Federal Deposit Insurance Act provides for additional assessments to be imposed on insured depository institutions to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments are adjusted quarterly to reflect changes in the assessment bases of the FDIC insurance funds and do not vary depending upon a depository institution's capitalization or supervisory evaluation. During 2003, FDIC-insured banks paid an aver-age rate of approximately $0.017 per $100 for purposes of funding FICO bond obligations.

Transactions between the Bank and any of its affiliates, including the Company, are governed by sections 23A and 23B of the Federal Reserve Act. An "affiliate" of a bank is any company or entity that controls, is con-trolled by, or is under common control with the bank. A subsidiary of a bank that is not also a depository institution is not treated as an affiliate of the bank for purposes of sections 23A and 23B, unless the subsidiary is also controlled through a non-bank chain of ownership by affiliates or controlling shareholders of the bank or the subsidiary engages in activities that are not permissible for a bank to engage in directly (except insurance agency subsidiaries). Generally, sections 23A and 23B are intended to protect insured depository institutions from suffering losses arising from transactions with non-insured affiliates, by limiting the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate and with all affiliates of the bank in the aggregate, and requiring that such transactions be on terms that are consistent with safe and sound banking practices.

On October 31, 2002, the FRS adopted a new regulation, Regulation W, effective April 1, 2003, that comprehensively implements sections 23A and 23B. The regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and ad-dresses new issues arising as a result of the expanded scope of nonbanking activities engaged in by banks and bank holding companies in recent years and authorized for financial holding companies under the GrammLeach-Bliley Act ("GLB Act").

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

Under the GLB Act, all financial institutions, including the Company and the Bank, are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access.

Under Title III of the USA PATRIOT Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including the Company and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Additional information-sharing among financial institution, regulators, and law enforcement authorities is encouraged by the presence of an exemption from the privacy provisions of the GLB Act for financial institutions that comply with this provision and the authorization of the Secretary of the Treasury to adopt rules to further encourage cooperation and information-sharing. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank, or the BHC Act, which applies to the Company.

The Sarbanes-Oxley Act, signed into law July 30, 2002, addresses, among other issues, corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection, and enhanced and timely disclosure of corporate information. The SEC has adopted or proposed several implementing rules, and the NASD has proposed corporate governance rules that have been presented to the SEC for review and approval. The changes are intended to allow stockholders to monitor more effectively the performance of companies and management.

Effective August 29, 2002, as directed by section 302(a) of the Sarbanes-Oxley Act, the Company's chief executive officer and chief financial officer are each required to certify that the Company's quarterly and annual reports do not contain any untrue statement of a material fact. This requirement has several parts, including certification that these officers are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company's internal controls; that they have made certain disclosures to the Company's auditors and the risk management committee of the board of directors about the Company's internal controls; and that they have included information in the Company's quarterly and annual re-ports about their evaluation and whether there have been significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

EMPLOYEES

At December 31, 2003, the Company had 1,193 full-time equivalent employees. The Company's employees are not presently represented by any collective bargaining group. The Company considers its employee relations to be good.

AVAILABLE INFORMATION

The Company's website is http://www.nbtbancorp.com. The Company makes available free of charge through its internet site, its annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8K; and any amendments to those reports led or furnished pursuant to the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is electronically led with, or furnished to the SEC. The reference to our website does not constitute incorporation by reference of the information contained in the website and should not be considered part of this document.

ITEM 2. PROPERTIES

The Company's headquarters are located at 52 South Broad Street, Norwich, New York 13815. The Company operated the following number of community banking branches and automated teller machines (ATMs) as of December 31, 2003:

| County | Branches | ATMs | County | Branches | ATMs | County | Branches | ATMs |
|---|---|---|---|---|---|---|---|---|
| NBT BANK DIVISION | | | CENTRAL NATIONAL BANK DIVISION | | | PENNSTAR BANK DIVISION | | |
| NEW YORK | | | NEW YORK | | | NEW YORK | | |
| Broome County | 4 | 9 | Albany County | 2 | 1 | Orange County | 1 | 1 |
| Chenango County | 11 | 15 | Fulton County | 4 | 5 | | | |
| Clinton County | 3 | 2 | Herkimer County | 2 | 1 | PENNSYLVANIA | | |
| Delaware County | 6 | 10 | Montgomery County | 6 | 6 | Lackawanna County | 19 | 24 |
| Essex County | 3 | 6 | Otsego County | 5 | 5 | Luzerne County | 4 | 6 |
| Franklin County | 1 | 1 | Saratoga County | 3 | 3 | Monroe County | 4 | 5 |
| Greene County | - | 2 | Schenectady County | 1 | 1 | Pike County | 3 | 3 |
| Oneida County | 6 | 10 | Schoharie County | 4 | 2 | Susquehanna County | 6 | 8 |
| Otsego County | 4 | 11 | | | | Wayne County | 3 | 4 |
| St. Lawrence County | 5 | 4 | | | | | | |
| Sullivan County | - | 1 | | | | | | |
| Tioga County | 1 | 1 | | | | | | |
| Ulster County | - | 1 | | | | | | |

The Company leases thirty-six of the above listed branches from third parties under terms and conditions considered by management to be equitable to the Company. The Company owns all other banking premises. All automated teller machines are owned.

## ITEM 3. LEGAL PROCEEDINGS

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

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

(a) Not applicable.
(b) Not applicable.
(c) Not applicable.
(d) Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

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

| | High | Low | Dividend |
|---|---|---|---|
| 2002 | | | |
| 1st quarter | $15.15 | $13.15 | $ 0.17 |
| 2nd quarter | 19.32 | 14.00 | 0.17 |
| 3rd quarter | 18.50 | 16.36 | 0.17 |
| 4th quarter | 18.60 | 14.76 | 0.17 |
| 2003 | | | |
| 1st quarter | $18.60 | $16.76 | $ 0.17 |
| 2nd quarter | 19.94 | 17.37 | 0.17 |
| 3rd quarter | 21.76 | 19.24 | 0.17 |
| 4th quarter | 22.78 | 19.50 | 0.17 |

The closing price of the Common Stock on February 27, 2004 was $21.95.

## ITEM 6. SELECTED FINANCIAL DATA

The following summary financial and other information about the Company is derived from the Company's audited consolidated financial statements for each of the five fiscal years ended December 31, 2003:

| (In thousands, except per share data) | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| | Year ended December 31, | | | | |
| Interest, fee and dividend income | $ 207,298 | $ 227,222 | $ 255,434 | $ 260,381 | $ 220,849 |
| Interest expense | 62,874 | 80,402 | 117,502 | 133,003 | 102,876 |
| Net interest income | 144,424 | 146,820 | 137,932 | 127,378 | 117,973 |
| Provision for loan and lease losses | 9,111 | 9,073 | 31,929 | 10,143 | 6,896 |
| Noninterest income excluding securities gains (losses) | 37,603 | 31,934 | 31,826 | 24,854 | 21,327 |
| Securities gains (losses), net | 175 | (413) | (7,692) | (2,273) | 1,000 |
| Merger, acquisition and reorganization costs | - | - | 15,322 | 23,625 | 835 |
| Other noninterest expense | 104,517 | 102,455 | 110,536 | 95,509 | 83,944 |
| Income before income taxes | 68,574 | 66,813 | 4,279 | 20,682 | 48,625 |
| Net income | 47,104 | 44,999 | 3,737 | 14,154 | 32,592 |
| **PER COMMON SHARE*** | | | | | |
| Basic earnings | $ 1.45 | $ 1.36 | $ 0.11 | $ 0.44 | $ 1.01 |
| Diluted earnings | 1.43 | 1.35 | 0.11 | 0.44 | 1.00 |
| Cash dividends paid ** | 0.68 | 0.68 | 0.68 | 0.68 | 0.66 |
| Book value at year-end | 9.46 | 8.96 | 8.05 | 8.29 | 7.62 |
| Tangible book value at year-end | 7.94 | 7.47 | 6.51 | 6.88 | 6.74 |
| Average diluted common shares outstanding | 32,844 | 33,235 | 33,085 | 32,405 | 32,541 |
| **AT DECEMBER 31** | | | | | |
| Trading securities, at fair value | $ 48 | $ 203 | $ 126 | $ 20,540 | $ - |
| Securities available for sale, at fair value | 980,961 | 1,007,583 | 909,341 | 936,757 | 994,492 |
| Securities held to maturity, at amortized cost | 97,204 | 82,514 | 101,604 | 110,415 | 113,318 |
| Loans and leases | 2,639,976 | 2,355,932 | 2,339,636 | 2,247,655 | 1,924,460 |
| Allowance for loan and lease losses | 42,651 | 40,167 | 44,746 | 32,494 | 28,240 |
| Assets | 4,046,885 | 3,723,726 | 3,638,202 | 3,605,506 | 3,294,845 |
| Deposits | 3,001,351 | 2,922,040 | 2,915,612 | 2,843,868 | 2,573,335 |
| Borrowings | 672,631 | 451,076 | 394,344 | 425,233 | 429,924 |
| Stockholders' equity | 310,034 | 292,382 | 266,355 | 269,641 | 246,095 |
| **KEY RATIOS** | | | | | |
| Return on average assets | 1.22% | 1.23% | 0.10% | 0.41% | 1.07% |
| Return on average equity | 15.90 | 16.13 | 1.32 | 5.57 | 12.66 |
| Average equity to average assets | 7.69 | 7.64 | 7.82 | 7.35 | 8.42 |
| Net interest margin | 4.16 | 4.43 | 4.19 | 4.02 | 4.23 |
| Dividend payout ratio | 47.55 | 50.37 | 618.18 | 154.55 | 66.00 |
| Tier 1 leverage | 6.76 | 6.73 | 6.34 | 6.88 | 8.07 |
| Tier 1 risk-based capital | 9.96 | 9.93 | 9.43 | 9.85 | 12.49 |
| Total risk-based capital | 11.21 | 11.18 | 10.69 | 11.08 | 13.68 |

* All share and per share data has been restated to give retroactive effect to stock dividends and poolings of interest.

** Cash dividends per share represent the historical cash dividends per share of NBT Bancorp Inc., adjusted to give retroactive effect to stock dividends.

SELECTED QUARTERLY FINANCIAL DATA

| (Dollars in thousands, except per share data) | 2003 FIRST | 2003 SECOND | 2003 THIRD | 2003 FOURTH | 2002 First | 2002 Second | 2002 Third | 2002 Fourth |
|---|---|---|---|---|---|---|---|---|
| Interest, fee and dividend income | $52,635 | $51,593 | $50,788 | $52,282 | $57,322 | $57,490 | $57,011 | $55,399 |
| Interest expense | 16,606 | 16,101 | 15,210 | 14,957 | 20,977 | 20,408 | 20,304 | 18,713 |
| Net interest income | 36,029 | 35,492 | 35,578 | 37,325 | 36,345 | 37,082 | 36,707 | 36,686 |
| Provision for loan and lease losses | 1,940 | 1,413 | 2,436 | 3,322 | 2,011 | 2,092 | 2,424 | 2,546 |
| Noninterest income excluding net securities gains (losses) | 8,715 | 8,901 | 9,955 | 10,032 | 7,913 | 7,733 | 8,047 | 8,241 |
| Net securities gains (losses) | 27 | 38 | 18 | 92 | (502) | 69 | (6) | 26 |
| Noninterest expense | 25,892 | 25,848 | 25,983 | 26,794 | 25,212 | 26,062 | 25,320 | 25,861 |
| Net income | $11,566 | $11,808 | $11,848 | $11,882 | $11,077 | $11,266 | $11,412 | $11,244 |
| Basic earnings per share | $ 0.36 | $ 0.36 | $ 0.36 | $ 0.36 | $ 0.33 | $ 0.34 | $ 0.35 | $ 0.34 |
| Diluted earnings per share | $ 0.35 | $ 0.36 | $ 0.36 | $ 0.36 | $ 0.33 | $ 0.34 | $ 0.34 | $ 0.34 |
| Net interest margin | 4.38% | 4.18% | 4.02% | 4.07% | 4.54% | 4.48% | 4.35% | 4.35% |
| Return on average assets | 1.27% | 1.25% | 1.21% | 1.17% | 1.25% | 1.24% | 1.23% | 1.21% |
| Return on average equity | 16.05% | 16.07% | 16.06% | 15.47% | 16.62% | 16.50% | 15.95% | 15.53% |
| Average diluted common shares outstanding | 32,783 | 32,653 | 32,865 | 33,070 | 33,295 | 33,402 | 33,295 | 32,951 |

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

### GENERAL

The financial review which follows focuses on the factors affecting the consolidated financial condition and results of operations of NBT Bancorp Inc. (the "Registrant") and its wholly owned subsidiaries, NBT Bank, N.A. ("the Bank"), NBT Financial Services, Inc. ("NBT Financial), and CNBF Capital Trust I during 2003 and, in summary form, the preceding two years. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company." Net interest margin is presented in this discussion on a fully taxable equivalent (FTE) basis. Average balances discussed are daily averages unless otherwise described. The audited consolidated financial statements and related notes as of December 31, 2003 and 2002 and for each of the years in the three year period ended December 31, 2003 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2003 presentation.

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

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

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

## CRITICAL ACCOUNTING POLICIES

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

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

## FORWARD LOOKING STATEMENTS

Certain statements in this filing and future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act. These statements may be identified by the use of phrases such as "anticipate," "believe," "expect," "forecasts," "projects," "will," "can," "would," "should," "could," "may," or other similar terms. There are a number of factors, many of which are beyond the Company's control that could cause actual results to differ materially from those contemplated by the forward looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may reduce interest margins; (4) general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit; (5) legislative or regulatory changes, including changes in accounting standards or tax laws may adversely affect the businesses in which the Company is engaged; (6) deposit attrition, customer loss, or revenue loss following recent mergers and acquisitions may be greater than expected; (7) competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than the Company; and (8) adverse changes may occur in the securities markets or with respect to inflation.

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

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

## OVERVIEW

The Company had net income of $47.1 million or $1.43 per diluted share for 2003, compared to net income of $45.0 million or $1.35 per diluted share for 2002. There were several factors driving the improvement in results in 2003 compared to 2002. Noninterest income increased $6.3 million or 20% in 2003 compared to 2002. This increase resulted from strong growth in service charges on deposit accounts and increases from trust revenue, broker/ dealer fees, Bank Owned Life Insurance (BOLI) income, and other income. Offsetting this increase in noninterest income was a decrease in net interest income of $2.4 million and an increase in noninterest expenses of $2.1 million. The decrease in net interest income was driven primarily by the decrease in the Company's net interest margin, which declined from 4.43% for 2002 to 4.16% for 2003, primarily as a result of continued low market interest rates. The decline in margin was offset somewhat by growth in average earning assets of 5% driven primarily by loan growth. Average loans and leases increased 6% in 2003 or $137.1 million compared to 2002 average loans. The increase in noninterest expense resulted primarily from increases in salaries and employee benefits, occupancy expense, and other noninterest expense offset by decreases in professional fees and outside services and loan collection and other real estate owned (OREO) expenses. The provision for loan and lease losses remained relatively unchanged in 2003 from 2002, as improvements in credit quality were offset by loan growth in 2003.

The Company had net income of $45.0 million or $1.35 per diluted share for 2002, compared to net income of $3.7 million or $0.11 per diluted share for 2001. The improvement in 2002 results over 2001 was due to several factors. There was a $22.9 million decrease in the provision for loan and lease losses when compared to the same period in 2001. The increase in the 2001 provision for loan and lease losses was due mainly to an increase in nonperforming loans and charge-offs during 2001, resulting mainly from the process of integrating loans from recently acquired banks and weakening business conditions. The net interest margin improved during 2002, resulting in a $8.9 million increase in net interest income over 2001. Noninterest income was up $7.4 million for 2002 when compared to 2001. Driving this increase was a decrease in net securities losses of $7.3 million in 2002 when compared to 2001, due to the sale and writedown of several high-risk securities previously held by CNB during 2001. Additionally, growth in noninterest income from service charges on deposit accounts and broker/ dealer and insurance revenue totaled $2.4 million in 2002 compared to 2001. Offsetting these increases was a $1.4 million gain on a sale of a branch building in 2001 compared to no such gain in 2002. Noninterest expenses were down $23.4 million in 2002 when compared to 2001. This decrease was driven primarily by three factors. First, there was a slight recovery of merger costs of $0.1 million in 2002 compared to $15.3 million in merger charges in 2001 that resulted primarily from the acquisition of CNB. Second, the stabilization of residual values of leased automobiles resulted in no provision for the other-than temporary impairment in residual values of leased automobiles in 2002 compared to a $3.5 million provision in 2001. Lastly, because of accounting standards that became effective for the Company in fiscal year 2002, amortization of goodwill and unidentified intangible assets decreased $3.5 million in 2002. If these accounting standards had been applied in 2001, the decrease in the amortization of goodwill and intangible assets would increase diluted earnings per share by $0.07 in 2001.

## ASSET/LIABILITY MANAGEMENT

The Company attempts to maximize net interest income, and net income, while actively managing its liquidity and interest rate sensitivity through the mix of various core deposit products and other sources of funds, which in turn fund an appropriate mix of earning assets. The changes in the Company's asset mix and sources of funds, and the resultant impact on net interest income, on a fully tax equivalent basis, are discussed below.

The following table includes the condensed consolidated average balance sheet, an analysis of interest income/ expense and average yield/rate for each major category of earning assets and interest bearing liabilities on a taxable equivalent basis. Interest income for tax-exempt securities and loans and leases has been adjusted to a taxable-equivalent basis using the statutory Federal income tax rate of 35%.

TABLE 1. AVERAGE BALANCES AND NET INTEREST INCOME

| (Dollars in thousands) | 2003 AVERAGE BALANCE | 2003 INTEREST | 2003 YIELD/ RATE | 2002 Average Balance | 2002 Interest | 2002 Yield/ Rate | 2001 Average Balance | 2001 Interest | 2001 Yield/ Rate |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| Short-term interest bearing accounts | $ 3,225 | $ 80 | 2.48% | $ 12,389 | $ 403 | 3.25% | $ 11,324 | $ 569 | 5.02% |
| Securities available for sale1 | 984,620 | 46,313 | 4.70 | 947,042 | 56,586 | 5.98 | 933,122 | 61,857 | 6.63 |
| Securities held to maturity1 | 90,601 | 4,657 | 5.14 | 92,981 | 5,620 | 6.04 | 99,835 | 6,644 | 6.65 |
| Securities trading | 133 | 4 | 3.01 | 208 | 8 | 3.85 | 5,253 | 649 | 12.35 |
| Investment in FRB and FHLB Banks | 28,117 | 854 | 3.04 | 21,766 | 962 | 4.42 | 23,926 | 1,555 | 6.50 |
| Loans and leases2 | 2,474,899 | 159,827 | 6.46 | 2,337,767 | 167,917 | 7.18 | 2,312,740 | 188,053 | 8.13 |
| Total earning assets | 3,581,595 | 211,735 | 5.91 | 3,412,153 | 231,496 | 6.78 | 3,386,200 | 259,327 | 7.66 |
| Other non-interest earning assets | 270,928 | | | 236,919 | | | 240,725 | | |
| Total assets | $3,852,523 | | | $3,649,072 | | | $3,626,925 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | | | |
| Money market deposit accounts | $ 359,722 | $ 4,332 | 1.20 | $ 279,407 | $ 4,461 | 1.60 | $ 254,735 | $ 7,052 | 2.77 |
| NOW deposit accounts | 411,236 | 2,340 | 0.57 | 382,562 | 3,488 | 0.91 | 348,964 | 5,032 | 1.44 |
| Savings deposits | 523,571 | 4,542 | 0.87 | 479,312 | 6,887 | 1.44 | 427,102 | 9,385 | 2.20 |
| Time deposits | 1,188,497 | 34,727 | 2.92 | 1,331,281 | 48,496 | 3.64 | 1,476,473 | 77,053 | 5.22 |
| Total interest-bearing deposits | 2,483,026 | 45,941 | 1.85 | 2,472,562 | 63,332 | 2.56 | 2,507,274 | 98,522 | 3.93 |
| Short-term borrowings | 190,332 | 2,171 | 1.14 | 87,039 | 1,334 | 1.53 | 123,162 | 5,365 | 4.36 |
| Long-term debt | 360,928 | 14,762 | 4.09 | 334,479 | 15,736 | 4.70 | 259,583 | 13,615 | 5.24 |
| Total interest-bearing liabilities | 3,034,286 | 62,874 | 2.07 | 2,894,080 | 80,402 | 2.78 | 2,890,019 | 117,502 | 4.07 |
| Demand deposits | 457,238 | | | 419,744 | | | 382,489 | | |
| Other non-interest-bearing liabilities | 64,723 | | | 56,293 | | | 70,666 | | |
| Stockholders' equity | 296,276 | | | 278,955 | | | 283,751 | | |
| Total liabilities and stockholders' equity | $3,852,523 | | | $3,649,072 | | | $3,626,925 | | |
| Interest rate spread | | | 3.84% | | | 4.00% | | | 3.59% |
| Tax equivalent net interest income | | 148,861 | | | 151,094 | | | 141,825 | |
| Net interest margin | | | 4.16% | | | 4.43% | | | 4.19% |
| Taxable equivalent adjustment | | 4,437 | | | 4,274 | | | 3,893 | |
| Net interest income | | 144,424 | | | 146,820 | | | 137,932 | |

1. Securities are shown at average amortized cost. For purposes of these computations, nonaccrual securities are included in the average securities balances.
2. For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding.

## NET INTEREST INCOME

On a tax equivalent basis, the Company's net interest income for 2003 was $148.9 million, down from $151.1 million for 2002. The Company's net interest margin declined to 4.16% for 2003 from 4.43% for 2002. The decline in the net interest margin resulted primarily from earning assets repricing downward faster than interest bearing liabilities. The yield on earning assets decreased 87 basis points (bp), from 6.78% for 2002 to 5.91% for 2003. Meanwhile, the rate paid on interest bearing liabilities decreased 71 (bp), from 2.78% for 2002 to 2.07% for 2003. Additionally, historically low interest rates for residential real estate increased prepayments and refinancing activity during 2003, which in turn increased amortization expense of investment security premiums related to mortgage-backed securities. Offsetting the decline in net interest margin was an increase in average earning assets of $169.4 million or 5%, driven primarily by a $137.1 million increase in average loans. The following table presents changes in interest income, on a FTE basis, and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

TABLE 2. ANALYSIS OF CHANGES IN TAXABLE EQUIVALENT NET INTEREST INCOME

| | INCREASE (DECREASE) 2003 OVER 2002 | | | Increase (Decrease) 2002 over 2001 | | |
|---|---|---|---|---|---|---|
| (In thousands) | VOLUME | RATE | TOTAL | Volume | Rate | Total |
| Short-term interest-bearing accounts | $ (245) | $ (78) | $ (323) | $ 50 | $ (216) | $ (166) |
| Securities available for sale | 2,170 | (12,443) | (10,273) | 911 | (6,182) | (5,271) |
| Securities held to maturity | (141) | (822) | (963) | (438) | (586) | (1,024) |
| Securities trading | (2) | (2) | (4) | (373) | (268) | (641) |
| Investment in FRB and FHLB Banks | 238 | (346) | (108) | (130) | (463) | (593) |
| Loans and leases | 9,485 | (17,575) | (8,090) | 2,015 | (22,151) | (20,136) |
| Total interest income | 11,084 | (30,845) | (19,761) | 1,973 | (29,804) | (27,831) |
| Money market deposit accounts | 1,112 | (1,241) | (129) | 629 | (3,220) | (2,591) |
| NOW deposit accounts | 245 | (1,393) | (1,148) | 448 | (1,992) | (1,544) |
| Savings deposits | 588 | (2,933) | (2,345) | 1,044 | (3,542) | (2,498) |
| Time deposits | (4,840) | (8,929) | (13,769) | (7,015) | (21,542) | (28,557) |
| Short-term borrowings | 1,250 | (413) | 837 | (1,256) | (2,775) | (4,031) |
| Long-term debt | 1,183 | (2,157) | (974) | 3,630 | (1,509) | 2,121 |
| Total interest expense | 3,737 | (21,265) | (17,528) | 165 | (37,265) | (37,100) |
| Change in FTE net interest income | $ 7,347 | $ (9,580) | $ (2,233) | $ 1,808 | $ 7,461 | $ 9,269 |

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

The average balance of loans and leases increased 6%, totaling $2.5 billion in 2003 compared to $2.4 billion in 2002. The yield on average loans and leases decreased from 7.18% in 2002 to 6.46% in 2003, as a declining interest rate environment prevailed for much of 2003. Interest income from loans and leases on a FTE basis decreased 5%, from $167.9 million in 2002 to $159.8 million in 2003. The decrease in interest income from loans and leases was due primarily to the decrease in yield on loans and leases in 2003 of 72 (bp) when compared to 2002. Total loans and leases increased 12% at December 31, 2003, totaling $2.6 billion from $2.4 billion at December 31, 2002. The increase in loans and leases was driven by strong growth in residential real estate mortgages and home equity loans. Residential real estate mortgages increased $124.3 million or 21% from $579.6 million at

December 31, 2002 to $703.9 million at December 31, 2003. The increase in residential real estate mortgages was driven by a combination of historically low interest rates increasing the demand for the product and the integration and centralization of the mortgage origination function for the Company's three divisional banks at the end of 2002. Centralizing the mortgage origination function enabled the Company to provide customers with efficient service and competitive products while strengthening the Company's market presence. Home equity loans increased $67.0 million or 25% from $269.6 million at December 31, 2002 to $336.5 million at December 31, 2003. The increase in home equity loans was due again to the previously mentioned increased demand from the historically low interest rate environment combined with a strong product that has sold well historically in the NBT bank division. The Company expanded its training programs for the sales staff of its Pennstar and CNB bank divisions and experienced strong sales of its home equity products in these newer markets and maintained strong growth within its NBT bank division during 2003. All other loan categories experienced modest increases during 2003.

The following table reflects the loan and lease portfolio by major categories as of December 31 for the years indicated:

TABLE 3. COMPOSITION OF LOAN AND LEASE PORTFOLIO

| | December 31, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2003 | 2002 | 2001 | 2000 | 1999 |
| Residential real estate mortgages | $ 703,906 | $ 579,638 | $ 525,411 | $ 504,590 | $ 521,684 |
| Commercial and commercial real estate | 954,024 | 920,330 | 958,075 | 948,472 | 755,393 |
| Real estate construction and development | 86,046 | 64,025 | 60,513 | 44,829 | 25,474 |
| Agricultural and agricultural real estate | 106,310 | 104,078 | 103,884 | 92,713 | 85,753 |
| Consumer | 390,413 | 357,214 | 387,081 | 357,822 | 320,682 |
| Home equity | 336,547 | 269,553 | 232,624 | 219,355 | 139,472 |
| Lease financing | 62,730 | 61,094 | 72,048 | 79,874 | 76,002 |
| Total loans and leases | $2,639,976 | $2,355,932 | $2,339,636 | $2,247,655 | $1,924,460 |

Real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residencies. Loans in the commercial and agricultural category, as well as commercial and agricultural real estate mortgages, consist primarily of short-term and/or floating rate loans made to small to medium-sized entities. Consumer loans consist primarily of installment credit to individuals secured by automobiles and other personal property including manufactured housing. Manufactured housing loans totaled $29.1 million and $35.5 million at December 31, 2003 and 2002, respectively, and were 7.4% and 9.9% of total consumer loans at December 31, 2003 and 2002, respectively. These decreases from 2002 to 2003 are consistent with the Company's plan to de-emphasize loans secured by manufactured housing.

The Company's automobile lease financing portfolio totaled $62.7 million at December 31, 2003 and $61.1 million at December 31, 2002. Lease receivables primarily represent automobile financing to customers through direct financing leases and are carried at the aggregate of the lease payments receivable and the estimated residual values, net of unearned income and net deferred lease origination fees and costs. Net deferred lease origination fees and costs are amortized under the effective interest method over the estimated lives of the leases. The estimated residual value related to the total lease portfolio is reviewed quarterly, and if there has been a decline in the estimated fair value of the residual that is judged by management to be other-than temporary, including consideration of residual value insurance, a loss is recognized. Adjustments related to such other-than-temporary declines in estimated fair value are recorded with other noninterest expenses in the consolidated statements of income. One of the most significant risks associated with leasing operations is the recovery of the residual value of the leased vehicles at the termination of the lease. When a lease receivable asset is recorded, included in this amount is the estimated residual value of the leased vehicle at the termination of the lease. At termination, the lessor has the option to purchase the vehicle or may turn the vehicle over to the Company.

The residual values included in lease financing receivables totaled $38.9 million and $42.8 million at December 31, 2003 and 2002, respectively.

The Company has acquired residual value insurance protection in order to reduce the risk related to residual values. Based on analysis performed by management, the Company has concluded that no other-than-temporary impairment exists which would warrant a charge to earnings during December 31, 2003 and 2002.

The following table, Maturities and Sensitivities of Certain Loans to Changes in Interest Rates, are the maturities of the commercial and agricultural and real estate and construction development loan portfolios and the sensitivity of loans to interest rate fluctuations at December 31, 2003. Scheduled repayments are reported in the maturity category in which the contractual payment is due.

TABLE 4. MATURITIES AND SENSITIVITIES OF CERTAIN LOANS TO CHANGES IN INTEREST RATES

| | Remaining maturity at December 31, 2003 | | | |
|---|---|---|---|---|
| (In thousands) | Within One Year | After One Year But Within five years | After Five Years | Total |
| FLOATING/ADJUSTABLE RATE | | | | |
| Commercial, commercial real estate, agricultural, and agricultural real estate | $ 426,721 | $ 105,363 | $ 28,134 | $ 560,218 |
| Real estate construction and development | 23,316 | 5,789 | 246 | 29,351 |
| Total floating rate loans | 450,037 | 111,152 | 28,380 | 589,569 |
| FIXED RATE | | | | |
| Commercial, commercial real estate, agricultural, and agricultural real estate | 267,209 | 157,040 | 75,867 | 500,116 |
| Real estate construction and development | 47 | 6,740 | 49,908 | 56,695 |
| Total fixed rate loans | 267,256 | 163,780 | 125,775 | 556,811 |
| Total | $ 717,293 | $ 274,932 | $ 154,155 | $1,146,380 |

## SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME

The average balance of securities available for sale in 2003 was $984.6 million, an increase of $37.6 million, or 4%, from $947.0 million in 2002. The increase resulted primarily from modest leverage during 2003. The yield on average securities available for sale was 4.70% for 2003 compared to 5.98% in 2002. The decrease in yield for 2003 was due to several factors. The low interest rate environment prevalent throughout 2003 resulted in lower yields as reinvestment of funds from maturities, sales and paydowns led to the purchase of lower yielding securities. Additionally, the low rate environment fostered an increase in the refinancing of residential real estate mortgages, which increased the prepayment speeds of mortgage-backed security investments resulting in an increase in bond premium amortization in 2003. Lastly, to manage its risk to rising interest rates, the Company shortened the average life of securities available for sale by increasing its investment in fifteen and ten year mortgage-backed securities and lowering its exposure to thirty-year mortgage-backed securities. At December 31, 2003, approximately 63% of securities available for sale were comprised of fifteen/ten year mortgage-backed securities and 10% were comprised of thirty/twenty year mortgaged-backed securities. At December 31, 2002, the mix was 50% fifteen/ten year mortgage-backed securities and 18% thirty/twenty year mortgaged-backed securities. In the event of a rising rate environment, the Company should be positioned to reinvest cashflows at a faster rate from shortening the expected life of the portfolio.

The average balance of securities held to maturity decreased slightly from $93.0 million in 2002 to $90.6 million in 2003. At December 31, 2003, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity declined from 6.04% in 2002 to 5.14% in 2003. The decline in yield was due mainly to the previously mentioned low rate environment prevalent throughout 2003. Investments in FRB and FHLB Banks increased to $28.1 million in 2003 from $21.8 million in 2002. This increase was driven primarily by an increase in the investment in FHLB resulting from an increase in the Company's borrowing capacity at FHLB. The yield from investments in FRB and FHLB Banks declined from 4.42% in 2002 to 3.04% in 2003. The decrease in yield resulted primarily from the suspension of the October 2003 dividend by the FHLB as a result of capital concerns and credit issues in the FHLB investment security portfolio. The FHLB has indicated that it intends to pay quarterly dividends in 2004 if the interest rate environment remains unchanged at a rate below 2%.

The Company classifies its securities at date of purchase as either available for sale, held to maturity or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity as a component of accumulated other comprehensive income or loss. Held to maturity securities are recorded at amortized cost. Trading securities are recorded at fair value, with net unrealized gains and losses recognized currently in income. Transfers of securities between categories are recorded at fair value at the date of transfer. A decline in the fair value of any available for sale or held to maturity security below cost that is deemed other-than-temporary is charged to earnings resulting in the establishment of a new cost basis for the security. Securities with an other than- temporary impairment are generally placed on non-accrual status.

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

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

The Company recorded a $0.7 million and $8.3 million pre-tax charge during 2002 and 2001 related to estimated other-than-temporary impairment of certain securities classified as available for sale. The charges were recorded in net security gains (losses) on the consolidated statements of income. The security with other-than temporary impairment charges at December 31, 2003 had a remaining carrying value of $0.4 million, is classified in securities available for sale and is on non-accrual status.

The following table presents the amortized cost and fair market value of the securities portfolio as of December 31 for the years indicated:

TABLE 5. SECURITIES PORTFOLIO

| (In thousands) | 2003 AMORTIZED COST | 2003 FAIR VALUE | 2002 Amortized Cost | 2002 Fair Value | 2001 Amortized Cost | 2001 Fair Value |
|---|---|---|---|---|---|---|
| | As of December 31, | | | | | |
| SECURITIES AVAILABLE FOR SALE | | | | | | |
| U.S. Treasury | $ 58 | $ 59 | $ 502 | $ 514 | $ 12,392 | $ 11,757 |
| Federal Agency and mortgage-backed | 843,777 | 849,686 | 810,784 | 833,940 | 524,101 | 530,613 |
| State and Municipal, collateralized mortgage obligations and other securities | 123,570 | 131,216 | 168,803 | 173,129 | 366,325 | 366,971 |
| Total securities available for sale | $ 967,405 | $980,961 | $ 980,089 | $1,007,583 | $ 902,818 | $909,341 |
| TRADING SECURITIES | $ 48 | $ 48 | $ 203 | $ 203 | $ 126 | $ 126 |
| SECURITIES HELD TO MATURITY | | | | | | |
| Federal Agency and mortgage-backed | $ 11,363 | $ 11,867 | $ 24,613 | $ 25,720 | $ 36,733 | $ 36,623 |
| State and Municipal | 85,437 | 86,305 | 56,021 | 56,917 | 64,715 | 64,715 |
| Other securities | 404 | 404 | 1,880 | 1,880 | 156 | 157 |
| Total securities held to maturity | $ 97,204 | $ 98,576 | $ 82,514 | $ 84,517 | $ 101,604 | $101,495 |

THE FOLLOWING TABLE SUMMARIZES THE SECURITIES CONSIDERED TO BE OTHER-THAN-TEMPORARILY IMPAIRED (OTTI) AT THE DATES INDICATED:

| (In thousands) | AT DECEMBER 31, 2003 AMORTIZED COST AND FAIR VALUE | AT DECEMBER 31, 2003 OTTI CHARGE | At December 31, 2002 Amortized Cost and Fair Value | At December 31, 2002 OTTI Charge |
|---|---|---|---|---|
| SECURITY TYPE | | | | |
| Private issue collateralized mortgage obligation | $ 395 | - | $ 1,122 | $ 660 |

The cumulative writedown of the private issue collateralized mortgage obligation at December 31, 2003 totaled $4.7 million. There were no other-than-temporary impairment writedowns during 2003. Included in the securities available for sale portfolio at December 31, 2002, were certain securities (private issue CMO, asset-backed securities, and private issue mortgaged-backed securities) previously held by CNB. These securities contained a higher level of credit risk when compared to other securities held in the Company's investment portfolio because they are not guaranteed by a governmental agency or a government sponsored enterprise (GSE). The Company's general practice is to purchase CMO and mortgagebacked securities that are guaranteed by a governmental agency or a GSE coupled with a strong credit rating, typically AAA, issued by Moody's or Standard and Poors.

At December 31, 2003, the Company had no exposure to these high-risk securities, as the remaining balance outstanding at December 31, 2002 were sold during the year.

At December 31, 2002, the amortized cost and fair value of these high-risk securities amounted to $12.0 million and $10.7 million, respectively, down from $38.7 million and $38.5 million, respectively, at December 31, 2001. The decrease at December 31, 2002, when compared to December 31, 2001, resulted primarily from sales and to a lesser extent principal paydowns. During 2002, the Company sold $22.4 million of these securities due to a continued deterioration in the financial condition of the underlying collateral in 2002 related to a certain number these securities as well as the Company's goal of reducing exposure to these types of securities. The net loss realized from the sale of these securities was $7.4 million. Offsetting these net losses were net gains of $7.3 million, resulting from the sale of approximately $187.0 million in other securities available for sale during 2002.

FUNDING SOURCES AND CORRESPONDING INTEREST EXPENSE

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term Federal Home Loan Bank (FHLB) advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as necessary to support the Company's growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities increased $140.2 million, totaling $3.0 billion in 2003 from $2.9 billion in 2002. The rate paid on interest-bearing liabilities decreased from 2.78% in 2002 to 2.07% in 2003. The decrease in the rate paid on interest bearing liabilities, caused a decrease in interest expense of $17.5 million, or 22%, from $80.4 million in 2002 to $62.9 million in 2003.

DEPOSITS

Average interest bearing deposits increased $10.5 million during 2003. The increase resulted primarily from increases in average NOW, Money Market Deposit Accounts ("MMDA"), and savings. The average balance of these core deposit types increased collectively $153.2 million or 13% during 2003 when compared to 2002. The increase in core deposits resulted primarily from continued market expansion and the migration of funds from time deposits. Average time deposits decreased $142.8 million or 11% during 2003 when compared to 2002. The decrease in average time deposits resulted primarily from the low rate environment prevalent throughout 2003. Additionally, the Company did not price time deposits aggressively in 2003, which contributed to the increase in core deposits as well as lead to an increase in short-term borrowings. The average balance of demand deposits increased $37.5 million, or 9%, from $419.7 million in 2002 to $457.2 million in 2003. The ratio of average demand deposits to total average deposits increased from 14.5% in 2002 to 15.6% in 2003.

The improvement in the Company's deposit mix noted above, combined with the falling interest rate environment prevalent in 2003, resulted in a decrease in the rate paid on interest bearing deposits of 71 bp, from 2.56% in 2002 to 1.85% in 2003. The rate paid on average time deposits decreased 72 bp, from 3.64% in 2002 to 2.92% in 2003. The decrease in the rate paid on average time deposits, combined with the decline in the average balance of time deposits, resulted in a $13.8 million decrease in interest expense paid on time deposits, from $48.5 million in 2002 to $34.7 million in 2003. The following table presents the maturity distribution of time deposits of $100,000 or more at December 31, 2003:

TABLE 6. MATURITY DISTRIBUTION OF TIME DEPOSITS OF 100,000 OR MORE

| (In thousands) | DECEMBER 31, 2003 |
|---|---|
| Within three months | $ 110,862 |
| After three but within six months | 114,737 |
| After six but within twelve months | 105,579 |
| After twelve months | 22,592 |
| Total | $ 353,770 |

BORROWINGS

Average short-term borrowings increased from $87.0 million in 2002 to $190.3 million in 2003. Consistent with the low interest rate environment during 2003, the average rate paid also decreased from 1.53% in 2002 to 1.14% in 2003. The increase in the average balance offset by the decrease in the average rate paid caused interest expense on short-term borrowings to increase $0.8 million from $1.3 million in 2002 to $2.2 million in 2003. Average long-term debt increased $26.4 million, from $334.5 million in 2002 to $360.9 million in 2003. The increases in long-term debt and short-term borrowings resulted primarily from loan growth exceeding deposit growth in 2003.

Short-term borrowings consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily FHLB advances, with original maturities of one year or less. The Company has unused lines of credit and access to brokered deposits available for short-term financing of approximately $544 million and $632 million at December 31, 2003 and 2002, respectively. Securities collateralizing repurchase agreements are held in safekeeping by non-affiliated financial institutions and are under the Company's control. Long-term debt, which is comprised primarily of FHLB advances, are collateralized by the

FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans.

RISK MANAGEMENT-CREDIT RISK

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

NONPERFORMING ASSETS

TABLE 7. NONPERFORMING ASSETS

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2003 | 2002 | 2001 | 2000 | 1999 |
| NONACCRUAL LOANS | | | | | |
| Commercial and agricultural loans and real estate | $ 8,693 | $16,980 | $ 31,372 | $14,054 | $ 9,519 |
| Real estate mortgages | 2,483 | 5,522 | 5,119 | 647 | 618 |
| Consumer | 2,685 | 1,507 | 3,719 | 2,402 | 2,671 |
| Total nonaccrual loans | 13,861 | 24,009 | 40,210 | 17,103 | 12,808 |
| LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING | | | | | |
| Commercial and agricultural loans and real estate | 242 | 237 | 198 | 4,523 | 1,201 |
| Real estate mortgages | 244 | 1,325 | 1,844 | 3,042 | 641 |
| Consumer | 482 | 414 | 933 | 865 | 906 |
| Total loans 90 days or more past due and still accruing | 968 | 1,976 | 2,975 | 8,430 | 2,748 |
| Restructured loans | - | 409 | 603 | 656 | 1,014 |
| Total nonperforming loans | 14,829 | 26,394 | 43,788 | 26,189 | 16,570 |
| Other real estate owned | 1,157 | 2,947 | 1,577 | 1,856 | 2,696 |
| Total nonperforming loans and other real estate owned | 15,986 | 29,341 | 45,365 | 28,045 | 19,266 |
| Nonperforming securities | 395 | 1,122 | 4,500 | 1,354 | 1,535 |
| Total nonperforming loans, securities, and other real estate owned | $16,381 | $30,463 | $ 49,865 | $29,399 | $20,801 |
| Total nonperforming loans to loans and leases | 0.56% | 1.12% | 1.87% | 1.17% | 0.86% |
| Total nonperforming loans and other real estate owned to total assets | 0.40% | 0.79% | 1.25% | 0.78% | 0.58% |
| Total nonperforming loans, securities, and other real estate owned to total assets | 0.40% | 0.82% | 1.37% | 0.82% | 0.63% |
| Total allowance for loan and lease losses to nonperforming loans | 287.62% | 152.18% | 102.19% | 124.07% | 170.43% |

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

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

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

After a thorough consideration of the factors discussed above, any required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses. These charges are necessary to maintain the allowance at a level which management believes is reasonably reflective of overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans and leases, additions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above. Total nonperforming assets were $16.4 million at December 31, 2003, compared to $30.5 million at December 31, 2002. Nonperforming loans totaled $14.8 million at December 31, 2003, down significantly from the $26.4 million outstanding at December 31, 2002. The decrease in nonperforming loans in 2003 resulted primarily from the Company's successful efforts in selling certain large problematic commercial loans and a group of nonperforming real estate mortgages at approximately their book value during the quarter ended March 31, 2003. Additionally, the Company continued to workout or chargeoff additional nonperforming loans for the remainder of 2003 without experiencing any significant migration of new nonperforming loans during the year. As a result of the reduction in nonperforming loans during 2003, the total allowance for loan and lease losses is 287.62% of non-performing loans at December 31, 2003 as compared to 152.18% at December 31, 2002. While loans and leases classified as non-performing have a strong likelihood of experiencing a loss, substantially all nonperforming loans are collateralized, many to a reasonably high percentage of the outstanding loan balance.

Impaired loans, which primarily consist of nonaccruing commercial type loans also decreased significantly, totaling $8.7 million at December 31, 2003 as compared to $17.4 million at December 31, 2002. The related allowance for these impaired loans is $0.2 million or 2.3% of the impaired loans at December 31, 2003 as compared to $0.5 million and 3.1%, respectively, at December 31, 2002. At December 31, 2003 and 2002 there were $7.5 million and $15.5 million, respectively, of impaired loans which did not have an allowance for loan losses due to the adequacy of their collateral or previous charge offs.

Total net charge-offs for 2003 totaled $6.6 million as compared to $13.7 million for 2002. The ratio of net charge-offs to average loans and leases was 0.27% for 2003 and 0.58% for 2002. The decrease in net charge-offs in 2003 resulted from the reduction in nonperforming loans and an improvement in loan quality. However, the amount provided for loan and lease losses for 2003 remained relatively unchanged from 2002, as improvements in loan quality were offset by strong loan growth. The provision for loan and lease losses exceeded net charge-offs by $2.5 million in 2003 while the ratio of the allowance for loan and lease losses to total loans and leases decreased to 1.62% at December 31, 2003 from 1.70% at December 31, 2002.

TABLE 8. ALLOWANCE FOR LOAN AND LEASE LOSSES

| (Dollars in thousands) | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Balance at January 1 | $40,167 | $44,746 | $32,494 | $28,240 | $26,615 |
| LOANS AND LEASES CHARGED-OFF | | | | | |
| Commercial and agricultural | 5,619 | 9,970 | 17,097 | 3,949 | 2,737 |
| Real estate mortgages | 362 | 2,547 | 783 | 1,007 | 1,165 |
| Consumer* | 5,862 | 5,805 | 4,491 | 2,841 | 2,808 |
| Total loans and leases charged-off | 11,843 | 18,322 | 22,371 | 7,797 | 6,710 |
| RECOVERIES | | | | | |
| Commercial and agricultural | 3,185 | 3,394 | 1,063 | 503 | 367 |
| Real estate mortgages | 430 | 104 | 122 | 141 | 198 |
| Consumer* | 1,601 | 1,172 | 1,004 | 739 | 874 |
| Total recoveries | 5,216 | 4,670 | 2,189 | 1,383 | 1,439 |
| Net loans and leases charged-off | 6,627 | 13,652 | 20,182 | 6,414 | 5,271 |
| Allowance related to purchase acquisitions | - | - | 505 | 525 | - |
| Provision for loan and lease losses | 9,111 | 9,073 | 31,929 | 10,143 | 6,896 |
| Balance at December 31 | $42,651 | $40,167 | $44,746 | $32,494 | $28,240 |
| Allowance for loan and lease losses to loans and leases outstanding at end of year | 1.62% | 1.70% | 1.91% | 1.45% | 1.47% |
| Net charge-offs to average loans and leases outstanding | 0.27% | 0.58% | 0.87% | 0.31% | 0.30% |

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

Total nonperforming assets were $30.5 million at December 31, 2002, compared to $49.9 million at December 31, 2001. Nonperforming loans totaled $26.4 million at December 31, 2002, down significantly from the $43.8 million outstanding at December 31, 2001. The $17.4 million decrease in nonperforming loans from December 31, 2001 to December 31, 2002, was due to the Company's successful efforts in resolving certain large problematic commercial loans as well as loan charge-offs. Nonaccrual commercial and agricultural loans decreased $14.4 million, from $31.4 million at December 31, 2001, to $17.0 million at December 31, 2002. The improvement in the Company's loan quality ratios are a direct result of the actions the Company took in 2001 to integrate credit administration functions of acquired banks into the Company's conservative credit culture. Based on the improved trends in loan quality noted above and the decrease in net charge-offs in 2002 when compared to 2001 highlighted in Table 8 above, the Company recorded a provision for loan and lease losses of $9.1 million for the year ended December 31, 2002, down from the $31.9 million provided in the same period in 2001.

The Company's strategic focus on loan growth, particularly in commercial lending, was also a focus of the banks acquired by the Company in 2001 and 2000; CNB Bank, LA Bank, N.A. and Pioneer American Bank, N.A. (see also Mergers and Acquisition). These acquired banks underwrote numerous commercial related loans prior to merging with the Company, based upon their respective underwriting processes and analysis, including several larger credits which became non-performing in 2001. Additionally, CNB Bank significantly increased its consumer loan portfolio in recent years. Accordingly, the Company's loan growth in general, in particular the growth in higher credit risk loan types, combined with the fact that the recently acquired banks appeared to have used generally less conservative underwriting and monitoring standards increased the inherent risk of loss in the loan and lease portfolio.

As the Company's loan and lease portfolio continued to grow and the loan mix continued to move in the direction of higher credit risk loan types, the economy in the Company's market areas took a dramatic turn for the worse in 2001, especially in the second half of 2001. This sudden economic down turn came at a particularly bad time for the Company given the growth in the Company's higher credit risk loan types. The difficult economic environment experienced in the Company's market areas was consistent with what has been experienced by the national economy throughout 2001 and resulted in, among other things, significant reductions in many borrowers' revenues and cash flows as well as reduced valuations for certain real estate and other collateral. In fact, certain large commercial relationships in the Company's portfolio reported significant deterioration in the later part of 2001, primarily due to the difficult economic environment.

During 2001, the Company completed the integration process with respect to the Pennstar banking division (formerly LA Bank, N.A. and Pioneer American Bank N. A.). The Company's integration efforts with the recently merged CNB banking division was completed in 2002. The integration process included bringing these banking divisions' credit administration practices in line with the Bank's policies, adopting the Bank's credit risk grading system, and upgrading numerous commercial real estate and other collateral appraisals. At December 31, 2001, the credit administration function of the Pennstar and CNB banking divisions, including workout and collections, was consolidated and standardized using the Bank model, and key personnel from the Bank's commercial lending area were installed at Pennstar and CNB to oversee the lending operations of the respective divisions.

As a result of the economic downturn, and the integration processes with respect to acquired banks discussed above, the Company performed an extensive review of its loan portfolio during 2001. This review focused on consistency in the identification and classification of problematic loans and the measurement of loss exposure on individual loans, especially in light of the generally weakened financial performance of borrowers caused by the economic downturn and reduced collateral values.

Non-performing loans increased from $26.2 million at December 31, 2000 to $43.8 million at December 31, 2001. The vast majority, approximately 92%, of nonperforming loans are in the non-accrual category. Within non-accrual loans, all loan types experienced significant increases, however, the largest increase was in the commercial and agricultural loans. Commercial and agricultural non-accrual loans, increased $17.3 million from $14.1 million at December 31, 2000 to $31.4 million at December 31, 2001. Consumer non-accrual loans also significantly increased from $2.4 million at December 31, 2000 to $3.7 million at December 31, 2001.

As a result of the reduction in nonperforming loans during 2002, the total allowance for loan and lease losses was 152.18% of non-performing loans at December 31, 2002 as compared to 102.19% at December 31, 2001.

Impaired loans, which primarily consist of nonaccruing commercial type loans and all loans restructured in a troubled debt restructuring, also decreased significantly, totaling $17.4 million at December 31, 2002 as compared to $32.0 million at December 31, 2001. The related allowance for these impaired loans was $0.5 million or 3.1% of the impaired loans at December 31, 2002 as compared to $1.4 million and 4.4%, respectively, at December 31, 2001. At December 31, 2002 and 2001 there were $15.5 million and $29.8 million, respectively, of impaired loans which did not have an allowance for loan losses due to the adequacy of their collateral or previous charge offs.

Total net charge-offs for 2002 totaled $13.7 million as compared to $20.2 million for 2001. The ratio of net charge-offs to average loans was 0.58% for 2002 and 0.87% for 2001. The decrease in net charge-offs in 2002 resulted from the reduction in nonperforming loans and an improvement in loan quality. However, the level of net charge-offs experienced in 2002 was higher than the Company's net charge-off experience prior to 2001. The higher level of net charge-offs in 2002, resulted from the increase in nonperforming loans in 2001. Net charge-offs in 2002 exceeded the 2002 provision for loan and lease losses as a result of the Company fully reserving certain of the 2002 charge-offs, primarily related to nonaccruing loans in 2001. As mentioned previously, the provision for loan and lease losses for 2002 totaled $9.1 million down from the $31.9 million provided in 2001.

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

TABLE 9. ALLOCATION OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

| | DECEMBER 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | 2002 | | 2001 | | 2000 | | 1999 | |
| (Dollars in thousands) | Allowance | Category Percent of Loans | Allowance | Category Percent of Loans | Allowance | Category Percent of Loans | Allowance | Category Percent of Loans | Allowance | Category Percent of Loans |
| Commercial and agricultural | $ 25,502 | 67% | $ 25,589 | 71% | $ 34,682 | 85% | $ 20,510 | 72% | $ 14,115 | 62% |
| Real estate mortgages | 4,699 | 11% | 3,884 | 10% | 1,611 | 4% | 1,669 | 6% | 2,506 | 11% |
| Consumer | 9,357 | 22% | 7,654 | 19% | 4,626 | 11% | 6,379 | 22% | 6,270 | 27% |
| Unallocated | 3,093 | - | 3,040 | - | 3,827 | - | 3,936 | - | 5,349 | - |
| Total | $ 42,651 | 100% | $ 40,167 | 100% | $ 44,746 | 100% | $ 32,494 | 100% | $ 28,240 | 100% |

In addition to the nonperforming loans discussed above, the Company has also identified approximately $54.3 million in potential problem loans at December 31, 2003 as compared to $48.5 million at December 31, 2002. Potential problem loans are loans that are currently performing, but where known information about possible credit problems of the related borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-performing at some time in the future. At the Company, potential problem loans are typically loans that are performing but are classified by the Company's loan rating system as "substandard." At December 31, 2003, potential problem loans primarily consisted of commercial and agricultural real estate and commercial and agricultural loans. At December 31, 2003, there were eight potential problem loans that exceeded $1.0 million, totaling $27.2 million in aggregate. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses.

At December 31, 2003, approximately 63.7% of the Company's loans are secured by real estate located in central and northern New York and northeastern Pennsylvania. Accordingly, the ultimate collectibility of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

## LIQUIDITY RISK

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

The primary liquidity measurement the Company utilizes is called 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. At December 31, 2003, the Company's Basic Surplus measurement was 8.9% of total assets or $359 million, which was above the Company's minimum of 5% or $202 million set forth in its liquidity policies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the

Company is able to operate with a more fully invested and, therefore, higher interest income generating, securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position. At December 31, 2003, the Company considered its Basic Surplus adequate to meet liquidity needs.

A significant improvement in the economy, may lead to an increase in demand for loan products as well as an increase in the demand for equity related products, which in turn, could result in a decrease in the Company's deposit base or result in loan growth exceeding deposit growth. This scenario could lead to a decrease in its basic surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, established borrowing facilities with other banks (Federal funds), and has the ability to enter into repurchase agreements with investment companies. The additional liquidity that could be provided by these measures amounted to $503 million at December 31, 2003.

At December 31, 2003, a portion of the Company's loans and securities were pledged as collateral on borrowings. Therefore, future growth of earning assets will depend upon the Company's ability to obtain additional funding, through growth of core deposits and collateral management, and may require further use of brokered time deposits, or other higher cost borrowing arrangements.

Net cashflows provided by operating activities totaled $44.6 million in 2003 and $60.9 million in 2002. The critical elements of net operating cashflows include net income, provision for loan and lease losses, and depreciation and amortization. Cash provided by operating activities declined in 2003 primarily from the purchase of $30.0 million in Bank Owned Life Insurance ("BOLI").

Net cash used in investing activities totaled $307.8 million in 2003 and $132.0 million in 2002. Critical elements of investing activities are loan and investment securities transactions. The increase in investing activities in 2003 was due primarily to the net increase in loans of $297.0 million.

Net cashflows provided by financing activities totaled $266.6 million in 2003 and $65.8 million in 2002. The critical elements of financing activities are proceeds from deposits, long-term debt, short-term borrowings, and stock issuances. In addition, financing activities are impacted by dividends and treasury stock transactions. The Company increased short-term borrowings to fund loan growth because of their lower cost compared to time deposits. Deposits, which are also used as a primary funding source, grew $66.0 million from increases in demand deposits, NOW, MMDA and savings due primarily to internal growth and a migration of time deposits which experienced a decline in 2003.

In connection with its financing and operating activities, the Company has entered into certain contractual obligations. The Company's future minimum cash payments, excluding interest, associated with its contractual obligations pursuant to its borrowing agreements and operating leases at December 31, 2003 are as follows:

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| Contractual Obligations (In thousands) | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
| Short-term debt obligations | $302,931 | $ - | $ - | $ - | $ - | $ - | $302,931 |
| Long-term debt obligations | 30,000 | 65,000 | 25,000 | 10,000 | 90,441 | 149,259 | 369,700 |
| Operating lease obligations | 2,057 | 1,596 | 1,420 | 1,220 | 840 | 4,427 | 11,560 |
| Total contractual obligations | $334,988 | $66,596 | $26,420 | $11,220 | $91,281 | $ 153,686 | $684,191 |

See Notes 7, 10, and 11 to the consolidated financial statements for additional discussion of these obligations.

## OFF-BALANCE SHEET RISK COMMITMENTS TO EXTEND CREDIT

The Company makes contractual commitments to extend credit and unused lines of credit which are subject to the Company's credit approval and monitoring procedures. At December 31, 2003 and 2002, commitments to extend credit in the form of loans, including unused lines of credit, amounted to $473.0 million and $409.1 million, respectively. In the opinion of management, there are no material commitments to extend credit, including unused lines of credit, that represent unusual risks. All commitments to extend credit in the form of loans, including - unused lines of credit expire within one year.

STAND-BY LETTERS OF CREDIT

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN No. 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASBStatements Nos. 5, 57, and 107 and rescission of FASB Interpretation No. 34." FIN No. 45 requires certain new disclosures and potential liability-recognition for the fair value at issuance of guarantees that fall within its scope. Under FIN No. 45, the Company does not issue any guarantees that would require liability-recognition or disclosure, other than its stand-by letters of credit.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. At December 31, 2003 and 2002, outstanding stand-by letters of credit were approximately $17.1 million and $24.7 million, respectively. The fair value of the Company's stand-by letters of credit at December 31, 2003 and 2002 was not significant. The following table sets forth the commitment expiration period for stand-by letters of credit at December 31, 2003:

| Commitment Expiration of Stand-by letters of Credit | |
|---|---|
| Within on year | $ 5,445 |
| After but within three years | 6,518 |
| After three but within five years | 5,089 |
| Total | $17,052 |

LOANS SERVICED FOR OTHERS AND LOANS SOLD WITH RECOURSE

The total amount of loans serviced by the Company for unrelated third parties was approximately $66.4 million and $77.2 million at December 31, 2003 and 2002, respectively. At December 31, 2003 and 2002, the Company serviced $23.2 million and $15.0 million, respectively, of loans sold with recourse. Due to collateral on these loans, no reserve is considered necessary at December 31, 2003 and 2002.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has made loans at prevailing rates and terms to directors, officers, and other related parties. Such loans, in management's opinion, do not present more than the normal risk of collectibility or incorporate other unfavorable features. The aggregate amount of loans outstanding to qualifying related parties at December 31, 2003 and 2002 were $16.1 million and $17.0 million, respectively.

The law firm of Kowalczyk, Tolles, Deery and Johnston, of which Director Andrew S. Kowalczyk, Jr., is a partner, provided legal services in the amount of $109,427 to us and NBT Bank in 2003. The law firms of Harris Beach LLP, and Oliver, Price, & Rhodes, of which Directors William L. Owens and Paul D. Horger are partners, provide legal services to us from time to time. Payments for services provided by Directors Owens and Horger, did not exceed $60,000 during 2003. Services from these firms were provided in the ordinary course of business and at market terms.

CAPITAL RESOURCES

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

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

The Bank also is subject to substantial regulatory restrictions on its ability to pay dividends to the Company. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, exceed the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. At December 31, 2003, approximately $28.9 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements.

STOCK REPURCHASE PLAN

On July 22, 2002, the Company announced that it intended to repurchase up to one million shares (approximately 3%) of its outstanding common stock from time to time in open market and privately negotiated transactions. Since the announcement of the Stock Repurchase Plan, the Company repurchased a total of 844,946 shares at an average price of $17.54 per share. Total cash allocated for these repurchases during this period was $14.8 million. For 2003, the Company repurchased 369,313 shares at an average price of $17.57 per share.

On April 28, 2003, the Company announced that it intended to repurchase up to an additional one million shares (approximately 3%) of its outstanding common stock from time to time in open market and privately negotiated transactions. Currently there are 155,054 shares remaining under the previous authorization that will be repurchased prior to the commencement of the new program.

NONINTEREST INCOME

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2003 | 2002 | 2001 |
| Service charges on deposit accounts | $15,833 | $13,875 | $12,756 |
| Broker/dealer and insurance revenue | 6,869 | 5,780 | 4,500 |
| Trust | 4,041 | 3,226 | 3,958 |
| Bank Owned Life Insurance | 815 | - | - |
| Other | 10,045 | 9,053 | 9,245 |
| Total before net securities and a gain on sale of building | 37,603 | 31,934 | 30,459 |
| Net securities gains (losses) | 175 | (413) | (7,692) |
| Gain on sale of building | - | - | 1,367 |
| Total | $37,778 | $31,521 | $24,134 |

Noninterest income before securities losses increased $5.7 million or 18% to $37.6 million for 2003 from $31.9 million for 2002. Fees from service charges on deposit accounts increased $2.0 million or 14% for 2003 when compared to 2002, primarily from an increase in core deposits and pricing adjustments. Broker/dealer and insurance fees increased $1.1 million, primarily driven by the initiative implemented at the end of 2002 to offer financial service products throughout the Company's 111 branch network. Trust revenue increased $0.8 million or 25% in 2003, primarily from growth in assets under management and increased estate fees. Other income increased $1.0 million or 11%, in 2003, from strong growth in ATM and other consumer banking fee income.

The Company purchased $30 million in BOLI in June 2003. BOLI represents life insurance on the lives of certain employees who are deemed to be significant contributors to the Company. All employees in the policy are aware of and have consented to the coverage. Increases in the cash value of the policies, as well as insurance proceeds that may be received, are recorded in other noninterest income, and are not subject to income taxes. The Company reviewed the financial strength of the insurance carriers prior to the purchase of BOLI and will do so annually thereafter. Total BOLI income was $0.8 million for 2003. Net securities gains stemming primarily from the call of certain debt securities totaled $0.2 million in 2003 compared to a $0.4 million net loss in 2002 which resulted primarily from a charge taken for the other-than-temporary impairment of a certain security totaling $0.7 million.

## NONINTEREST EXPENSE

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2003 | 2002 | 2001 |
| Salaries and employee benefits | $ 49,560 | $ 48,212 | $ 48,419 |
| Occupancy | 9,328 | 8,333 | 8,704 |
| Equipment | 7,627 | 7,066 | 7,228 |
| Data processing and communications | 10,752 | 10,593 | 10,690 |
| Professional fees and outside services | 5,433 | 6,589 | 6,338 |
| Office supplies and postage | 4,216 | 4,446 | 4,639 |
| Amortization of intangible assets | 620 | 774 | 685 |
| Amortization of unidentifiable intangible assets and goodwill | - | - | 3,563 |
| Capital securities | 732 | 839 | 1,278 |
| Residual value lease losses | - | - | 3,529 |
| Loan collection and other real estate owned | 1,840 | 2,846 | 2,117 |
| Other | 14,409 | 12,757 | 11,221 |
| Merger, acquisition and reorganization costs | - | - | 15,322 |
| Certain deposit overdraft write-offs | - | - | 2,125 |
| Total noninterest expense | $ 104,517 | $102,455 | $125,858 |

Total noninterest expense increased $2.1 million or 2% from $102.5 million in 2002 to $104.5 million in 2003. Salaries and benefits increased $1.3 million or 3% in 2003 from increases in salaries of $2.0 million, incentive compensation of $0.9 million, and medical insurance of $0.3 million offset by an increase in loan origination deferrals of $2.0 million and a decrease in pension and postretirement health care costs of $0.4 million. The increase in salaries was driven primarily by merit increases and an increase in full-time equivalent employees. Incentive compensation increased from increases in bonuses, financial services commissions and 401(K)/ESOP contributions as the Company's focus has shifted to a sales-driven culture. Occupancy expense increased $1.0 million or 12% in 2003 from increases in depreciation and rent stemming from renovations and expansion at the Company's corporate headquarters as well as an increase in seasonal maintenance. Equipment expense increased $0.6 million or 6%, from ATM upgrades and increased depreciation for office equipment from renovations at the Company's corporate headquarters and several CNB locations. Other operating expenses increased $1.7 million or 13% in 2003 from an $0.8 million charge for the write-down of nonmarketable investment securities and an increase in insurance expense of $0.6 million from higher premiums for property and casualty insurance, and contingent auto liability insurance.

Offsetting these increases were decreases in 2003 in professional fees and outside services of $1.2 million and loan collection and OREO costs of $1.0 million. The decrease in professional fees and outside services resulted from a $0.4 million charge related to an adverse judgment against the Company in 2002, legal fees of $0.3 million incurred during 2002 for the recovery of deposit overdraft writeoffs, and $0.4 million in professional fees for a tax project in 2002. The decrease in loan collection and OREO costs resulted from gains on the sale of OREO and a decrease in nonperforming loans.

## INCOME TAXES

In 2003, income tax expense was $21.5 million, as compared to $21.8 million in 2002 and $0.5 million in 2001. The Company's effective tax rate was 31.3%, 32.6%, and 12.7% in 2003, 2002, and 2001, respectively. The decrease in the effective rate in 2003 from 2002 resulted from an increase in tax exempt income in 2003. The decrease in the effective tax rate during 2001 was primarily the result of lower net income before tax, which resulted in a greater benefit, on a percentage basis, from permanent non-taxable items such as tax-exempt interest.

## 2002 OPERATING RESULTS AS COMPARED TO 2001
## OPERATING RESULTS-NET INTEREST INCOME

On a tax equivalent basis, the Company's net interest income for 2002 was $151.1 million, up from $141.8 million for 2001. The Company's net interest margin improved to 4.43% for 2002 from 4.19% for 2001. The improvement in net interest income and net interest margin in 2002 were due primarily to three factors. First, the Company benefited from the decreasing rate environment in 2002, as interest-bearing liabilities repriced downward at a faster rate than earning assets. Secondly, there was a slight increase in average earning assets of $26.0 million or 1%, in 2002 when compared to 2001, driven primarily by loan and lease growth. Lastly, an improved deposit mix lowered interest expense, as lower cost NOWs, money market, and savings accounts comprised 39% of average total interest-bearing liabilities in 2002 compared to 36% in 2001.

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

The average balance of loans and leases increased 1%, totaling $2.3 billion in 2002 and 2001. The yield on average loans and leases decreased from 8.13% in 2001 to 7.18% in 2002, as a falling interest rate environment prevailed for much of 2002. Interest income from loans and leases on a FTE basis decreased 11%, from $188.1 million in 2001 to $167.9 million in 2002. The decrease in interest income from loans and leases was due primarily to the decrease in yield on loans and leases in 2002 of 95 bp when compared to 2001.

Total loans and leases increased slightly at December 31, 2002, totaling $2.4 billion from $2.3 billion at December 31, 2001. The combination of the Company's focus on improving the credit quality of the loan and lease portfolio and sluggish business conditions coupled with strong competition in the Company's market area limited loan growth opportunities for commercial and consumer loans in 2002. However, residential real estate mortgages were $579.6 million at December 31, 2002, up $54.2 million or 10% from $525.4 million at December 31, 2001. The increase in residential real estate mortgages was driven primarily by the historic low interest rates for residential real estate mortgages which led to an increase in demand for the product in 2002. The Company continued its trend of strong growth for its home equity products. Home equity loans totaled $269.6 million at December 31, 2002, up $36.9 million or 16% from the $232.6 million outstanding at December 31, 2001. Commercial loans and commercial real estate decreased $37.7 million, to $920.3 million at December 31, 2002 from $958.1 million at December 31, 2001. The decrease in commercial loans and commercial real estate was driven primarily by the Company's focus to improve the credit quality of this portfolio in 2002. Additionally, sluggish business conditions and strong competition in a weak market factored into the decline in the commercial loan and real estate portfolio in 2002 as well. Lastly, nonaccrual commercial and agricultural loans and real estate decreased by $14.4 million, to $17.0 million at December 31, 2002 from $31.4 million at December 31, 2001. Consumer loans decreased $29.9 million to $357.2 million at December 31, 2002 from $387.1 million at December 31, 2001. The decrease in consumer loans resulted primarily from a decline in revolving personal credit and loans secured by recreational equipment and manufactured housing.

## LEASE FINANCING

In 2002, competitive pressure from large automakers combined with lower residual values on automobiles which results in higher lease payments making the product less attractive, resulted in a 15.2% decrease in outstanding lease financing at December 31, 2002 when compared to outstanding lease financing at December 31, 2001. During 2002, values for used vehicles stabilized, thereby lowering the average loss on turned-in leased vehicles during 2002 when compared to the levels experienced in 2001. Accordingly, there was no provision for the other-than-temporary impairment in residual values in 2002.

## SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME

The average balance of securities available for sale was $947.0 million, which is an increase of $13.9 million, or 1.5%, from $933.1 million in 2001. The increase resulted primarily from the reinvestment of funds from maturities and paydowns from securities held to maturity and trading securities. The yield on average securities available for sale was 5.98% in 2002 compared to 6.63% in 2001. The decrease in yield, resulted in a decrease in interest income on securities available for sale of $5.3 million, from $61.9 million in 2001 to $56.6 million in 2002. The decrease in yield was caused primarily by the reinvestment of funds at lower rates in the declining rate environment in 2002. The average balance of securities held to maturity was $93.0 million during 2002, which is a decrease of $6.9 million, from $99.8 million in 2001. The decrease is primarily a result of proceeds from maturities and paydowns of securities held to maturity reinvested in securities available for sale. The yield on securities held to maturity was 6.04% in 2002 compared to 6.65% in 2001. Interest income on securities held to maturity decreased $1.0 million, from $6.6 million in 2001 to $5.6 million in 2002.

In January 2002, the Company had certain embedded derivative instruments related to two debt securities that have returns linked to the performance of the NASDAQ 100 index. Management determined that these debt securities do not qualify for hedge accounting under SFAS No. 133 (see Impact of New Accounting Standards). The embedded derivatives have been separated from the underlying host instruments for financial reporting purposes and accounted for at fair value. During the year ended December 31, 2001, the Company recorded $0.6 million of net losses related to the adjustment of the embedded derivatives to estimated fair value ($0.2 million of which was recorded on January 1, 2001 upon the adoption of SFAS No. 133), which was recorded in net gain (loss) on securities transactions on the 2001 consolidated statement of income. At December 31, 2001, the total amortized cost and estimated fair value of these two debt securities was $6.2 million. The two debt securities were sold in 2002 at amounts approximating their carrying values at December 31, 2001.

## FUNDING SOURCES AND CORRESPONDING INTEREST EXPENSE DEPOSITS

The average balance of interest-bearing liabilities remained relatively unchanged, totaling $2.9 billion in 2002 and 2001. The rate paid on interest-bearing liabilities decreased from 4.07% in 2001 to 2.78% in 2002. The decrease in the rate paid on interest bearing liabilities, caused a decrease in interest expense of $37.1 million, or 31.6%, from $117.5 million in 2001 to $80.4 million in 2002.

Average interest bearing deposits decreased $34.7 million during 2002. The decrease resulted primarily from a decrease in time deposits of $145.2 million, due primarily to the conscious effort to allow runoff of some higher cost municipal time deposits as well as the sale of a branch in February 2002 which resulted in the sale of $34.3 million in deposits. Offsetting this decrease was strong growth in core deposits in 2002. The average balance of NOW, Money Market Deposit Accounts ("MMDA"), and savings comprised 46.2% of average interest bearing deposits in 2002 compared to 41.1% in 2001. The average balance of demand deposits increased $37.3 million, or 9.7%, from $382.5 million in 2001 to $419.7 million in 2002. The ratio of average demand deposits to total average deposits increased from 11.3% in 2001 to 14.5% in 2002.

## BORROWINGS

Average short-term borrowings decreased from $123.2 million in 2001 to $87.0 million in 2002. Consistent with the decreasing interest rate environment during 2002, the average rate paid also decreased from 4.36% in 2001 to 1.53% in 2002. The decrease in the average balance combined with the decrease in the average rate paid caused interest expense on short-term borrowings to decrease $4.0 million from $5.4 million in 2001 to $1.3 million in 2002. Average long-term debt increased $74.9 million, from $259.6 million in 2001 to $334.5 million in 2002. The increase in long-term debt and the decrease in shortterm borrowings and time deposits was a result of the Company limiting its liability sensitive position and its exposure to rising interest rates.

## NONINTEREST INCOME

Noninterest income before securities losses and a gain on sale of a building increased $1.5 million or 5% to $31.9 million for 2002 from $30.5 million for 2001. Broker/ dealer and insurance fees increased $1.3 million, primarily driven by one of the Company's financial services providers, which began operations in June 2001, resulting in a full year of revenue totaling $1.6 million in 2002 compared to seven months of revenue in 2001 totaling $0.6 million.

Fees from service charges on deposit accounts increased $1.1 million or 9% for 2002 when compared to 2001, primarily from an increase in core deposits and pricing adjustments. Offsetting these increases was a $0.7 million decrease in trust revenue resulting primarily from declines in assets under management which resulted from stock market declines in 2001 and 2002 and the level of estate activity in 2002 when compared to 2001.

Net securities losses totaled $0.4 million in 2002, down from $7.7 million in 2001. The decrease in net securities losses in 2002 resulted primarily from a decrease in charges taken for the other-than-temporary impairment of certain securities totaling $8.3 million in 2001 as compared to $0.7 million in 2002.

NONINTEREST EXPENSE

Noninterest expense before merger, acquisition, and reorganization costs and certain deposit overdraft writeoffs, decreased $6.0 million to $102.5 million for 2002 from $108.4 million for 2001. Occupancy, equipment, office supplies, postage, and data processing decreased in 2002 when compared to 2001, due mainly to efficiencies realized from acquisitions in 2001 and 2000. Professional fees and outside service costs in 2002 remained relatively consistent with 2001.

Amortization of unidentified intangible assets and goodwill decreased $3.5 million, to $0.8 million for 2002 from $4.2 million for 2001. The decrease in amortization of unidentified intangible assets and goodwill resulted from the adoption of SFAS No. 142 and SFAS No. 147 in 2002. Capital securities expense decreased $0.4 million, to $0.8 million for 2002 from $1.3 million for 2001. The decrease in capital securities expense is a result of the Company's guaranteed preferred beneficial interests in Company's junior subordinated debentures, which are tied to a variable interest rate index (3-month LIBOR plus 275 bp) that was much lower for 2002 when compared 2001.

Loan collection and other real estate owned expenses increased $0.9 million, to $3.0 million for 2002 from $2.1 million for 2001. This increase is due primarily to the increase in nonperforming loans during 2001, which resulted in an increase in collection activity and foreclosure costs during 2002. A charge for the other-than temporary impairment for lease residual values totaled $3.5 million in 2001 versus no such charge in 2002. Other operating expense increased $1.5 million to $12.7 million in 2002 from $11.2 million in 2001. The increase in other operating expense was due mainly to increases in contributions, insurance expense, and advertising costs.

IMPACT OF INFLATION AND CHANGING PRICES

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increasing cost of the Company's operations. Unlike most industrial companies, nearly all assets and liabilities of the Company are monetary. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction of, or to the same extent as the price of goods and services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

The primary tool utilized by ALCO to manage interest rate risk is a balance sheet/income statement simulation model (interest rate sensitivity analysis). Information such as principal balance, interest rate, maturity date, cash flows, next repricing date (if needed), and current rates is uploaded into the model to create an ending balance sheet. In addition, ALCO makes certain assumptions regarding prepayment speeds for loans and leases and mortgage related investment securities along with any optionality within the deposits and borrowings.

The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Three additional models are run in which a gradual increase of 200 bp, a gradual increase of 200 bp where the long end of the yield curve remains flat (the long end of the yield curve is defined as 5 years and longer) and a gradual decrease of 75 bp takes place over a 12 month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded into them are handled accordingly based on the interest rate scenario. The resultant changes in net interest income are then measured against the flat rate scenario.

In the declining rate scenario, net interest income is projected to increase slightly when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The increase in net interest income is a result of interest-bearing liabilities repricing downward at a faster rate than earning assets. The inability to effectively lower deposit rates will likely reduce or eliminate the benefit of lower interest rates. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. Net interest income is projected to remain at lower levels than in a flat rate scenario through the simulation period primarily due to a lag in assets repricing while funding costs increase. The potential impact on earnings is dependent on the ability to lag deposit repricing.

Net interest income for the next twelve months in the +200/+ 200 flat/- 75 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the December 31, 2003 balance sheet position:

Table 10. Interest Rate Sensitivity Analysis

| Change in interest rates (In basis points) | Percent change in net interest income |
|---|---|
| +200 Flat | (2.09%) |
| +200 | (1.00%) |
| - -75 | 0.24% |

Under the flat rate scenario with a static balance sheet, net interest income is anticipated to increase approximately 1.3% from total net interest income for 2003. The Company anticipates under current conditions, earning assets will continue to reprice down at a faster rate than interest bearing liabilities. However, the growth in loans experienced in the second half of 2003 should minimize the impact of margin compression. In order to protect net interest income from anticipated net interest margin compression, the Company will continue to focus on increasing earning assets through loan growth and leverage opportunities. However, if the Company cannot maintain the level of earning assets at December 31, 2003, the Company expects net interest income to decline in 2004.

Currently, the Company is holding fixed rate residential real estate mortgages in its loan portfolio and mortgage related securities in its investment portfolio. Two major factors the Company considers in holding residential real estate mortgages is its level of core deposits and the duration of its mortgage-related securities and loans. Current core deposit levels combined with a shortening of duration of mortgage-related securities and loans have enabled the Company to hold fixed rate residential real estate mortgages without having a significant negative impact on interest rate risk, as the Company is well matched at December 31, 2003. The Company's net interest income is projected to decrease by 1.00% if interest rates gradually rise 200 basis points. From December 31, 2002, we have reduced our exposure to 30- year fixed rate mortgage related securities and loans by $41.9 million. Approximately 11.5% of earning assets were comprised of 30-year fixed rate mortgage related securities and loans at December 31, 2003, down from a ratio of 13.3% at December 31, 2002. The Company closely monitors its matching of earning assets to funding sources. If core deposit levels decrease or the rate of growth in core deposit levels does not equal or exceed the rate in growth of 30-year fixed rate real estate mortgage related securities or loans, the Company will reevaluate its strategy and may sell new originations of fixed rate mortgages in the secondary market or may sell certain mortgage related securities in order to limit the Company's exposure to long-term earning assets.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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### 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 consolidated financial statements and related information have been prepared in conformity with accounting principles generally accepted in the United States of America 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 a Risk Management Committee composed entirely of independent directors. The Risk Management Committee is responsible for recommending to the Board the independent auditors to be retained for the coming year. The Risk Management 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 Risk Management Committee reports to the Board on its activities and findings.

/S/ Daryl R. Forsythe

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Daryl R. Forsythe
Chairman and Chief Executive Officer

/S/ Michael J. Chewens

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NBT Bancorp Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002, and as a result ceased amortizing goodwill. Also as discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 147, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," as of October 1, 2002, and as a result reclassified certain unidentified intangible assets to goodwill retroactive to January 1, 2002.

/S/ KPMG LLP

Albany, New York
February 24, 2004

## CONSOLIDATED BALANCE SHEETS

| (In thousands, except share and per share data) | December 31, 2003 | December 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 125,590 | $ 121,824 |
| Short-term interest bearing accounts | 2,454 | 2,799 |
| Trading securities, at fair value | 48 | 203 |
| Securities available for sale, at fair value | 980,961 | 1,007,583 |
| Securities held to maturity (estimated fair value $98,576 and $84,517) | 97,204 | 82,514 |
| Federal Reserve and Federal Home Loan Bank stock | 34,043 | 23,699 |
| Loans and leases | 2,639,976 | 2,355,932 |
| Less allowance for loan and lease losses | 42,651 | 40,167 |
| Net loans and leases | 2,597,325 | 2,315,765 |
| Premises and equipment, net | 62,443 | 61,261 |
| Goodwill | 47,521 | 46,121 |
| Intangible assets, net | 2,331 | 2,246 |
| Bank owned life insurance | 30,815 | - |
| Other assets | 66,150 | 59,711 |
| Total assets | $4,046,885 | $3,723,726 |
| **LIABILITIES, GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S JUNIOR SUBORDINATE DEBENTURES, AND STOCKHOLDERS' EQUITY** | | |
| Deposits | | |
| Demand (noninterest bearing) | $ 500,303 | $ 449,201 |
| Savings, NOW, and money market | 1,401,825 | 1,183,603 |
| Time | 1,099,223 | 1,289,236 |
| Total deposits | 3,001,351 | 2,922,040 |
| Short-term borrowings | 302,931 | 105,601 |
| Long-term debt | 369,700 | 345,475 |
| Other liabilities | 45,869 | 41,228 |
| Total liabilities | 3,719,851 | 3,414,344 |
| Guaranteed preferred beneficial interests in Company's junior subordinate debentures (capital securities) | 17,000 | 17,000 |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, $0.01 par at December 31, 2003 and 2002. Authorized 2,500,000 shares | | |
| Common stock, $0.01 par value. Authorized 50,000,000 shares at December 31, 2003 and 2002; issued 34,401,088 and 34,401,171 at December 31, 2003 and 2002, respectively | 344 | 344 |
| Additional paid-in-capital | 209,267 | 210,443 |
| Unvested restricted stock | (197) | (127) |
| Retained earnings | 120,016 | 95,085 |
| Accumulated other comprehensive income | 7,933 | 16,531 |
| Common stock in treasury, at cost, 1,592,435 and 1,751,724 shares | (27,329) | (29,894) |
| Total stockholders' equity | 310,034 | 292,382 |
| Total liabilities, guaranteed preferred beneficial interests in Company's junior subordinate debentures, and stockholders' equity | $4,046,885 | $3,723,726 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

| (In thousands, except per share data) | December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| INTEREST, FEE, AND DIVIDEND INCOME | | | |
| Interest and fees on loans and leases | $159,118 | $ 167,185 | $187,188 |
| Securities available for sale | 43,851 | 54,404 | 60,241 |
| Securities held to maturity | 3,391 | 4,260 | 5,232 |
| Other | 938 | 1,373 | 2,773 |
| Total interest, fee, and dividend income | 207,298 | 227,222 | 255,434 |
| INTEREST EXPENSE | | | |
| Deposits | 45,941 | 63,332 | 98,522 |
| Short-term borrowings | 2,171 | 1,334 | 5,365 |
| Long-term debt | 14,762 | 15,736 | 13,615 |
| Total interest expense | 62,874 | 80,402 | 117,502 |
| Net interest income | 144,424 | 146,820 | 137,932 |
| Provision for loan losses | 9,111 | 9,073 | 31,929 |
| Net interest income after provision for loan losses | 135,313 | 137,747 | 106,003 |
| NONINTEREST INCOME | | | |
| Service charges on deposit accounts | 15,833 | 13,875 | 12,756 |
| Broker/ dealer and insurance revenue | 6,869 | 5,780 | 4,500 |
| Trust fees | 4,041 | 3,226 | 3,958 |
| Net securities gains (losses) | 175 | (413) | (7,692) |
| Gain on sale of branch building | - | - | 1,367 |
| Bank owned life insurance | 815 | - | - |
| Other | 10,045 | 9,053 | 9,245 |
| Total noninterest income | 37,778 | 31,521 | 24,134 |
| NONINTEREST EXPENSE | | | |
| Salaries and employee benefits | 49,560 | 48,212 | 48,419 |
| Occupancy | 9,328 | 8,333 | 8,704 |
| Equipment | 7,627 | 7,066 | 7,228 |
| Data processing and communications | 10,752 | 10,593 | 10,690 |
| Professional fees and outside services | 5,433 | 6,589 | 6,338 |
| Office supplies and postage | 4,216 | 4,446 | 4,639 |
| Amortization of unidentified intangible assets and goodwill | - | - | 3,563 |
| Amortization of intangible assets | 620 | 774 | 685 |
| Merger, acquisition and reorganization costs | - | - | 15,322 |
| Writedowns of lease residual values | - | - | 3,529 |
| Deposit overdraft write-offs | - | - | 2,125 |
| Capital securities | 732 | 839 | 1,278 |
| Loan collection and other real estate owned | 1,840 | 2,846 | 2,117 |
| Other | 14,409 | 12,757 | 11,221 |
| Total noninterest expense | 104,517 | 102,455 | 125,858 |
| Income before income tax expense | 68,574 | 66,813 | 4,279 |
| Income tax expense | 21,470 | 21,814 | 542 |
| Net income | $ 47,104 | $ 44,999 | $ 3,737 |
| EARNINGS PER SHARE | | | |
| Basic | $ 1.45 | $ 1.36 | $ 0.11 |
| Diluted | 1.43 | 1.35 | 0.11 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| Years ended December 31, 2003, 2002, and 2001 (In thousands except share and per share data) | Common stock | Additional paid-in-capital | Unvested restricted stock | Retained earnings | Accumulated other comprehensive (loss)/income | Common stock in treasury | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2000 | $ 332 | $ 195,422 | $ - | $ 88,921 | $ (1,934) | $ (13,100) | $269,641 |
| Net income | - | - | - | 3,737 | - | - | 3,737 |
| Cash dividends-$0.68 per share | - | - | - | (20,123) | - | - | (20,123) |
| Issuance of 1,075,366 shares to purchase First National Bancorp, Inc. | 11 | 15,991 | - | - | - | - | 16,002 |
| Payment in lieu of fractional shares | - | - | - | (4) | - | - | (4) |
| Purchase of 727,037 treasury shares | - | - | - | - | - | (11,126) | (11,126) |
| Issuance of 223,515 shares to employee benefit plans and other stock plans, including tax benefit | 1 | (1,529) | - | - | - | 3,901 | 2,373 |
| Retirement of 63,034 shares of treasury stock of pooled company | (1) | (708) | - | - | - | 709 | - |
| Other comprehensive income | - | - | | - | 5,855 | - | 5,855 |
| Balance at December 31, 2001 | 343 | 209,176 | - | 72,531 | 3,921 | (19,616) | 266,355 |
| Net income | - | - | - | 44,999 | - | - | 44,999 |
| Cash dividends-$0.68 per share | - | - | - | (22,445) | - | - | (22,445) |
| Purchase of 624,333 treasury shares | - | - | - | - | - | (10,803) | (10,803) |
| Issuance of 25,298 shares to the employee stock purchase plan | - | 315 | - | - | - | - | 315 |
| Issuance of 53,460 shares for the exercise of incentive stock options | - | 550 | - | - | - | - | 550 |
| Issuance of 69,752 shares in exchange for 40,687 treasury shares for the exercise of incentive stock options | 1 | 580 | - | - | - | (581) | - |
| Issuance of 47,296 shares for the exercise of incentive and nonqualified stock options, including tax benefit | - | (150) | - | - | - | 868 | 718 |
| Grant of 14,648 shares of Restricted stock awards | - | (28) | (222) | - | - | 250 | - |
| Cancellation of 800 restricted stock awards | - | - | 12 | - | - | (12) | - |
| Amortization of restricted stock awards | - | - | 83 | - | - | - | 83 |
| Other comprehensive income | - | - | - | - | 12,610 | - | 12,610 |
| Balance at December 31, 2002 | $ 344 | $ 210,443 | $ (127) | $ 95,085 | $ 16,531 | $ (29,894) | $292,382 |
| Net income | - | - | - | 47,104 | - | - | 47,104 |
| Cash dividends-$0.68 per share | - | - | - | (22,173) | - | - | (22,173) |
| Purchase of 369,313 treasury shares | - | - | - | - | - | (6,489) | (6,489) |
| Issuance of 41,980 shares in Exchange for 20,172 shares received as consideration for the exercise of incentive stock options | - | 360 | - | - | - | (360) | - |
| Net issuance of 494,948 shares to employee benefit plans and other stock plans, including tax benefit | - | (1,537) | - | - | - | 9,212 | 7,675 |
| Grant of 11,846 shares of restricted stock awards | - | 1 | (203) | - | - | 202 | - |
| Amortization of restricted stock awards | - | - | 133 | - | - | - | 133 |
| Other comprehensive loss | - | - | - | - | (8,598) | - | (8,598) |
| Balance at December 31, 2003 | $ 344 | $ 209,267 | $ (197) | $ 120,016 | $ 7,933 | $ (27,329) | $310,034 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands, except per share data) | Years ended December 31 2003 | 2002 | 2001 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | $ 47,104 | $ 44,999 | $ 3,737 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Provision for loan losses | 9,111 | 9,073 | 31,929 |
| Depreciation of premises and equipment | 6,507 | 6,573 | 6,197 |
| Net amortization (accretion on) securities | 4,806 | 210 | (5,369) |
| Amortization of goodwill and intangible assets | 620 | 774 | 4,248 |
| Amortization of restricted stock | 133 | 83 | - |
| Deferred income tax expense (benefit) | 6,357 | 8,655 | (6,333) |
| Proceeds from sale of loans held for sale | 8,886 | 6,676 | 16,570 |
| Originations and purchases of loans held for sale | (2,812) | (6,824) | (14,360) |
| Purchase of trading securities | (68) | (65) | (6,194) |
| Proceeds from sales of trading securities | 255 | - | 29,844 |
| Net loss on disposal of premises and equipment | 166 | - | 164 |
| Net losses (gains) on sales of loans held for sale | - | 105 | (27) |
| Net security (gains) losses | (175) | 413 | 7,692 |
| Net gain on sales of other real estate owned | (927) | (80) | (17) |
| Writedowns on other real estate owned | - | - | 253 |
| Gain on sale of branch building | - | - | (1,367) |
| Gain on sale of branch, net | - | (220) | - |
| Tax benefit from exercise of stock options | 1,294 | 199 | 327 |
| Writedown of nonmarketable securities | 620 | - | - |
| Purchase of Bank Owned Life Insurance | (30,000) | - | - |
| Net decrease (increase) in other assets | (3,339) | 1,273 | (5,471) |
| Net (decrease) increase in other liabilities | (3,923) | (10,980) | (8,579) |
| Net cash provided by operating activities | 44,615 | 60,864 | 53,244 |
| **INVESTING ACTIVITIES** | | | |
| Net cash and cash equivalents provided by acquisitions | 10,594 | - | 9,509 |
| Net cash paid in conjunction with branch sale | - | (29,171) | - |
| Securities available for sale: | | | |
| Proceeds from maturities, calls, and principal paydowns | 458,295 | 382,285 | 335,280 |
| Proceeds from sales | 206,754 | 217,471 | 43,318 |
| Purchases | (657,578) | (677,563) | (324,701) |
| Securities held to maturity: | | | |
| Proceeds from maturities, calls, and principal paydowns | 53,991 | 52,637 | 40,427 |
| Purchases | (68,752) | (33,645) | (26,121) |
| Net increase in loans | (296,981) | (36,315) | (39,589) |
| Net increase (decrease) in Federal Reserve and FHLB stock | (10,344) | (1,915) | 9,902 |
| Purchases of premises and equipment, net | (7,827) | (6,851) | (8,451) |
| Proceeds from sales of other real estate owned | 4,076 | 1,113 | 3,476 |
| Net cash (used in) provided by investing activities | (307,772) | (131,954) | 43,050 |
| **FINANCING ACTIVITIES** | | | |
| Net increase (decrease) in deposits | 66,011 | 40,689 | (36,214) |
| Net increase (decrease) in short-term borrowings | 197,329 | (16,412) | (63,437) |
| Proceeds from issuance of long-term debt | 125,000 | 80,000 | 247,083 |
| Repayments of long-term debt | (100,775) | (6,856) | (215,005) |
| Proceeds from the issuance of shares to employee benefit plans and other stock plans | 7,675 | 1,583 | 2,046 |
| Purchase of treasury stock | (6,489) | (10,803) | (11,126) |
| Cash dividends and payment for fractional shares | (22,173) | (22,445) | (20,127) |
| Net cash provided by (used in) financing activities | 266,578 | 65,756 | (96,780) |
| Net increase (decrease) in cash and cash equivalents | 3,421 | (5,334) | (486) |
| Cash and cash equivalents at beginning of year | 124,623 | 129,957 | 130,443 |
| Cash and cash equivalents at end of year | $ 128,044 | $ 124,623 | $ 129,957 |

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | | |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest | $ 64,334 | $ 85,224 | $ 124,362 |
| Income taxes | 12,700 | 10,800 | 8,361 |
| Noncash investing activities: | | | |
| Transfer of securities available for sale to trading securities | $ - | $ - | $ 3,804 |
| Transfer of loans to other real estate owned | 1,363 | 3,352 | 3,400 |
| Fair value of assets (sold) acquired | 1,155 | (3,323) | 109,599 |
| Fair value of liabilities (sold) assumed | 13,311 | (34,263) | 112,134 |
| Common stock issued for acquisitions | - | - | 16,002 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (In thousands) | Years ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income | $ 47,104 | $ 44,999 | $ 3,737 |
| Other comprehensive income, net of tax | | | |
| Unrealized net holding gains (losses) arising during the year (pre-tax amounts of ($13,764), 20,564, and $2,779) | (8,276) | 12,365 | 1,641 |
| Minimum pension liability adjustment (pre-tax amounts of ($362), $0, and of ($362), $0, and 0) | (217) | - | - |
| Less reclassification adjustment for net (gains) losses related to securities available for sale included in net income (pre-tax amounts of ($174), $408, and $7,124) | (105) | 245 | 4,214 |
| Total other comprehensive income | (8,598) | 12,610 | 5,855 |
| Comprehensive income | $ 38,506 | $ 57,609 | $ 9,592 |

See accompanying notes to consolidated financial statements

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses and the valuation of other real estate owned acquired in connection with foreclosures. In connection with the determination of the allowance for loan and lease losses and the valuation of other real estate owned, management obtains appraisals for properties.

The following is a description of significant policies and practices:

### CONSOLIDATION

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

### SEGMENT REPORTING

The Company's operations are primarily in the community banking industry and include the provision of traditional banking services. The Company operates solely in the geographical regions of central and northern New York and northeastern Pennsylvania. The Company has identified separate operating segments; however, these segments did not meet the quantitative thresholds for separate disclosure.

### CASH EQUIVALENTS

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

### SECURITIES

The Company classifies its securities at date of purchase as either available for sale, held to maturity, or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity as a component of accumulated other comprehensive income or loss. Held to maturity securities are recorded at amortized cost. Trading securities are recorded at fair value, with net unrealized gains and losses recognized currently in income. Transfers of securities between categories are recorded at fair value at the date of transfer. A decline in the fair value of any available for sale or held to maturity security below cost that is deemed other-than-temporary is charged to earnings resulting in the establishment of a new cost basis for the security. Securities with another-than-temporary impairment are generally placed on non-accrual status.

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

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

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

LOANS AND LEASES

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

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

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

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

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

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

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

## PREMISES AND EQUIPMENT

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

## OTHER REAL ESTATE OWNED

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

## GOODWILL AND OTHER INTANGIBLE ASSETS

Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, on January 1, 2002 (see "New Accounting Pronouncement-Business Combinations, Goodwill and Other Intangible Assets, and Certain Acquisitions of Banking of Thrift Institutions"), goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, was being amortized over 15 to 40 years on a straight-line basis. Other intangible assets, which included core deposit intangible ("CDI") and unidentified intangible assets, were being amortized over their expected useful lives, which range from 5 to 25 years, on a straight-line basis. The Company reviewed goodwill and other intangible assets on a periodic basis for events or changes in circumstances that may have indicated that the carrying amount of goodwill and other intangible assets were not recoverable. See "New Accounting Pronouncement-Goodwill and Other Intangible Assets, and Certain Acquisitions of Banking of Thrift Institutions" for further information regarding the accounting for goodwill and other intangible assets subsequent to December 31, 2001.

## TREASURY STOCK

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

## INCOME TAXES

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

STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. On January 1, 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the estimated fair value of all stock based awards measured on the date of grant. Alternatively, SFAS No. 123 allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma net income per share disclosures for employee stock-based grants made in 1995 and thereafter as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures of SFAS No. 123.

At December 31, 2003, the Company has two stock option plans (Plans). Under the terms of the plans, options are granted to directors and 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 have a vesting period of four years and terminate eight or ten years from the date of the grant.

The per share weighted average fair value of stock options granted during 2003, 2002, and 2001 was $4.03, $2.24, and $3.70, respectively. The fair value of each award is estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Dividend yield | 3.11%-3.97% | 4.07% | 4.26% |
| Expected volatility | 31.34%-31.45% | 19.13% | 30.19% |
| Risk-free interest rates | 2.98%-3.98% | 3.48%-4.74% | 4.63%-5.04% |
| Expected life | 7 YEARS | 7 years | 7 years |

Had the Company determined compensation cost based on the estimated 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:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| NET INCOME | | | |
| As reported | $ 47,104 | $ 44,999 | $ 3,737 |
| Add: Stock-based compensation expense included in reported net income, net of related tax effects | 80 | 50 | 43 |
| Deduct: Total stock-based compensation expense determined under fair value based methods for all awards, net of related tax effects | (1,072) | (995) | (1,330) |
| Pro forma net income | 46,112 | 44,054 | 2,450 |
| BASIC EARNINGS PER SHARE | | | |
| As reported | $ 1.45 | $ 1.36 | $ 0.11 |
| Pro forma | 1.42 | 1.34 | 0.07 |
| DILUTED EARNINGS PER SHARE | | | |
| As reported | 1.43 | 1.35 | 0.11 |
| Pro forma | 1.40 | 1.33 | 0.07 |

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.

PER SHARE AMOUNTS

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

OTHER FINANCIAL INSTRUMENTS

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

COMPREHENSIVE INCOME

At the Company, comprehensive income represents net income plus other comprehensive income, which consists of the net change in unrealized gains or losses on securities available for sale, minimum pension liability, net of income taxes, for the period. Accumulated other comprehensive income represents the net unrealized gains or losses on securities available for sale, net of income taxes, as of the consolidated balance sheet dates.

PENSION COSTS

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

TRUST

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Company. Such assets totaled $1.8 billion and $1.4 billion at December 31, 2003 and 2002, respectively. Trust income is recognized on the accrual method based on contractual rates applied to the balances of trust accounts.

NEW ACCOUNTING PRONOUNCEMENT-GOODWILL AND OTHER INTANGIBLE ASSETS, AND CERTAIN ACQUISITIONS OF BANKING OR THRIFT INSTITUTIONS

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In accordance with this statement, goodwill and intangible assets deemed to have indefinite lives no longer are being amortized but will be subject to impairment tests in accordance with the pronouncement. Other intangible assets, primarily core deposits, will continue to be amortized over their estimated useful lives. In 2003, the Company performed the required impairment tests of goodwill and no impairment existed as of the valuation date, as the fair value of the Company's net assets exceeded their carrying value. If for any future period we determine that there has been impairment in the carrying value of our goodwill balances, we will record a charge to our earnings, which could have a material adverse effect on our net income.

In the fourth quarter of 2002, the Company adopted SFAS No. 147, Acquisitions of Certain Financial Institutions. As permitted by the new accounting standard issued on October 1, 2002, we reclassified previously recorded intangible assets associated with acquisitions totaling $30.6 million to non amortizable goodwill. These intangible assets were previously recognized as a component of goodwill subject to amortization.

NEW ACCOUNTING PRONOUNCEMENT- CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In January 2003 the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). In accordance with FIN 46, business enterprises that represent the primary beneficiary of another entity by retaining a controlling interest in that entity's assets, liabilities and results of operations must consolidate that entity in its financial statements. Prior to the issuance of FIN 46, consolidation generally occurred when an enterprise controlled another entity through voting interests. If applicable, transition rules allow the restatement of financial statements or prospective application with a cumulative effect adjustment. The Company has determined that the provisions of FIN 46 do not require de-consolidation of subsidiary trusts which issued guaranteed preferred beneficial interests in subordinated debentures (Trust Preferred Securities). CNBF Capital I issued Trust Preferred Securities. The Company consolidates the CNBF Capital I and the consolidated balance sheet included the Trust Preferred Securities. Subsequent to the issuance of FIN 46, the FASB issued a revised interpretation, the provisions of which must be applied by March 31, 2004. Upon the adoption of the revised FIN 46, CNBF Capital I must be de-consolidated and the junior subordinated debentures of the Company owned by CNBF Capital I would be disclosed in the liability section of the consolidated balance sheet. The Trust Preferred Securities will no longer be included in the consolidated balance sheet upon de-consol-idation. The Trust Preferred Securities currently qualify as Tier 1 capital of the Company for regulatory purposes. The banking regulatory agencies have not issued any guidance which would change the regulatory capital treatment for the Trust Preferred Securities based on the adoption of the revised FIN 46. The Company plans to adopt the provisions under the revised interpretation in the first quarter of 2004. The adoption of FIN 46 and related revisions is not expected to have any other material impact on the Company's financial statements.

## (2) MERGER AND ACQUISITION ACTIVITY

On June 20, 2003, the Company acquired one branch located in Whitney Point, New York, from Alliance Bank. Deposits from the Whitney Point branch were approximately $13.3 million and loans totaled approximately $1.1 million. The Company received approximately $10.6 million in cash as consideration for net liabilities assumed. The acquisition was accounted for in accordance with SFAS No. 141, "Business Combinations." Goodwill accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", was $1.4 million. Intangible assets comprised mainly of core deposit intangibles were accounted for in accordance with SFAS No. 147, and totaled $0.1 million and is being amortized over seven years on a straight-line basis.

On June 1, 2001, the Company completed the acquisition of First National Bancorp, Inc. (FNB) whereby FNB was merged with and into NBT Bancorp Inc. At the same time FNB's subsidiary, First National Bank of Northern New York (FNB Bank) was merged into NBT Bank, N.A. The acquisition was accounted for using the purchase method. As such, both the assets and liabilities assumed have been recorded on the consolidated balance sheet of the Company at estimated fair value as of the date of acquisition and the results of operations are included in the Company's consolidated statement of income from the acquisition date forward. To complete the transaction, the Company issued approximately 1,075,000 shares of its common stock valued at $16.0 million. Goodwill, representing the cost over net assets acquired, was approximately $7.0 million and was being amortized prior to the adoption of SFAS No. 142 on January 1, 2002 on a straight-line basis based on a twenty year amortization period.

On September 14, 2001, the Company acquired $14.4 million in deposits from Mohawk Community Bank. Unidentified intangible assets, accounted for in accordance with SFAS No. 72 and representing the excess of cost over net assets acquired, was $665,000 and is being amortized over 15 years on a straight-line basis. Additionally, the Company identified $119,000 of core deposit intangible asset which is being amortized over 6 years on a straight-line basis.

On November 8, 2001, the Company, pursuant to a merger agreement dated June 18, 2001, completed its merger with CNB Financial Corp. (CNB) and its wholly owned subsidiary, Central National Bank (CNB Bank), whereby CNB was merged with and into NBT, and CNB Bank was merged with and into NBT Bank. CNB Bank then became a division of NBT Bank. In connection with the merger, CNB stockholders received 1.2 shares of the Company's common stock for each share of CNB stock and the Company issued approximately 8.9 million shares of common stock. The transaction is structured to be tax-free to shareholders of CNB and has been accounted for as a pooling-of-interests. Accordingly, the Company's consolidated financial statements were restated to present combined consolidated financial condition and results of operations of NBT and CNB as if the merger had been in effect for all years presented. At September 30, 2001, CNB had consolidated assets of $983.1 million, deposits of $853.7 million, and equity of $62.8 million. CNB Bank operated 29 full service banking offices in nine upstate New York counties.

## (3) EARNINGS PER SHARE

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

| (In thousands, except per share data) | 2003 NET INCOME | 2003 WEIGHTED AVERAGE SHARES | 2003 PER SHARE AMOUNT | 2002 Net income | 2002 Weighted average shares | 2002 Per share amount | 2001 Net income | 2001 Weighted average shares | 2001 Per share amount |
|---|---|---|---|---|---|---|---|---|---|
| Basic earnings per share | $47,104 | 32,540 | $ 1.45 | $44,999 | 32,983 | $ 1.36 | $ 3,737 | 32,897 | $ 0.11 |
| EFFECT OF DILUTIVE SECURITIES | | | | | | | | | |
| Stock based compensation | | 285 | | | 205 | | | 123 | |
| Contingent shares | | 19 | | | 47 | | | 65 | |
| Diluted earnings per share | $47,104 | 32,844 | $ 1.43 | $44,999 | 33,235 | $ 1.35 | $ 3,737 | 33,085 | $ 0.11 |

Years ended December 31

There were approximately 229,000, 416,000, and 936,000 weighted average stock options for the years ended December 31, 2003, 2002, and 2001, respectively, that were not considered in the calculation of diluted earnings per share since the stock options' exercise prices were greater than the average market price during these periods.

## (4) FEDERAL RESERVE BANK REQUIREMENT

The Company is required to maintain reserve balances with the Federal Reserve Bank. The required average total reserve for NBT Bank for the 14 day maintenance period ending December 24, 2003 was $50.1 million.

(5) SECURITIES

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

| (In thousands) | Amortized cost | Unrealized gains | Unrealized losses | Estimated fair value |
|---|---|---|---|---|
| DECEMBER 31, 2003 | | | | |
| U.S. Treasury | $ 58 | $ 1 | $ - | $ 59 |
| Federal Agency | 117,306 | 895 | 307 | 117,894 |
| State and municipal | 86,956 | 5,477 | - | 92,433 |
| Mortgage-backed | 726,471 | 8,536 | 3,216 | 731,791 |
| Collateralized mortgage obligations | 7,929 | 59 | - | 7,988 |
| Asset-backed securities | - | - | - | - |
| Corporate | 6,197 | 214 | - | 6,411 |
| Other securities | 22,488 | 1,937 | 40 | 24,385 |
| Total securities available for sale | $ 967,405 | $ 17,119 | $ 3,563 | $ 980,961 |
| DECEMBER 31, 2002 | | | | |
| U.S. Treasury | $ 502 | $ 12 | $ - | $ 514 |
| Federal Agency | 143,273 | 2,997 | - | 146,270 |
| State and municipal | 88,237 | 4,126 | 19 | 92,344 |
| Mortgage-backed | 667,511 | 20,164 | 5 | 687,670 |
| Collateralized mortgage obligations | 32,714 | 482 | 26 | 33,170 |
| Asset-backed securities | 11,339 | 222 | 1,573 | 9,988 |
| Corporate | 14,024 | 330 | 138 | 14,216 |
| Other securities | 22,489 | 942 | 20 | 23,411 |
| Total securities available for sale | $ 980,089 | $ 29,275 | $ 1,781 | $ 1,007,583 |

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

| (In thousands) | Years ended December 31 2003 | 2002 | 2001 |
|---|---|---|---|
| Proceeds from sales | $ 206,742 | $ 217,471 | $ 43,318 |
| Gross realized gains | 4,307 | 7,725 | 2,213 |
| Gross realized losses | (4,164) | (7,473) | (1,046) |
| Other-than-temporary impairment writedowns | - | (660) | (8,291) |
| Net security gains (losses) and writedowns on securities available for sale | 143 | (408) | (7,124) |
| Net realized gains (losses) on trading securities and embedded derivatives | 32 | (5) | (568) |
| Net securities gains (losses) | $ 175 | $ (413) | $ (7,692) |

The security with other-than-temporary impairment charges at December 31, 2003 had a remaining carrying value, which approximated fair value, of $0.4 million, is classified as securities available for sale and is on the nonaccrual status.

At December 31, 2003 and 2002, securities available for sale with amortized costs totaling $902.6 million and $519.7 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2003, securities available for sale with an amortized cost of $68.79 million were pledged as collateral for securities sold under the repurchase agreements.

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

| (In thousands) | Amortized cost | Unrealized gains | Unrealized losses | Estimated fair value |
|---|---|---|---|---|
| DECEMBER 31, 2003 | | | | |
| Mortgage-backed | $ 11,363 | $ 504 | $ - | $ 11,867 |
| State and municipal | 85,437 | 1,011 | 143 | 86,305 |
| Other securities | 404 | - | - | 404 |
| Total securities held to maturity | $ 97,204 | $ 1,515 | $ 143 | $ 98,576 |
| DECEMBER 31, 2002 | | | | |
| Mortgage-backed | $ 24,613 | $ 1,107 | $ - | $ 25,720 |
| State and municipal | 56,021 | 897 | 1 | 56,917 |
| Other securities | 1,880 | - | - | 1,880 |
| Total securities held to maturity | $ 82,514 | $ 2,004 | $ 1 | $ 84,517 |

At December 31, 2003 and 2002, substantially all of the mortgage-backed securities available for sale and held to maturity held by the Company were issued or backed by Federal agencies.

Other securities include nonmarketable equity securities, including certain securities acquired by NBT Bank's small business investment company (SBIC) subsidiary, and trust preferred securities. The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2003, segregated according to the length of time the securities had been in a continuous unrealized loss position:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| Security type: | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Mortgaged-backed | $ 243,017 | $ 3,213 | $ 128 | $ 3 | $ 243,145 | $ 3,216 |
| Federal agency | 10,693 | 307 | - | - | 10,693 | 307 |
| State and municipal | 3,745 | 143 | | | 3,745 | 143 |
| Other securities | 1,960 | 40 | - | - | 1,960 | 40 |
| Total securities with unrealized losses | $ 259,415 | $ 3,703 | $ 128 | $ 3 | $ 259,543 | $ 3,706 |

The unrealized losses for the investment securities listed on the above table resulted from current market interest rates for investment securities with similar terms and cashflow structure exceeding the stated interest rate for these investment securities at December 31, 2003. Interest rates are volatile and unpredictable, therefore, the Company considers unrealized losses stemming from interest rate changes to be temporary. Additionally, there is a low level of credit risk associated with the above investment securities, as the majority of the securities listed above are guaranteed by a governmental agency or a GSE coupled with a strong credit rating, typically AAA, issued by Moody's or Standard and Poors.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2003:

| (In thousands) | Amortized cost | Estimated fair value |
|---|---|---|
| DEBT SECURITIES CLASSIFIED AS AVAILABLE FOR SALE | | |
| Within one year | $ 5,172 | $ 5,241 |
| From one to five years | 278,005 | 283,738 |
| From five to ten years | 617,369 | 620,258 |
| After ten years | 55,859 | 60,647 |
| | $ 956,405 | $ 969,884 |
| DEBT SECURITIES CLASSIFIED AS HELD TO MATURITY | | |
| Within one year | $ 45,679 | $ 45,681 |
| From one to five years | 21,727 | 22,272 |
| From five to ten years | 13,560 | 13,857 |
| After ten years | 16,238 | 16,766 |
| | $ 97,204 | $ 98,576 |

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

Except for U.S. Government securities, there were no holdings, when taken in the aggregate, of any single issues that exceeded 10% of consolidated stockholders' equity at December 31, 2003 and 2002.

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

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

| | December 31 | |
|---|---|---|
| (In thousands) | 2003 | 2002 |
| Residential real estate mortgages | $ 703,906 | $ 579,638 |
| Commercial and commercial real estate mortgages | 954,024 | 920,330 |
| Real estate construction and development | 86,046 | 64,025 |
| Agricultural and agricultural real estate mortgages | 106,310 | 104,078 |
| Consumer | 390,413 | 357,214 |
| Home equity | 336,547 | 269,553 |
| Lease financing | 62,730 | 61,094 |
| Total loans and leases | $2,639,976 | $2,355,932 |

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

Changes in the allowance for loan and lease losses for the three years ended December 31, 2003, are summarized as follows:

| (In thousands) | 2003 | 2002 | 2001 |
|---|---|---|---|
| | Years ended December 31, | | |
| Balance at January 1 | $ 40,167 | $ 44,746 | $ 32,494 |
| Allowance related to purchase acquisitions | - | - | 505 |
| Provision | 9,111 | 9,073 | 31,929 |
| Recoveries | 5,216 | 4,670 | 2,189 |
| Charge-offs | (11,843) | (18,322) | (22,371) |
| Balance at December 31 | $ 42,651 | $ 40,167 | $ 44,746 |

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

| (In thousands) | 2003 | 2002 | 2001 |
|---|---|---|---|
| | At December 31, | | |
| Loans in nonaccrual status | $13,861 | $24,009 | $40,210 |
| Loans contractually past due 90 days or more and still accruing interest | 968 | 1,976 | 2,975 |
| Restructured loans | - | 409 | 603 |
| Total nonperforming loans | $14,829 | $26,394 | $43,788 |

There were no material commitments to extend further credit to borrowers with nonperforming loans.

Accumulated interest on the above nonaccrual loans of approximately $1.7 million, $1.9 million , and $3.2 million would have been recognized as income in 2003, 2002, and 2001, respectively, had these loans been in accrual status. Approximately $1.2 million, $1.8 million, and $0.6 million of interest on the above nonaccrual loans was collected in 2003, 2002, and 2001, respectively.

At December 31, 2003 and 2002, the recorded investment in loans that are considered to be impaired totaled $8.7 million and $17.6 million, respectively, for which the related allowance for loan losses is $0.2 million and $0.5 million, respectively. As of December 31, 2003 and 2002, there were $7.5 million and $15.5 million, respectively, of impaired loans which did not have an allowance for loan losses due generally to the adequacy of their collateral. Included in total impaired loans at 2002 was $0.4 million of restructured loans.

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

| (In thousands) | 2003 | 2002 | 2001 |
|---|---|---|---|
| | Years ended December 31 | | |
| Average recorded investment on impaired loans | $ 12,741 | $ 23,549 | $ 21,618 |
| Interest income recognized on impaired loans | 608 | 1,469 | 591 |
| Cash basis interest income recognized on impaired loans | 608 | 1,469 | 591 |

RELATED PARTY TRANSACTIONS

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

| (In thousands) | 2003 | 2002 |
|---|---|---|
| Balance at January 1 | $16,959 | $ 14,640 |
| New loans | 3,706 | 4,565 |
| Change in Composition | - | 569 |
| Repayments | (4,587) | (2,815) |
| Balance at December 31 | $16,078 | $ 16,959 |

(7) PREMISES AND EQUIPMENT, NET

A summary of premises and equipment follows:

| | December 31 | |
|---|---|---|
| (In thousands) | 2003 | 2002 |
| Land, buildings, and improvements | $ 71,072 | $ 66,542 |
| Equipment | 55,602 | 52,123 |
| Construction in progress | 17 | 423 |
| | 126,691 | 119,088 |
| Accumulated depreciation | 64,248 | 57,827 |
| Total premises and equipment | $ 62,443 | $ 61,261 |

Land, buildings, and improvements with a carrying value of approximately $4.0 million and $4.0 million at December 31, 2003 and 2002, respectively, are pledged to secure long-term borrowings.

Rental expense included in occupancy expense amounted to $2.4 million in 2003, $2.1 million in 2002, and $2.1 million in 2001. The future minimum rental payments related to noncancelable operating leases with original terms of one year or more are as follows at December 31, 2003 (in thousands):

| | |
|---|---|
| 2004 | $ 2,057 |
| 2005 | 1,596 |
| 2006 | 1,420 |
| 2007 | 1,220 |
| 2008 | 840 |
| Thereafter | 4,427 |
| Total | $11,560 |

## (8) GOODWILL AND OTHER INTANGIBLE ASSETS

Upon the adoption of SFAS No.142 on January 1, 2002, and SFAS No. 147 on October 1, 2002, with retroactive application to January 1, 2002, the Company ceased amortizing its goodwill and unidentifiable intangible assets related to branch acquisitions, which decreased noninterest expense and increased net income in 2002 as compared to 2001. The following table shows the pro forma effects of applying SFAS No. 142 and SFAS No. 147 to the 2001 period:

| (In thousands, except per share amounts) | Year ended December 31, 2001 |
|---|---|
| GOODWILL AND UNIDENTIFIED INTANGIBLE ASSET AMORTIZATION | |
| Pretax | $ 3,563 |
| After-tax | 2,426 |
| NET INCOME | |
| Reported | 3,737 |
| Add back: after-tax amortization | 2,426 |
| Adjusted | $ 6,163 |
| BASIC EARNINGS PER SHARE (EPS) | |
| Reported | 0.11 |
| Add back: after-tax amortization per share | 0.07 |
| Adjusted | $ 0.19 |
| DILUTED EPS | |
| Reported | 0.11 |
| Add back: after-tax amortization per share | 0.07 |
| Adjusted | $ 0.19 |

Upon the adoption of SFAS No. 147 on October 1, 2002, approximately $30.6 million of unidentified intangible assets were reclassified to goodwill retroactive to January 1, 2002.

A summary of goodwill by operating subsidiaries follows:

| (In thousands) | January 1, 2003 | Goodwill Acquired | Impairment Loss | December 31, 2003 |
|---|---|---|---|---|
| NBT Bank, N.A. | $ 43,120 | $ 1,400 | - | $ 44,520 |
| NBT Financial Services, Inc. | 3,001 | - | - | 3,001 |
| Total | $ 46,121 | $ 1,400 | - | $ 47,521 |

The Company recorded $1.4 million in goodwill in connection with the acquisition of a branch from Alliance Bank in June of 2003. In connection with the sale of a branch during 2002, $1.5 million in goodwill were included in the carrying amount of the branch in determining the gain on disposal.

The Company has intangible assets with definite useful lives capitalized on its consolidated balance sheet in the form of core deposit and unidentified intangible assets. These intangible assets continue to be amortized over their estimated useful lives in accordance with SFAS No. 142, which range from one to twenty-five years. There were no adjustments to the useful lives of these intangible assets as a result of the adoption of SFAS No. 142.

A summary of core deposit and other intangible assets follows:

| (In thousands) | December 31, 2003 | 2002 |
|---|---|---|
| CORE DEPOSIT INTANGIBLES | | |
| Gross carrying amount | $5,585 | $ 5,433 |
| Less: accumulated amortization | 4,497 | 3,931 |
| Net carrying amount | 1,088 | 1,502 |
| UNIDENTIFIED INTANGIBLE ASSETS | | |
| Gross carrying amount | 1,031 | 1,031 |
| Less: accumulated amortization | 339 | 287 |
| Net carrying amount | 692 | 744 |
| Intangible for minimum pension liability | 551 | - |
| TOTAL INTANGIBLES WITH DEFINITE USEFUL LIVES | | |
| Gross carrying amount | 7,167 | 6,464 |
| Less: accumulated amortization | 4,836 | 4,218 |
| Net carrying amount | $2,331 | $ 2,246 |

Amortization expense on intangible assets with definite useful lives totaled $0.6 million for 2003, and $0.8 million for 2002 and 2001, respectively. Amortization expense on intangible assets with definite useful lives is expected to total $0.3 million for 2004, 2005, 2006, 2007 and $0.2 million for 2008.

## (9) DEPOSITS

The following table sets forth the maturity distribution of time deposits at December 31, 2003 (in thousands):

| TIME DEPOSITS | |
|---|---|
| Within one year | $ 684,616 |
| After one but within two years | 265,461 |
| After two but within three years | 65,378 |
| After three but within four years | 55,170 |
| After four but within five years | 19,875 |
| After five years | 8,723 |
| Total | $1,099,223 |

Time deposits of $100,000 or more aggregated $353.8 million and $428.7 million at year end 2003 and 2002, respectively.

## (10) SHORT-TERM BORROWINGS

Short-term borrowings total $302.9 million and $105.6 million at December 31, 2003 and 2002, respectively, and consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily Federal Home Loan Bank (FHLB) advances, with original maturities of one year or less. The Company has unused lines of credit with the FHLB available for short-term financing and access to brokered deposits of approximately $559 million and $562 million at December 31, 2003 and 2002, respectively.

Included in the information provided above, the Company has two lines of credit, expiring on November 6, 2004, which are available with the FHLB. The first is an overnight line of credit for approximately $100.0 million with interest based on existing market conditions. The second is a one-month overnight repricing line of credit for approximately $50.0 million with interest based on existing market conditions. As of December 31, 2003, there was $84.0 million (included in federal funds purchased) outstanding on these lines of credit. Borrowings on these lines are secured by FHLB stock, certain securities and one-to-four family first lien mortgage loans.

Securities collateralizing repurchase agreements are held in safekeeping by nonaffiliated financial institutions and are under the Company's control.

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

| (In thousands) | 2003 | 2002 | 2001 |
|---|---|---|---|
| FEDERAL FUNDS PURCHASED | | | |
| Balance at year-end | $ 59,000 | $53,500 | $31,000 |
| Average during the year | 55,797 | 17,404 | 30,752 |
| Maximum month end balance | 89,000 | 53,500 | 47,200 |
| Weighted average rate during the year | 1.22% | 1.83% | 4.79% |
| Weighted average rate at December 31 | 1.14% | 1.35% | 1.35% |
| SECURITIES SOLD UNDER REPURCHASE AGREEMENTS | | | |
| Balance at year-end | $ 68,681 | $51,851 | $64,973 |
| Average during the year | 68,044 | 63,470 | 56,408 |
| Maximum month end balance | 101,192 | 69,477 | 64,973 |
| Weighted average rate during the year | 1.02% | 1.43% | 3.38% |
| Weighted average rate at December 31 | 0.92% | 1.16% | 1.62% |
| OTHER SHORT-TERM BORROWINGS | | | |
| Balance at year-end | $175,250 | $ 250 | $26,040 |
| Average during the year | 66,491 | 6,165 | 36,002 |
| Maximum month end balance | 175,250 | 25,787 | 71,654 |
| Weighted average rate during the year | 1.20% | 1.75% | 5.35% |
| Weighted average rate at December 31 | 1.20% | 1.10% | 5.11% |

## (11) LONG-TERM DEBT

Long-term debt consists of obligations having an original maturity at issuance of more than one year. A majority of the Company's long-term debt is comprised of FHLB advances collateralized by the FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans. A summary as of December 31, 2003 is as follows:

| | As of December 31, 2003 | | | |
|---|---|---|---|---|
| Maturity | Amount | Weighted Average Rate | Callable Amount | Weighted Average Rate |
| 2004 | $ 30,000 | 3.42% | $ - | |
| 2005 | 65,000 | 4.17% | 25,000 | 4.40% |
| 2006 | 25,000 | 4.45% | - | |
| 2007 | 10,000 | 2.90% | - | |
| 2008 | 90,441 | 3.80% | 35,000 | 5.29% |
| 2009 | 75,000 | 5.25% | 75,000 | 5.25% |
| 2010 | 25,000 | 3.07% | - | |
| 2012 | 20,000 | 2.02% | 20,000 | 2.02% |
| 2013 | 25,000 | 3.21% | 25,000 | 3.21% |
| 2025 | 4,259 | 1.96% | - | |
| | $369,700 | | $ 180,000 | |

## (12) GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S JUNIOR SUBORDINATED DEBENTURES

On June 14, 1999, CNB established CNBF Capital Trust I (the Trust), which is a statutory business trust. The Trust exists for the exclusive purpose of issuing and selling 30 year guaranteed preferred beneficial interests in the Company's junior subordinated debentures (capital securities). On August 4, 1999, the Trust issued $18.0 million in capital securities at 3-month LIBOR plus 275 basis points, which equaled 8.12% at issuance. The rate on the capital securities resets quarterly, equal to the 3-month LIBOR plus 275 basis points (3.89% and 4.55% for the December 31, 2003 and 2002 quarterly payments, respectively). The capital securities are the sole asset of the Trust. The obligations of the Trust are guaranteed by Bancorp. Capital securities totaling $1.0 million were issued to NBT. These capital securities were retired upon the merger of NBT and CNB (see note 2). The net proceeds from the sale of the capital securities were used for general corporate purposes and to provide a capital contribution of $15.0 million to CNB Bank, which was merged into NBT Bank. The capital securities, with associated expense that is tax deductible, qualify as Tier I capital under regulatory definitions, subject to certain restrictions. The Company's primary source of funds to pay interest on the debentures owed to the Trust are current dividends from the NBT Bank. Accordingly, the Company's ability to service the debentures is dependent upon the continued ability of NBT Bank to pay dividends (see also note 14). The capital securities are not classified as debt for financial statement purposes and therefore the expense associated with the capital securities is recorded as non-interest expense in the consolidated statements of income. As noted previously, upon the adoption of the revised FIN No. 46 during the first quarter of 2004, the Trust will be de-consolidated from our balance sheet. The Trust obligation will be classified as component of liabilities as long-term debt and interest paid to the Trust will be treated as component of interest expense in 2004. The Capital Securities will not be included in the consolidated balance sheet upon deconsolidation of the Trust.

## (13) INCOME TAXES

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

| | Years ended December 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| CURRENT | | | |
| Federal | $ 12,723 | $ 12,569 | $ 5,404 |
| State | 2,390 | 590 | 1,471 |
| | 15,113 | 13,159 | 6,875 |
| DEFERRED | | | |
| Federal | 7,980 | 7,048 | (4,963) |
| State | (1,623) | 1,607 | (1,370) |
| | 6,357 | 8,655 | (6,333) |
| Total income tax expense | $ 21,470 | $ 21,814 | $ 542 |

Not included in the above table is income tax expense (benefit) of approximately ($6.9 million), $8.1 million, and $3.7 million for 2003, 2002, and 2001, respectively, relating to unrealized gain (loss) on available for sale securities and tax benefits recognized with respect to stock options exercised, which were recorded directly in stockholders' equity.

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

| | December 31 | |
|---|---|---|
| (In thousands) | 2003 | 2002 |
| DEFERRED TAX ASSETS | | |
| Allowance for loan and lease losses | $16,251 | $15,532 |
| Deferred compensation | 4,744 | 3,887 |
| Postretirement benefit obligation | 1,793 | 1,672 |
| Writedowns on corporate debt securities | 2,341 | 2,123 |
| Accrued severance and contract termination costs | 135 | 142 |
| Other real estate owned | 80 | 86 |
| Purchase accounting adjustments, net | 41 | 100 |
| Accrued liabilities | 958 | 1,313 |
| Intangible amortization | - | 752 |
| Capital loss carryforward | - | 553 |
| Net operating loss and tax credits carryforward | 1,866 | 318 |
| Other | 541 | 285 |
| Total deferred tax assets | 28,750 | 26,763 |
| DEFERRED TAX LIABILITIES | | |
| Pension and executive retirement | 6,503 | 2,377 |
| Premises and equipment, primarily due to accelerated depreciation | 3,343 | 3,222 |
| Equipment leasing | 15,365 | 11,071 |
| Securities discount accretion | 466 | 630 |
| Deferred loan costs | 656 | 651 |
| Tax bad debt reserve | - | 114 |
| Intangible amortization | 995 | - |
| Other | 202 | 220 |
| Undistributed income of subsidiaries | - | 901 |
| Total deferred tax liabilities | 27,530 | 19,186 |
| Net deferred tax asset at year-end | 1,220 | 7,577 |
| Net deferred tax asset at beginning of year | 7,577 | 16,232 |
| (Decrease) increase in net deferred tax asset | $(6,357) | $(8,655) |

The above table does not include the recorded deferred tax liability of $5.4 million as of December 31, 2003 and $11.0 million as of December 31, 2002 related to the net unrealized holding gain/loss in the available-for-sale securities portfolio. The table also excludes a deferred tax asset of $145,000 as of December 31, 2003 related to the minimum SERP liability. The changes in these deferred assets and liabilities are recorded directly in stockholders' equity.

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at December 31, 2003 and 2002.

At December 31, 2003, the Company has a state net operating loss carryforward of $25.8 million which will expire at various dates through 2023. The utilization of the tax net operating losss carryforward is subject to limitations imposed by the Internal Revenue Code. The Company believes these limitations will not prevent the carryforward benefits from being realized. At December 31, 2003, the Company also has a state charitable contribution carryforward of $1.0 million which expires at various dates through 2008 and a New York State tax credit carryforwards of $1.4 million which may be carried forward indefinitely.

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:

| (In thousands) | Years ended December 31 2003 | 2002 | 2001 |
|---|---|---|---|
| Federal Income tax at statutory rate | $ 24,001 | $ 23,384 | $ 1,498 |
| Tax exempt income | (2,545) | (2,493) | (2,475) |
| Nondeductible expenses | 205 | 122 | 400 |
| Nondeductible merger expenses | - | - | 1,419 |
| Net increase in CSV of life insurance | (513) | (153) | (121) |
| Divident received deduction | (219) | (177) | (142) |
| State taxes, net of federal tax benefit | 499 | 1,428 | 66 |
| Other, net | 40 | (297) | (103) |
| Income tax expense | $ 21,470 | $ 21,814 | $ 542 |

## (14) STOCKHOLDERS' EQUITY

Certain restrictions exist regarding the ability of the subsidiary bank to transfer funds to the Company in the form of cash dividends. The approval of the Office of Comptroller of the Currency (OCC) is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years (as defined in the regulations). At December 31, 2003, approximately $28.9 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the State of Delaware Business Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

In 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. Under the Plan, the Rights will not be exercisable until a person or group acquires beneficial ownership of 20% or more of the Company's outstanding common stock, begins a tender or exchange offer for 25% or more of the Company's outstanding common stock, or an adverse person, as declared by the board of directors, acquires 10% 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 $0.01 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.

## (15) REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and NBT Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2003 and 2002, the Company and NBT Bank meet all capital adequacy requirements to which they were subject.

Under their prompt corrective action regulations, regulatory authorities are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution's financial statements. The regulations establish a framework for the classification of banks into five categories: well capitalized, adequately capitalized, under capitalized, significantly under capitalized, and critically under capitalized. As of December 31, 2003, the most recent notification from NBT Bank's regulators categorized NBT Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized NBT Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 capital to average asset ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed NBT Bank's category.

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

| | Actual | | Regulatory ratio requirements | |
|---|---|---|---|---|
| (Dollars in thousands) | Amount | Ratio | Minimum capital adequacy | For classification as well capitalized |
| AS OF DECEMBER 31, 2003 | | | | |
| TOTAL CAPITAL (TO RISK WEIGHTED ASSETS) | | | | |
| Company combined | $303,117 | 11.21% | 8.00% | 10.00% |
| NBT Bank | 291,226 | 10.85% | 8.00% | 10.00% |
| TIER I CAPITAL (TO RISK WEIGHTED ASSETS) | | | | |
| Company combined | 269,222 | 9.96% | 4.00% | 6.00% |
| NBT Bank | 257,303 | 9.59% | 4.00% | 6.00% |
| TIER I CAPITAL (TO AVERAGE ASSETS) | | | | |
| Company combined | 269,222 | 6.76% | 4.00% | 5.00% |
| NBT Bank | 257,303 | 6.50% | 4.00% | 5.00% |
| AS OF DECEMBER 31, 2002 | | | | |
| TOTAL CAPITAL (TO RISK WEIGHTED ASSETS) | | | | |
| Company combined | $275,954 | 11.18% | 8.00% | 10.00% |
| NBT Bank | 270,435 | 11.12% | 8.00% | 10.00% |
| TIER I CAPITAL (TO RISK WEIGHTED ASSETS) | | | | |
| Company combined | 244,992 | 9.93% | 4.00% | 6.00% |
| NBT Bank | 239,904 | 9.86% | 4.00% | 6.00% |
| TIER I CAPITAL (TO AVERAGE ASSETS) | | | | |
| Company combined | 244,992 | 6.73% | 4.00% | 5.00% |
| NBT Bank | 239,904 | 6.62% | 4.00% | 5.00% |

## (16) EMPLOYEE BENEFIT PLANS

### PENSION PLAN

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at December 31, 2003. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

Prior to December 31, 2001, the Company maintained two noncontributory defined benefit retirement plans, the NBT Bancorp Inc. Defined Benefit Pension Plan and the Central National Bank, Canajoharie Pension Plan. Effective December 31, 2001, the Company merged those two plans.

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

| | Years ended December 31 | | |
|---|---|---|---|
| (In thousands) | 2003 | 2002 | 2001 |
| COMPONENTS OF NET PERIODIC BENEFIT COST | | | |
| Service cost | $ 1,347 | $ 1,484 | $ 1,968 |
| Interest cost | 2,028 | 2,041 | 2,038 |
| Expected return on plan assets | (3,175) | (2,549) | (2,703) |
| Amortization of initial unrecognized asset | (192) | (192) | (196) |
| Amortization of prior service cost | 153 | 160 | 234 |
| Amortization of unrecognized net gain | 295 | - | (23) |
| Net periodic pension cost | $ 456 | $ 944 | $ 1,318 |
| CHANGE IN PROJECTED BENEFIT OBLIGATION | | | |
| Benefit obligation at beginning of year | $ (31,942) | $ (31,846) | $(28,867) |
| Service cost | (1,347) | (1,484) | (1,968) |
| Interest cost | (2,028) | (2,041) | (2,038) |
| Actuarial loss | (3,512) | (1,238) | (1,438) |
| Benefits paid | 2,412 | 3,348 | 2,465 |
| Prior service cost | (374) | 1,319 | - |
| Projected benefit obligation at end of year | $ (36,791) | $ (31,942) | $(31,846) |
| CHANGE IN PLAN ASSETS | | | |
| Fair value of plan assets at beginning of year | $ 32,602 | $ 29,548 | $ 28,666 |
| Actual return on plan assets | 5,216 | (1,598) | (814) |
| Employer contributions | 8,500 | 8,000 | 3,950 |
| Benefits paid | (2,412) | (3,348) | (2,465) |
| Actuarial gain due to measurement date prior to December 31 | - | - | 211 |
| Fair value of plan assets at end of year | $ 43,906 | $ 32,602 | $ 29,548 |
| Plan assets in excess of (less than) projected benefit obligation | $ 7,115 | $ 660 | $ (2,298) |
| Unrecognized portion of net asset at transition | (981) | (1,172) | (1,364) |
| Unrecognized net actuarial loss | 9,475 | 8,298 | 2,913 |
| Unrecognized prior service cost | 1,748 | 1,527 | 3,006 |
| Prepaid (accrued) pension cost | $ 17,357 | $ 9,313 | $ 2,257 |
| ACCUMULATED BENEFIT OBLIGATION | $ (35,381) | $ (31,022) | $(28,433) |
| WEIGHTED AVERAGE ASSUMPTIONS AS OF DECEMBER 31 | | | |
| Discount rate | 6.00% | 6.50% | 7.00% |
| Expected long-term return on plan assets | 8.75% | 8.75% | 9.00% |
| Rate of compensation increase | 3.75% | 4.00% | 4.00% |
| The following assumptions were used to determine net periodic pension cost: | | | |
| Discount rate | 6.50% | 7.00% | 7.25% |
| Exopected long-term return on plan assets | 8.75% | 9.00% | 9.00% |
| Rate of compensation expense | 4.00% | 4.00% | 4.00% |

The following is a summary of the plan's weighted average asset allocation at December 31, 2003:

| (In thousands) | Actual Allocation | Percentage Allocation |
|---|---|---|
| Cash and Cash Equivalents | $ 2,295 | 5.23% |
| US Government Bonds | 13,159 | 29.97% |
| Corporate Bonds | 4,876 | 11.11% |
| Foreign Bonds | 251 | 0.57% |
| Common Stock | 21,229 | 48.35% |
| Preferred Stock | 1,175 | 2.68% |
| Foreign Equity | 921 | 2.10% |
| Total | $ 43,906 | 100.00% |

PLAN INVESTMENT POLICY AS OF DECEMBER 31, 2003:

The Company's key investment objectives in managing its defined benefit plan assets are to ensure that present and future benefit obligations to all participants and beneficiaries are met as they become due; to provide a total return that, over the long-term, maximizes the ratio of the plan assets to liabilities, while minimizing the present value of required Company contributions, at the appropriate levels of risk; to meet statutory requirements and regulatory agencies' requirements; and to satisfy applicable accounting standards. The Company periodically evaluates the asset allocations, funded status, rate of return assumption and contribution strategy for satisfaction of our investment objectives. Generally, the investment manager allocates investments as follows: of 20-40% of the total portfolio in fixed income, 40-80% in equities, and 0-20% in cash. Only high-quality bonds should be included in the portfolio. All issues that are rated lower than A by Standard and Poor's should be excluded. Equity securities at December 31, 2003 and 2002 do not include any NBT Bancorp Inc. common stock.

DETERMINATION OF ASSUMED RATE OF RETURN

The Company has selected the assumed rate of return based on the following:

| | Percentage Allocation | Comparable Market Index | Expected 10-Year Return Average | Expected Weighted Return |
|---|---|---|---|---|
| Cash and Cash Equivalents | 5.20% | | 4.00% | 0.21% |
| US Government Bonds | 30.00% | Lehman Bros. Inter. Term Govt Index | 6.33% | 1.90% |
| Corporate Bonds | 11.10% | AAA Corporate Bonds | 7.22% | 0.80% |
| Foreign Bonds | 0.60% | Lehman Bros. Govt/Corp Index | 6.98% | 0.04% |
| Common Stock | 48.30% | S&P 500 | 11.07% | 5.35% |
| Preferred Stock | 2.70% | S&P 500 | 11.07% | 0.30% |
| Foreign Equity | 2.10% | MSCI World Index | 7.14% | 0.15% |
| | | Expected Average Return: | | 8.75% |

In addition, the Plan's assets have had an average annual return of 9.43% during the last ten fiscal years.
The Company expects to make no contributions to the plan in 2004.

In addition to the Company's noncontributory defined benefit retirement and pension plan, the Company provides a supplemental employee retirement plans to certain current and former executives. The amount of the liabilities recognized in the Company's consolidated balance sheets associated with these plans was $8.5 million and $7.1 million at December 31, 2003 and 2002, respectively. The charges to expense with respect to these plans amounted to $1.0 million, $1.0 million, and $0.4 million for the years ended December 31, 2003, 2002, and 2001, respectively. The discount rate used in determining the actuarial present values of the projected benefit obligations was 6.00%, 6.50%, and 7.00%, at December 31, 2003, 2002, and 2001, respectively.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

| | Years ended December 31 | | |
|---|---|---|---|
| (In thousands) | 2003 | 2002 | 2001 |
| COMPONENTS OF NET PERIODIC BENEFIT COST | | | |
| Service cost | $ 131 | $ 221 | $ 175 |
| Interest cost | 365 | 454 | 300 |
| Amortization of transition obligation | 39 | 39 | 39 |
| Amortization of losses | 161 | 141 | 31 |
| Amortization of unrecognized prior service cost | (159) | (27) | (14) |
| Net periodic postretirement benefit cost | $ 537 | $ 828 | $ 531 |
| CHANGE IN ACCUMULATED BENEFIT OBLIGATION | | | |
| Benefit obligation at beginning of the year | $ 7,516 | $ 5,399 | $ 4,738 |
| Service cost | 131 | 221 | 175 |
| Interest cost | 365 | 454 | 300 |
| Plan participants' contributions | - | - | - |
| Actuarial loss (gain) | 117 | 1,976 | 1,640 |
| Amendments | (3,045) | (168) | (1,224) |
| Benefits paid | (304) | (366) | (230) |
| Accumulated benefit obligation at end of year | $ 4,780 | $ 7,516 | $ 5,399 |
| COMPONENTS OF ACCRUED BENEFIT COST | | | |
| Accumulated benefit obligation at end of year | $ (4,780) | $ (7,516) | $ (5,399) |
| Unrecognized transition obligation | 62 | 101 | 139 |
| Unrecognized prior service cost | (3,219) | (333) | (192) |
| Unrecognized actuarial net loss | 3,866 | 3,912 | 2,077 |
| Accrued benefit cost | $ (4,071) | $ (3,836) | $ (3,375) |
| Weighted average discount rate | 6.00% | 6.50% | 7.00% |

For measurement purposes, the annual rates of increase in the per capita cost of covered medical and prescription drug benefits for fiscal year 2003 were assumed to be 8.5 and 12.0 percent, respectively. The rates were assumed to decrease gradually to 5.0 percent for fiscal year 2010 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on amounts reported for health care plans. A one-percentage point change in the health care trend rates would have the following effects as of and for the year ended December 31, 2003:

| (In thousands) | 1-Percentage point increase | 1-Percentage point decrease |
|---|---|---|
| Increase (descrease) on total service and interest cost components | $ 41 | $ (36) |
| Increase (descrease) on postretirement accumulated benefit obligation | 566 | (506) |

EMPLOYEE 401(K) AND EMPLOYEE STOCK OWNERSHIP PLANS

At December 31, 2003, the Company maintains a 401(k) and employee stock ownership plan (the Plan). The Company contributes to the Plan based on employees' contributions out of their annual salary. In addition, the Company may also make discretionary contributions to the Plan based on profitability. Participation in the plan is contingent upon certain age and service requirements.

CNB maintained a 401(k) plan. On January 1, 2002, the CNB plan was merged into the Company's plan. The recorded expenses associated with these plans was $1.5 million in 2003, $1.3 million in 2002, and $0.8 million in 2001.

STOCK OPTION PLANS

The following is a summary of changes in options outstanding:

The following table summarizes information concerning stock options outstanding at December 31, 2003:

| | Number of options | Weighted average of exercise price of options under the plans |
|---|---|---|
| Balance at December 31, 2000 | 1,477,824 | $ 13.59 |
| Granted | 726,746 | 15.13 |
| Exercised | (219,659) | 8.92 |
| Lapsed | (79,036) | 15.83 |
| Balance at December 31, 2001 | 1,905,875 | 14.61 |
| Granted | 497,670 | 14.40 |
| Exercised | (170,661) | 9.69 |
| Lapsed | (40,661) | 14.09 |
| Balance at December 31, 2002 | 2,192,223 | 14.96 |
| Granted | 398,888 | 17.72 |
| Exercised | (489,253) | 12.42 |
| Lapsed | (37,284) | 14.89 |
| Balance at December 31, 2003 | 2,064,574 | $ 16.09 |

| Range of exercise prices | Options outstanding: Number outstanding | Options outstanding: Weighted average remaining contractual life (in years) | Options outstanding: Weighted average exercise price | Options exercisable: Number exercisable | Options exercisable: Weighted average exercise price |
|---|---|---|---|---|---|
| $9.00-$12.25 | 148,696 | 5.05 | $ 10.62 | 141,087 | $ 10.63 |
| $12.26-$15.50 | 692,286 | 7.26 | 14.54 | 395,187 | 14.61 |
| $15.51-$18.75 | 989,716 | 7.31 | 16.97 | 476,221 | 16.80 |
| $18.76-$22.00 | 233,876 | 5.79 | 20.47 | 201,920 | 20.55 |
| $9.00-$22.00 | 2,064,574 | 6.96 | $ 16.09 | 1,214,415 | $ 16.00 |

## (17) COMMITMENTS AND CONTINGENT LIABILITIES

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

At December 31, 2003, approximately 62% of the Company's loans are secured by real estate located in central and northern New York and northeastern Pennsylvania. Accordingly, the ultimate collectibility of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

The Company is a party to certain financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit, and as certain mortgage loans sold to investors with recourse. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, unused lines of credit, standby letters of credit, and loans sold with recourse is represented by the contractual amount of those instruments. The Company uses the same credit standards in making commitments and conditional obligations as it does for on balance sheet instruments.

The total amount of loans serviced by the Company for unrelated third parties was approximately $66.4 million and $77.2 million at December 31, 2003 and 2002, respectively.

| (In thousands) | At December 31: 2003 | At December 31: 2002 |
|---|---|---|
| Unused lines of credit | $ 74,646 | $ 72,458 |
| Commitments to extend credits, primarily variable rate | 398,360 | 336,665 |
| Standby letters of credit | 17,052 | 24,659 |
| Loans sold with recourse | 10,824 | 15,022 |

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 consolidated balance sheets or results of operations of the Company.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34." FIN No. 45 requires certain new disclosures and potential liability-recognition for the fair value at issuance of guarantees that fall within its scope. Under FIN No. 45, the Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. The fair value of the Company's stand-by lettters of credit at December 31, 2003 and 2002 was not significant.

## (18) PARENT COMPANY FINANCIAL INFORMATION

### CONDENSED BALANCE SHEETS

| (In thousands) | December 31 2003 | 2002 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 6,117 | $ 5,038 |
| Securities available for sale, at estimated fair value | 7,601 | 6,624 |
| Investment in subsidiaries, on equity basis | 315,842 | 305,080 |
| Other assets | 18,384 | 13,243 |
| Total assets | $347,944 | $329,985 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Total liabilities | $ 37,910 | $ 37,603 |
| Stockholders' equity | 310,034 | 292,382 |
| Total liabilities and stockholders' equity | $347,944 | $329,985 |

### CONDENSED STATEMENTS OF INCOME

| (In thousands) | Years ended December 31 2003 | 2002 | 2001 |
|---|---|---|---|
| Gain on sale of building | $ - | $ 220 | $ - |
| Dividends from subsidiaries | 28,715 | 32,803 | 27,775 |
| Management fee from subsidiaries | 44,736 | 43,377 | 25,860 |
| Interest and other dividend income | 206 | 540 | 1,273 |
| Net gain on sale of securities available for sale | - | 341 | 294 |
| | 73,657 | 77,281 | 55,202 |
| Operating expense | 45,692 | 44,513 | 41,535 |
| Income before income tax (benefit) expense and (distributions in excess of) equity in undistributed income of subsidiaries | 27,965 | 32,768 | 13,667 |
| Income tax expense (benefit) | 272 | 22 | (3,907) |
| Equity in undistributed income of (distributions in excess of) subsidiaries | 19,411 | 12,253 | (13,837) |
| Net income | $ 47,104 | $ 44,999 | $ 3,737 |

## CONDENSED STATEMENTS OF CASH FLOWS

| (In thousands) | Years ended December 31 2003 | 2002 | 2001 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | $ 47,104 | $ 44,999 | $ 3,737 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Net gains on sale of securities available for sale | - | (341) | (294) |
| Tax benefit from exercise of stock options | 1,294 | 199 | 327 |
| Distributions in excess of (equity in undistributed) income of subsidiaries | (19,411) | (12,253) | 13,837 |
| Other, net | (5,302) | 3,058 | 4,354 |
| Net cash provided by operating activities | 23,685 | 35,662 | 21,961 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sales of securities available for sale | - | 732 | 4,458 |
| Purchases of securities available for sale | - | - | (390) |
| Purchases of premises and equipment | (1,534) | (1,582) | (2,603) |
| Net cash (used in) provided by investing activities | (1,534) | (850) | 1,465 |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from the issuance of shares to employee benefit plans and other stock plans | 7,675 | 1,583 | 2,046 |
| Payment on long-term debt | (85) | (80) | (75) |
| Purchase of treasury shares | (6,489) | (10,803) | (11,126) |
| Cash dividends and payment for fractional shares | (22,173) | (22,445) | (20,127) |
| Net cash (used in) financing activities | (21,072) | (31,745) | (29,282) |
| Net increase (decrease) in cash and cash equivalents | 1,079 | 3,067 | (5,856) |
| Cash and cash equivalents at beginning of year | 5,038 | 1,971 | 7,827 |
| Cash and cash equivalents at end of year | $ 6,117 | $ 5,038 | $ 1,971 |

## (19) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

### SHORT TERM INSTRUMENTS

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

### SECURITIES

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

### LOANS

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

### DEPOSITS

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

LONG-TERM DEBT

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

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

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

GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S JUNIOR SUBORDINATED DEBENTURES

Given the variable rate nature of this financial instrument, the carrying value approximates fair value.

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

| | 2003 | | 2002 | |
|---|---|---|---|---|
| (In thousands) | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | $ 128,044 | $ 128,044 | $ 124,623 | $ 124,623 |
| Trading securities | 48 | 48 | 203 | 203 |
| Securities available for sale | 980,961 | 980,961 | 1,007,583 | 1,007,583 |
| Securities held to maturity | 97,204 | 98,576 | 82,514 | 84,517 |
| Loans1 | 2,639,976 | 2,626,166 | 2,355,932 | 2,423,172 |
| Less allowance for loan losses | 42,651 | - | 40,167 | - |
| Net loans | 2,597,325 | 2,626,166 | 2,315,765 | 2,423,172 |
| Accrued interest receivable | $ 15,690 | $ 15,690 | $ 16,885 | $ 16,885 |
| FINANCIAL LIABILITIES | | | | |
| DEPOSITS | | | | |
| INTEREST BEARING | | | | |
| Savings, NOW, and money market | $1,401,825 | $ 1,401,825 | $1,183,603 | $ 1,183,603 |
| Time deposits | 1,099,223 | 1,105,461 | 1,289,236 | 1,301,742 |
| Noninterest bearing | 500,303 | 500,303 | 449,201 | 449,201 |
| Short-term borrowings | 302,931 | 302,931 | 105,601 | 105,601 |
| Long-term debt | 369,700 | 395,122 | 345,476 | 374,751 |
| Accrued interest payable | 6,873 | 6,873 | 8,333 | 8,333 |
| Guaranteed preferred beneficial interests in company's junior subordinated debentures | $ 17,000 | $ 17,000 | $ 17,000 | $ 17,000 |

1. Lease receivables, although excluded from the scope of SFAS No. 107, are included in the estimated fair value amounts at their carrying amounts.

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

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

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure of controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in our internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required is incorporated herein by reference from the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 4, 2004 (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2003 fiscal year end.

## ITEM 11. EXECUTIVE COMPENSATION

The information required is incorporated herein by reference from the Proxy Statement.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT EQUITY COMPENSATION PLAN INFORMATION

As of December 31, 2003, the following table summarizes the Company's equity compensation plans:

| Plan Category | A. Number of securities to be issued upon exercise of outstanding options | B. Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 2,064,574 | $ 16.09 | 2,998,860 |
| Equity compensation plans not approved by stockholders | NONE | NONE | NONE |

The remaining information required is incorporated herein by reference from the Proxy Statement.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required is incorporated herein by reference from the Proxy Statement.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required is incorporated herein by reference from the Proxy Statement.

PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

Independent Auditors' Report.

Consolidated Balance Sheets as of December 31, 2003 and 2002.

Consolidated Statements of Income for each of the three years ended December 31, 2003, 2002 and 2001.

Consolidated Statements of Changes in Stockholders' Equity for each of the three years ended December 31, 2003, 2002 and 2001.

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2003, 2002 and 2001.

Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2003, 2002 and 2001.

Notes to the Consolidated Financial Statements.

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

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

(b) Reports on Form 8-K.

We filed a Form 8-K with the SEC on October 28, 2003, under "Item 9. Regulation FD Disclosure," and provided under Item 12, reporting our full year and third quarter earnings; and, on December 4, 2003, under "Item 11. Temporary Suspension of Trading Under Registrant's Employee Benefit Plans," reporting a blackout period for the Company's 401(k) and Employee Stock Ownership Plan.

(c) Exhibits. The following exhibits are either filed as part of this annual report on Form 10-K, or are incorporated herein by reference:

3.1 Certificate of Incorporation of NBT Bancorp Inc. as amended through July 23, 2001 (filed as Exhibit 3.1 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

3.2 By-laws of NBT Bancorp Inc. as amended and restated through July 23, 2001 (filed as Exhibit 3.2 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

3.3 Rights Agreement, dated as of November 15, 1994, between NBT Bancorp Inc. and American Stock Transfer Trust Company as Rights Agent (filed as Exhibit 4.1 to Registrant's Form 8-A, file number 0-14703, filed on November 25, 1994, and incorporated by reference herein).

3.4 Amendment No. 1 to Rights Agreement, dated as of December 16, 1999, between NBT Bancorp Inc. and American Stock Transfer Trust Company as Rights Agent (filed as Exhibit 4.2 to Registrant's Form 8-A/A, file number 0-14703, filed on December 21, 1999, and incorporated by reference herein).

3.5 Amendment No. 2 to Rights Agreement, dated as of April 19, 2000, between NBT Bancorp Inc. and American Stock Transfer Trust Company as Rights Agent (filed as Exhibit 4.3 to Registrant's Form 8-A12G/A, file number 0-14703, filed on May 25, 2000, and incorporated by reference herein).

10.1 NBT Bancorp Inc. 401(K) and Employee Stock Ownership Plan made as of January 1, 2001 (filed as Exhibit 10.1 to Registrant's Form 10-K for the year ended December 31, 2000, filed on March 29, 2001 and incorporated by reference herein).

10.2 First Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective July 2, 2001. (filed as Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.3 Second Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective July 2, 2001. (filed as Exhibit 10.3 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.4 Third Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2002. (filed as Exhibit 10.4 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.5 Fourth Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2002. (filed as Exhibit 10.5 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.6 Fifth Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2002. (filed as Exhibit 10.6 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.7 Sixth Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2002.

10.8 Seventh Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2004.

10.9 NBT Bancorp Inc. Defined Benefit Pension Plan, Amended and Restated Effective as of January 1, 2000 (filed as Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2000, filed on March 29, 2001 and incorporated by reference herein).

10.10 Amendment Number One to NBT Bancorp Inc. Defined Benefit Pension Plan effective December 31, 2001. (filed as Exhibit 10.8 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.11 Amendment Number Two to NBT Bancorp Inc. Defined Benefit Pension Plan effective January 1, 2002 (filed as Exhibit 10.9 to Registrant's Form 10-K for the year ended December 31, 2002, filed on March 28, 2003 and incorporated herein by reference).

10.12 Amendment Number Three to NBT Bancorp Inc. Defined Benefit Pension Plan effective January 1, 2002 (filed as Exhibit 10.10 to Registrant's Form 10-K for the year ended December 31, 2002, filed on March 28, 2003 and incorporated herein by reference).

10.13 Amendment Number Four to NBT Bancorp Inc. Defined Benefit Pension Plan effective January 1, 2004.

10.14 NBT Bancorp Inc. 1993 Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-71830 filed on October 18, 2001 and incorporated by reference herein).

10.15 NBT Bancorp Inc. Non-Employee Director, Divisional Director and Subsidiary Director Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-73038 filed on November 9, 2001 and incorporated by reference herein).

10.16 NBT Bancorp Inc. Employee Stock Purchase Plan. (filed as Exhibit 10.11 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.17 NBT Bancorp Inc. Non-employee Directors Restricted and Deferred Stock Plan (filed as Appendix A of Registrant's Definitive Proxy Statement on Form 14A filed on April 4, 2003, and incorporated by reference herein).

10.18 NBT Bancorp Inc. Performance Share Plan (filed as Appendix B of Registrant's Definitive Proxy Statement on Form 14A filed on April 4, 2003, and incorporated by reference herein).

10.19 NBT Bancorp Inc. 2004 Executive Incentive Compensation Plan.

10.20 Change in control agreement with Daryl R. Forsythe made as of February 21, 1995 and revised on July 23, 2001 (filed as Exhibit 10.4 to the Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated herein by reference).

10.21 Form of Employment Agreement between NBT Bancorp Inc. and Daryl R. Forsythe made as of August 2, 2003. (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2003, filed on November 13, 2003 and incorporated herein by reference).

10.22 Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe as Amended and Restated Effective January 28, 2002. (filed as Exhibit 10.16 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.23 Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R.Forsythe made August 22, 1995 (filed as Exhibit 10.8 to Registrant's Form 10-K for the year ended December 31, 2000, filed on March 29, 2001 and incorporated herein by reference).

10.24 Amendment dated January 28, 2002 to Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995. (filed as Exhibit 10.18 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.25 Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made January 25, 2002.

10.26 Wage Continuation Plan between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made as of August 1, 1995 (filed as Exhibit 10.9 to Registrant's Form 10-K for the year ended December 31, 2000, filed on March 29, 2001 and incorporated herein by reference).

10.27 Form of Employment Agreement between NBT Bancorp Inc. and Martin A. Dietrich made as of January 1, 2000 and revised on January 1, 2002 and again on August 2, 2003. (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended September 30, 2003, filed on November 13, 2003 and incorporated herein by reference).

10.28 Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Martin A. Dietrich made as of July 23, 2001(filed as Exhibit 10.13 to Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated herein by reference).

10.29 Change in control agreement with Martin A. Dietrich dated January 2, 1997 and revised on July 23, 2001 (filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated herein by reference).

10.30 Form of Employment Agreement between NBT Bancorp Inc. and Michael J. Chewens made as of January 1, 2002. (filed as Exhibit 10.24 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.31 Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Michael J. Chewens made as of July 23, 2001 (filed as Exhibit 10.12 to Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated by reference herein).

10.32 Change in control agreement with Michael J. Chewens dated January 1, 1998 and revised on July 23, 2001 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated herein by reference).

10.33 Form of Employment Agreement between NBT Bancorp Inc. and David E. Raven made as of January 1, 2002. (filed as Exhibit 10.27 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.34 Change in control agreement with David E. Raven dated January 1, 1998 and revised on July 23, 2001 (filed as Exhibit 10.7 to Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated by reference herein).

10.35 Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and David E. Raven made as of January 1, 2004.

10.36 Form of Employment Agreement between NBT Bancorp Inc. and Lance D. Mattingly made as of January 1, 2002. (filed as Exhibit 10.29 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

10.37 Change in control agreement with Lance D. Mattingly dated July 23, 2001 (filed as Exhibit 10.5 to Registrant's Form 10-Q for the quarterly period ended September 30, 2001, filed on November 14, 2001 and incorporated by reference herein).

10.38 Change in control agreement with Tom Delduchetto dated January 28, 2002 (filed as Exhibit 10.33 to Registrant's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 and incorporated herein by reference).

21 A list of the subsidiaries of the Registrant.

23. Consent of KPMG LLP.

31.1 Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.

31.2 Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.

32.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

NBT BANCORP INC. (Registrant)
March 15, 2004

/S/ Daryl R. Forsythe
- ------------------------------------------------------------------------------
Daryl R. Forsythe
Chairman and Chief Executive Officer

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

/S/ Daryl R. Forsythe
- ---------------------------------------------
Daryl R. Forsythe
Chairman and Chief Executive Officer
Date: March 15, 2004

/S/ John C. Mitchell
- ---------------------------------------------
John C. Mitchell, Director
Date: March 15, 2004

/S/ Joseph G. Nasser
- ---------------------------------------------
Joseph G. Nasser, Director
Date: March 15, 2004

/S/ Peter B. Gregory
- ---------------------------------------------
Peter B. Gregory, Director
Date: March 15, 2004

/S/ William C. Gumble
- ---------------------------------------------
William C. Gumble, Director
Date: March 15, 2004

/S/ Michael Hutcherson
- ---------------------------------------------
Michael Hutcherson, Director
Date: March 15, 2004

/S/ Richard Chojnowski
- ---------------------------------------------
Richard Chojnowski, Director
Date: March 15, 2004

/S/ Michael Murphy
- ---------------------------------------------
Michael Murphy, Director
Date: March 15, 2004

/S/ Michael J. Chewens
- ---------------------------------------------
Michael J. Chewens
Chief Financial Officer
(Principal Financial Officer)
Date: March 15, 2004

/S/ William L. Owens
- ---------------------------------------------
William L. Owens, Director
Date: March 15, 2004

/S/ Van Ness D. Robinson
- ---------------------------------------------
Van Ness D. Robinson, Director
Date: March 15, 2004

/S/ Joseph A. Santangelo
- ---------------------------------------------
Joseph A. Santangelo, Director
Date: March 15, 2004

/S/ Paul O. Stillman
- ---------------------------------------------
Paul O. Stillman, Director
Date: March 15, 2004

/S/ Janet H. Ingraham
- ---------------------------------------------
Janet H. Ingraham, Director
Date: March 15, 2004

/S/ Paul Horger
- ---------------------------------------------
Paul Horger, Director
Date: March 15, 2004

/S/ Andrew S. Kowalczyk, Jr

- -------------------------------------------

Andrew S. Kowalczyk, Jr., Director
Date: March 15, 2004

/S/ Patricia T. Civil

- -------------------------------------------

Patricia T. Civil, Director
Date: March 15, 2004

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Exhibit 10.7

Sixth Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2002

# SIXTH AMENDMENT TO NBT BANCORP INC. 401(K) AND EMPLOYEE STOCK OWNERSHIP PLAN

WHEREAS, NBT BANCORP INC. (the "Employer") sponsors and maintains the NBT BANCORP INC. 401(K) AND EMPLOYEE STOCK OWNERSHIP PLAN (the "Plan") for the benefit of certain of its employees; and

WHEREAS, Section 11.1 of the Plan authorizes the Employer to amend the Plan; and

WHEREAS, the Employer desires to amend the Plan to reflect certain statutory and regulatory changes to the minimum distribution requirements. In all other respects, the Plan shall remain unchanged by this Amendment. Except as otherwise provided, this amendment shall be effective as of the first day of the first plan years beginning after December 31, 2001.

NOW THEREFORE, the Plan is amended as follows:

## ARTICLE I GENERAL RULES

1.1 Effective Date. The provisions of this Amendment will apply for purposes of determining required minimum distributions for calendar years beginning with the 2002 calendar year.1.2 Precedence. The requirements of this Amendment will take precedence over any inconsistent provisions of the Plan.

1.3 Requirements of Treasury Regulations Incorporated. All distributions required under this Amendment will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Internal Revenue Code.

1.4 TEFRA Section 242(b)(2) Elections. Notwithstanding the other provisions of this Amendment, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

## ARTICLE II TIME AND MANNER OF DISTRIBUTION

2.1 Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.

2.2 Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(a) If the Participant's surviving spouse is the Participant's sole designated beneficiary, then, except as provided in Article VI, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 , if later.

(b) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then, except as provided in Article VI, distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) If there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this Section 2.2, other than Section 2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this Section 2.2 and Article IV, unless Section 2.2(d) applies, distributions are considered to begin on the Participant's required beginning date. If Section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Section 2.2(a).

2.3 Forms of Distribution. Unless the Participant's interest is distributed in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with Articles 3 and 4 of this Amendment.

## ARTICLE III
## REQUIRED MINIMUM DISTRIBUTIONS DURING PARTICIPANT'S LIFETIME

3.1 Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(b) if the Participant's sole designated beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

3.2 Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this Article 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

## ARTICLE IV
## REQUIRED MINIMUM DISTRIBUTIONS AFTER PARTICIPANT'S DEATH

4.1 Death On or After Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, the designated beneficiary's remaining life expectancy is calculated using the age of the beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

4.2 Death Before Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. Except as provided in Article VI, if the Participant dies before the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated beneficiary, determined as provided in Section 4.1.

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under Section 2.2(a), this Section 4.2 will apply as if the surviving spouse were the Participant.

## ARTICLE V
## DEFINITIONS

5.1 Designated beneficiary. The individual who is designated as the Beneficiary under the Plan and is the designated beneficiary under Section 401(a)(9) of the Internal Revenue Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

5.2 Distribution calendar year. A calendar year for which a minimum distribution is required. 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. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under Section 2.2. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

5.3 Life expectancy. Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.

5.4 Participant's account balance. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required beginning date. The date specified in the Plan when distributions under Section 401(a)(9) of the Internal Revenue Code are required to begin.

## ARTICLE VI
## ELECTIONS

6.1 Election to Permit Participants or Beneficiaries to Elect 5-Year Rule.

Participants or beneficiaries may elect on an individual basis whether the 5-year rule or the life expectancy rule in Sections 2.2 and 4.2 of this Amendment applies to distributions after the death of a Participant who has a designated beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin under Section 2.2 of this Amendment, or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death. If neither the Participant nor beneficiary makes an election under this paragraph, distributions will be made in accordance with Sections 2.2 and 4.2 of this Amendment.

6.2 Election to Apply 5-Year Rule to Distributions to Designated Beneficiaries.

If the Participant dies before distributions begin and there is a designated beneficiary, distribution to the designated beneficiary is not required to begin by the date specified in the Plan, but the Participant's entire interest will be distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death. If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to either the Participant or the surviving spouse begin, this election will apply as if the surviving spouse were the Participant.

IN WITNESS WHEREOF, the Employer has caused this instrument to be executed the 31st day of December 2003.

NBT BANCORP INC.

B Y: /S/ MICHAEL J. CHEWENS
SIGNATURE

TITLE: CORPORATE SECRETARY
DATE: 12/31/2003

Exhibit 10.8

Seventh Amendment to the NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan effective January 1, 2004

SEVENTH AMENDMENT
TO
NBT BANCORP INC. 401(K) AND EMPLOYEE STOCK OWNERSHIP PLAN

WHEREAS, NBT BANCORP INC. (the "Employer") sponsors and maintains the NBT BANCORP INC. 401(K) AND EMPLOYEE STOCK OWNERSHIP PLAN (the "Plan") for the benefit of certain of its employees; and

WHEREAS, Section 11.1 of the Plan authorizes the Employer to amend the Plan; and

WHEREAS, the Employer desires to amend the Plan. In all other respects, the Plan shall remain unchanged by this Amendment. Except as otherwise provided, this amendment shall be effective as of the first day of the first plan year beginning after December 31, 2003.

NOW THEREFORE, the Plan is amended as follows:

1. Section 3.1 (a), Initial Eligibility to Become a Participant, shall be amended in its entirety as follows:

    (a) Each person who was a Participant in the Plan on December 31, 2003, shall continue to be eligible to participate in the Plan as of January 1, 2004.

    Each other Eligible Employee will become a Participant in the Plan effective as of the first day of the calendar month coincident with or next following (1) the date the employee has attained the age of 21 and (2) is either scheduled to complete 1,000 Hours of Service or has completed 1,000 Hours of Service.

    In addition, an Eligible Employee who is scheduled to work 1,000 hours or more in a calendar year shall be eligible to make Rollover Contributions pursuant to Section 4.11 on the first day of the month coincident with or next following his date of hire.

IN WITNESS WHEREOF, the Employer has caused this instrument to be executed the 26th day of January, 2004.

NBT BANCORP INC.

B Y: /S/ MICHAEL J. CHEWENS
SIGNATURE

TITLE: CORPORATE SECRETARY
DATE: 1-26-2004

Exhibit 10.13

Amendment Number Four to NBT Bancorp Inc. Defined Benefit Pension Plan effective January 1, 2004

Amendment #4 to

NBT BANCORP INC.
DEFINED BENEFIT PENSION PLAN

AMENDMENT OF THE PLAN FOR
COST OF LIVING BENEFIT INCREASE

Pursuant to Article 14.1 of the NBT Bancorp Inc. Defined Benefit Pension Plan ("Plan"), which provides for the amendment thereof when necessary, the Plan is hereby amended effective January 1, 2004, for a cost of living benefit increase as follows:

Add a new Section 4.7 to Article IV:

4.7 January 1, 2004 Cost of Living Increase

Effective as of January 1, 2004, the benefit payable to or on behalf of each Participant (a) whose employment with the Employer (or any predecessor Employer) terminated for any reason prior to January 1, 2004, and (b) who is, or whose Beneficiary is, receiving monthly benefit payments from the Plan as of January 1, 2004 (including a Participant or Beneficiary who shall commence receiving benefits from the Plan as of January 1, 2004), shall be increased by three percent (3%).

The foregoing increase shall be applied to the monthly benefit actually payable to the Participant, or to the Participant's Beneficiary, as of January 1, 2004, determined after all applicable adjustments, regardless of whether such benefit had been determined under the Account Balance Plan, the Appendix A Plan, or the plan of a predecessor Employer that had been merged into the Plan.

The Employer consents to the foregoing amendment, and except as amended herein, the Plan is hereby ratified and confirmed.

NBT Bancorp Inc.

By: /S/ Michael J. Chewens
EMPLOYER

Date: 1/26/2004

Exhibit 10.19
NBT Bancorp Inc. 2004 Executive Incentive Compensation Plan

January 2004

NBT BANCORP INC. AND SUBSIDIARIES

2004 EXECUTIVE INCENTIVE COMPENSATION PLAN

NBT BANCORP INC. AND SUBSIDIARIES
2004 EXECUTIVE INCENTIVE COMPENSATION PLAN

Table of Contents

## INTRODUCTION

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

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

* <u>Provides Retention</u>: By enhancing the organization's competitive compensation posture.

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

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

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

Highlights of the 2004 Executive Incentive Compensation Plan (EICP) are listed below:

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

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

3. All active Executives are eligible for participation.

4. The financial criteria necessary for Plan operation consist of achieving certain levels of Earnings Per Share (EPS) for the Company and its Subsidiaries as applicable. Certain non-recurring events inclusive of changes to tax law or accounting rules may be excluded from the financials at the discretion of the President and CEO and the Compensation Committee.

5. Incentive distributions will be made during the first quarter of the year following the Plan Year and will be based on the matrix in Appendix A.

6. Incentive awards will be based on attainment of corporate goals. Total incentive awards may contain Corporate, Subsidiary and Individual components. The Corporate and Subsidiary components are awarded by virtue of performance related to pre-established goals and the individual component is awarded by virtue of individual performance related to individual goals. No bonus will be paid unless the Corporation attains its pre-established goals.

NBT BANCORP INC. AND SUBSIDIARIES

The Board of Directors has established this 2004 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 competition in our market areas. Through payment of incentive compensation beyond base salaries, the Plan provides reward for meeting and exceeding financial goals.

SECTION I - DEFINITIONS

Various terms used in the Plan are defined as follows:

Base Salary: The base salary at the end of the Plan Year, excluding any bonuses, contributions to Executive benefit programs, or other compensation notdesignated as salary.

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

President & CEO: The Chairman, President & CEO of NBT Bancorp Inc.

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

Divisional/Subsidiary Goals: Those pre-established objectives and goals which apply to each of the Banking Divisions of NBT Bancorp Inc. and which may activate distribution of awards under the Plan.

Individual Goals: Key objectives mutually agreed upon between participants and management.

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

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

Plan Year: The 2004 calendar year.

## SECTION II - ELIGIBILITY TO PARTICIPATE

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

## SECTION III - ACTIVATING THE PLAN

The operation of the Plan is predicated on attaining and exceeding management performance goals. The goals will consist of the attainment of certain Earnings Per Share (EPS) levels as applicable. Non-recurring events including changes in tax laws and accounting rules may be excluded from the financial results at the discretion of the President and CEO and upon approval of the Compensation Committee. The Corporation must achieve a minimum EPS set forth in Appendix A and Division Heads must achieve their respective budgets 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 A. 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 - SPECIAL RECOMMENDATIONS

The President and CEO will recommend to the Compensation Committee the amounts to be awarded to individual participants in the incentive Plan. The CEO may recommend a change outside the formula to a bonus award (increase or decrease) to an individual participant by a specified percentage based on assessment of special individual performance outside the individual goals or based on special circumstances that may have occurred during the plan year. The Compensation Committee may amend the CEO's bonus award. No award will be granted to an Executive whose performance is unacceptable.

## SECTION VI - DISTRIBUTION OF AWARDS

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

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

## SECTION VII - PLAN ADMINISTRATION

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

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

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

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

## SECTION IX - EFFECTIVE DATE OF THE PLAN

The effective date of the Plan shall be January 1, 2004.

## 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.

Exhibit 10.25

Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made January 25, 2002.

# SPLIT-DOLLAR AGREEMENT

THIS AGREEMENT (the "Agreement") is made and entered into as of this 25th day of January, 2002, by and among NBT Bancorp Inc., a Delaware corporation, and NBT Bank, N.A., a national banking association organized under the laws of the United States (collectively, the "Bank"), and Daryl R. Forsythe, an individual residing in the State of New York (the "Employee").

WHEREAS, the Employee is employed by the Bank as its president and chief executive officer;

WHEREAS, the Employee wishes to provide additional life insurance protection for his family in the event of his death;

WHEREAS, the Bank is willing to pay the premiums due on a policy of life insurance as an employment benefit for the Employee, on the terms and conditions hereinafter set forth;

WHEREAS, the Bank and the Employee have applied for Insurance Policy Number 28105185 on the life of the Employee (the "Policy") from New England Financial (the "Insurer") in the face amount of $1,500,000, pursuant to which the Bank will be the owner of the Policy;

WHEREAS, the Bank and the Employee agree to make the Policy subject to this Agreement; and

WHEREAS, it is understood and agreed that this Agreement is to be effective as of the date on which the Policy is issued by the Insurer.

NOW, THEREFORE, in consideration of the premises and of the mutual promises contained herein, the parties hereto agree as follows:

1. INSURANCE POLICY. The Bank shall purchase the Policy from the Insurer and shall be the sole and absolute owner of the Policy. The parties agree that the Policy shall be subject to the terms of this Agreement and of the endorsement to the Policy filed with the Insurer to implement the provisions of this Agreement. The Bank may exercise all ownership rights granted to the owner of the Policy by the terms thereof, except as otherwise provided in this Agreement. The Bank shall be the direct beneficiary of the total death proceeds, less $ 1,000,000 (the "Bank's Interest in the Policy"). The Bank will keep possession of the Policy. The Bank agrees to make the Policy available at reasonable times to the Employee or the Insurer for the purpose of endorsing or filing any change of beneficiary on the Policy for the portion of the death

proceeds that is in excess of the Bank's Interest in the Policy, but the Policy shall thereafter be promptly returned to the Bank. Any indebtedness on the Policy will first be deducted from the proceeds payable to the Bank. Also, any collateral assignment made by the Bank will be deducted from the proceeds payable to it. The Employee shall be entitled to designate the beneficiary or beneficiaries of the remainder of the Policy death proceeds in excess of the Bank's Interest in the Policy.

2. ELECTION OF SETTLEMENT OPTION AND BENEFICIARY. By notice to the Bank, the Employee may select the settlement option for payment of, and the beneficiary or beneficiaries to receive, the portion of the death benefit provided under the Policy in excess of the Bank's Interest in the Policy. Upon receipt of such notice, the Bank shall execute and deliver to the Insurer the forms necessary to elect the requested settlement option and to designate the requested person, persons or entity as the beneficiary or beneficiaries to receive such portion of the death proceeds of the Policy. The parties hereto agree to take all actions necessary to cause the beneficiary designation and settlement election provisions of the Policy to conform to the provisions hereof. The Bank shall not terminate, alter or amend such designation or election without the express written consent of the Employee.

3. POLICY DIVIDENDS. Any dividend declared on the Policy shall be applied to reduce premiums on the Policy.

4. PAYMENT OF PREMIUMS. The Bank shall pay a sufficient amount of premiums to the Insurer to maintain the Policy in force, and shall, upon request, provide evidence to the Employee that the Policy remains in force. The Bank shall annually furnish the Employee a statement of the amount of income reportable by the Employee for federal and state income tax purposes, as a result of the insurance protection provided the Employee.

5. LIMITATION ON THE BANK'S RIGHTS IN THE POLICY. The Employee will have rights set out in Section 2 hereof with respect to the death benefit provided under the Policy in excess of the Bank's Interest in the Policy. The Bank shall not sell, surrender, change the insured or assign or transfer ownership of the Policy except after termination of the Agreement pursuant to Section 6 hereof, other than for the purpose of obtaining a loan against the Policy. The aggregate amount of such loans, together with the unpaid interest accrued thereon, will at no time exceed the lesser of (a) the Bank's Interest in the Policy or (b) the loan value of the Policy as determined by the Insurer. The Bank will not take any action dealing with the Insurer that would impair any right or interest of the Employee in the Policy. Without limiting the foregoing, following termination of this Agreement, to the extent permitted by the Policy, the Bank may designate any officer or

other employee of the Bank as the insured under the Policy and may continue this Agreement with such officer or employee. The exercise by the Bank of the right to surrender the policy or to change the insured will terminate the rights of the Employee in the Policy.

6. TERMINATION OF THE AGREEMENT DURING THE EMPLOYEE'S LIFETIME. This Agreement may be terminated at any time while the Employee is living by a written instrument signed by the Bank and the Employee, provided, that the Bank may terminate this Agreement by written notice to the Employee at any time after the Employee has ceased to be the Chairman of the Bank other than because of his death; and, in any event, this Agreement will terminate upon termination of the Employee's employment with the Bank for any reason whatsoever other than Employee's death.

7. INSURER NOT A PARTY. The Insurer shall be fully discharged from its obligations under the Policy by payment of the Policy death benefit to the beneficiary or beneficiaries named in the Policy, subject to the terms and conditions of the Policy. In no event shall the Insurer be considered a party to this Agreement, or any modification or amendment hereof. No provision of this Agreement, nor of any modification or amendment hereof, shall in any way be construed as enlarging, changing, varying, or in any other way affecting the obligations of the Insurer as expressly provided in the Policy, except insofar as the provisions hereof are made a part of the Policy by the beneficiary designation executed by the Bank and filed with the Insurer in connection herewith. The Insurer shall not be obligated to inquire as to the distribution of any monies payable or paid by it under the Policy on the Employee's life pursuant to the terms of this Agreement.

8. ASSIGNMENT BY THE EMPLOYEE. Notwithstanding any provision hereof to the contrary, the Employee shall have the right to absolutely and irrevocably assign by gift all of his right, title and interest in and to this Agreement and to the Policy to an assignee. This right shall be exercisable by the execution and delivery to the Bank of a written assignment, in the form provided by the Bank. Upon receipt of such written assignment executed by the Employee and duly accepted by the assignee thereof, the Bank shall consent thereto in writing, and shall thereafter treat the Employee's assignee as the sole owner of all of the Employee's right, title and interest in and to this Agreement and in and to the Policy. Thereafter the Employee shall have no right, title or interest in and to this Agreement or the Policy, all such rights being vested in and exercisable only by such assignee.

9. NAMED FIDUCIARY, DETERMINATION OF BENEFITS, CLAIMS PROCEDURE AND ADMINISTRATION.

a. The Bank is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of this Agreement, and it shall be responsible for establishing and carrying out a funding policy and method consistent with the objectives of this Agreement.

b. (1) Claim.

A person who believes that he or she is being denied a benefit to which he or she is entitled under this Agreement (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Bank, setting forth his or his claim. The request must be addressed to the general counsel of the Bank at its then principal place of business.

(2) Claim Decision.

Upon receipt of a claim, the Bank shall advise the Claimant that a reply will be forthcoming within 90 days and shall, in fact, deliver such reply within such period. The Bank may, however, extend the reply period for an additional 90 days for reasonable cause.

If the claim is denied in whole or in part, the Bank shall adopt a written opinion, using language calculated to be understood by the Claimant, setting forth: (a) the specific reason or reasons for such denial; (b) the specific reference to pertinent provisions of this Agreement on which such denial is based; (c) a description of any additional material or information necessary for the Claimant to perfect his or his claim and an explanation why such material or such information is necessary; (d) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (e) the time limits for requesting a review under subsection (3) and for review under subsection (4) hereof.

(3) Request for Review.

Within 60 days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Bank review the determination of the Bank. Such request must be addressed to the general counsel of the Bank, at its then principal place of business. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Bank. If the Claimant does not request a review of the Bank's determination within such 60 day period, he or she shall be barred and estopped from challenging the Bank's determination.

(4) Review of Decision.

Within 60 days after the general counsel's receipt of a request for review, he or she will review the Bank's determination. After considering all materials presented by the Claimant, the general counsel will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Agreement on which the decision is based. If special circumstances require that the 60 day time period be extended, the Secretary will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.

10. AMENDMENT. This Agreement may not be amended, altered or modified, except by a written instr-ument signed by the parties hereto, or their respective successors or assigns, and may not be other-wise terminated except as provided herein.

11. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the Bank and its successors and assigns, and the Employee, his successors, assigns, heirs, executors, administrators and beneficiaries.

12. NOTICES. Any notice, consent or demand required or permitted to be given under the provisions of this Agreement shall be in writing, and shall be signed by the party giving or making the same. If such notice, consent or demand is mailed to a party hereto, it shall be sent by United States certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Bank. The date of such mailing shall be deemed the date of notice, consent or demand.

13. GOVERNING LAW. This Agreement, and the rights of the parties hereunder, shall be governed by and construed in accordance with the laws of the United States, to the extent applicable, and otherwise by the laws of the State of New York applicable to contracts entered into and performed wholly within its borders.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate, as of the day and year first above written.

NBT BANCORP INC.

By: /S/ Andrew S. Kowalczyk , Jr.

Title: Chairman Compensation Committee

NBT BANK, N.A.

By: /S/ Michael J. Chewens

Title: CFO & Secretary

DARYL R. FORSYTHE

/S/ Daryl R. Forsythe

Exhibit 10.35

Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and David E. Raven made as of January 1, 2004.

NBT BANCORP INC.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

(Effective as of July 23, 2001)

TABLE OF CONTENTS

PREAMBLE

This NBT Bancorp Inc. Supplemental Executive Retirement Plan (the "Plan") is effective as of July 23, 2001. The purpose of the Plan is to permit certain employees of NBT Bancorp Inc. (the "Company"), its subsidiary, NBT Bank, National Association (the "Bank") and adopting affiliated employers to receive supplemental retirement income when such amounts would be due under the benefit and contribution formulas in the tax-qualified NBT Bancorp Inc. Defined Benefit Pension Plan and NBT Bancorp Inc. 401(k) and Employee Stock Ownership Plan but cannot be paid thereunder due to the reductions and other limitations imposed by Sections 401(a)(17), 401(k)(3), 401(m) and 415 of the Internal Revenue Code of 1986, as amended and to provide such employees' with an aggregate retirement benefit (taking into consideration amounts paid under such Plans and social security benefits) commencing following retirement at or after age 62 of not less than 50% of such employees' final average compensation, subject to the terms of the Plan. Capitalized terms are defined in Article 1 below.

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

ARTICLE 1

DEFINITIONS

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

1.1 "Actuarial Equivalent" shall have the same meaning the term "Actuarial Equivalent" has under Section 2.03 of Appendix A to the Basic Retirement Plan using the following actuarial assumptions:

Mortality: "Applicable Mortality Rate" as such term is defined in Section 2.03c of Appendix A to the Basic Retirement Plan.

Interest Rate: "Applicable Interest Rate" as such term is defined in Section 2.09b of Appendix A to the Basic Retirement Plan.

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

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

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

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

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

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

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

1.9 "Beneficiary" means such living person or living persons designated by the Participant in accordance with Section 7.5(a) to receive the Supplemental Retirement Benefit after his or her death, or his or her personal or legal representative, all as herein described and provided. If no Beneficiary is designated by the Participant or if no Beneficiary survives the Participant, the Beneficiary shall be the Participant's estate.

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

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

1.12 "Change in Control" means:

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

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

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

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

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

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

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

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

1.17 "Deferral Credit Account" means the bookkeeping account Maintained in the name of the Employer, on behalf of each Participant, pursuant to Article 5.

1.18 "Determination Date" means the earlier of (i) the date of termination of the Participant's employment with the Employer or (ii) the first day of the month following the Participant's 65th birthday.

1.19 "Effective Date" means July 23, 2001.

1.20 "Employee" means a person who is an employee of the Employer.

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

1.22 "Final Average Compensation" shall have the same meaning as the term "Final Average Compensation" has under Section 2.27 of Appendix A to the Basic Retirement Plan, except that in determining the amount of Compensation (as defined in Section 2.14 of Appendix A to the Basic Retirement Plan) to be used in calculating Final Average Compensation under Section 2.27 of Appendix A to the Basic Retirement Plan, Compensation shall not be subject to the compensation limitation of section 401(a)(17) of the Code.

1.23 "401(k)/ESOP Benefit" means the deferred compensation 401(k)/ESOP Benefit provided to Participants and their beneficiaries in accordance with the applicable provisions of the Plan.

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

1.25 "Other Retirement Benefits" means the sum of:

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

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

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

(d) The annual benefit that could be provided by (A) Employer contributions (other than elective deferrals) made on the Participant's behalf under the Basic 401(k)/ESOP, and (B) actual earnings on contributions in (A), if such contributions and earnings were converted to a benefit payable at age 62 in the same form as the Supplemental Retirement Benefit, using the same actuarial assumptions as are provided under Section 1.1; plus

(e) The annual benefit that could be provided by the Participant's Deferral Credit Account, if such Deferral Credit Account were converted to a benefit payable at age 62 in the same form as the Supplemental Retirement Benefit, using the same actuarial assumptions as are provided under Section 1.1.

The amount of Other Retirement Benefits shall be determined by an actuary selected by the Company, with such determination to be made without regard to whether the Participant is receiving payment of such benefits on the Determination Date. To the extent the Participant receives a payment of Other Retirement Benefits described in 1.25(d) or (e) prior to the date the Supplemental Retirement Benefit is determined pursuant to this Plan, the total of such Other Retirement Benefits shall be determined by including and assuming that such amounts earned interest at a variable rate equal to the one-year United States Treasury bill rate as reported in the New York edition of The Wall Street Journal on the Determination Date from the date received to the date Other Retirement Benefits are calculated for purposes of this Plan.

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

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

1.28 "Plan Limitation Provisions" means provisions of the Basic 401(k)/ESOP and the Basic Retirement Plan that reduce or restrict an Employee's employer-provided benefits under the Basic Retirement Plan and employer matching contributions to the Basic 401(k)/ESOP (including Article IX and the last sentence of Section 1.12 of the Basic Retirement Plan and the next to last paragraph of Section 1.14, the third paragraph of Section 1.33 and Sections 4.5, 4.7 and 4.9 of the Basic 401(k)/ESOP, or the corresponding provisions of any amendment to such Plans) in order to satisfy the limitations imposed by one or more of the following: (i) Section 401(a)(17) of the Code, (ii) Section 401(k)(3) of the Code, (iii) Section 401(m) of the Code, or (iv) Section 415 of the Code.

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

1.30 "Present Value" means the present value of a benefit determined on the basis of the actuarial assumptions specified in Section 1.1

1.31 "Social Security Benefit" means the Participant's actual social security benefit at his or her Social Security Retirement Age.

1.32 "Social Security Retirement Age" shall have the same meaning the term "Social Security Retirement Age" has under Section 2.58 of Appendix A to the Basic Retirement Plan.

1.33 "Retirement Income Benefit" means the deferred compensation retirement income benefit determined pursuant to Article 4.

1.34 "Supplemental Retirement Benefit" means the deferred compensation retirement benefit determined pursuant to Article 6.

1.35 "Supplemental Surviving Spouse Benefit" means the survivor death benefit payable to a Participant's surviving spouse, pursuant to the provisions of Sections 8.1 through 8.3.

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

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

## ARTICLE 2

## ELIGIBILITY AND PARTICIPATION

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

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

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

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

## ARTICLE 3

## RETIREMENT DATE

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

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

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

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

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

ARTICLE 4

RETIREMENT INCOME BENEFIT

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

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

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

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

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

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

Employer following such termination of service pursuant to any Supplemental Retirement Agreement with the Participant.

ARTICLE 5

SUPPLEMENTAL 401(K)/ESOP
BENEFIT AND DEFERRAL CREDIT ACCOUNTS

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

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

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

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

ARTICLE 6

SUPPLEMENTAL RETIREMENT BENEFIT

6.1 If an eligible Participant shall remain employed by the Employer until reaching his or her 62nd birthday, serving as a Full-Time Employee until such date, and subject to the other terms and conditions of this Plan, the Company shall pay such Participant an annual "Supplemental Retirement Benefit" determined as follows:

(a) the Participant shall be entitled to a Supplemental Retirement Benefit on and after his or her 62nd birthday but before his or her Social Security Retirement Age in an amount equal to the excess, if any, of (1) 50 percent of the Participant's Final Average Compensation, over (2) the Participant's Other Retirement Benefits, determined as of the Determination Date.

(b) the Participant shall be entitled to a Supplemental Retirement Benefit on and after his or her Social Security Retirement Age in an amount equal to the excess, if any, of (1) 50 percent of the Participant's Final Average Compensation, over (2) the sum of (aa) the Participant's Other Retirement Benefits, determined as of the Determination Date, plus (bb) the Participant's Social Security Benefit.

6.2 If an eligible Participant shall remain employed by the Employer until reaching his or her 60th birthday, serving as a Full-Time Employee until such date and he or she continues to serve as a Full-Time Employee until the date of his or her retirement, and he or she retires then or thereafter but before reaching his or her 62nd birthday, and subject to the other terms and conditions of this Plan, the Company shall pay such Participant after the date of his or her retirement, pursuant to Section 7.4(b), or to his or her spouse or other Beneficiary, pursuant and subject to Section 8.6(c) if he or she has died before his or her 62nd birthday, a reduced early Supplemental Retirement Benefit calculated in accordance with the following schedule:

(a) if the date of the Participant's retirement shall be on or after his or her 60th birthday but before his or her 61st birthday, the Company shall pay such Participant 60% of the Supplemental Retirement Benefit calculated in accordance with Section 6.1; and

(b) if the date of the Participant's retirement shall be on or after his or her 61st birthday but before his or her 62nd birthday, the Company shall pay such Participant 70% of the Supplemental Retirement Benefit so calculated.

## ARTICLE 7

## MODES OF BENEFIT PAYMENT AND VESTING OF BENEFITS

7.1 Except as otherwise provided in the following paragraph, any Retirement Income Benefit and 401(k)/ESOP Benefit payable under the Plan to a Participant, beneficiary, joint or contingent annuitant or eligible child, shall be payable in the modes provided by, and subject to the provisions of, the Basic Retirement Plan and Basic 401(k)/ESOP, respectively, as the case may be. Any Retirement Income Benefit paid from the Plan in a form other than a life annuity shall be the actuarial equivalent of a life annuity, utilizing the actuarial equivalent factors set forth in the Basic Retirement Plan and applied to obtain the optional mode of payment thereunder.

The Committee, in its sole discretion and consistent with the best interests of the Employer may distribute any Retirement Income Benefit and 401(k)/ESOP Benefit payable under the Plan to a Participant, beneficiary, joint or contingent annuitant, or eligible child, as a single lump sum benefit, using, in the case of a Retirement Income Benefit, the actuarial equivalent factors set forth in the Basic Retirement Plan for lump-sum cashouts. In exercising its discretion hereunder, the Committee shall not be bound by any request by a Participant, beneficiary, joint or contingent annuitant, or eligible child, to receive any Retirement Income Benefit and 401(k)/ESOP Benefit payable under the Plan as a single lump-sum benefit.

7.2 Except with respect to receipt of a lump sum benefit under Section 7.1, any elections for an optional mode of benefit payment made by a Participant under the Basic Retirement Plan and the Basic 401(k)/ESOP, shall also be effective with respect to any Retirement Income Benefit and 401(k)/ESOP Benefit, as the case may be, payable under the Plan to a Participant, beneficiary, joint or contingent annuitant, or eligible child.

7.3 Except with respect to receipt of a lump sum benefit under Section 7.1, payment of any Retirement Income Benefit and 401(k)/ESOP Benefit under the Plan shall commence on the same date as payment of a Basic Retirement Plan and 401(k)/ESOP Plan distribution payable to a Participant or beneficiary, and shall terminate on the date of last payment of Basic Retirement Plan and 401(k)/ESOP Plan distribution, as the case may be.

7.4 The Supplemental Retirement Benefit shall be paid:

(a) except as provided in Section 7.4(b) (early retirement) and Section 8.6 (death), commencing on the first day of the month following the later of the Participant's retirement or his or her attainment of age 62; or

(b) commencing on the first day of the month following the Participant's Determination Date in connection with early retirement after reaching age 60 and prior to the date of his or her 62nd birthday.

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

(a) The Supplemental Retirement Benefit shall be paid as a straight life annuity, payable in monthly installments, for the Participant's life; provided, however, that if the Participant has no surviving spouse and dies before having received 60 monthly payments, such monthly payments shall be continued to his or her Beneficiary until the total number of monthly payments to the Participant and his or her Beneficiary equal 60, whereupon all payments shall cease and the Company's obligation to pay the Supplemental Retirement Benefit under shall be deemed to have been fully discharged. If the Participant and his or her Beneficiary shall die before having received a total of 60 monthly payments, an amount equal to the Actuarial Equivalent of the balance of such monthly payments shall be paid in a single sum to the estate of the survivor of the Participant and his or her Beneficiary. If Supplemental Retirement Benefits are payable in the form described in this Section 7.5(a), the Participant shall designate in writing, as his or her Beneficiary, any person or persons, primarily, contingently or successively, to whom the Company shall pay benefits following the Participant's death if the Participant's death occurs before 60 monthly payments have been made.

(b) Notwithstanding the form of payment described in Section 7.5(a), if the Participant is married on the date payment of the Supplemental Retirement Benefit commences, the benefit shall be paid as a 50% joint and survivor annuity with the Participant's spouse as the Beneficiary. The 50% joint and survivor annuity shall be the Actuarial Equivalent of the benefit described in Section 7.5(a). If the Supplemental Retirement Benefit is payable pursuant to this Section 7.5(a), but the Participant's spouse fails to survive him or her, no payments of the Supplement Retirement Benefit will be made following the Participant's death.

(c) Notwithstanding the foregoing provisions of this Section 7.5, the Company, in its sole discretion, may accelerate the payment of all or any portion of the Supplemental Retirement Benefit or the reduced early Supplemental Retirement Benefit at any time. Any payment accelerated in accordance with this Section 7.5(c) shall be the Actuarial Equivalent of the payment being accelerated.

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

## ARTICLE 8

## DEATH BENEFITS

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

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

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

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

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

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

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

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

(a) Except as provided in Section 8.6(b), if a Participant shall die before his or her 62nd birthday, no Supplemental Retirement Benefit shall be payable.

(b) If a Participant shall die on or after his or her 60th birthday, after he or she has retired but before payment of any Supplemental Retirement Benefit has commenced, the Participant's surviving spouse, if any, shall be paid as a straight life annuity 50 percent of the Supplemental Retirement Benefit for her life commencing within 30 days following the Participant's death. Such payments shall be made in monthly installments, subject to the right of the Company to accelerate payment at any time in accordance with Section 7.5(c). However, if such Participant is not married at the time of his or her death, the Company shall pay to the Participant's Beneficiary a lump sum benefit equal to 50 percent of the Present Value of the Participant's Supplemental Retirement Benefit.

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

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

## ARTICLE 9

## UNFUNDED PLAN

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

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

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

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

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

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

## ARTICLE 10

## ADMINISTRATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE 11

## AMENDMENT OR TERMINATION

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

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

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

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

## ARTICLE 12

## GENERAL PROVISIONS

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

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

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

12.4 Notwithstanding any other provision of this Plan:

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

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

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

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

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

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

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

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

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

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

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

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

Supplemental Retirement Agreement
Effective January 1, 2004

The attached document (NBT BANCORP INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN, effective as of July 23, 2001) sets forth the terms of an agreement for the payment of supplemental retirement income made as of January 1, 2004 between NBT Bancorp Inc., a Delaware corporation and a registered financial holding company headquartered at 52 South Broad Street, Norwich, New York 13815, and David E. Raven, an individual residing at 808 Parkview Road, Moscow, Pennsylvania 18444. The parties hereby execute this agreement as follows:

NBT Bancorp Inc.

BY: /S/ Daryl R. Forsythe    Date: 3/8/04
Daryl R. Forsythe
Chairman and CEO

BY: /S/ David E. Raven    Date: 3/8/04
David E. Raven

EXHIBIT 21

List of Subsidiaries of the Registrant

UBSIDIARIES OF THE REGISTRANT

NBT BANCORP INC. has the following subsidiaries, which are wholly owned:

NBT Bank, National Association
52 South Broad Street
Norwich, New York 13815
Telephone: (607) 337-2265
E.I.N. 15-0395735

NBT Financial Services, Inc.
52 South Broad Street
Norwich, New York 13815
Telephone: (607) 337-2265
E.I.N. 16-1576562

CNBF Capital Trust 1
24 Church Street
Canajoharie, New York 13317
Telephone: (518) 673-3243
E.I.N. 14-1249234

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 Forms S-8 (File Nos. 333-71830, 333-73038, 333-66472, 333-97995, 333-72772, 333-107479 and 333-107480) of NBT Bancorp Inc. of our report dated February 24, 2004, relating to the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2003 and 2002, 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, 2003, which report appears in the December 31, 2003 annual report on Form 10-K.

Our report refers to the Company's adoption of changes in accounting for goodwill and other intangible assets.

KPMG LLP
Albany, New York
March 12, 2004

Exhibit 31.1

CERTIFICATION

I, Daryl R. Forsythe, certify that:

1. I have reviewed this annual report on Form 10-K of NBT Bancorp Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 15, 2004
/S/ Daryl R. Forsythe
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Daryl R. Forsythe
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Michael J. Chewens, certify that:

1. I have reviewed this annual report on Form 10-K of NBT Bancorp Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls or procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 15, 2004
/S/ Michael J. Chewens
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Michael J. Chewens
Senior Executive Vice President, Chief Financial Officer and Corporate Secretary

EXHIBIT 32.1

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(a) the Form 10-K of the Company for the Annual Period Ended December 31, 2003, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/S/ Daryl R. Forsythe

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Daryl R. Forsythe
Chairman and Chief Executive Officer

March 15, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NBT Bancorp Inc. and will be retained by NBT Bancorp Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

(a) the Form 10-K of the Company for the Annual Period Ended December 31, 2003, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/S/ Michael J. Chewens

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

March 15, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NBT Bancorp Inc. and will be retained by NBT Bancorp Inc. and furnished to the Securities and Exchange Commission or its staff upon request.