

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007  
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**

(State or other jurisdiction of incorporation or organization)

**16-1268674**

(IRS Employer Identification No.)

52 SOUTH BROAD STREET  
NORWICH, NEW YORK 13815

(Address of principal executive office) (Zip Code)  
(607) 337-2265 (Registrant's telephone number, including area code)

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

Securities registered pursuant to section 12(g) of the Act: Common Stock (\$0.01 par value per share)

Stock Purchase Rights Pursuant to Stockholders Rights Plan

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Based upon the closing price of the registrant's common stock as of June 30, 2007, the aggregate market value of the voting stock, common stock, par value, \$0.01 per share, held by non-affiliates of the registrant is \$732,905,150.

The number of shares of Common Stock outstanding as of February 15, 2008, was 32,140,042.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 6, 2008 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

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- (3) Exhibits.
- (b) Refer to item 15(a)(3) above.
- (c) Refer to item 15(a)(2) above.

### [SIGNATURES](#)

\* Information called for by Part III (Items 10 through 14) is incorporated by reference to the Registrant's Proxy Statement for the 2008 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 Company, on a consolidated basis, at December 31, 2007 had assets of \$5.2 billion and stockholders’ equity of \$397.3 million. The Registrant is the parent holding company of NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (the Trusts). Through the Bank and NBT Financial, the Company is focused on community banking operations. The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. The Registrant’s primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Registrant are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank 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 conducts business through two geographic operating divisions, NBT Bank and Pennstar Bank.

At year end 2007, the NBT Bank division had 82 divisional offices and 110 automated teller machines (ATMs), located primarily in central and upstate New York. At December 31, 2007, the NBT Bank division had total loans and leases of \$2.7 billion and total deposits of \$3.0 billion.

At year end 2007, the Pennstar Bank division had 39 divisional offices and 56 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2007, the Pennstar Bank division had total loans and leases of \$745.7 million and total deposits of \$845.4 million.

The Bank has six operating subsidiaries, NBT Capital Corp., Pennstar Bank Services Company, Broad Street Property Associates, Inc., NBT Services, Inc., Pennstar Realty Trust, and CNB Realty Trust. NBT Capital Corp., formed in 1998, is a venture capital corporation formed to assist young businesses to develop and grow primarily in the markets we serve. Broad Street Property Associates, Inc., formed in 2004, is a property management company. NBT Services, Inc., formed in 2004, is the holding company of and has an 80% ownership interest in NBT Settlement Services, LLC. NBT Settlement Services, LLC, formed in 2004, provides title insurance products to individuals and corporations. Pennstar Realty Trust, formed in 2000, and CNB Realty Trust, formed in 1998, are real estate investment trusts. Pennstar Bank Services Company, formed in 2002, provides administrative and support services to the Pennstar Bank division of the Bank.

CNBF Capital Trust I (Trust I) and NBT Statutory Trust I are Delaware statutory business trusts formed in 1999 and 2005, respectively, for the purpose of issuing trust preferred securities and lending the proceeds to the Company. In connection with the acquisition of CNB Bancorp, Inc. mentioned below, the Company formed NBT Statutory Trust II (Trust II) in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. The Company raised \$51.5 million through Trust II in February 2006. The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities (VIEs) for which the Company is not the primary beneficiary, as defined in Financial Accounting Standards Board Interpretation (“FIN”) No. 46 “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003) (FIN 46R).” In accordance with FIN 46R, the accounts of the Trusts are not included in the Company’s consolidated financial statements. See the Company’s accounting policy related to the consolidation in Note 1 — Summary of Significant Accounting Policies in the notes to consolidated financial statements included in Item 8 Financial Statements and Supplementary Data of this report. For more information relating to the Trusts, see Note 13 to the consolidated financial statements.

On February 10, 2006, the Company acquired CNB Bancorp, Inc. (“CNB”), a bank holding company headquartered in Gloversville, New York. The acquisition was accomplished by merging CNB with and into the Company. By virtue of this acquisition, CNB’s banking subsidiary, City National Bank and Trust Company, was merged with and into NBT Bank. City National Bank and Trust Company operated 9 full-service community banking offices – located in Fulton, Hamilton, Montgomery and Saratoga counties, with approximately \$400 million in assets.

In connection with the merger with CNB, the Company issued an aggregate of 2.1 million shares of Company common stock and \$39 million in cash to the former holders of CNB common stock.

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

Based on the \$22.42 per share closing price of the Company’s common stock on February 10, 2006, the transaction was valued at approximately \$88 million.

## **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 services providers. The Company competes for loans and leases, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than the Company. In order to compete with other financial services providers, the Company stresses the community nature of its banking operations and principally relies upon local promotional activities, personal relationships established by officers, directors, and employees with their customers, and specialized services tailored to meet the needs of the communities served.

## **SUPERVISION AND REGULATION**

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

The Company is subject to capital adequacy guidelines of the FRS. The guidelines apply on a consolidated basis and require bank holding companies to maintain a minimum ratio of Tier 1 capital to total average assets (or “leverage ratio”) of 4%. For the most highly rated bank holding companies, the minimum ratio is 3%. The FRS capital adequacy guidelines also require bank holding companies to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 4% and a minimum ratio of qualifying total capital to risk-weighted assets of 8%. As of December 31, 2007, the Company’s leverage ratio was 7.14%, its ratio of Tier 1 capital to risk-weighted assets was 9.79%, and its ratio of qualifying total capital to risk-weighted assets was 11.05%. 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 shareholders and expand its lines of business through the acquisition of new banking or nonbanking subsidiaries also could be restricted.

The Bank is subject to leverage and risk-based capital requirements and minimum capital guidelines of the OCC that are similar to those applicable to the Company. As of December 31, 2007, the Bank was in compliance with all minimum capital requirements. The Bank's leverage ratio was 6.82%, its ratio of Tier 1 capital to risk-weighted assets was 9.40%, and its ratio of qualifying total capital to risk-weighted assets was 10.66%.

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, 2007, the Bank's total brokered deposits were \$209.0 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 proposed dividend, exceed the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. As of December 31, 2007, approximately \$33.4 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. As indicated above, the Bank is currently in compliance with these requirements.

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

The deposits of the Bank are insured up to regulatory limits by the FDIC. The Federal Deposit Insurance Reform Act of 2005, which was signed into law on February 8, 2006, gave the FDIC increased flexibility in assessing premiums on banks and savings associations, including the Bank, to pay for deposit insurance and in managing its deposit insurance reserves. The FDIC has adopted regulations to implement its new authority. Under these regulations, all insured depository institutions are placed into one of four risk categories. According to FDIC estimates, approximately 95% of all insured institutions, including the Bank, are in Risk Category I, the most favorable category. Within this category, all insured institutions pay a base rate assessment of \$0.02 to \$0.04 per \$100 of assessable deposits (which rate may be adjusted annually by the FDIC by up to \$0.03 per \$100 of assessable deposits without public comment) based on the risk of loss to the Depository Insurance Fund ("DIF") posed by the particular institution. For institutions such as the Bank, which do not have a long-term public debt rating, the individual risk assessment is based on its supervisory ratings and certain financial ratios and other measurements of its financial condition. For institutions that have a long-term public debt rating, the individual risk assessment is based on its supervisory ratings and its debt rating. The new law became effective on January 1, 2007. The reform legislation also provided a credit to all insured depository institutions, based on the amount of their insured deposits at year-end 1996, that may be used as an offset to the premiums that are assessed. The Bank estimates that its credit will fully offset its 2008 deposit insurance assessment.

The Federal Deposit Insurance Act provides for additional assessments to be imposed on insured depository institutions to pay for the cost of Financing Corporation (“FICO”) funding. The FICO assessments are adjusted quarterly to reflect changes in the assessment base of the DIF and do not vary depending upon a depository institution’s capitalization or supervisory evaluation. During 2007, FDIC assessments for purposes of funding FICO bond obligations ranged from an annualized \$0.0122 per \$100 of deposits for the first quarter of 2007 to \$0.0114 per \$100 of deposits for the fourth quarter of 2007. The Bank paid \$0.5 million of FICO assessments in 2007. For the first quarter of 2008, the FICO assessment rate is \$0.0114 per \$100 of deposits.

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

In 2007, the Federal Reserve and SEC issued a final joint rulemaking to clarify that traditional banking activities involving some elements of securities brokerage activities, such as most trust and fiduciary activities, may continue to be performed by banks rather than being “pushed-out” to affiliates supervised by the SEC.

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

The GLB Act requires all financial institutions, including the Company and the Bank, to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer’s request, and establish procedures and practices to protect customer data from unauthorized access. In addition, the Fair and Accurate Credit Transactions Act of 2003 (“FACT Act”) includes many provisions concerning national credit reporting standards, and permits consumers, including customers of the Company, to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The FRS and the Federal Trade Commission (“FTC”) have extensive rulemaking authority under the FACT Act, and the Company and the Bank are subject to the rules that have been promulgated by the FRS and FTC. The Company has developed policies and procedures for itself and its subsidiaries, including the Bank, and believes it is in compliance with all privacy, information sharing, and notification provisions of the GLB Act and the FACT Act.

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

Under Title III of the USA PATRIOT Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including the Company and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. The USA PATRIOT Act also encourages information-sharing among financial institutions, regulators, and law enforcement authorities by providing an exemption from the privacy provisions of the GLB Act for financial institutions that comply with this provision. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank, or the BHC Act, which applies to the Company. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, financial and reputational consequences for the institution. As of December 31, 2007, the Company and the Bank believe they are in compliance with the USA PATRIOT Act and regulations thereunder.

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

Home mortgage lenders, including banks, are required under the Home Mortgage Disclosure Act (“HMDA”) to make available to the public expanded information regarding the pricing of home mortgage loans, including the “rate spread” between the interest rate on loans and certain Treasury securities and other benchmarks. The availability of this information has led to increased scrutiny of higher-priced loans at all financial institutions to detect illegal discriminatory practices and to the initiation of a limited number of investigations by federal banking agencies and the U.S. Department of Justice. The Company has no information that it or its affiliates is the subject of any HMDA investigation.

During 2007, the Federal Reserve, OCC and other federal financial regulatory agencies issued final guidance on subprime mortgage lending to address issues relating to certain subprime mortgages, especially adjustable-rate mortgage (ARM) products that can cause payment shock. The subprime guidance described the prudent safety and soundness and consumer protection standards that the regulators expect banks and financial institutions, such as the Company and Bank, to follow to ensure borrowers obtain loans they can afford to repay.

In December 2006, the Federal Reserve, OCC and other federal financial regulatory agencies issued similar final guidance on sound risk management practices for concentrations in commercial real estate (“CRE”) lending. The CRE guidance provided supervisory criteria, including numerical indicators to direct examiners in identifying institutions with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny. The CRE criteria do not constitute limits on CRE lending, but the CRE guidance does provide certain additional expectations, such as enhanced risk management practices and levels of capital, for banks with concentrations in CRE lending.

## **EMPLOYEES**

At December 31, 2007, the Company had 1,253 full-time equivalent employees. The Company's employees are not presently represented by any collective bargaining group. The Company considers its employee relations to be good.

## **AVAILABLE INFORMATION**

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

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

## **ITEM 1A. RISK FACTORS**

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

### ***The Company is Subject to Interest Rate Risk***

The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Net Interest Income" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosure About Market Risk located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

### ***The Company is Subject to Lending Risk***

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

As of December 31, 2007, approximately 41% of the Company's loan and lease portfolio consisted of commercial, agricultural, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because the Company's loan portfolio contains a significant number of commercial and industrial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Loans and Leases and Corresponding Interest and Fees on Loans" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to commercial and industrial, construction and commercial real estate loans.

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

The Company maintains an allowance for loan and lease losses, which is an allowance established through a provision for loan and lease losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans and leases. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan and lease portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan and lease portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses, the Company will need additional provisions to increase the allowance for loan and lease losses. These increases in the allowance for loan and lease losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Risk Management – Credit Risk" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan and losses.

### ***The Company's Profitability Depends Significantly on Local and National Economic Conditions***

The Company's success depends primarily on the general economic conditions of upstate New York and northeastern Pennsylvania and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in the upstate New York areas of Norwich, Oneonta, Amsterdam-Gloversville, Albany, Binghamton, Utica-Rome, Plattsburg, and Ogdensburg-Massena and northeastern Pennsylvania areas of Scranton, Wilkes-Barre and East Stroudsburg. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company's financial condition and results of operations.

The second half of 2007 was highlighted by significant disruption and volatility in the financial and capital marketplaces. This turbulence has been attributable to a variety of factors, including the fallout associated with the subprime mortgage market. One aspect of this fallout has been significant deterioration in the activity of the secondary market. The disruptions have been exacerbated by the continued decline of the real estate and housing market along with significant mortgage loan related losses incurred by many lending institutions. The turmoil in the mortgage market has impacted the global markets as well as the domestic markets and led to a significant credit and liquidity crisis in many domestic markets during the second half of 2007. As a lender, we may be adversely affected by general economic weaknesses, and, in particular, a sharp downturn in the housing industry in the states of New York and Pennsylvania. During the second half of 2007, we have experienced an increase in nonperforming loans and net loan charge-offs. No assurance can be given that these conditions will improve or will not worsen or that such conditions will not result in a further increase in delinquencies, causing a decrease in our interest income, or continue to have an adverse impact on our loan loss experience, causing an increase in our allowance for loan losses.

### ***The Company Operates In a Highly Competitive Industry and Market Area***

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

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

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

#### ***The Company Is Subject To Extensive Government Regulation and Supervision***

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

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

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

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

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

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

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

The inability to receive dividends from NBT Bank could have a material adverse effect on the Company's business, financial condition and results of operations. See the section captioned "Supervision and Regulation" in Item 1. Business and Note 15 — Stockholders' Equity in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

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

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

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

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

***The Company Continually Encounters Technological Change***

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

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company's headquarters are located at 52 South Broad Street, Norwich, New York 13815. The Company operated the following number of community banking branches and automated teller machines (ATMs) as of December 31, 2007:

County	Branches	ATMs	County	Branches	ATMs
<b>NBT Bank Division</b>			<b>Pennstar Bank Division</b>		
<i>New York</i>			<i>Pennsylvania</i>		
Albany County	4	5	Lackawanna County	17	25
Broome County	7	12	Luzerne County	4	8
Chenango County	11	13	Monroe County	6	7
Clinton County	3	2	Pike County	3	4
Delaware County	5	6	Susquehanna County	6	8
Essex County	3	6	Wayne County	3	4
Franklin County	1	1			
Fulton County	7	12			
Greene County	-	1			
Hamilton County	1	1			
Herkimer County	2	1			
Montgomery County	7	6			
Oneida County	6	11			
Otsego County	9	16			
Saratoga County	4	6			
Schenectady County	1	1			
Schoharie County	4	3			
St. Lawrence County	5	6			
Tioga County	1	1			
Warren County	1	-			

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

None.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS, AND ISSUER REPURCHASES OF EQUITY SECURITIES**

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

	High	Low	Dividend
<b>2006</b>			
1st quarter	\$ 23.90	\$ 21.02	\$ 0.19
2nd quarter	23.24	21.03	0.19
3rd quarter	24.57	21.44	0.19
4th quarter	26.47	22.36	0.19
<b>2007</b>			
1st quarter	\$ 25.81	\$ 21.73	\$ 0.20
2nd quarter	23.45	21.80	0.20
3rd quarter	23.80	17.10	0.20
4th quarter	25.00	20.58	0.20

The closing price of the Common Stock on February 15, 2008 was \$21.00.

As of February 15, 2008, there were 7,050 shareholders of record of Company common stock.

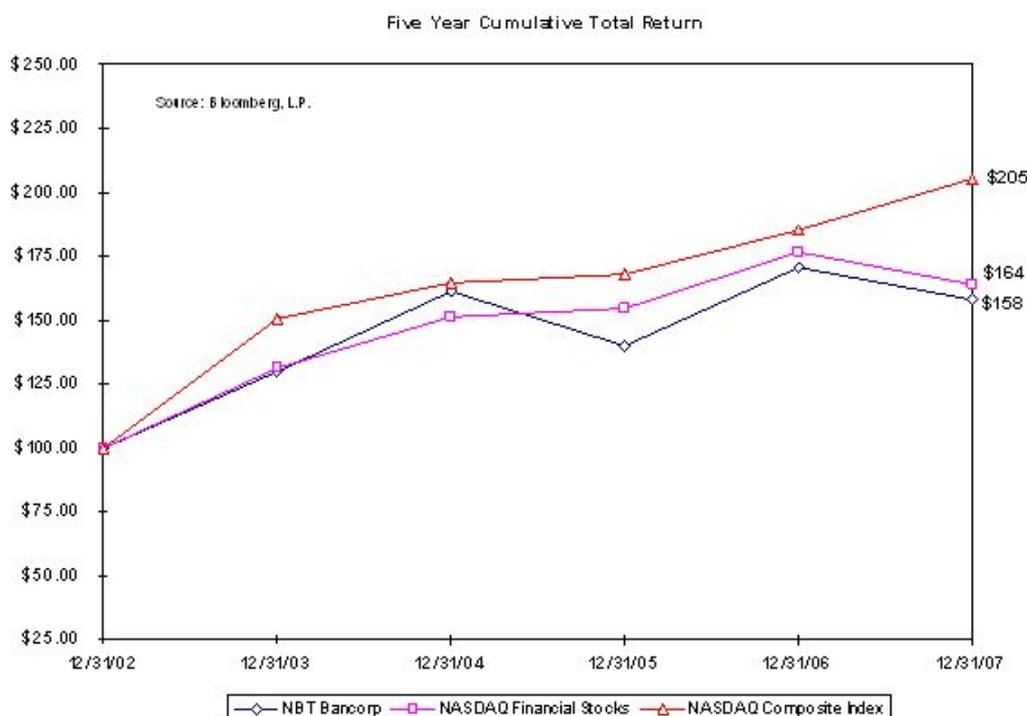
**Equity Compensation Plan Information**

As of December 31, 2007, the following table summarizes the Company's equity compensation plans:

Plan Category	A. Number of securities to be issued upon exercise of outstanding options	B. Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A.)
Equity compensation plans approved by stockholders	1,878,352	\$ 20.89	1,737,406
Equity compensation plans not approved by stockholders	None	None	None

## Performance Graph

The following graph compares the cumulative total stockholder return (i.e., price change, reinvestment of cash dividends and stock dividends received) on our common stock against the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index and the Index for NASDAQ Financial Stocks. The stock performance graph assumes that \$100 was invested on December 31, 2002. The graph further assumes the reinvestment of dividends into additional shares of the same class of equity securities at the frequency with which dividends are paid on such securities during the relevant fiscal year. The yearly points marked on the horizontal axis correspond to December 31 of that year. We calculate each of the referenced indices in the same manner. All are market-capitalization-weighted indices, so companies judged by the market to be more important (i.e., more valuable) count for more in all indices.



Index	Period Ending						
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	
NBT Bancorp	\$ 100.00	\$ 130.04	\$ 160.98	\$ 139.69	\$ 170.40	\$ 157.82	
NASDAQ Financial Stocks	\$ 100.00	\$ 131.13	\$ 151.10	\$ 154.65	\$ 176.72	\$ 163.96	
NASDAQ Composite Index	\$ 100.00	\$ 150.76	\$ 164.53	\$ 168.03	\$ 185.46	\$ 205.21	

Source: Bloomberg, L.P.

## Dividends

We depend primarily upon dividends from our subsidiaries for a substantial part of our revenue. Accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Payment of dividends to the Company from the Bank is subject to certain regulatory and other restrictions. Under OCC regulations, the Bank may pay dividends to the Company without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of such dividends and its total dividends do not exceed its net income to date over the calendar year plus retained net income over the preceding two years. At December 31, 2007, the Bank was in compliance with all applicable minimum capital requirements and had the ability to pay dividends of \$33.4 million to the Company without the prior approval of the OCC.

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

**ITEM 6. SELECTED FINANCIAL DATA**

The following summary of financial and other information about the Company is derived from the Company's audited consolidated financial statements for each of the five fiscal years ended December 31, 2007 and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and accompanying notes, included elsewhere in this report:

<i>(In thousands, except per share data)</i>	<b>Year ended December 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Interest, fee and dividend income	\$ 306,117	\$ 288,842	\$ 236,367	\$ 210,179	\$ 207,298
Interest expense	141,090	125,009	78,256	59,692	62,874
Net interest income	165,027	163,833	158,111	150,487	144,424
Provision for loan and lease losses	30,094	9,395	9,464	9,615	9,111
Noninterest income excluding securities gains and losses	57,586	49,504	43,785	40,673	37,603
Securities gains (losses), net	2,113	(875)	(1,236)	216	175
Other noninterest expense	122,517	122,966	115,305	109,777	104,517
Income before income taxes	72,115	80,101	75,891	71,984	68,574
Net income	50,328	55,947	52,438	50,047	47,104
<b>Per common share</b>					
Basic earnings	\$ 1.52	\$ 1.65	\$ 1.62	\$ 1.53	\$ 1.45
Diluted earnings	1.51	1.64	1.60	1.51	1.43
Cash dividends paid	0.79	0.76	0.76	0.74	0.68
Book value at year-end	12.29	11.79	10.34	10.11	9.46
Tangible book value at year-end	8.78	8.42	8.75	8.66	7.94
Average diluted common shares outstanding	33,421	34,206	32,710	33,087	32,844
<b>At December 31,</b>					
Securities available for sale, at fair value	\$ 1,140,114	\$ 1,106,322	\$ 954,474	\$ 952,542	\$ 980,961
Securities held to maturity, at amortized cost	149,111	136,314	93,709	81,782	97,204
Loans and leases	3,455,851	3,412,654	3,022,657	2,869,921	2,639,976
Allowance for loan and lease losses	54,183	50,587	47,455	44,932	42,651
Assets	5,201,776	5,087,572	4,426,773	4,212,304	4,046,885
Deposits	3,872,093	3,796,238	3,160,196	3,073,838	3,001,351
Borrowings	868,776	838,558	883,182	752,066	672,631
Stockholders' equity	397,300	403,817	333,943	332,233	310,034
<b>Key ratios</b>					
Return on average assets	0.98%	1.14%	1.21%	1.21%	1.22%
Return on average equity	12.60	14.47	15.86	15.69	15.90
Average equity to average assets	7.81	7.85	7.64	7.74	7.69
Net interest margin	3.61	3.70	4.01	4.03	4.16
Dividend payout ratio	52.32	46.34	47.50	49.01	47.55
Tier 1 leverage	7.14	7.57	7.16	7.13	6.76
Tier 1 risk-based capital	9.79	10.42	9.80	9.78	9.96
Total risk-based capital	11.05	11.67	11.05	11.04	11.21

**Selected Quarterly Financial Data**

<i>(Dollars in thousands, except per share data)</i>	2007				2006			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Interest, fee and dividend income	\$ 75,459	\$ 76,495	\$ 77,181	\$ 76,982	\$ 66,306	\$ 71,831	\$ 74,688	\$ 76,017
Interest expense	34,830	35,137	35,994	35,129	26,187	30,462	33,768	34,592
Net interest income	40,629	41,358	41,187	41,853	40,119	41,369	40,920	41,425
Provision for loan and lease losses	2,096	9,770	4,788	13,440	1,728	1,703	2,480	3,484
Noninterest income excluding net securities (losses) gains	12,695	13,971	15,043	15,877	12,158	12,534	12,510	12,302
Net securities (losses) gains	(5)	21	1,484	613	(934)	22	7	30
Noninterest expense	30,872	28,014	31,227	32,404	30,472	31,694	29,918	30,882
Net income	\$ 14,132	\$ 12,064	\$ 15,147	\$ 8,985	\$ 13,588	\$ 14,169	\$ 14,542	\$ 13,648
Basic earnings per share	\$ 0.41	\$ 0.36	\$ 0.46	\$ 0.28	\$ 0.41	\$ 0.41	\$ 0.43	\$ 0.40
Diluted earnings per share	\$ 0.41	\$ 0.36	\$ 0.46	\$ 0.28	\$ 0.40	\$ 0.41	\$ 0.43	\$ 0.40
Net interest margin	3.63%	3.63%	3.56%	3.61%	3.86%	3.73%	3.60%	3.63%
Return on average assets	1.13%	0.95%	1.17%	0.69%	1.18%	1.15%	1.15%	1.07%
Return on average equity	14.06%	11.90%	15.41%	9.06%	15.11%	14.71%	14.89%	13.31%
Average diluted common shares outstanding	34,457	33,936	32,921	32,398	33,746	34,472	34,197	34,402

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

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### **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 Hathaway Agency, Inc. during 2007 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, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2007 presentation.

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

The business of the Company is providing commercial banking and financial services through its subsidiaries. The Company's primary market area is central and upstate New York and northeastern Pennsylvania. The Company has been, and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company's principal business is attracting deposits from customers within its market area and investing those funds primarily in loans and leases, 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**

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

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management's current evaluation of the allowance for loan and lease losses indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance 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.

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

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

## **FORWARD LOOKING STATEMENTS**

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

- Local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.
- Changes in the level of non-performing assets and charge-offs.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board.
- Inflation, interest rate, securities market and monetary fluctuations.
- Political instability.
- Acts of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowings and savings habits.
- Changes in the financial performance and/or condition of the Company's borrowers.

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

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

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

## OVERVIEW

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

The Company had net income of \$55.9 million or \$1.64 per diluted share for 2006, up 6.7% from net income of \$52.4 million or \$1.60 per diluted share for 2005. Results were driven by several factors. Net interest income increased \$5.7 million or 3.6% in 2006 compared to 2005. The increase in net interest income resulted mainly from an increase in average earning assets of \$528.8 million, or 13.1% to \$4.6 billion in 2006, driven by a 11.6% increase in average loans and leases for the period. Noninterest income increased \$6.1 million or 14.3% compared to 2005. Included in noninterest income for 2006 were net securities losses totaling \$0.9 million compared to net securities losses of \$1.2 million in 2005. Excluding net security gains and losses, total noninterest income increased 13.1% in 2006 compared with 2005. Offsetting the increases in net interest income and noninterest income was an increase in noninterest expense of \$7.7 million in 2006 compared to 2005. Noninterest income and expense increased in all line items in 2006 compared to 2005, primarily as a result of the CNB merger in February of 2006 (see Item 1. Business for merger details). The provision for loan and lease losses decreased slightly in 2006 compared to 2005, as potential problem loans have decreased as a percentage of the loan portfolio, offset by an increase in net charge-offs.

**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**

<i>(Dollars in thousands)</i>	2007			2006			2005		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
<b>Assets</b>									
Short-term interest bearing accounts	\$ 8,395	\$ 419	4.99%	\$ 8,116	\$ 395	4.87%	\$ 7,298	\$ 229	3.14%
Securities available for sale (1)	1,134,837	57,290	5.05	1,110,405	53,992	4.86	954,461	43,113	4.52
Securities held to maturity (1)	144,518	8,901	6.16	115,636	7,071	6.11	88,244	5,035	5.71
Investment in FRB and FHLB Banks	34,022	2,457	7.22	39,437	2,076	5.26	37,607	1,898	5.05
Loans and leases (2)	3,425,318	243,317	7.10	3,302,080	230,800	6.99	2,959,256	190,331	6.43
Total earning assets	4,747,090	312,384	6.58	4,575,674	294,334	6.43	4,046,866	240,606	5.95
Other non-interest earning assets	362,497			349,396			279,289		
Total assets	\$ 5,109,587			\$ 4,925,070			\$ 4,326,155		
<b>Liabilities and stockholders' equity</b>									
Money market deposit accounts	\$ 663,532	22,402	3.38%	\$ 543,323	18,050	3.32%	\$ 399,056	7,312	1.83%
NOW deposit accounts	449,122	3,785	0.84	443,339	3,297	0.74	439,751	2,305	0.52
Savings deposits	485,562	4,299	0.89	532,788	4,597	0.86	559,584	3,985	0.71
Time deposits	1,675,116	76,088	4.54	1,534,556	61,854	4.03	1,217,442	36,330	2.98
Total interest-bearing deposits	3,273,332	106,574	3.26	3,054,006	87,798	2.87	2,615,833	49,932	1.91
Short-term borrowings	280,162	12,943	4.62	331,255	15,448	4.66	353,644	10,983	3.11
Trust preferred debentures	75,422	5,087	6.74	70,055	4,700	6.71	19,596	1,227	6.26
Long-term debt	384,017	16,486	4.29	414,976	17,063	4.11	410,891	16,114	3.92
Total interest-bearing liabilities	4,012,933	141,090	3.52	3,870,292	125,009	3.23	3,399,964	78,256	2.30
Demand deposits	639,423			614,055			543,077		
Other non-interest-bearing liabilities	57,932			54,170			52,438		
Stockholders' equity	399,299			386,553			330,676		
Total liabilities and stockholders' equity	\$ 5,109,587			\$ 4,925,070			\$ 4,326,155		
Interest rate spread			3.06%			3.20%			3.64%
Net interest income-FTE		171,294			169,325			162,350	
Net interest margin			3.61%			3.70%			4.01%
Taxable equivalent adjustment		6,267			5,492			4,239	
Net interest income		\$ 165,027			\$ 163,833			\$ 158,111	

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

## NET INTEREST INCOME

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

<i>(In thousands)</i>	Increase (Decrease) 2007 over 2006			Increase (Decrease) 2006 over 2005		
	Volume	Rate	Total	Volume	Rate	Total
Short-term interest-bearing accounts	\$ 14	\$ 10	\$ 24	\$ 28	\$ 138	\$ 166
Securities available for sale	1,205	2,093	3,298	7,411	3,468	10,879
Securities held to maturity	1,779	51	1,830	1,654	382	2,036
Investment in FRB and FHLB Banks	(314)	695	381	94	84	178
Loans and leases	8,711	3,806	12,517	23,143	17,326	40,469
Total interest income	11,184	6,866	18,050	33,023	20,705	53,728
Money market deposit accounts	4,054	298	4,352	3,305	7,433	10,738
NOW deposit accounts	44	444	488	19	973	992
Savings deposits	(416)	118	(298)	(198)	810	612
Time deposits	5,967	8,267	14,234	10,878	14,646	25,524
Short-term borrowings	(2,362)	(143)	(2,505)	(734)	5,198	4,464
Trust preferred debentures	362	25	387	3,379	95	3,474
Long-term debt	(1,308)	731	(577)	162	787	949
Total interest expense	4,727	11,354	16,081	11,940	34,813	46,753
Change in FTE net interest income	\$ 6,457	\$ (4,488)	\$ 1,969	\$ 21,083	\$ (14,108)	\$ 6,975

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

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

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

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**

<i>(In thousands)</i>	December 31,				
	2007	2006	2005	2004	2003
Residential real estate mortgages	\$ 719,182	\$ 739,607	\$ 701,734	\$ 721,615	\$ 703,906
Commercial and commercial real estate	1,214,897	1,240,383	1,127,705	1,069,451	983,640
Real estate construction and development	81,350	94,494	69,135	86,031	56,430
Agricultural and agricultural real estate	116,190	118,278	114,043	108,181	106,310
Consumer	655,375	586,922	463,955	412,139	390,413
Home equity	582,731	546,719	463,848	391,807	336,547
Lease financing	86,126	86,251	82,237	80,697	62,730
Total loans and leases	\$ 3,455,851	\$ 3,412,654	\$ 3,022,657	\$ 2,869,921	\$ 2,639,976

Real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residences. 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. Indirect installment loans represent \$520.7 million of total consumer loans. Real estate construction and development loans include commercial construction and development and residential construction loans. Commercial construction loans are for small and medium sized office buildings and other commercial properties and residential construction loans are primarily for projects located in upstate New York and northeastern Pennsylvania.

The Company's automobile lease financing portfolio totaled \$86.1 million at December 31, 2007 and \$86.3 million at December 31, 2006. 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 had 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 would be 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. A lease receivable asset includes 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 \$58.4 million and \$59.2 million at December 31, 2007 and 2006, 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 the years ended December 31, 2007 and 2006.

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, 2007. 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, 2007			
	Within One Year	After One Year But Within Five Years	After Five Years	Total
<i>(In thousands)</i>				
<b><i>Floating/adjustable rate</i></b>				
Commercial, commercial real estate, agricultural, and agricultural real estate	\$ 325,768	\$ 86,918	\$ 5,681	\$ 418,367
Real estate construction and development	36,892	618	-	37,510
Total floating rate loans	362,660	87,536	5,681	455,877
<b><i>Fixed rate</i></b>				
Commercial, commercial real estate, agricultural, and agricultural real estate	402,678	369,104	140,938	912,720
Real estate construction and development	9,219	15,810	18,811	43,840
Total fixed rate loans	411,897	384,914	159,749	956,560
Total	\$ 774,557	\$ 472,450	\$ 165,430	\$ 1,412,437

## SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME

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

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

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.

**Table 5. Securities Portfolio**

	As of December 31,					
	2007		2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(In thousands)</i>						
<b>Securities available for sale</b>						
U.S. Treasury	\$ 10,042	\$ 10,077	\$ 10,516	\$ 10,487	\$ 10,005	\$ 10,005
Federal Agency and mortgage-backed	704,308	705,354	744,078	731,754	684,907	672,602
State & Municipal, collateralized mortgage obligations and other securities	418,654	424,683	361,854	364,081	269,826	271,867
<b>Total securities available for sale</b>	<b>\$ 1,133,004</b>	<b>\$ 1,140,114</b>	<b>\$ 1,116,448</b>	<b>\$ 1,106,322</b>	<b>\$ 964,738</b>	<b>\$ 954,474</b>
<b>Securities held to maturity</b>						
Federal Agency and mortgage-backed	\$ 2,810	\$ 2,909	\$ 3,434	\$ 3,497	\$ 4,354	\$ 4,482
State & Municipal	145,458	145,767	132,213	132,123	87,582	87,446
Other securities	843	843	667	667	1,773	1,773
<b>Total securities held to maturity</b>	<b>\$ 149,111</b>	<b>\$ 149,519</b>	<b>\$ 136,314</b>	<b>\$ 136,287</b>	<b>\$ 93,709</b>	<b>\$ 93,701</b>

In the available for sale category at December 31, 2007, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; Mortgaged-backed securities were comprised of GSEs with an amortized cost of \$342.0 million and a fair value of \$338.5 million and US Government Agency securities with an amortized cost of \$39.5 million and a fair value of \$39.8 million; Collateralized mortgage obligations were comprised of GSEs with an amortized cost of \$179.1 million and a fair value of \$180.1 million and US Government Agency securities with an amortized cost of \$109.1 million and a fair value of \$109.5 million. At December 31, 2007, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2007:

<i>(In thousands)</i>	Amortized cost	Estimated fair value	Weighted Average Yield
<b><i>Debt securities classified as available for sale</i></b>			
Within one year	\$ 71,200	\$ 71,280	4.20%
From one to five years	216,581	218,344	4.93%
From five to ten years	222,645	226,489	5.17%
After ten years	605,979	604,807	5.01%
	<u>\$ 1,116,405</u>	<u>\$ 1,120,920</u>	
<b><i>Debt securities classified as held to maturity</i></b>			
Within one year	\$ 75,147	\$ 75,144	3.85%
From one to five years	35,558	35,583	4.05%
From five to ten years	26,400	26,571	3.98%
After ten years	12,006	12,221	5.03%
	<u>\$ 149,111</u>	<u>\$ 149,519</u>	

## FUNDING SOURCES AND CORRESPONDING INTEREST EXPENSE

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as necessary to support the Company’s growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities increased \$142.6 million, totaling \$4.0 billion in 2007 from \$3.9 billion in 2006. The rate paid on interest-bearing liabilities increased from 3.23% in 2006 to 3.52% in 2007. Increases in the rate paid and the average balance of interest bearing liabilities caused an increase in interest expense of \$16.1 million, or 12.9%, from \$125.0 million in 2006 to \$141.1 million in 2007.

## DEPOSITS

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

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

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

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

<i>(In thousands)</i>	<b>December 31, 2007</b>
Within three months	<b>\$ 446,347</b>
After three but within twelve months	<b>214,368</b>
After one but within three years	<b>28,468</b>
Over three years	<b>5,082</b>
<b>Total</b>	<b>\$ 694,265</b>

## **BORROWINGS**

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

The average balance of trust preferred debentures increased \$5.4 million in 2007 compared to 2006. The average rate paid for trust preferred debentures in 2007 was 6.74%, up 3bp from 6.71% in 2006. The increase in rate on the trust preferred debentures is due primarily to the previously mentioned increase in short-term rates during 2007. The increase in the average balance of trust preferred debentures is due primarily to the issuance of \$51.5 million of trust preferred debentures in February 2006 that were on the balance sheet for a full year in 2007.

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 \$804 million and \$849 million at December 31, 2007 and 2006, 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**

<i>(Dollars in thousands)</i>	As of December 31,				
	2007	2006	2005	2004	2003
<b>Nonaccrual loans</b>					
Commercial and agricultural loans and real estate	\$ 20,491	\$ 9,346	\$ 9,373	\$ 10,550	\$ 8,693
Real estate mortgages	1,372	2,338	2,009	2,553	2,483
Consumer	2,934	1,981	2,037	1,888	2,685
Troubled debt restructured loans	4,900	-	-	-	-
<b>Total nonaccrual loans</b>	<b>29,697</b>	<b>13,665</b>	<b>13,419</b>	<b>14,991</b>	<b>13,861</b>
<b>Loans 90 days or more past due and still accruing</b>					
Commercial and agricultural loans and real estate	51	138	-	-	242
Real estate mortgages	295	682	465	737	244
Consumer	536	822	413	449	482
<b>Total loans 90 days or more past due and still accruing</b>	<b>882</b>	<b>1,642</b>	<b>878</b>	<b>1,186</b>	<b>968</b>
<b>Total nonperforming loans</b>	<b>30,579</b>	<b>15,307</b>	<b>14,297</b>	<b>16,177</b>	<b>14,829</b>
Other real estate owned	560	389	265	428	1,157
<b>Total nonperforming loans and other real estate owned</b>	<b>31,139</b>	<b>15,696</b>	<b>14,562</b>	<b>16,605</b>	<b>15,986</b>
Nonperforming securities	-	-	-	-	395
<b>Total nonperforming loans, securities, and other real estate owned</b>	<b>\$ 31,139</b>	<b>\$ 15,696</b>	<b>\$ 14,562</b>	<b>\$ 16,605</b>	<b>\$ 16,381</b>
<b>Total nonperforming loans to loans and leases</b>	<b>0.88%</b>	<b>0.45%</b>	<b>0.47%</b>	<b>0.56%</b>	<b>0.56%</b>
<b>Total nonperforming loans and other real estate owned to total assets</b>	<b>0.60%</b>	<b>0.31%</b>	<b>0.33%</b>	<b>0.39%</b>	<b>0.40%</b>
<b>Total nonperforming loans, securities, and other real estate owned to total assets</b>	<b>0.60%</b>	<b>0.31%</b>	<b>0.33%</b>	<b>0.39%</b>	<b>0.40%</b>
<b>Total allowance for loan and lease losses to nonperforming loans</b>	<b>177.19%</b>	<b>330.48%</b>	<b>331.92%</b>	<b>277.75%</b>	<b>287.62%</b>

The allowance for loan and lease losses is maintained at a level estimated by management to provide adequately for risk of probable losses inherent in the current loan and lease portfolio. The adequacy of the allowance for loan and lease losses is continuously monitored. It is assessed for adequacy using a methodology designed to ensure the level of the allowance reasonably reflects the loan and lease portfolio's risk profile. It is evaluated to ensure that it is sufficient to absorb all reasonably estimable credit losses inherent in the current loan and lease portfolio. Management considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that such judgments can have on the consolidated results of operations.

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

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

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

Impaired loans, which primarily consist of nonaccruing commercial type loans increased to \$25.4 million at December 31, 2007 as compared to \$9.3 million at December 31, 2006. At December 31, 2007, \$12.7 million of the total impaired loans had a specific reserve allocation of \$5.1 million compared to \$2.2 million of impaired loans at December 31, 2006 which had a specific reserve allocation of \$0.2 million.

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

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

(Dollars in thousands)	2007	2006	2005	2004	2003
Balance at January 1	\$ 50,587	\$ 47,455	\$ 44,932	\$ 42,651	\$ 40,167
<b>Loans and leases charged-off</b>					
Commercial and agricultural	20,349	6,132	3,403	4,595	5,619
Real estate mortgages	1,032	542	741	772	362
Consumer*	9,862	6,698	6,875	6,239	5,862
Total loans and leases charged-off	31,243	13,372	11,019	11,606	11,843
<b>Recoveries</b>					
Commercial and agricultural	1,816	1,939	1,695	2,547	3,185
Real estate mortgages	125	239	438	215	430
Consumer*	2,804	2,521	1,945	1,510	1,601
Total recoveries	4,745	4,699	4,078	4,272	5,216
Net loans and leases charged-off	26,498	8,673	6,941	7,334	6,627
Allowance related to purchase acquisitions	-	2,410	-	-	-
Provision for loan and lease losses	30,094	9,395	9,464	9,615	9,111
Balance at December 31	\$ 54,183	\$ 50,587	\$ 47,455	\$ 44,932	\$ 42,651

Allowance for loan and lease losses to loans and leases outstanding at end of year	1.57%	1.48%	1.57%	1.57%	1.62%
Net charge-offs to average loans and leases outstanding	0.77%	0.26%	0.23%	0.27%	0.27%

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

Total nonperforming assets were \$15.7 million at December 31, 2006, compared to \$14.6 million at December 31, 2005. Credit quality remained stable in 2006, as nonperforming loans totaled \$15.3 million at December 31, 2006, up from the \$14.3 million outstanding at December 31, 2005. Nonperforming loans as a percentage of total loans and leases decreased to 0.45% for December 31, 2006 from 0.47% at December 31, 2005. The total allowance for loan and lease losses was 330.48% of nonperforming loans at December 31, 2006 as compared to 331.92% at December 31, 2005.

Total net charge-offs for 2006 totaled \$8.7 million as compared to \$6.9 million for 2005. The ratio of net charge-offs to average loans and leases was 0.26% for 2006 compared with 0.23% for 2005. Gross charge-offs increased \$2.4 million, totaling \$13.4 million for 2006 compared to \$11.0 million for 2005. Recoveries increased from \$4.1 million in 2005 to \$4.7 million in 2006. The provision for loan and lease losses decreased slightly to \$9.4 million in 2006 from \$9.5 million in 2005. The allowance for loan and lease losses as a percentage of total loans and leases was 1.48% at December 31, 2006 and 1.57% at December 31, 2005. While potential problem loans increased slightly in 2006 compared to 2005, potential problem loans have decreased as a percentage of the loan portfolio, offset by an increase in net charge-offs.

In addition to the nonperforming loans discussed above, the Company has also identified approximately \$73.3 million in potential problem loans at December 31, 2007 as compared to \$69.8 million at December 31, 2006. 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 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 nonperforming at some time in the future. At the Company, potential problem loans are typically loans that are performing but are classified by the Company's loan rating system as "substandard." At December 31, 2007 and 2006, potential problem loans primarily consisted of commercial and agricultural loans. At December 31, 2007, there were thirteen potential problem loans that exceeded \$1.0 million, totaling \$28.5 million in aggregate compared to nineteen potential problem loans exceeding \$1.0 million, totaling \$31.1 million at December 31, 2006. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses.

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

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

<i>(Dollars in thousands)</i>	December 31,									
	2007		2006		2005		2004		2003	
	Allowance	Category Percent of Loans								
Commercial and agricultural	\$ 32,811	41%	\$ 28,149	43%	\$ 30,257	43%	\$ 28,158	44%	\$ 25,502	43%
Real estate mortgages	3,277	21%	3,377	22%	3,148	23%	4,029	25%	4,699	27%
Consumer	17,362	38%	17,327	35%	12,402	34%	10,887	31%	9,357	30%
Unallocated	733	0%	1,734	0%	1,648	0%	1,858	0%	3,093	0%
<b>Total</b>	<b>\$ 54,183</b>	<b>100%</b>	<b>\$ 50,587</b>	<b>100%</b>	<b>\$ 47,455</b>	<b>100%</b>	<b>\$ 44,932</b>	<b>100%</b>	<b>\$ 42,651</b>	<b>100%</b>

For 2007, the reserve allocation for commercial and agricultural loans increased to \$32.8 million from \$28.1 million in 2006. This increase was primarily due to an increase in specific allocations on large commercial loans from \$0.2 million in 2006 to \$5.1 million in 2007, due to the large commercial loans mentioned above. The reserve allocation for real estate mortgages and consumer loans remained relatively flat.

At December 31, 2007, approximately 60.7% 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.

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

## LIQUIDITY

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

The primary liquidity measurement the Company utilizes is called Basic Surplus which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. At December 31, 2007, the Company's Basic Surplus measurement was 7.3% of total assets or \$375 million, which was above the Company's minimum of 5% (calculated at \$260 million of period end total assets at December 31, 2007) 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, 2007, the Company considered its Basic Surplus position to be adequate. However, certain events may adversely impact the Company's liquidity position in 2008. Continued improvement in the economy may increase demand for equity related products or increase competitive pressure on deposit pricing, which in turn, could result in a decrease in the Company's deposit base or increase funding costs. Additionally, liquidity will come under additional pressure if loan growth exceeds deposit growth in 2008. These scenarios could lead to a decrease in the Company's basic surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, 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 \$804 million at December 31, 2007.

At December 31, 2007, a portion of the Company's loans and securities were pledged as collateral on borrowings. Therefore, future growth of earning assets will depend upon the Company's ability to obtain additional funding, through growth of core deposits and collateral management, and may require further use of brokered time deposits, or other higher cost borrowing arrangements.

Net cash flows provided by operating activities totaled \$85.8 million in 2007 and \$65.5 million in 2006. The critical elements of net operating cash flows include net income, after adding back provision for loan and lease losses, and depreciation and amortization.

Net cash used in investing activities totaled \$97.6 million in 2007 and \$276.5 million in 2006. Critical elements of investing activities are loan and investment securities transactions. The decrease in cash used in investing activities in 2007 was primarily due to a decline in loan growth in 2007 as compared to 2006. The net increase in loans was \$70.1 million in 2007 as compared to \$211.3 million in 2006.

Net cash flows provided by financing activities totaled \$36.0 million in 2007 and \$207.3 million in 2006. The critical elements of financing activities are proceeds from deposits, borrowings, and stock issuances. In addition, financing activities are impacted by dividends and treasury stock transactions. The net increase in deposits was \$75.9 million in 2007 as compared with \$307.0 million in 2006. In 2007, the Company had a net increase in short term borrowings of approximately \$23.1 million as compared with a net decrease in borrowings of \$99.6 million in 2006. Proceeds from the issuance of long term debt totaled \$150.0 million in 2007 and \$95.0 million in 2006. In 2007, repayments of long term debt totaled \$142.8 million as compared with \$114.2 million in 2006. In addition, the Company purchased 2,261,267 shares of its common stock for approximately \$49.0 million during 2007. In 2006, the company purchased 766,004 shares of its common stock for approximately \$17.1 million.

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, 2007 are as follows:

### **Contractual Obligations**

(In thousands)

	<b>Payments Due by Period</b>						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt obligations	\$ 130,079	\$ 40,000	\$ 54,000	\$ 1,921	\$ 32	\$ 198,855	\$ 424,887
Trust preferred debentures	-	-	-	-	-	75,422	75,422
Operating lease obligations	3,606	2,897	2,544	2,455	2,054	18,369	31,925
Retirement plan obligations	4,259	4,416	4,537	4,447	4,526	35,118	57,303
Data processing commitments	7,221	6,611	6,611	719	180	-	21,342
<b>Total contractual obligations</b>	<b>\$ 145,165</b>	<b>\$ 53,924</b>	<b>\$ 67,692</b>	<b>\$ 9,542</b>	<b>\$ 6,792</b>	<b>\$ 327,764</b>	<b>\$ 610,879</b>

### **OFF-BALANCE SHEET RISK COMMITMENTS TO EXTEND CREDIT**

The Company makes contractual commitments to extend credit, which include unused lines of credit, which are subject to the Company's credit approval and monitoring procedures. At December 31, 2007 and 2006, commitments to extend credit in the form of loans, including unused lines of credit, amounted to \$654.0 million and \$536.3 million, respectively. In the opinion of management, there are no material commitments to extend credit, including unused lines of credit, that represent unusual risks. All commitments to extend credit in the form of loans, including unused lines of credit, expire within one year.

### **STAND-BY LETTERS OF CREDIT**

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its stand-by letters of credit. The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. At December 31, 2007 and 2006, outstanding stand-by letters of credit were approximately \$27.5 million and \$30.8 million, respectively. The fair value of the Company's stand-by letters of credit at December 31, 2007 and 2006 was not significant. The following table sets forth the commitment expiration period for stand-by letters of credit at December 31, 2007:

**Commitment Expiration of Stand-by Letters of Credit**

Within one year	\$	11,831
After one but within three years		15,714
After three but within five years		-
After five years		-
Total	\$	27,545

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

The total amount of loans serviced by the Company for unrelated third parties was approximately \$125.5 million and \$105.0 million at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, the Company serviced \$8.9 million and \$5.7 million, respectively, of loans sold with recourse. Due to collateral on these loans, no reserve is considered necessary at December 31, 2007 and 2006.

**CAPITAL RESOURCES**

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

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

The Bank also is subject to substantial regulatory restrictions on its ability to pay dividends to the Company. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, 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, 2007, approximately \$33.4 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 January 28, 2008, the NBT Board of directors authorized a new repurchase program for NBT to repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, as market conditions warrant in open market and privately negotiated transactions. There are 475,880 shares remaining under previous authorizations, so combined with this new authorization, the total shares available for repurchase is now 1,475,880. Under previously disclosed stock repurchase plans, the Company purchased 2,261,267 shares of its common stock during the twelve-month period ended December 31, 2007, for a total of \$49.0 million at an average price of \$21.65 per share. There were no stock repurchases during the three months ended December 31, 2007.

**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:

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
Service charges on deposit accounts	\$ 22,742	\$ 17,590	\$ 16,894
Broker/dealer and insurance revenue	4,255	3,936	3,186
Trust	6,514	5,629	5,029
Bank owned life insurance income	1,831	1,629	1,347
ATM fees	8,185	7,086	6,162
Retirement plan administration fees	6,336	5,536	4,426
Other	7,723	8,098	6,741
Total before net securities gains (losses)	57,586	49,504	43,785
Net securities gains (losses)	2,113	(875)	(1,236)
Total	\$ 59,699	\$ 48,629	\$ 42,549

Noninterest income for the year ended December 31, 2007 was \$59.7 million, up \$11.1 million or 22.8% from \$48.6 million for the same period in 2006. Fees from service charges on deposit accounts and ATM and debit cards collectively increased \$6.3 million as the Company focused on enhancing fee income through various initiatives. Retirement plan administration fees for the year ended December 31, 2007 increased \$0.8 million, compared with the same period in 2006, as a result of our growing client base. Trust administration income increased \$0.9 million for the year ended December 31, 2007, compared with the same period in 2006. This increase stems from market appreciation of existing accounts and an increase in customer accounts resulting from successful business. Net securities gains for the year ended December 31, 2007 were \$2.1 million, compared with net securities losses of \$0.9 million for the year ended December 31, 2006. Excluding the effect of these securities transactions, noninterest income increased \$8.1 million, or 16.3%, for the year ended December 31, 2007, compared with the same period in 2006.

**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:

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
Salaries and employee benefits	\$ 59,516	\$ 62,877	\$ 60,005
Occupancy	11,630	11,518	10,452
Equipment	7,422	8,332	8,118
Data processing and communications	11,400	10,454	10,349
Professional fees and outside services	9,135	7,761	6,087
Office supplies and postage	5,120	5,330	4,628
Amortization of intangible assets	1,645	1,649	544
Loan collection and other real estate owned	1,633	1,351	1,002
Other	15,016	13,694	14,120
Total noninterest expense	\$ 122,517	\$ 122,966	\$ 115,305

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

**INCOME TAXES**

Income tax expense for the year ended December 31, 2007 was \$21.8 million, down from \$24.2 million for the same period in 2006. The effective rate both years ended December 31, 2007 and December 31, 2006 was 30.2%.

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

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

## 2006 OPERATING RESULTS AS COMPARED TO 2005 OPERATING RESULTS

### NET INTEREST INCOME

On a tax equivalent basis, the Company's net interest income for 2006 was \$169.3 million, up from \$162.4 million for 2005. The Company's net interest margin declined to 3.70% for 2006 from 4.01% for 2005. The decline in the net interest margin resulted primarily from interest-bearing liabilities repricing up faster than earning assets, offset somewhat by the increase in average demand deposits, which increased \$71.0 million or 13% during the period. Earning assets, particularly those tied to a fixed rate, have not realized the benefit of the higher interest rate environment, since rates for earning assets with terms three years or longer have remained relatively flat during this period due to the flat/inverted yield curve. The yield on earning assets increased 48 basis points (bp), from 5.95% for 2005 to 6.43% for 2006. Meanwhile, the rate paid on interest bearing liabilities increased 93 bp, from 2.30% for 2005 to 3.23% for 2006. Additionally, offsetting the decline in net interest margin was an increase in average earning assets of \$528.8 million or 13.1%, driven primarily by a \$342.8 million increase in average loans and leases. The increase in average loans and leases was due to organic loan growth as well as the merger with CNB.

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

The average balance of loans and leases increased 11.6%, totaling \$3.3 billion in 2006 compared to \$3.0 billion in 2005. The yield on average loans and leases increased from 6.43% in 2005 to 6.99% in 2006, as loans, particularly loans indexed to Prime and other short-term variable rate indices, benefited from the rising rate environment in 2006. Interest income from loans and leases on a FTE basis increased 21.3%, from \$190.3 million in 2005 to \$230.8 million in 2006. The increase in interest income from loans and leases was due primarily to the increase in the average balance of loans and leases from organic loan growth and the merger with CNB, as well as the increase in yield on loans and leases in 2006 compared to 2005 noted above.

Total loans and leases increased 12.9% at December 31, 2006, totaling \$3.4 billion from \$3.0 billion at December 31, 2005. The increase in loans and leases was driven by strong growth in commercial and commercial real estate loans, consumer loans, and home equity loans. Residential real estate mortgages increased \$37.9 million or 5.4% at December 31, 2006 compared to December 31, 2005, primarily due to the acquisition of CNB in February 2006, which contributed approximately \$69.8 million. Commercial and commercial real estate increased \$112.7 million at December 31, 2006 when compared to December 31, 2005, due in large part to an increase in organic loan originations, as well as the acquisition of CNB which contributed approximately \$61.9 million. Real estate construction and development loans increased \$25.4 million, or 36.7%, from \$69.1 million at December 31, 2005 to \$94.5 million at December 31, 2006. Consumer loans increased \$123.0 million or 26.5%, from \$464.0 million at December 31, 2005 to \$586.9 million at December 31, 2006. The increase in consumer loans was driven primarily by an increase in indirect loans of \$91.9 million, from \$365.5 million in 2005 to \$457.4 million in 2006. Home equity loans increased \$82.9 million or 17.9% from \$463.8 million at December 31, 2005 to \$546.7 million at December 31, 2006. The increase in home equity loans was due to strong product demand and successful marketing of home equity products.

### SECURITIES AND CORRESPONDING INTEREST AND DIVIDEND INCOME

The average balance of the amortized cost for securities available for sale in 2006 was \$1.1 billion, an increase of \$155.9 million, or 16.3%, from \$954.5 million in 2005. The yield on average securities available for sale was 4.86% for 2006 compared to 4.52% in 2005. The increase in yield on securities available for sale resulted from the increasing rate environment.

The average balance of securities held to maturity increased from \$88.2 million in 2005 to \$115.6 million in 2006. At December 31, 2006, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity increased from 5.71% in 2005 to 6.11% in 2006 from higher yields for tax-exempt securities purchased during 2006. Investments in FRB and FHLB stock increased to \$39.4 million in 2006 from \$37.7 million in 2005. 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 increased from 5.05% in 2005 to 5.26% in 2006. In 2003, the FHLB disclosed it had capital concerns and credit issues in their investment security portfolio. As a result of these issues, the FHLB reduced their dividend rate in 2005 and increased the rate back to normal in 2006.

## DEPOSITS

Average interest bearing deposits increased \$438.2 million during 2006 compared to 2005. The increase resulted primarily from increases in time deposits and money market deposits, partially offset by a decrease in savings deposits. Average time deposits increased \$317.1 million or 26.0% during 2006 when compared to 2005. The increase in average time deposits resulted primarily from increases in retail and municipal and negotiated rate time deposits. In addition, the acquisition of CNB contributed approximately \$129.3 million in time deposits. Average money market deposits increased \$144.3 million or 36.2% during 2006 when compared to 2005. The increase in average money market deposits resulted primarily from an increase in personal money market deposits, as well as the acquisition of CNB which contributed approximately \$52.3 million to money market deposits. The average balance of savings and NOW accounts decreased collectively \$23.2 million or 2.3% during 2006 when compared to 2005. The decrease in savings and NOW accounts was driven primarily from municipal customers shifting their funds into higher paying money market and time deposits in 2006. As a result of the flat/inverted yield curve, money market accounts and time deposits repriced in a higher interest rate environment. The average balance of demand deposits increased \$71.0 million, or 13.1%, from \$543.1 million in 2005 to \$614.1 million in 2006. Solid growth in demand deposits was driven principally by increases in accounts from retail and business customers, in large part due to the acquisition of CNB which contributed approximately \$48.0 million to demand deposits.

The rate paid on average interest-bearing deposits increased 96 bp from 1.91% during 2005 to 2.87% in 2006. The increase in rate on interest-bearing deposits was driven primarily by pricing increases from money market accounts and time deposits. These deposit products are more sensitive to interest rate changes. The pricing increases for these products resulted from several increases in short-term rates by the FRB during 2006 combined with competitive pricing for market competitors. The rates paid for NOW accounts increased from 0.52% in 2005 to 0.74% in 2006, while rates paid for savings deposits increased from 0.71% in 2005 to 0.86% in 2006.

## BORROWINGS

Average short-term borrowings decreased \$22.4 million to \$331.3 million in 2006 as a result of the balance sheet changes due to the acquisition of CNB. The average rate paid on short-term borrowings increased from 3.11% in 2005 to 4.66% in 2006, which was primarily driven by the Federal Reserve Bank increasing the Fed Funds target rate (which directly impacts short-term borrowing rates) 100 bp in 2006 and 200 bp in 2005. The increases in the average rate paid caused interest expense on short-term borrowings to increase \$4.5 million from \$11.0 million in 2005 to \$15.4 million in 2006. Average long-term debt increased slightly from \$410.9 million in 2005 to \$415.0 million in 2006.

## NONINTEREST INCOME

Noninterest income for the year ended December 31, 2006 was \$48.6 million, up \$6.1 million or 14.3% from \$42.5 million for the same period in 2005. Fees from service charges on deposit accounts and ATM and debit cards collectively increased \$1.6 million from solid growth in demand deposit accounts and debit card base. Retirement plan administration fees for the year ended December 31, 2006 increased \$1.1 million, compared with the same period in 2005, as a result of our growing client base. Trust administration income increased \$0.6 million for the year ended December 31, 2006, compared with the same period in 2005. This increase stems from the increased market value of accounts, an increase in customer accounts as a result of the acquisition of CNB and successful business development. Broker/dealer and insurance revenue for the year ended December 31, 2006 increased \$0.8 million in large part due to the growth in brokerage income from retail financial services as well as the addition of Hathaway Agency as part of the acquisition of CNB. Other noninterest income for the year ended December 31, 2006 increased \$1.4 million, compared with the same period in 2005, as a result of a gain on the sale of a branch, an increase in title insurance revenue, and an increase in interest income earned from our payment services vendor. Net securities losses for the year ended December 31, 2006 were \$0.9 million, compared with net securities losses of \$1.2 million for the year ended December 31, 2005. Excluding the effect of these securities transactions, noninterest income increased \$5.7 million, or 13.1%, for the year ended December 31, 2006, compared with the same period in 2005.

## **NONINTEREST EXPENSE**

Noninterest expense for the year ended December 31, 2006 was \$123.0 million, up from \$115.3 million for the same period in 2005. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges, increased by \$2.1 million for the year ended December 31, 2006, compared with the same period in 2005. This 6.2% increase resulted primarily from the acquisition of CNB. Salaries and employee benefits increased \$2.9 million for the year ended December 31, 2006 over the same period in 2005. This increase was due primarily to the adoption of FAS 123R in 2006, which contributed \$1.8 million to the increase in salaries and employee benefits, as well as higher salaries from merit increases and the acquisition of CNB. Professional fees and services increased \$1.7 million for the year ended December 31, 2006, compared with the same period in 2005. Legal fees incurred in 2006 increased over 2005 because the Company was reimbursed during the second quarter of 2005 for legal fees associated with a prior litigation. Item processing fees during the year ended December 31, 2006 increased over the same period in 2005 because the Company outsourced a portion of its item processing work as a result of flood-related damage to one of its processing centers. Amortization expense increased \$1.1 million for the year ended December 31, 2006 over the same period in 2005. This increase was due primarily to the acquisition of CNB. Loan collection and other real estate owned expenses increased \$0.3 million for the year ended December 31, 2006 over the same period in 2005. This increase was due primarily to an increase in the number of foreclosures in 2006 as compared to 2005. Other operating expense for the year ended December 31, 2006 decreased \$0.4 million compared with the same period in 2005, primarily due to flood-related insurance recoveries.

## **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 or are immaterial to the results of operations.

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

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

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

The primary tool utilized by ALCO to manage interest rate risk is a balance sheet/income statement simulation model (interest rate sensitivity analysis). Information such as principal balance, interest rate, maturity date, cash flows, next repricing date (if needed), and current rates is uploaded into the model to create an ending balance sheet. In addition, ALCO makes certain assumptions regarding prepayment speeds for loans and leases and mortgage related investment securities along with any optionality within the deposits and borrowings. The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Two additional models are run in which a gradual increase of 200 bp and a gradual decrease of 200 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 slightly faster than earning assets. However, the inability to effectively lower deposit rates will likely reduce or eliminate the otherwise normal expected benefit of lower interest rates. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. The potential impact on earnings is dependent on the ability to lag deposit repricing. Net interest income for the next twelve months in the +200/-200 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, 2007 balance sheet position:

**Table 10. Interest Rate Sensitivity Analysis**

Change in interest rates (In basis points)	Percent change in net interest income
+200	(3.97%)
-200	0.30%

Under the flat rate scenario with a static balance sheet, net interest income is anticipated to decrease approximately 1.7% from total net interest income for 2007. The Company anticipates under current conditions, interest expense is expected to increase at a faster rate than interest income as the Company is somewhat liability sensitive. 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, 2007, the Company expects net interest income to decline in 2008.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
NBT Bancorp Inc.:

We have audited the accompanying consolidated balance sheets of NBT Bancorp Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, 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, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NBT Bancorp Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG LLP

Albany, New York  
February 28, 2008

**Consolidated Balance Sheets**

(In thousands, except share and per share data)	As of December 31,	
	2007	2006
<b>Assets</b>		
Cash and due from banks	\$ 155,495	\$ 130,936
Short-term interest bearing accounts	7,451	7,857
Securities available for sale, at fair value	1,140,114	1,106,322
Securities held to maturity (fair value \$149,519 and \$136,287)	149,111	136,314
Federal Reserve and Federal Home Loan Bank stock	38,102	38,812
Loans and leases	3,455,851	3,412,654
Less allowance for loan and lease losses	54,183	50,587
Net loans and leases	3,401,668	3,362,067
Premises and equipment, net	64,042	66,982
Goodwill	103,398	103,356
Intangible assets, net	10,173	11,984
Bank owned life insurance	43,614	41,783
Other assets	88,608	81,159
Total assets	\$ 5,201,776	\$ 5,087,572
<b>Liabilities</b>		
Demand (noninterest bearing)	\$ 666,698	\$ 646,377
Savings, NOW, and money market	1,614,289	1,566,557
Time	1,591,106	1,583,304
Total deposits	3,872,093	3,796,238
Short-term borrowings	368,467	345,408
Long-term debt	424,887	417,728
Trust preferred debentures	75,422	75,422
Other liabilities	63,607	48,959
Total liabilities	4,804,476	4,683,755
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value; authorized 2,500,000 shares at December 31, 2007 and 2006.	-	-
Common stock, \$0.01 par value. Authorized 50,000,000 shares at December 31, 2007 and 2006; issued 36,459,421 and 36,459,491 at December 31, 2007 and 2006, respectively	365	365
Additional paid-in-capital	273,275	271,528
Retained earnings	215,031	191,770
Accumulated other comprehensive loss	(3,575)	(14,014)
Common stock in treasury, at cost, 4,133,328 and 2,203,549 shares	(87,796)	(45,832)
Total stockholders' equity	397,300	403,817
Total liabilities and stockholders' equity	\$ 5,201,776	\$ 5,087,572

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Income**

<i>(In thousands, except per share data)</i>	Years ended December 31,		
	2007	2006	2005
<b>Interest, fee, and dividend income</b>			
Interest and fees on loans and leases	\$ 242,497	\$ 230,042	\$ 189,714
Securities available for sale	54,847	51,599	41,120
Securities held to maturity	5,898	4,730	3,407
Other	2,875	2,471	2,126
Total interest, fee, and dividend income	306,117	288,842	236,367
<b>Interest expense</b>			
Deposits	106,574	87,798	49,932
Short-term borrowings	12,943	15,448	10,984
Long-term debt	16,486	17,063	16,114
Trust preferred debentures	5,087	4,700	1,226
Total interest expense	141,090	125,009	78,256
Net interest income	165,027	163,833	158,111
Provision for loan and lease losses	30,094	9,395	9,464
Net interest income after provision for loan and lease losses	134,933	154,438	148,647
<b>Noninterest income</b>			
Service charges on deposit accounts	22,742	17,590	16,894
Broker/ dealer and insurance revenue	4,255	3,936	3,186
Trust	6,514	5,629	5,029
Net securities gains (losses)	2,113	(875)	(1,236)
Bank owned life insurance	1,831	1,629	1,347
ATM Fees	8,185	7,086	6,162
Retirement plan administration fees	6,336	5,536	4,426
Other	7,723	8,098	6,741
Total noninterest income	59,699	48,629	42,549
<b>Noninterest expense</b>			
Salaries and employee benefits	59,516	62,877	60,005
Occupancy	11,630	11,518	10,452
Equipment	7,422	8,332	8,118
Data processing and communications	11,400	10,454	10,349
Professional fees and outside services	9,135	7,761	6,087
Office supplies and postage	5,120	5,330	4,628
Amortization of intangible assets	1,645	1,649	544
Loan collection and other real estate owned	1,633	1,351	1,002
Other	15,016	13,694	14,120
Total noninterest expense	122,517	122,966	115,305
Income before income tax expense	72,115	80,101	75,891
Income tax expense	21,787	24,154	23,453
Net income	\$ 50,328	\$ 55,947	\$ 52,438
<b>Earnings per share</b>			
Basic	\$ 1.52	\$ 1.65	\$ 1.62
Diluted	1.51	1.64	1.60

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2007, 2006, and 2005 <i>(In thousands except share and per share data)</i>	Common stock	Additional Paid-in- capital	Retained earnings	Unvested Restricted Stock	Accumulated other comprehensive (loss)/ income	Common stock in treasury	Total
<b>Balance at December 31, 2004</b>	\$ 344	\$ 218,012	\$ 137,323	\$ (296)	\$ 4,989	\$ (28,139)	\$ 332,233
Net income	-	-	52,438	-	-	-	52,438
Cash dividends- \$0.76 per share	-	-	(24,673)	-	-	-	(24,673)
Purchase of 1,008,114 treasury shares	-	-	-	-	-	(23,165)	(23,165)
Net issuance of 415,976 shares to employee benefit plans and other stock plans, including excess tax benefit	-	1,292	(1,099)	-	-	8,025	8,218
Grant of 35,003 shares of restricted stock awards	-	(147)	-	(519)	-	666	-
Amortization of restricted stock awards	-	-	-	358	-	-	358
Other comprehensive loss	-	-	-	-	(11,466)	-	(11,466)
<b>Balance at December 31, 2005</b>	\$ 344	\$ 219,157	\$ 163,989	\$ (457)	\$ (6,477)	\$ (42,613)	\$ 333,943
Net income	-	-	55,947	-	-	-	55,947
Cash dividends- \$0.76 per share	-	-	(26,018)	-	-	-	(26,018)
Purchase of 766,004 treasury shares	-	-	-	-	-	(17,111)	(17,111)
Issuance of 2,058,661 shares of common stock in connection with purchase business combination	21	48,604	-	-	-	-	48,625
Issuance of 237,278 incentive stock options in purchase transaction	-	1,955	-	-	-	-	1,955
Acquisition of 2,500 shares of company stock in purchase transaction	-	-	-	-	-	(55)	(55)
Net issuance of 595,447 shares to employee benefit plans and other stock plans, including excess tax benefit	-	1,244	(2,148)	-	-	12,508	11,604
Reclassification adjustment from the adoption of FAS123R	-	(457)	-	457	-	-	-
Stock-based compensation expense	-	2,509	-	-	-	-	2,509
Grant of 73,515 shares of restricted stock awards	-	(1,499)	-	-	-	1,499	-
Forfeit 2,625 shares of restricted stock	-	15	-	-	-	(60)	(45)
Other comprehensive loss	-	-	-	-	84	-	84
Adjustment to initially apply SFAS No. 158, net of tax	-	-	-	-	(7,621)	-	(7,621)
<b>Balance at December 31, 2006</b>	\$ 365	\$ 271,528	\$ 191,770	\$ -	\$ (14,014)	\$ (45,832)	\$ 403,817
Net income	-	-	50,328	-	-	-	50,328
Cash dividends - \$0.79 per share	-	-	(26,226)	-	-	-	(26,226)
Purchase of 2,261,267 treasury shares	-	-	-	-	-	(48,957)	(48,957)
Net issuance of 254,929 shares to employee benefit plans and other stock plans, including excess tax benefit	-	383	(841)	-	-	5,526	5,068
Stock-based compensation	-	2,831	-	-	-	-	2,831
Grant of 76,559 shares of restricted stock awards	-	(1,467)	-	-	-	1,467	-
Other comprehensive income	-	-	-	-	10,439	-	10,439
<b>Balance at December 31, 2007</b>	\$ 365	\$ 273,275	\$ 215,031	\$ -	\$ (3,575)	\$ (87,796)	\$ 397,300

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
<b>Operating activities</b>			
Net income	\$ 50,328	\$ 55,947	\$ 52,438
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Provision for loan and lease losses	30,094	9,395	9,464
Depreciation and amortization of premises and equipment	5,295	6,074	6,296
Net accretion on securities	105	178	1,362
Amortization of intangible assets	1,645	1,649	544
Stock based compensation	2,831	2,509	358
Bank owned life insurance income	(1,831)	(1,629)	(1,347)
Deferred income tax expense	2,244	9,767	743
Proceeds from sale of loans held for sale	30,427	36,407	24,690
Originations and purchases of loans held for sale	(31,086)	(33,601)	(27,674)
Net gains on sales of loans held for sale	(112)	(85)	(55)
Net security losses (gains)	(2,113)	875	1,236
Net gain on sales of other real estate owned	(442)	(374)	(351)
Net gain on sale of branch	-	(470)	-
Tax benefit from exercise of stock options	-	-	1,057
Net (increase) decrease in other assets	(8,393)	(18,800)	1,803
Net (decrease) increase in other liabilities	6,848	(2,325)	(5,506)
Net cash provided by operating activities	85,840	65,517	65,058
<b>Investing activities</b>			
Cash paid for the acquisition of EPIC Advisors, Inc.	-	-	(6,129)
Net cash paid for sale of branch	-	(2,307)	-
Cash received for the sale of M. Griffith Inc.	-	-	1,016
Net cash used in CNB Bancorp, Inc. merger	-	(21,223)	-
<b>Securities available for sale:</b>			
Proceeds from maturities, calls, and principal paydowns	233,312	217,232	173,460
Proceeds from sales	55,758	42,292	53,044
Purchases	(303,465)	(265,052)	(250,003)
<b>Securities held to maturity:</b>			
Proceeds from maturities, calls, and principal paydowns	70,234	45,990	44,624
Purchases	(83,186)	(80,485)	(56,654)
Net increase in loans	(70,061)	(211,280)	(156,998)
Net decrease (increase) in Federal Reserve and FHLB stock	710	1,447	(3,417)
Purchases of premises and equipment, net	(2,355)	(4,176)	(6,055)
Proceeds from sales of other real estate owned	1,408	1,028	1,022
Net cash used in investing activities	(97,645)	(276,534)	(206,090)
<b>Financing activities</b>			
Net increase in deposits	75,855	307,033	86,358
Net increase (decrease) in short-term borrowings	23,059	(99,569)	106,154
Proceeds from issuance of long-term debt	150,000	95,000	60,000
Repayments of long-term debt	(142,841)	(114,157)	(40,193)
Proceeds from the issuance of trust preferred debentures	-	51,547	5,155
Excess tax benefit from exercise of stock options	715	466	-
Proceeds from the issuance of shares to employee benefit plans and other stock plans	4,353	10,131	7,161
Purchase of treasury stock	(48,957)	(17,111)	(23,165)
Cash dividends and payment for fractional shares	(26,226)	(26,018)	(24,673)
Net cash provided by financing activities	35,958	207,322	176,797
Net increase (decrease) in cash and cash equivalents	24,153	(3,695)	35,765
Cash and cash equivalents at beginning of year	138,793	142,488	106,723
Cash and cash equivalents at end of year	\$ 162,946	\$ 138,793	\$ 142,488

**Supplemental disclosure of cash flow information**

**Cash paid during the year for:**

Interest	\$	<b>138,791</b>	\$	121,447	\$	76,563
Income taxes		<b>18,007</b>		19,914		23,582
<b>Noncash investing activities:</b>						
Loans transferred to other real estate owned	\$	<b>1,137</b>	\$	778	\$	360
Adjustment to initially apply SFAS No. 158, net of tax		-		(7,621)		-
<b>Dispositions:</b>						
Fair value of assets sold	\$	-	\$	3,453	\$	1,405
Fair value of liabilities transferred		-		5,760		389
<b>Acquisitions:</b>						
Fair value of assets acquired	\$	-	\$	422,097	\$	6,565
Goodwill and identifiable intangible assets recognized in purchase combination		-		65,637		-
Fair value of liabilities assumed		-		360,648		435
Fair value of equity issued in purchase combination		-		50,525		-

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Comprehensive Income**

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
Net income	\$ <b>50,328</b>	\$ 55,947	\$ 52,438
Other comprehensive income (loss), net of tax			
Unrealized net holding gains (losses) arising during the year (pre-tax amounts of \$19,347, \$(737), and \$(20,308))	<b>11,618</b>	(442)	(12,209)
Less reclassification adjustment for net (gains) losses related to securities available for sale included in net income (pre-tax amounts of \$(2,113), \$875, and \$1,236)	<b>(1,270)</b>	526	743
Amortization of unrecognized actuarial amounts (pre-tax amounts of \$481, \$0 and \$0)	<b>288</b>	-	-
Increase in unrecognized actuarial amounts (pre-tax amounts of \$(326), \$0 and \$0)	<b>(197)</b>	-	-
Total other comprehensive income (loss)	<b>10,439</b>	84	(11,466)
Comprehensive income	\$ <b>60,767</b>	\$ 56,031	\$ 40,972

See accompanying notes to consolidated financial statements

NBT BANCORP INC. AND SUBSIDIARIES:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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 mentioned above. All material intercompany transactions have been eliminated in consolidation. Amounts previously reported in the consolidated financial statements are reclassified whenever necessary to conform to the current year’s presentation. In the “Parent Company Financial Information,” the investment in subsidiaries is carried under the equity method of accounting.

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

## **SEGMENT REPORTING**

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

## **CASH EQUIVALENTS**

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

## **SECURITIES**

The Company classifies its securities at date of purchase as either available for sale, held to maturity, or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Held to maturity securities are stated at amortized cost. Securities bought and held for the purpose of selling in the near term are classified as trading. Trading securities are recorded at fair value, with net unrealized gains and losses recognized currently in income. Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity as a component of accumulated other comprehensive income or loss. Transfers of securities between categories are recorded at fair value at the date of transfer. A decline in the fair value of any available for sale or held to maturity security below cost that is deemed other-than-temporary is charged to earnings resulting in the establishment of a new cost basis for the security. Securities with other-than-temporary impairment are generally placed on non-accrual status.

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

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

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

## **LOANS AND LEASES**

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

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

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 and lease losses and any subsequent valuation write-downs are charged to other expense. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the minimum down payment requirements prescribed by GAAP.

## **GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets that have finite useful lives, such as core deposit intangibles, continue to be amortized over their useful lives. Core deposit intangibles at the Company are generally amortized over 7 to 25 years using the straight-line methods for all periods presented.

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

## **TREASURY STOCK**

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

## **INCOME TAXES**

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

## **STOCK-BASED COMPENSATION**

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share-Based Payment”, (“SFAS No. 123R”) using the modified-prospective transition method. Under this transition method, compensation cost in 2006 and 2007 includes costs for stock options granted prior to but not vested as of December 31, 2005, and options vested in 2006 and 2007. Therefore, results for prior periods have not been restated.

Previous to the adoption of SFAS No. 123R, the Company accounted 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 allowed 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 elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures of SFAS No. 123.

## **STANDBY LETTERS OF CREDIT**

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

## **LOAN SALES AND LOAN SERVICING**

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

## **REPURCHASE AGREEMENTS**

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

## **EARNINGS PER SHARE**

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

## **OTHER FINANCIAL INSTRUMENTS**

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

## **COMPREHENSIVE INCOME**

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

## **PENSION COSTS**

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

Effective December 31, 2006, the Company adopted SFAS No. 158, *Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which requires the Company to recognize the overfunded or underfunded status of a single employer defined benefit postretirement plan as an asset or liability on its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the change occurred. However, gains or losses, prior service costs or credits, and transition assets or obligations that have not been included in net periodic benefit cost as of the end of 2006, the fiscal year in which SFAS No. 158 is initially applied, are to be recognized as components of the ending balance of accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive loss for the adoption of SFAS No. 158 was \$7.6 million at December 31, 2006.

## **TRUST**

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

## **RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

In November 2007, the Securities and Exchange Commission, or SEC, issued Staff Accounting Bulletin, or SAB No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings." SAB No. 109 provides views on the accounting for written loan commitments recorded at fair value under GAAP. SAB No. 109 supersedes SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, SAB No. 109 states that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB No. 109 are applicable on a prospective basis to written loan commitments recorded at fair value under GAAP that are issued or modified in fiscal quarters beginning after December 15, 2007. SAB No. 109 is not expected to have a material impact on our financial condition or results of operations.

In June 2007, the FASB ratified a consensus reached by the EITF on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards," which clarifies the accounting for income tax benefits related to the payment of dividends on equity-classified employee share-based payment awards that are charged to retained earnings under SFAS No. 123(R). The EITF concluded that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units and outstanding equity share options should be recognized as an increase to additional paid-in capital. EITF Issue No. 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Retrospective application to previously issued financial statements is prohibited. EITF Issue No. 06-11 is not expected to have a material impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. At the effective date, an entity may elect the fair value option for eligible items that exist at that date and report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. Subsequent to the effective date, unrealized gains and losses on items for which the fair value option has been elected are to be reported in earnings. If the fair value option is elected for any available-for-sale or held-to-maturity securities at the effective date, cumulative unrealized gains and losses at that date are included in the cumulative-effect adjustment and those securities are to be reported as trading securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," but the accounting for a transfer to the trading category under SFAS No. 115 does not apply. Electing the fair value option for an existing held-to-maturity security will not call into question the intent of an entity to hold other debt securities to maturity in the future. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption was permitted; however, we did not elect early adoption and therefore adopted the standard as of January 1, 2008. Upon adoption, we did not elect the fair value option for eligible items that existed at January 1, 2008.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The expanded disclosures include a requirement to disclose fair value measurements according to a hierarchy, segregating measurements using (1) quoted prices in active markets for identical assets and liabilities, (2) significant other observable inputs and (3) significant unobservable inputs. SFAS No. 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. SFAS No. 157 was issued to increase consistency and comparability in reporting fair values. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions are to be applied prospectively as of the beginning of the fiscal year in which the statement is initially applied, with certain exceptions. A transition adjustment, measured as the difference between the carrying amounts and the fair values of certain specific financial instruments at the date SFAS No. 157 is initially applied, is to be recognized as a cumulative-effect adjustment to the opening balance of retained earnings for the fiscal year in which SFAS No. 157 is initially applied. SFAS No. 157 will affect certain of our fair value disclosures, but is not expected to have a material impact on our financial condition or results of operations. The portion of our assets and liabilities with fair values based on unobservable inputs is not significant.

## (2) MERGER AND ACQUISITION ACTIVITY

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On February 10, 2006, the Company acquired CNB Bancorp, Inc. ("CNB"), a bank holding company headquartered in Gloversville, New York. The acquisition was accomplished by merging CNB with and into the Company (the "Merger"). By virtue of this acquisition, CNB's banking subsidiary, City National Bank and Trust Company was merged with and into NBT Bank, N.A. City National Bank and Trust Company operated 9 full-service community banking offices – located in Fulton, Hamilton, Montgomery and Saratoga counties, with approximately \$400 million in assets. The Merger increased the Company's assets to approximately \$4.9 billion.

In connection with the Merger, the Company issued an aggregate of 2.1 million shares of Company common stock and \$39 million in cash to the former holders of CNB common stock. In connection with acquisition of CNB, the Company formed NBT Statutory Trust II in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. The Company raised \$51.5 million through NBT Statutory Trust II in February 2006.

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

Based on the \$22.42 per share closing price of the Company's common stock on February 10, 2006, the transaction is valued at approximately \$88 million.

### (3) EARNINGS PER SHARE

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

	Years ended December 31,								
	2007			2006			2005		
	Net	Weighted	Per share	Net	Weighted	Per share	Net	Weighted	Per share
<i>(In thousands, except per share data)</i>	income	average shares	amount	income	shares	amount	income	shares	amount
Basic earnings per share	\$ 50,328	33,165	\$ 1.52	\$ 55,947	33,886	\$ 1.65	\$ 52,438	32,437	\$ 1.62
<b><i>Effect of dilutive securities</i></b>									
Stock based compensation		256			320			273	
Diluted earnings per share	\$ 50,328	33,421	\$ 1.51	\$ 55,947	34,206	\$ 1.64	\$ 52,438	32,710	\$ 1.60

There were approximately 628,000, 356,000, and 386,000 weighted average stock options for the years ended December 31, 2007, 2006, and 2005, 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 19, 2007 was \$22.0 million.

**(5) SECURITIES**

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

<i>(In thousands)</i>	<b>Amortized cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>
<b>December 31, 2007</b>				
U.S. Treasury	\$ 10,042	\$ 35	\$ -	\$ 10,077
Federal Agency	322,723	4,352	28	327,047
State & municipal	112,647	2,122	108	114,661
Mortgage-backed	381,585	1,195	4,473	378,307
Collateralized mortgage obligations	288,222	2,496	1,103	289,615
Corporate	1,186	27	-	1,213
Other securities	16,601	2,744	151	19,194
Total securities available for sale	<b>\$ 1,133,006</b>	<b>\$ 12,971</b>	<b>\$ 5,863</b>	<b>\$ 1,140,114</b>
<b>December 31, 2006</b>				
U.S. Treasury	\$ 10,516	\$ -	\$ 29	\$ 10,487
Federal Agency	343,529	550	2,366	341,713
State & municipal	99,724	2,099	122	101,701
Mortgage-backed	400,549	628	11,136	390,041
Collateralized mortgage obligations	241,984	198	3,412	238,770
Corporate	1,285	106	-	1,391
Other securities	18,861	3,428	70	22,219
Total securities available for sale	<b>\$ 1,116,448</b>	<b>\$ 7,009</b>	<b>\$ 17,135</b>	<b>\$ 1,106,322</b>

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

In the available for sale category at December 31, 2006, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; Mortgaged-backed securities were comprised of GSEs with an amortized cost of \$352.0 million and a fair value of \$341.8 million and US Government Agency securities with an amortized cost of \$48.5 million and a fair value of \$48.2 million; Collateralized mortgage obligations were comprised of GSEs with an amortized cost of \$164.8 million and a fair value of \$163.0 million and US Government Agency securities with an amortized cost of \$77.1 million and a fair value of \$75.8 million.

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 sales transactions of securities available for sale:

<i>(In thousands)</i>	Years ended December 31		
	2007	2006	2005
Proceeds from sales	\$ 55,758	\$ 42,292	\$ 53,044
Gross realized gains	\$ 2,248	\$ 618	\$ 816
Gross realized losses	(135)	(1,493)	(2,052)
Net securities gains (losses)	\$ 2,113	\$ (875)	\$ (1,236)

At December 31, 2007 and 2006, securities available for sale with amortized costs totaling \$962.9 million and \$951.4 million, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2007, securities available for sale with an amortized cost of \$160.3 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:

<i>(In thousands)</i>	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
<b>December 31, 2007</b>				
Mortgage-backed	\$ 2,810	\$ 99	\$ -	\$ 2,909
State & municipal	145,458	439	130	145,767
Other securities	843	-	-	843
Total securities held to maturity	\$ 149,111	\$ 538	\$ 130	\$ 149,519
<b>December 31, 2006</b>				
Mortgage-backed	\$ 3,434	\$ 63	\$ -	\$ 3,497
State & municipal	132,213	345	435	132,123
Other securities	667	-	-	667
Total securities held to maturity	\$ 136,314	\$ 408	\$ 435	\$ 136,287

At December 31, 2007, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2007 and 2006, segregated according to the length of time the securities had been in a continuous unrealized loss position:

Security Type:	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
<b>December 31, 2007</b>						
U.S. Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency	24,972	(28)	4,999	-	29,971	(28)
State & municipal	3,410	(5)	30,016	(233)	33,426	(238)
Mortgage-backed	1,547	(4)	267,871	(4,469)	269,418	(4,473)
Collateralized mortgage obligations	-	-	65,737	(1,103)	65,737	(1,103)
Other securities	-	-	1,036	(151)	1,036	(151)
Total securities with unrealized losses	\$ 29,929	\$ (37)	\$ 369,659	\$ (5,956)	\$ 399,588	\$ (5,993)
<b>December 31, 2006</b>						
U.S. Treasury	\$ 5,464	\$ (28)	\$ 57	\$ (1)	\$ 5,521	\$ (29)
Federal agency	49,149	(183)	239,979	(2,182)	289,128	(2,365)
State & municipal	2,870	(8)	47,853	(549)	50,723	(557)
Mortgage-backed	81	-	338,008	(11,136)	338,089	(11,136)
Collateralized mortgage obligations	32	-	189,318	(3,413)	189,350	(3,413)
Other securities	-	-	484	(70)	484	(70)
Total securities with unrealized losses	\$ 57,596	\$ (219)	\$ 815,699	\$ (17,351)	\$ 873,295	\$ (17,570)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time it is believed the Company will receive full value for the securities. Furthermore, as of December 31, 2007, management also had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost, which may be until maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2007, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated statements of income.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2007:

<i>(In thousands)</i>	Amortized cost	Estimated fair value
<b><i>Debt securities classified as available for sale</i></b>		
Within one year	\$ 71,200	\$ 71,280
From one to five years	216,581	218,344
From five to ten years	222,645	226,489
After ten years	605,979	604,807
	<u>\$ 1,116,405</u>	<u>\$ 1,120,920</u>
<b><i>Debt securities classified as held to maturity</i></b>		
Within one year	\$ 75,147	\$ 75,144
From one to five years	35,558	35,583
From five to ten years	26,400	26,571
After ten years	12,006	12,221
	<u>\$ 149,111</u>	<u>\$ 149,519</u>

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, 2007 and 2006.

**(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:

<i>(In thousands)</i>	At December 31,	
	2007	2006
Residential real estate mortgages	\$ 719,182	\$ 739,607
Commercial	621,820	658,647
Commercial real estate mortgages	593,077	581,736
Real estate construction and development	81,350	94,494
Agricultural and agricultural real estate mortgages	116,190	118,278
Consumer	655,375	586,922
Home equity	582,731	546,719
Lease financing	86,126	86,251
Total loans and leases	<u>\$ 3,455,851</u>	<u>\$ 3,412,654</u>

Included in the above loans and leases are net deferred loan origination costs totaling \$3.3 million and \$2.3 million at December 31, 2007 and December 31, 2006, respectively. Also included is unearned income of \$7.4 million and \$7.5 million at December 31, 2007 and 2006, respectively. Loans held for sale were \$1.2 million and \$1.8 million at December 31, 2007 and 2006, respectively and are included in residential real estate mortgages.

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

Changes in the allowance for loan and lease losses for the three years ended December 31, 2007, are summarized as follows:

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
Balance at January 1	\$ 50,587	\$ 47,455	\$ 44,932
Allowance from purchase transaction	-	2,410	-
Provision	30,094	9,395	9,464
Recoveries	4,745	4,699	4,078
Charge-offs	(31,243)	(13,372)	(11,019)
Balance at December 31	\$ 54,183	\$ 50,587	\$ 47,455

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

<i>(In thousands)</i>	At December 31,		
	2007	2006	2005
Loans in nonaccrual status	\$ 29,697	\$ 13,665	\$ 13,419
Loans contractually past due 90 days or more and still accruing interest	882	1,642	878
Total nonperforming loans	\$ 30,579	\$ 15,307	\$ 14,297

There were no material commitments to extend further credit to borrowers with nonperforming loans. Within nonaccrual loans, there are approximately \$4.9 million of troubled debt restructured loans at December 31, 2007.

Accumulated interest on the above nonaccrual loans of approximately \$0.8 million, \$0.7 million, and \$0.7 million would have been recognized as income in 2007, 2006, and 2005, respectively, had these loans been in accrual status. Approximately \$1.0 million, \$0.8 million, and \$0.7 million of interest on the above nonaccrual loans was collected in 2007, 2006, and 2005, respectively.

Impaired loans consist primarily of large, nonaccrual commercial, commercial real estate, agricultural, and agricultural real estate loans. Impaired loans totaled \$25.4 million at December 31, 2007 and \$9.3 million at December 31, 2006. At December 31, 2007, \$12.7 million of the impaired loans had a specific reserve allocation of \$5.1 million and \$12.7 million of the impaired loans had no specific reserve allocation. At December 31, 2006, \$1.0 million of the impaired loans had a specific reserve allocation of \$0.2 million and \$8.3 million of the impaired loans reviewed had no specific reserve allocation.

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

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
Average recorded investment on impaired loans	\$ 20,984	\$ 9,644	\$ 9,908
Interest income recognized on impaired loans	559	384	207
Cash basis interest income recognized on impaired loans	559	384	207

There was significant disruption and volatility in the financial and capital markets during the second half of 2007. Turmoil in the mortgage market adversely impacted both domestic and global markets, and led to a significant credit and liquidity crisis in many domestic markets. These market conditions were attributable to a variety of factors, in particular the fallout associated with subprime mortgage loans (a type of lending we have never actively pursued). The disruption has been exacerbated by the continued decline of the real estate and housing market. While we continue to adhere to prudent underwriting standards, as a lender we may be adversely impacted by general economic weaknesses and, in particular, a sharp downturn in the housing market nationally. Decreases in real estate values could adversely affect the value of property used as collateral for our loans. Adverse changes in the economy may have a negative effect on the ability of our borrowers to make timely loan payments, which would have an adverse impact on our earnings. A further increase in loan delinquencies would decrease our net interest income and adversely impact our loan loss experience, causing increases in our provision and allowance for loan and lease losses.

**(7) RELATED PARTY TRANSACTIONS**

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

<i>(In thousands)</i>	2007	2006
Balance at January 1	\$ 15,905	\$ 15,906
New loans	2,686	11,274
Adjustment due to change in composition of related parties	130	(6,233)
Repayments	(2,315)	(5,042)
Balance at December 31	<u>\$ 16,406</u>	<u>\$ 15,905</u>

**(8) PREMISES AND EQUIPMENT, NET**

A summary of premises and equipment follows:

<i>(In thousands)</i>	December 31,	
	2007	2006
Land, buildings, and improvements	\$ 85,363	\$ 84,146
Equipment	65,925	64,465
Construction in progress	115	1,307
	<u>151,403</u>	<u>149,918</u>
Accumulated depreciation	87,361	82,936
Total premises and equipment	<u>\$ 64,042</u>	<u>\$ 66,982</u>

Land, buildings, and improvements with a carrying value of approximately \$3.3 million and \$3.5 million at December 31, 2007 and 2006, respectively, are pledged to secure long-term borrowings. Buildings and improvements are depreciated based on useful lives of 15 to 40 years. Equipment is depreciated based on useful lives of 3 to 10 years.

Rental expense included in occupancy expense amounted to \$3.5 million in 2007, \$3.2 million in 2006, and \$3.0 million in 2005. The future minimum rental payments related to noncancelable operating leases with original terms of one year or more are as follows at December 31, 2007 (in thousands):

Future Minimum Rental Payments

2008	3,606
2009	2,897
2010	2,544
2011	2,455
2012	2,054
Thereafter	18,369
<b>Total</b>	<b>31,925</b>

(9) GOODWILL AND OTHER INTANGIBLE ASSETS

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A summary of goodwill is as follows:

(in thousands)

January 1, 2006	\$	47,544
Goodwill Acquired		55,812
December 31, 2006		<u>103,356</u>
<b>January 1, 2007</b>		<b>103,356</b>
<b>Goodwill Adjustments</b>		<b>42</b>
<b>December 31, 2007</b>	<b>\$</b>	<b><u>103,398</u></b>

In February 2006, the Company acquired CNB. The acquisition resulted in increases to goodwill of \$55.8 million, core deposit intangibles of \$9.6 million and other intangibles of \$0.3 million. The core deposit intangibles will be amortized over ten years on an accelerated basis.

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

A summary of core deposit and other intangible assets follows:

(In thousands)	December 31,	
	2007	2006
<b>Core deposit intangibles</b>		
Gross carrying amount	\$ 11,806	\$ 11,826
Less: accumulated amortization	4,013	2,804
Net carrying amount	<u>7,793</u>	<u>9,022</u>
<b>Identified intangible assets</b>		
Gross carrying amount	3,752	3,533
Less: accumulated amortization	1,372	936
Net carrying amount	<u>2,380</u>	<u>2,597</u>
Intangibles that will not amortize	-	365
<b>Total intangibles with definite useful lives</b>		
Gross carrying amount	15,558	15,724
Less: accumulated amortization	5,385	3,740
Net carrying amount	<u>\$ 10,173</u>	<u>\$ 11,984</u>

Amortization expense on intangible assets with definite useful lives totaled \$1.6 million for 2007, \$1.6 million for 2006 and \$0.5 million for 2005. Amortization expense on intangible assets with definite useful lives is expected to total \$1.5 million for 2008, \$1.3 million for 2009, \$1.2 million for 2010, \$1.2 million for 2011, \$1.2 million for 2012 and \$3.8 million thereafter.

#### (10) DEPOSITS

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The following table sets forth the maturity distribution of time deposits at December 31, 2007 (in thousands):

<b>Time deposits</b>	
Within one year	\$ 1,291,719
After one but within two years	242,807
After two but within three years	34,372
After three but within four years	9,181
After four but within five years	8,397
After five years	4,630
Total	<u>\$ 1,591,106</u>

Time deposits of \$100,000 or more aggregated \$694.3 million and \$824.3 million at year end 2007 and 2006, respectively.

**(11) SHORT-TERM BORROWINGS**

Short-term borrowings total \$368.5 million and \$345.4 million at December 31, 2007 and 2006, 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 of approximately \$238 million and \$297 million at December 31, 2007 and 2006, respectively.

Included in the information provided above, the Company has two lines of credit available with the FHLB, which are automatically renewed on July 30<sup>th</sup> of each year. The first is an overnight line of credit for approximately \$100.0 million with interest based on existing market conditions. The second is a one-month overnight repricing line of credit for approximately \$100.0 million with interest based on existing market conditions. As of December 31, 2007, there was \$59.3 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:

<i>(In thousands)</i>	2007	2006	2005
<b><i>Federal funds purchased</i></b>			
Balance at year-end	\$ 149,250	\$ 100,000	\$ 145,000
Average during the year	98,872	76,550	84,845
Maximum month end balance	149,250	122,000	145,000
Weighted average rate during the year	5.14%	5.10%	3.55%
Weighted average rate at December 31	4.38%	5.36%	4.30%
<b><i>Securities sold under repurchase agreements</i></b>			
Balance at year-end	\$ 93,967	\$ 95,158	\$ 74,727
Average during the year	104,876	89,934	82,658
Maximum month end balance	117,337	103,921	91,409
Weighted average rate during the year	3.62%	3.32%	1.86%
Weighted average rate at December 31	3.56%	3.53%	2.82%
<b><i>Other short-term borrowings</i></b>			
Balance at year-end	\$ 125,250	\$ 150,250	\$ 225,250
Average during the year	76,414	164,771	186,141
Maximum month end balance	125,250	225,250	225,250
Weighted average rate during the year	5.32%	5.19%	3.46%
Weighted average rate at December 31	4.54%	5.44%	4.41%

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

(12) LONG-TERM DEBT

Long-term debt consists of obligations having an original maturity at issuance of more than one year. A majority of the Company's long-term debt is comprised of FHLB advances collateralized by the FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans. A summary as of December 31, 2007 and 2006 is as follows:

Maturity	As of December 31, 2007				As of December 31, 2006			
	Amount	Weighted Average Rate	Callable Amount	Weighted Average Rate	Amount	Weighted Average Rate	Callable Amount	Weighted Average Rate
2007	-	0.00%	-	-	93,700	4.35%	2,200	5.62%
2008	130,079	4.05%	25,000	5.38%	115,209	3.83%	35,000	5.29%
2009	40,000	5.47%	40,000	5.47%	75,000	5.25%	75,000	5.25%
2010	54,000	4.20%	29,000	3.35%	31,000	3.45%	31,000	3.45%
2011	1,921	4.92%	1,921	4.72%	3,815	5.00%	3,815	5.00%
2012	32	0.00%	-	-	39	0.00%	-	-
2013	25,000	3.21%	25,000	3.21%	25,000	3.21%	25,000	3.21%
2016	70,000	4.17%	70,000	4.17%	70,000	3.82%	70,000	3.82%
2017	100,000	3.89%	100,000	3.89%	-	0.00%	-	-
2025	3,855	2.75%	-	-	3,965	2.75%	-	-
	<u>\$ 424,887</u>		<u>\$ 290,921</u>		<u>\$ 417,728</u>		<u>\$ 242,015</u>	

(13) TRUST PREFERRED DEBENTURES

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

**CNBF Trust I**

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

**NBT Trust I**

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

## **NBT Trust II**

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

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

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

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

**(14) INCOME TAXES**

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

	Years ended December 31,		
	2007	2006	2005
<b>Current</b>			
Federal	\$ 19,020	\$ 13,655	\$ 22,125
State	523	732	585
	<b>19,543</b>	<b>14,387</b>	<b>22,710</b>
<b>Deferred</b>			
Federal	1,530	7,754	(177)
State	714	2,013	920
	<b>2,244</b>	<b>9,767</b>	<b>743</b>
Total income tax expense	<b>\$ 21,787</b>	<b>\$ 24,154</b>	<b>\$ 23,453</b>

Not included in the above table are changes in deferred tax assets and liabilities that were recorded to stockholders' equity of approximately (\$6.9 million), (\$6.5 million), and (\$8.8 million) for 2007, 2006, and 2005, respectively, relating to unrealized gain (loss) on available for sale securities, tax benefits recognized with respect to stock options exercised, and tax benefit related to pension funding.

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

<i>(In thousands)</i>	December 31,	
	2007	2006
<b>Deferred tax assets</b>		
Allowance for loan and lease losses	\$ 20,372	\$ 19,202
Deferred compensation	4,606	4,756
Postretirement benefit obligation	1,187	1,247
Writedowns on corporate debt securities	465	445
Accrued liabilities	1,534	2,258
New York State tax credit and net operating loss carryforward	196	527
Other	2,270	1,694
Total deferred tax assets	<b>30,630</b>	<b>30,129</b>
<b>Deferred tax liabilities</b>		
Pension and executive retirement	14,454	12,008
Premises and equipment, primarily due to accelerated depreciation	1,817	2,772
Equipment leasing	23,483	23,051
Deferred loan costs	1,315	1,033
Intangible amortization	7,997	7,381
Other	848	924
Total deferred tax liabilities	<b>49,914</b>	<b>47,169</b>
Net deferred tax liability at year-end	<b>(19,284)</b>	<b>(17,040)</b>
Net deferred tax liability at beginning of year	<b>(17,040)</b>	<b>(7,457)</b>
(Decrease) Increase in net deferred tax liability	<b>2,244</b>	<b>9,583</b>
Purchase accounting adjustment	-	184
Deferred tax expense	<b>\$ 2,244</b>	<b>\$ 9,767</b>

The above table does not include the recorded deferred tax liability of \$2.8 million as of December 31, 2007 and the deferred tax asset of \$4.0 million as of December 31, 2006 related to the net unrealized holding gain/loss in the available-for-sale securities portfolio. The table also excludes deferred tax assets of \$5.7 million and \$5.8 million related to pension and postretirement benefit funding as of December 31, 2007 and December 31, 2006, respectively. The changes in these deferred assets are recorded directly in stockholders equity.

The Company has a New York State mortgage recording tax credit carryforward of approximately \$0.3 million, which may be carried forward indefinitely.

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, 2007 and 2006.

The Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" on January 1, 2007 with no material impact to the financial statements.

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

*(In thousands)*

Balance at January 1	\$	2,563
Additions based on tax positions related to the current year		86
Additions for tax positions of prior years		258
Reduction for tax positions of prior years		(392)
Settlements		-
Balance at December 31	\$	2,515

Approximately \$1.8 million of the total amount of unrecognized tax benefits at December 31, 2007 would impact the annual effective tax rate, if recognized. The Company is currently under examination by New York State for tax years 2000 through 2004. It is likely that the examination phase of some of these audits will conclude in 2008, and it is reasonably possible a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time. The Company is no longer subject to U.S. Federal examination by tax authorities for years prior to 2006.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense. The total amount of accrued interest at January 1, 2007 and December 31, 2007 was approximately \$0.5 million and \$0.7 million (less the associated tax benefit), respectively. Net interest impacting the Company's 2007 tax expense is \$0.1 million.

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:

<i>(In thousands)</i>	Years ended December 31		
	2007	2006	2005
Federal income tax at statutory rate	\$ 25,229	\$ 28,035	\$ 26,562
Tax exempt income	(3,596)	(3,164)	(2,577)
Net increase in CSV of life insurance	(915)	(869)	(808)
State taxes, net of federal tax benefit	804	1,785	978
Other, net	265	(1,633)	(702)
Income tax expense	\$ 21,787	\$ 24,154	\$ 23,453

#### (15) 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, 2007, approximately \$33.4 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the State of Delaware Business Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

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

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

Components of accumulated other comprehensive loss are:

(In thousands)	As of December 31,	
	2007	2006
Unrecognized prior service cost and net actuarial loss on pension plans	\$ (7,846)	\$ (7,937)
Unrealized net holding gains on available for sale securities	4,271	(6,077)
Accumulated other comprehensive loss	\$ (3,575)	\$ (14,014)

## (16) REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and NBT Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2007 and 2006, 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, 2007, the most recent notification from NBT Bank's regulators categorized NBT Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized NBT Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 capital to average asset ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed NBT Bank's category.

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

<i>(Dollars in thousands)</i>	Actual		Regulatory ratio requirements	
	Amount	Ratio	Minimum capital adequacy	For classification as well capitalized
<b>As of December 31, 2007</b>				
<b>Total capital (to risk weighted assets):</b>				
Company combined	\$ 405,194	11.05%	8.00%	10.00%
NBT Bank	387,690	10.66%	8.00%	10.00%
<b>Tier I Capital (to risk weighted assets)</b>				
Company combined	359,241	9.79%	4.00%	6.00%
NBT Bank	342,102	9.40%	4.00%	6.00%
<b>Tier I Capital (to average assets)</b>				
Company combined	359,241	7.14%	4.00%	5.00%
NBT Bank	342,102	6.82%	4.00%	5.00%
<b>As of December 31, 2006</b>				
<b>Total capital (to risk weighted assets)</b>				
Company combined	\$ 419,433	11.67%	8.00%	10.00%
NBT Bank	397,252	11.09%	8.00%	10.00%
<b>Tier I Capital (to risk weighted assets)</b>				
Company combined	374,436	10.42%	4.00%	6.00%
NBT Bank	352,391	9.83%	4.00%	6.00%
<b>Tier I Capital (to average assets)</b>				
Company combined	374,436	7.57%	4.00%	5.00%
NBT Bank	352,391	7.16%	4.00%	5.00%

**(17) EMPLOYEE BENEFIT PLANS**

**DEFINED BENEFIT POSTRETIREMENT PLANS**

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at December 31, 2007. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

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

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

As discussed in Note 1, the Company adopted SFAS No. 158 effective December 31, 2006. SFAS No. 158 requires an employer to: (1) recognize the overfunded or underfunded status of defined benefit postretirement plans, which is measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its balance sheet; (2) recognize changes in that funded status in the year in which the changes occur through comprehensive income, except in year of adoption; and (3) measure the defined benefit plan assets and obligations as of the date of its year-end balance sheet. SFAS No. 158 does not change how an employer measures plan assets and benefit obligations as of the date of its balance sheet or how it determines the amount of net periodic benefit cost. The adjustment to accumulated other comprehensive loss for the adoption of SFAS No. 158 was \$7.6 million at December 31, 2006.

The components of accumulated other comprehensive loss, which have not yet been recognized as components of net periodic benefit cost, related to pensions and other postretirement benefits, net of tax, at December 31, 2007 are summarized below. The Company expects that \$0.5 million in net actuarial loss and nominal prior service cost will be recognized as components of net periodic benefit cost in 2008.

(In thousands)	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Transition asset	\$ (215)	\$ (406)	\$ -	\$ -
Net actuarial loss	11,585	11,891	2,578	2,447
Prior service cost	1,329	1,702	(1,683)	(1,885)
Total amounts recognized in accumulated other comprehensive loss (pre-tax)	\$ 12,699	\$ 13,187	\$ 895	\$ 562

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

(In thousands)	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
<b>Change in benefit obligation</b>				
Projected benefit obligation at beginning of year	\$ 52,903	\$ 45,987	\$ 3,839	\$ 3,852
Merger with CNBI Plan	-	7,704	-	-
Service cost	2,100	2,019	19	3
Interest cost	2,979	2,776	233	185
Plan participants' contributions	-	-	303	304
Actuarial loss (gain)	49	(21)	301	(347)
Amendments	-	-	-	537
Benefits paid	(4,617)	(5,609)	(717)	(695)
Prior service cost	(89)	47	-	-
Projected benefit obligation at end of year	53,325	52,903	3,978	3,839
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	65,544	44,656	-	-
Merger with CNBI Plan	-	5,415	-	-
Actual return on plan assets	5,365	5,514	-	-
Employer contributions	6,422	15,568	414	391
Plan participants' contributions	-	-	303	304
Benefits paid	(4,617)	(5,609)	(717)	(695)
Fair value of plan assets at end of year	72,714	65,544	-	-
Funded status at year end	\$ 19,389	\$ 12,641	\$ (3,978)	\$ (3,839)

The funded status of the pension and other postretirement benefit plans has been recognized as follows in the consolidated balance sheets at December 31, 2007 and December 31, 2006. An asset is recognized for an overfunded plan and a liability is recognized for an underfunded plan. The accumulated benefit obligation for pension benefits was \$52.7 million and \$52.1 million for the years ended 2007 and 2006, respectively. The accumulated benefit obligation for other postretirement benefits was \$4.0 million and \$3.8 million for the years ended 2007 and 2006, respectively.

(In thousands)	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Other assets	\$ 24,872	\$ 18,912	\$ -	\$ -
Other liabilities	(5,483)	(6,271)	(3,978)	(3,839)
Funded status	\$ 19,389	\$ 12,641	\$ (3,978)	\$ (3,839)

(In thousands)	Years ended December 31,		
	2007	2006	2005
<b>Weighted average assumptions:</b>			
Discount rate	6.30%	5.80%	5.50%
Expected long-term return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	3.08%	3.09%	3.75%
<b>The following assumptions were used to determine net periodic pension cost:</b>			
Discount rate	5.80%	5.50%	5.75%
Expected long-term return on plan assets	8.50%	8.50%	8.75%
Rate of compensation increase	3.09%	3.75%	3.75%

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

<i>(In thousands)</i>	Pension Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
<b>Components of net periodic benefit cost</b>						
Service cost	\$ 2,100	\$ 2,019	\$ 2,226	\$ 19	\$ 3	\$ 3
Interest cost	2,979	2,776	2,455	233	185	212
Expected return on plan assets	(5,430)	(3,952)	(3,828)	-	-	-
Amortization of transition obligation	-	-	-	-	-	23
Amortization of initial unrecognized asset	(192)	(192)	(192)	-	-	-
Amortization of prior service cost	283	236	572	(202)	(266)	(265)
Amortization of unrecognized net gain	422	838	1,265	170	160	167
Net periodic pension cost	\$ 162	\$ 1,725	\$ 2,498	\$ 220	\$ 82	\$ 140
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)</b>						
Net loss	\$ 114	\$ -	\$ -	\$ 302	\$ -	\$ -
Prior service cost	(90)	-	-	-	-	-
Amortization of initial unrecognized asset	192	-	-	-	-	-
Amortization of prior service cost	(283)	-	-	202	-	-
Amortization of unrecognized net gain	(422)	-	-	(170)	-	-
Total recognized in other comprehensive income	(489)	-	-	334	-	-
Total recognized in net periodic benefit cost and other comprehensive income (pre-tax)	\$ (327)	\$ 1,725	\$ 2,498	\$ 554	\$ 82	\$ 140

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

	Pension Benefits	Other Benefits
2008	\$ 3,936	\$ 323
2009	4,141	275
2010	4,263	274
2011	4,185	262
2012	4,253	273
2013 - 2017	24,178	1,504

The Company is not required to make contributions to the plan in 2008.

**PLAN INVESTMENT POLICY AS OF DECEMBER 31, 2007:**

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, 2007 and 2006 do not include any NBT Bancorp Inc. common stock.

The following is a summary of the plan's weighted average asset allocation at December 31, 2007:

(In thousands)	Actual Allocation	Percentage Allocation
Cash and Cash Equivalents	\$ 6,006	8.3%
Equity Mutual Funds	\$ 17,003	23.4%
US Government Bonds	20,434	28.1%
Corporate Bonds	2,622	3.6%
Common Stock	22,546	31.0%
Preferred Stock	384	0.5%
Partnerships	733	1.0%
Foreign Equity	2,986	4.1%
<b>Total</b>	<b>\$ 72,714</b>	<b>100.0%</b>

**DETERMINATION OF ASSUMED RATE OF RETURN**

The expected long-term rate-of-return on plan assets reflects long-term earnings expectations on existing plan assets. In estimating that rate, appropriate consideration is given to historical returns earned by plan assets as well as historical returns of comparable market indexes aligned with the Company's plan assets. Average rates of return over the past 10 and 15 year periods were considered and the results are summarized as follows:

	Percentage Allocation	Comparable Market Index	Expected Return Average
Money Market & Equivalents	8.30%	Lipper Money market Index	3.17%
Taxable Bonds	31.70%	Lehman Bros. Interm Govt. Index	5.76%
International Equities	4.10%	MSCI EAFE Gross Index	8.66%
US Equities	55.90%	S&P 500 Stock Index	5.91%
<b>Total</b>	<b>100.00%</b>	<b>Expected Average Return:</b>	<b>8.50%</b>

For measurement purposes, the annual rates of increase in the per capita cost of covered medical and prescription drug benefits for fiscal year 2007 were assumed to be 9.0 and 12.0 percent, respectively. The rates were assumed to decrease gradually to 5.0 percent for fiscal year 2014 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, 2007:

<i>(In thousands)</i>	1-Percentage point increase	1-Percentage point decrease
Increase (decrease) on total service and interest cost components	\$ 28	\$ (25)
Increase (decrease) on postretirement accumulated benefit obligation	433	(397)

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

At December 31, 2007, 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. The recorded expenses associated with this plan were \$1.4 million in 2007, \$1.4 million in 2006, and \$1.6 million in 2005.

**STOCK OPTION PLANS**

At December 31, 2007, the Company had 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. Shares issued as a result of stock option exercises are funded from the Company's treasury stock.

The per share weighted average fair value of stock options granted during 2007, 2006, and 2005 was \$6.37, \$5.26, and \$5.88, respectively. The fair value of each award is estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31. Historical information was the primary basis for the selection of the expected volatility, expected dividend yield and the expected lives of the options. The risk-free interest rate was selected based upon yields of the U.S. treasury issues with a term equal to the expected life of the option being valued:

	Years ended December 31,		
	2007	2006	2005
Dividend yield	2.98%–4.35%	3.08%–3.52%	3.05%–3.70%
Expected volatility	25.08%–28.01%	28.26%–28.62%	28.67%–30.00%
Risk-free interest rates	3.64%–4.96%	4.36%–5.04%	3.85%–4.36%
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 for the year ended December 31, 2005 would have been reduced to the pro forma amounts indicated below:

<b>Net income</b>	
As reported	\$ 52,438
Add: Stock-based compensation expense included in reported net income, net of related tax effects	\$ 370
Deduct: Total stock-based compensation expense determined under fair value based methods for all awards, net of related tax effects	(1,571)
Pro forma net income	<u>\$ 51,237</u>
<b>Basic earnings per share</b>	
As reported	\$ 1.62
Pro forma	1.58
<b>Diluted earnings per share</b>	
As reported	1.60
Pro forma	1.56

The following table summarizes information concerning stock options outstanding at December 31, 2007:

	Number of Shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (in yrs)	Aggregate Intrinsic Value
Outstanding at December 31, 2006	1,811,020	\$ 19.73		
Granted	343,429	24.39		
Exercised	(256,054)	17.21		
Forfeited	(20,043)	22.80		
Outstanding at December 31, 2007	<u>1,878,352</u>	<u>\$ 20.89</u>	<u>6.32</u>	<u>\$ 4,365,508</u>
Exercisable at December 31, 2007	<u>1,221,526</u>	<u>\$ 19.48</u>	<u>5.24</u>	<u>\$ 4,208,911</u>
Expected to Vest	<u>620,106</u>	<u>\$ 23.52</u>	<u>8.33</u>	<u>\$ 147,843</u>

The weighted-average fair market value of stock options granted for the twelve months ended December 31, 2007, was \$6.37 per share. Total stock-based compensation expense for stock option awards totaled \$1.8 million for the year ended December 31, 2007. The tax benefit recognized on stock-based compensation expense for stock option awards during 2007 totaled \$0.7 million. Cash proceeds, tax benefits and intrinsic value related to total stock options exercised is as follows:

	Year ended	
	December 31, 2007	December 31, 2006
(dollars in thousands)		
Proceeds from stock options exercised	\$ 4,353	\$ 10,131
Tax benefits related to stock options exercised	715	1,428
Intrinsic value of stock options exercised	<u>1,800</u>	<u>4,010</u>

The Company has outstanding restricted and deferred stock awards granted from various plans at December 31, 2007. The Company recognized \$0.9 million in stock-based compensation expense related to these stock awards for the year ended December 31, 2007 and \$0.8 million for the year ended December 31, 2006. The tax benefit recognized on restricted and deferred stock-based compensation expense during 2007 totaled \$1.0 million and \$0.3 million during 2006. Unrecognized compensation cost related to restricted stock awards totaled \$2.0 million at December 31, 2007 and will be recognized over 3.4 years on a weighted average basis. Shares issued are funded from the Company's treasury stock. The following table summarizes information for unvested restricted stock awards outstanding as of December 31, 2007:

	Number of Shares	Weighted-Average Grant Date Fair Value
<b>Unvested Restricted Stock Awards</b>		
Unvested at January 1, 2007	90,847	\$ 22.45
Forfeited	(1,284)	\$ 21.85
Vested	(21,322)	\$ 21.91
Granted	76,559	\$ 22.11
Unvested at December 31, 2007	144,800	\$ 22.35

The Company has 1.7 million securities remaining available to be granted as part of the stock option, restricted and all other equity compensation plans at December 31, 2007.

#### (18) COMMITMENTS AND CONTINGENT LIABILITIES

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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, 2007, approximately 61% 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 \$125.5 million and \$105.0 million at December 31, 2007 and 2006, respectively.

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.

<i>(In thousands)</i>	At December 31,	
	2007	2006
Unused lines of credit	\$ 224,559	\$ 249,194
Commitments to extend credits, primarily variable rate	322,228	287,104
Standby letters of credit	27,545	30,752
Loans sold with recourse	8,876	5,741

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. The fair value of the Company's stand-by letters of credit at December 31, 2007 and 2006 was not significant.

**(19) PARENT COMPANY FINANCIAL INFORMATION**

<i>(In thousands)</i>	December 31,	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 4,004	\$ 15,054
Securities available for sale, at estimated fair value	10,737	11,071
Investment in subsidiaries, on equity basis	463,470	463,633
Other assets	27,545	26,182
<b>Total assets</b>	<b>\$ 505,756</b>	<b>\$ 515,940</b>
<b>Liabilities and Stockholders' Equity</b>		
Total liabilities	\$ 108,456	\$ 112,123
Stockholders' equity	397,300	403,817
<b>Total liabilities and stockholders' equity</b>	<b>\$ 505,756</b>	<b>\$ 515,940</b>

<i>(In thousands)</i>	Years ended December 31,		
	2007	2006	2005
Dividends from subsidiaries	\$ 61,500	\$ 26,000	\$ 35,400
Management fee from subsidiaries	57,202	59,933	54,373
Interest and other dividend income	917	951	839
<b>Total revenue</b>	<b>119,619</b>	<b>86,884</b>	<b>90,612</b>
Operating expense	57,846	60,180	55,201
Income before income tax expense (benefit) and (excess distributions by subsidiaries over income) equity in undistributed income of subsidiaries	61,773	26,704	35,411
Income tax expense (benefit)	392	(301)	(728)
(Excess distributions by subsidiaries over income) equity in undistributed income of subsidiaries	(11,053)	28,942	16,299
<b>Net income</b>	<b>\$ 50,328</b>	<b>\$ 55,947</b>	<b>\$ 52,438</b>

(In thousands)	Years ended December 31,		
	2007	2006	2005
<b>Operating activities</b>			
Net income	\$ 50,328	\$ 55,947	\$ 52,438
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Tax benefit from exercise of stock options	-	-	1,057
Distributions in excess of equity in undistributed income of subsidiaries	11,053	(28,942)	(16,299)
Other, net	(2,641)	838	5,540
Net cash provided by operating activities	<b>58,740</b>	27,843	42,736
<b>Investing activities</b>			
Cash used in CNB Bancorp, Inc. merger	-	(39,037)	-
Purchases of premises and equipment	436	(2,892)	(2,834)
Net cash used in investing activities	<b>436</b>	(41,929)	(2,834)
<b>Financing activities</b>			
Proceeds from the issuance of shares to employee benefit plans and other stock plans	4,353	10,131	7,161
Payment on long-term debt	(111)	(104)	(100)
Proceeds from the issuance of trust preferred debentures	-	51,547	5,155
Purchase of treasury shares	(48,957)	(17,111)	(23,165)
Cash dividends and payment for fractional shares	(26,226)	(26,018)	(24,673)
Tax benefit from exercise of stock options	715	466	-
Net cash provided by (used) in financing activities	<b>(70,226)</b>	18,911	(35,622)
Net increase (decrease) in cash and cash equivalents	<b>(11,050)</b>	4,825	4,280
Cash and cash equivalents at beginning of year	15,054	10,229	5,949
Cash and cash equivalents at end of year	<b>\$ 4,004</b>	\$ 15,054	\$ 10,229

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

## (20) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

### **SHORT TERM INSTRUMENTS**

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

### **SECURITIES**

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

### **LOANS**

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

### **DEPOSITS**

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

### **LONG-TERM DEBT**

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

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

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

### **TRUST PREFERRED DEBENTURES**

A significant portion of the outstanding balance at December 31, 2007 is variable rate in nature, as such the carrying value approximates fair value.

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

<i>(In thousands)</i>	2007		2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 162,946	\$ 162,946	\$ 138,793	\$ 138,793
Securities available for sale	1,140,114	1,140,114	1,106,322	1,106,322
Securities held to maturity	149,111	149,519	136,314	136,287
Loans (1)	3,455,851	3,376,001	3,412,654	3,320,727
Less allowance for loan losses	54,183	-	50,587	-
Net loans	3,401,668	3,376,001	3,362,067	3,320,727
Accrued interest receivable	24,672	24,672	24,765	24,765
<b>Financial liabilities</b>				
Savings, NOW, and money market	\$ 1,614,289	\$ 1,614,289	\$ 1,566,557	\$ 1,566,557
Time deposits	1,591,106	1,590,158	1,583,304	1,575,494
Noninterest bearing	666,698	666,698	646,377	646,377
Short-term borrowings	368,467	368,467	345,408	345,408
Long-term debt	424,887	427,847	417,728	411,161
Accrued interest payable	13,938	13,938	11,639	11,639
Trust preferred debentures	75,422	75,422	75,422	75,422

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

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

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

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None.

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**ITEM 9A. CONTROLS AND PROCEDURES**

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

**Management Report on Internal Controls Over Financial Reporting**

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

As of December 31, 2007, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2007, based on those criteria.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NBT Bancorp Inc.:

We have audited NBT Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2007 and 2006 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, 2007, and our report dated February 28, 2008 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP  
Albany, NY  
February 28, 2008

**ITEM 9B. OTHER INFORMATION**

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None.

**PART III**

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

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The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 6, 2008 (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2007 fiscal year end.

**ITEM 11. EXECUTIVE COMPENSATION**

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The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2007 fiscal year end.

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

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The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2007 fiscal year end.

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

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The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2007 fiscal year end.

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**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

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The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days of the Company's 2007 fiscal year end.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2007 and 2006.

Consolidated Statements of Income for each of the three years ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Changes in Stockholders' Equity for each of the three years ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2007, 2006 and 2005.

Notes to the Consolidated Financial Statements.

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

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

- 3.1 Certificate of Incorporation of NBT Bancorp Inc. as amended through July 23, 2001 (filed as Exhibit 3.1 to Registrant's Form 10-K for the year ended December 31, 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, 2004, between NBT Bancorp Inc. and Registrar and Transfer Company, as Rights Agent (filed as Exhibit 4.1 to Registrant's Form 8-K, file number 0-14703, filed on November 18, 2004, and incorporated by reference herein).
- 3.4 Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registrant's Form 8-K, file Number 0-14703, filed on November 18, 2004, and incorporated herein by reference).
- 4.1 Specimen common stock certificate for NBT's common stock (filed as exhibit 4.1 to the Registrant's Amendment No. 1 to Registration Statement on Form S-4 filed on December 27, 2005 and incorporated herein by reference).
- 10.1 NBT Bancorp Inc. 1993 Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-71830 filed on October 18, 2001 and incorporated by reference herein).
- 10.2 NBT Bancorp Inc. Non-Employee Director, Divisional Director and Subsidiary Director Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-73038 filed on November 9, 2001 and incorporated by reference herein).
- 10.3 CNB Bancorp, Inc. Stock Option Plan (incorporated by reference to Exhibit A of CNB Bancorp, Inc.'s definitive proxy statement filed with the SEC on September 4, 1998 and incorporated by reference herein).
- 10.4 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).
- 10.5 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 herein by reference).
- 10.6 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 herein by reference).
- [10.7](#) NBT Bancorp Inc. 2008 Executive Incentive Compensation Plan.

10.8	CNB Bancorp, Inc. Long-Term Incentive Compensation Plan (incorporated by reference to Appendix B of CNB Bancorp, Inc.'s definitive proxy statement filed with the SEC on March 14, 2002 and incorporated herein by reference).
10.9	2006 Non-Executive Restricted Stock Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-139956, filed on January 12, 2007, and incorporated herein by reference).
10.10	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).
10.11	Amendment dated December 19, 2005 to Form of Employment Agreement between NBT Bancorp Inc. and Daryl R. Forsythe made as of August 2, 2003. (filed as Exhibit 10.10 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.12	Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe as amended and restated Effective January 1, 2005. (filed as Exhibit 10.11 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.13	Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995 (filed as Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.14	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).
10.15	Form of Employment Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated January 1, 2006 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2006, filed on May 9, 2006 and incorporated herein by reference).
10.16	Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated January 20, 2006 (filed as Exhibit 10.16 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.17	First Amendment to Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Martin A. Dietrich effective January 1, 2006 (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended March 31, 2006, filed on May 9, 2006 and incorporated herein by reference).
10.18	Change in control agreement with Martin A. Dietrich as amended and restated 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).
10.19	Form of Employment Agreement between NBT Bancorp Inc. and Michael J. Chewens as amended and restated January 1, 2005 (filed as Exhibit 10.18 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.20	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).
10.21	Change in control agreement with Michael J. Chewens as amended and restated 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).
10.22	Form of Employment Agreement between NBT Bancorp Inc. and David E. Raven as amended and restated January 1, 2005 (filed as Exhibit 10.21 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.23	Change in control agreement with David E. Raven as amended and restated 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).
10.24	Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and David E. Raven made as of January 1, 2004 (filed as Exhibit 10.35 to Registrant's Form 10-K for the year ended December 31, 2003, filed on March 15, 2004 and incorporated herein by reference).
10.25	Form of Employment Agreement between NBT Bancorp Inc. and Ronald M. Bentley made as of August 16, 2005 (filed as Exhibit 10.24 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
10.26	Change in control agreement with Ronald M. Bentley dated August 22, 2005 (filed as Exhibit 10.25 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).
<a href="#">10.27</a>	Form of Employment Agreement between NBT Bancorp Inc. and Jeff Levy made as of April 23, 2007.
<a href="#">10.28</a>	Change in control agreement with Jeff Levy dated April 23, 2007.
<a href="#">10.29</a>	Description for Arrangement for Directors Fees.

<a href="#">21</a>	A list of the subsidiaries of the Registrant.
<a href="#">23</a>	Consent of KPMG LLP.
<a href="#">31.1</a>	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.
<a href="#">31.2</a>	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.
<a href="#">32.1</a>	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.
<a href="#">32.2</a>	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.

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

(c) Not applicable

SIGNATURES

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

NBT BANCORP INC. (Registrant)  
February 29, 2008

/S/ Martin A. Dietrich  
\_\_\_\_\_  
Martin A. Dietrich  
Chief Executive Officer

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

/S/ Daryl R. Forsythe  
\_\_\_\_\_  
Daryl R. Forsythe  
Chairman and Director  
Date: February 29, 2008

/S/ Martin A. Dietrich  
\_\_\_\_\_  
Martin A. Dietrich  
NBT Bancorp Inc. President, CEO, and Director (Principal Executive Officer)  
Date: February 29, 2008

/S/ John C. Mitchell  
\_\_\_\_\_  
John C. Mitchell, Director  
Date: February 29, 2008

/S/ Joseph G. Nasser  
\_\_\_\_\_  
Joseph G. Nasser, Director  
Date: February 29, 2008

/S/ Peter B. Gregory  
\_\_\_\_\_  
Peter B. Gregory, Director  
Date: February 29, 2008

/S/ William C. Gumble

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William C. Gumble, Director

Date: February 29, 2008

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/S/ Richard Chojnowski

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Richard Chojnowski, Director

Date: February 29, 2008

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/S/ Michael M. Murphy

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Michael M. Murphy, Director

Date: February 29, 2008

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/S/ Michael J. Chewens

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Michael J. Chewens

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: February 29, 2008

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/S/ William L. Owens

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William L. Owens, Director

Date: February 29, 2008

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/S/ Joseph A. Santangelo

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Joseph A. Santangelo, Director

Date: February 29, 2008

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/S/ Janet H. Ingraham

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Janet H. Ingraham, Director

Date: February 29, 2008

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/S/ Paul D. Horger

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Paul D. Horger, Director

Date: February 29, 2008

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/S/ Robert A. Wadsworth

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Robert A. Wadsworth, Director

Date: February 29, 2008

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S/ Patricia T. Civil

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Patricia T. Civil, Director

Date: February 29, 2008

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**NBT BANCORP INC. AND SUBSIDIARIES**

**2008 EXECUTIVE INCENTIVE COMPENSATION PLAN**

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**NBT BANCORP INC. AND SUBSIDIARIES**  
**2008 EXECUTIVE INCENTIVE COMPENSATION PLAN**

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## APPENDIX A

## 2008 Executive Incentive Compensation Plan Pay-out Detail - 90% Baseline Budget EPS Threshold

## Corporate Performance/Personal Goals % Split

Level	Executive	Corporate	Personal	Total
Level A	Dietrich	100%	0%	100%
Level B-1	Chewens	66%	34%	100%
Level B-2	Raven	50%	50%	100%
Level C	Levy	50%	50%	100%
Level C	Scarlett	50%	50%	100%
Level C	Stagliano	50%	50%	100%

<b>Incentive Threshold Payout - \$1.472</b>
Level 2 - \$1.512
Level 3 - \$1.553
Level 4 - \$1.594
<b>Base Line Budget - \$1.635</b>
Level 6 - \$1.717
Level 7 - \$1.799
Level 8 - \$1.880
<b>Maximum Incentive Payout - \$1.962</b>

Total Level A*
48.0%
51.0%
54.0%
57.0%
60.0%
70.0%
80.0%
90.0%
100.0%

	Corp. Payout Level B-1	Pers. Payout Level B-1	Total Level B-1*
<b>Incentive Threshold Payout - \$1.472</b>	24.8%	12.8%	37.6%
Level 2 - \$1.512	26.4%	13.6%	40.0%
Level 3 - \$1.553	27.9%	14.4%	42.3%
Level 4 - \$1.594	29.5%	15.2%	44.7%
<b>Base Line Budget - \$1.635</b>	31.0%	16.0%	47.0%
Level 6 - \$1.717	38.8%	20.0%	58.8%
Level 7 - \$1.799	46.5%	24.0%	70.5%
Level 8 - \$1.880	54.3%	28.0%	82.3%
<b>Maximum Incentive Payout - \$1.962</b>	62.0%	32.0%	94.0%

	Corp. Payout Level B-2	Pers. Payout Level B-2	Total Level B-2*
	18.8%	18.8%	37.6%
	20.0%	20.0%	40.0%
	21.2%	21.1%	42.3%
	22.3%	22.4%	44.7%
	23.5%	23.5%	47.0%
	29.4%	29.4%	58.8%
	35.3%	35.2%	70.5%
	41.1%	41.2%	82.3%
	47.0%	47.0%	94.0%

	Corp. Payout Level C	Pers. Payout Level C	Total Level C*
<b>Incentive Threshold Payout - \$1.472</b>	12.4%	12.4%	24.8%
Level 2 - \$1.512	13.2%	13.2%	26.4%
Level 3 - \$1.553	14.0%	13.9%	27.9%
Level 4 - \$1.594	14.7%	14.8%	29.5%
<b>Base Line Budget - \$1.635</b>	15.5%	15.5%	31.0%
Level 6 - \$1.717	19.4%	19.4%	38.8%
Level 7 - \$1.799	23.3%	23.2%	46.5%
Level 8 - \$1.880	27.1%	27.2%	54.3%
<b>Maximum Incentive Payout - \$1.962</b>	31.0%	31.0%	62.0%

\* % of base salary at appropriate level

## NBT BANCORP INC. AND SUBSIDIARIES

### Introduction

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

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

Highlights of the 2008 Executive Incentive Compensation Plan (EICP) are listed below:

1. The Plan is competitive compared with similar sized banking organizations and the banking industry in general.
2. The Compensation Committee of the Board of Directors controls all aspects of the Plan.
3. All active Executives are eligible for participation.
4. The financial criteria necessary for Plan operation consist of achieving certain levels of Earnings Per Share (EPS) for the Company and its Subsidiaries as applicable. The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occur during a Performance Period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization and restructuring programs; (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year; (f) acquisitions or divestitures and related expenses; and (g) foreign exchange gains and losses. To the extent such inclusions or exclusions affect Awards to Covered Employees; they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.
5. Incentive distributions will be made 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, Divisional and Individual components. The Corporate, Subsidiary and Divisional components are awarded by virtue of performance related to pre-established goals and the Individual component is awarded by virtue of individual performance related to individual goals. No bonus will be paid unless the Corporation achieves the threshold EPS goal set forth in Appendix A.

## NBT BANCORP INC. AND SUBSIDIARIES

The Board of Directors has established this 2008 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:

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

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

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

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

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

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

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

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

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

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

**Plan Year:** The 2008 calendar year.

## **SECTION II - ELIGIBILITY TO PARTICIPATE**

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

## **SECTION III - ACTIVATING THE PLAN**

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

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

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

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

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

#### **SECTION IV - CALCULATION OF AWARDS**

The Compensation Committee designates the incentive formula as shown in Appendix A. The Compensation Committee will make final decisions with respect to all incentive awards and will have final approval over all incentive awards. Prior to payment of any bonus amount under the Plan to a Covered Employee whose bonus is intended to qualify for purposes of Code Section 162(m), the Compensation Committee shall certify in writing that the EPS goal(s) and all other material terms stated herein have been attained. For this purpose, the approved minutes of a Compensation Committee meeting in which a certification is made shall be treated as a written certification. The individual participant data regarding maximum award and formulas used in calculation has been customized and appears as Appendix A.

#### **SECTION V - SPECIAL RECOMMENDATIONS**

As long as the threshold EPS goal is met, the CEO 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; provided, however that as to a Covered Employee whose bonus is intended to qualify for purposes of Code Section 162(m), only the Compensation Committee has the authority to make a change outside the formula to a bonus award and it may exercise its discretion only to reduce the bonus award.

## **SECTION VI - DISTRIBUTION OF AWARDS**

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

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

## **SECTION VII - PLAN ADMINISTRATION**

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

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

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

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

## **SECTION IX – NONEXCLUSIVITY**

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

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

The effective date of the Plan shall be January 1, 2008.

## **SECTION XI - EMPLOYER RELATION WITH PARTICIPANTS**

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

## **SECTION XII - GOVERNING LAW**

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

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 23<sup>rd</sup> day of April 2007, by and between Jeffrey M. Levy ("Executive") and NBT BANCORP INC., a Delaware corporation having its principal office in Norwich, New York ("NBTB")

## WITNESSETH THAT:

WHEREAS, Executive is serving as the Executive Vice President, Regional President, Capital Region of NBT Bank, National Association, a national banking association which is a wholly-owned subsidiary of NBTB ("NBT Bank");

WHEREAS, the parties desire to enter into this Agreement, setting forth the terms and conditions of the continued employment relationship of Executive with NBTB;

NOW, THEREFORE, in consideration of the foregoing and the mutual promises, covenants and agreements set forth in this Agreement, intending to be legally bound, the parties agree as follows:

1. Employment; Responsibilities and Duties.

(a) NBTB hereby agrees to continue to employ Executive and to cause NBT Bank and any successor organization to NBT Bank to employ Executive, and Executive hereby agrees to serve as the Executive Vice President, Regional President, Capital Region of NBT Bank and any successor organization to NBTB or NBT Bank, as applicable, during the Term of Employment (as such term is defined below). During the Term of Employment, Executive shall perform all duties, and responsibilities, and have the authority as shall be set forth in the bylaws of NBTB or NBT Bank or as may otherwise be determined and assigned to his by NBTB or by NBT Bank.

(b) Executive shall devote his full working time and best efforts to the performance of his responsibilities and duties hereunder. During the Term of Employment, Executive shall not, without the prior written consent of the Chief Executive Officer of NBTB, render services as an employee, independent contractor, or otherwise, whether or not compensated, to any person or entity other than NBTB, NBT Bank or their affiliates; provided that Executive may, where involvement in such activities does not individually or in the aggregate significantly interfere with the performance of his duties or violate the provisions of section 4 hereof, (i) render services to charitable organizations, (ii) manage his personal investments, and (iii) with the prior permission of the Chief Executive Officer of NBTB, hold such other directorships or part-time academic appointments or have such other business affiliations as would otherwise be prohibited under this section 1.

2. Term of Employment.

(a) The initial term of employment under this Agreement shall be for the period commencing on the date hereof and ending on January 1, 2008 (the "Initial Term"), provided, however, that on December 31, 2007, and each December 31st thereafter, the term of the agreement shall extend itself by one additional year (the "Extended Term"), unless NBTB has given contrary written notice to Executive at least 90 days before any such renewal date. The Initial Term and all such Extended Terms are collectively referred to herein as the "Term of Employment."

(b) Executive's employment with NBTB shall not terminate prior to the expiration of the Initial Term or any Extended Term, except as provided below:

(i) Voluntary Termination. Executive may terminate this Agreement upon not less than 90 days prior written notice delivered to NBTB, in which event Executive shall be entitled to compensation and benefits earned or accrued through the effective date of termination (the "Termination Date").

(ii) Termination Upon Death. This Agreement shall terminate upon Executive's death, in which event Executive's estate shall be entitled to compensation and benefits earned or accrued through the date of death.

(iii) Termination Upon Disability. NBTB may terminate this Agreement upon Executive's disability. For purposes of this Agreement, Executive's inability to perform his duties hereunder by reason of physical or mental illness or injury for a period of at least 90 consecutive days or at least 120 days in any period of 12 consecutive months (the "Disability Period") shall constitute disability. The determination of disability shall be made by a physician selected by NBTB. During the Disability Period, Executive shall be entitled to the Base Salary (as such term is defined below) otherwise payable during that period, reduced by any other NBTB-provided benefits to which Executive may be entitled, which benefits are specifically payable solely on account of such disability (including, but not limited to, benefits provided under any disability insurance policy or program, worker's compensation law, or any other benefit program or arrangement). In the event of termination upon Executive's disability, Executive shall be entitled to compensation or benefits earned or accrued through the Termination Date.

(iv) Termination for Cause. NBTB may terminate Executive's employment for Cause by written notice to Executive. For purposes of this Agreement, "Cause" shall mean Executive's: (1) personal dishonesty, incompetence (which shall be measured against standards generally prevailing in the financial institutions industry), willful or gross misconduct with respect to the business and affairs of NBTB or NBT Bank, or with respect to any of their affiliates for which Executive is assigned material responsibilities or duties; (2) willful neglect, failure, or refusal to carry out his duties hereunder in a reasonable manner after a written demand for substantial performance is delivered to Executive that specifically identifies the manner in which NBTB believes that Executive has not substantially performed his duties and Executive has not resumed such substantial performance within 21 days of receiving such demand; (3) willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or the conviction of a felony, whether or not committed in the course of his employment with NBTB; (4) being a specific subject of a final cease and desist order from, written agreement with, or other order or supervisory direction from, any federal or state regulatory authority; (5) conduct tending to bring NBTB, NBT Bank or any of their affiliates into public disgrace or disrepute; or (6) breach of any representation or warranty in section 6(a) hereof or of any agreement contained in section 1, 4, 5 or 6(b) hereof.

Notwithstanding any other term or provision of this Agreement to the contrary, if Executive's employment is terminated for Cause, Executive shall forfeit all rights to compensation and benefits otherwise provided pursuant to this Agreement; provided, however, that the Base Salary shall be paid through the Termination Date.

(v) Termination Without Cause. NBTB may terminate Executive's employment for reasons other than Cause upon not less than 30 days prior written notice delivered to Executive, in which event Executive shall be entitled to the Base Salary for a period of 12 months following the Termination Date and the compensation and benefits earned or accrued through the Termination Date.

(vi) Termination for Good Reason. If Executive terminates his employment with NBTB for Good Reason, other than following a Change of Control, such termination shall be deemed to have been a termination by NBTB of the Executive's employment without Cause and Executive shall be entitled to receive all benefits and payments due to him under such a termination. "Good Reason" shall mean, without Executive's express written consent, reassignment of Executive to a position other than for "Cause," or a decrease in the amount or level of Executive's salary or benefits from the amount or level established herein.

(vii) Resignation. Effective upon Executive's termination of employment for any reason, Executive hereby resigns from any and all offices and positions related to Executive's employment with NBTB, NBT Bank or any affiliates thereof, and held by Executive at the time of termination.

(viii) Regulatory Limits. Notwithstanding any other provision in this Agreement NBTB may terminate or suspend this Agreement and the employment of Executive hereunder, as if such termination were for Cause under section 2(b)(iv) hereof, to the extent required by the applicable federal or state statute related to banking, deposit insurance or bank or savings institution holding companies or by regulations or orders issued by the Office of the Controller of the Currency, the Federal Deposit Insurance Corporation or any other state or federal banking regulatory agency having jurisdiction over NBT Bank or NBTB, and no payment shall be required to be made to or for the benefit of Executive under this Agreement to the extent such payment is prohibited by applicable law, regulation or order issued by a banking agency or a court of competent jurisdiction; provided, that it shall be NBTB's burden to prove that any such action was so required

(c) Any provision of this section 2 to the contrary notwithstanding, in the event that the employment of Executive with NBTB is terminated in any situation described in section 3 of the change-in-control letter agreement dated April 23, 2007 between NBTB and Executive (the "Change-in-Control Agreement") so as to entitle Executive to a severance payment and other benefits described in section 3 of the Change-in-Control Agreement, then Executive shall be entitled to receive the following, and no more, under this section 2:

- (i) compensation and benefits earned or accrued through the Termination Date; and
- (ii) the severance payment and other benefits provided in the Change-in-Control Agreement.

(d) Any provision of this Section 2 to the contrary notwithstanding, in the event that the Employment of the Executive with NBTB is terminated in any situation described in section 3 of the Change-in-Control Agreement so as to entitle Executive to a severance payment and other benefits described in section 3 of the Change-in-Control Agreement, and if as of the Termination Date the Executive is a "key employee" for the purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, NBTB will delay the payment of such severance payments six (6) months from the date they otherwise would be paid hereunder.

3. Compensation. For the services to be performed by Executive for NBTB and its affiliates under this Agreement, Executive shall be compensated in the following manner:

(a) Base Salary. During the Term of Employment:

(i) NBTB shall pay Executive a salary which, on an annual basis, shall be \$198,600.00 (the "Base Salary") commencing on December 12, 2006. Thereafter, Executive's salary may, in the sole discretion of NBTB, be negotiated between Executive and the Chief Executive Officer of NBTB based on recommendations from NBTB's Compensation and Benefits Committee and in line with compensation for comparable positions in companies of similar size and structure, but in no case less than \$198,600.00. Adjustments to the Base Salary, if any, shall be determined by NBTB. The Base Salary shall be payable in accordance with the normal payroll practices of NBTB with respect to executive personnel as presently in effect or as they may be modified by NBTB from time to time.

(ii) Executive shall be eligible to be considered for performance bonuses commensurate with the Executive's title and salary grade in accordance with the compensation policies of NBTB with respect to executive personnel as presently in effect or as they may be modified by NBTB from time to time.

(b) Employee Benefit Plans or Arrangements. During the Term of Employment, Executive shall be entitled to participate in all employee benefit plans of NBTB, as presently in effect or as they may be modified by NBTB from time to time, under such terms as may be applicable to officers of Executive's rank employed by NBTB or its affiliates, including, without limitation, plans providing retirement benefits, stock options, medical insurance, life insurance, disability insurance, and accidental death or dismemberment insurance, provided that there be no duplication of such benefits as are provided under any other provision of this Agreement.

(c) Stock Options and Restricted Stock. Each January or February annually during the Term of Employment, Executive will be eligible to be granted a non-statutory ("non-qualified") stock option (each an "Option") to purchase the number of shares of the common stock of NBTB, \$0.01 par value, (the "NBTB Common Stock"), pursuant to the NBT Bancorp Inc. 1993 Stock Option Plan, as amended, or any appropriate successor plan (the "Stock Option Plan"), computed by using a formula approved by NBTB that is commensurate with Executive's title and salary grade. The option exercise price per share of the shares subject to each Option shall be such Fair Market Value as set forth in the Stock Option Plan, and the terms, conditions of exercise, and vesting schedule of such Option shall be as set forth in section 8 of the Stock Option Plan.

In addition, Executive shall be entitled to participate in the NBTB Performance Share Plan as applicable to officers of Executive's rank subject to the terms, conditions and vesting schedule set forth in the NBT Bancorp Inc. Performance Share Plan, dated May 1, 2003.

(d) Vacation and Sick Leave. During the Term of Employment, Executive shall be entitled to paid annual vacation periods and sick leave in accordance with the policies of NBTB as in effect as of the date hereof or as may be modified by NBTB from time to time, as may be applicable to officers of Executive's rank employed by NBTB or its affiliates, but in no event shall Executive be entitled to less than four weeks of paid vacation per year.

(e) Country Club Dues. During the Term of Employment, Executive shall be eligible for a bank-paid membership at a country club mutually agreed upon by the chief executive officer of NBTB and the Executive.

(f) Withholding. All compensation to be paid to Executive hereunder shall be subject to required benefit deductions, tax withholding and other deductions required by law.

(g) Expenses. During the Term of Employment, Executive shall be reimbursed for reasonable travel and other expenses incurred or paid by Executive in connection with the performance of her services under this Agreement, upon presentation of expense statements or vouchers or such other supporting information as may from time to time be requested, in accordance with such policies of NBTB as are in effect as of the date hereof and as may be modified by NBTB from time to time, under such terms as may be applicable to officers of Executive's rank employed by NBTB or its affiliates.

4. Confidential Business Information; Non-Competition.

(a) Executive acknowledges that during the term of his employment he has been and will continue to be entrusted with, have access to and become familiar with various trade secrets and other confidential business information of NBTB, NBT Bank and/or their affiliates which have been developed and maintained at great effort and expense, have been kept protected and confidential, are of great value to NBTB, NBT Bank and/or their affiliates, and provide them with a significant competitive advantage. Such confidential information includes but is not limited to procedures, methods, sales relationships developed while in the service of NBTB, NBT 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 NBTB or NBT Bank or their affiliates, and compositions, ideas, plans, and methods belonging to or related to the affairs of NBTB or NBT Bank or their affiliates. In this regard, NBTB asserts proprietary rights in all of its business information and that of its affiliates except for such information as is clearly in the public domain. Notwithstanding the foregoing, information that would be generally known or available to persons skilled in Executive's fields shall be considered to be "clearly in the public domain" for the purposes of the preceding sentence. Executive agrees that he will hold in the strictest confidence and not disclose or divulge to any third party, except as may be required by his duties hereunder, by law, regulation, or order of a court or government authority, or as directed by NBTB, nor shall he use to the detriment of NBTB, NBT Bank or their affiliates or use in business or on behalf of any business competitive with or substantially similar to any business of NBTB, NBT Bank or their affiliates, any confidential business information obtained during the course of his employment by NBTB. The foregoing shall not be construed as restricting Executive from disclosing such information to the employees of NBTB, NBT Bank or their affiliates. On or before the Termination Date, Executive shall promptly deliver to NBTB all material containing NBTB's confidential information including any photocopies, extracts or summaries of it) in his possession, custody or control.

(b) Executive hereby agrees that from the Commencement Date until the first anniversary of the Termination Date, Executive will not, for any reason, directly or indirectly, either personally or on behalf of any other person or entity (whether as a director, stockholder, owner, partner, officer, consultant, principal, employee, agent or otherwise): (i) interfere with the relationship of NBTB or NBT 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 NBTB or NBT Bank or their affiliates), (ii) divert or attempt to divert from NBTB, NBT Bank or their affiliates any business in which any of them has been actively engaged during the Term of Employment, nor interfere with the relationship of NBTB, NBT Bank or their affiliates with any of their customers or prospective customers, or (iii) take any action which is intended, or would reasonably be expected, to adversely affect NBTB, NBT Bank or their affiliates, their business, reputation, or their relationship with their customers or prospective customers. This paragraph 4(b) shall not, in and of itself, prohibit Executive from engaging in the banking, trust, or financial services business in any capacity, including that of an owner or employee.

(c) Executive acknowledges and agrees that irreparable injury will result to NBTB in the event of a breach of any of the provisions of this section 4 (the "Designated Provisions") and that NBTB will have no adequate remedy at law with respect thereto. Accordingly, in the event of a material breach of any Designated Provision, and in addition to any other legal or equitable remedy NBTB may have, NBTB shall be entitled to the entry of a preliminary and permanent injunction (including, without limitation, specific performance) by a court of competent jurisdiction in Chenango County, New York, or elsewhere, to restrain the violation or breach thereof by Executive, and Executive submits to the jurisdiction of such court in any such action.

(d) It is the desire and intent of the parties that the provisions of this section 4 shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this section 4 shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to delete therefrom 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 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 NBTB, to the fullest extent permitted by applicable law, the benefits intended by this section 4.

5. Life Insurance. In light of the unusual abilities and experience of Executive, NBTB, NBT Bank or their affiliates, in their discretion, may apply for and procure as owner, and for their own benefit, insurance on the life of Executive, in such amount and in such form as NBTB, NBT Bank or their affiliates may choose. NBTB shall make all payments for such insurance and shall receive all benefits from it. Executive shall have no interest whatsoever in any such policy or policies but, at the request of NBTB, NBT Bank or their affiliates, shall submit to medical examinations and supply such information and execute such documents as may reasonably be required by the insurance company or companies to which NBTB, NBT Bank or their affiliates has applied for insurance.

6. Representations and Warranties.

(a) Executive represents and warrants to NBTB that his execution, delivery, and performance of this Agreement will not result in or constitute a breach of or conflict with any term, covenant, condition, or provision of any commitment, contract, or other agreement or instrument, including, without limitation, any other employment agreement, to which Executive is or has been a party.

(b) Executive shall indemnify, defend, and hold harmless NBTB for, from, and against any and all losses, claims, suits, damages, expenses, or liabilities, including court costs and counsel fees, which NBTB has incurred or to which NBTB may become subject, insofar as such losses, claims, suits, damages, expenses, liabilities, costs, or fees arise out of or are based upon any failure of any representation or warranty of Executive in section 6(a) hereof to be true and correct when made.

7. Notices. All notices, consents, waivers, or other communications which are required or permitted hereunder shall be in writing and deemed to have been duly given if delivered personally or by messenger, transmitted by telex or telegram, by express courier, or sent by registered or certified mail, return receipt requested, postage prepaid. All communications shall be addressed to the appropriate address of each party as follows:

If to NBTB:

NBT Bancorp Inc.  
52 South Broad Street  
Norwich, New York 13815

Attention: Chief Executive Officer

With a required copy (which shall not constitute notice) to:

Stuart G. Stein, Esq.  
Hogan & Hartson L.L.P.  
555 13<sup>th</sup> Street, N.W.  
Washington, D.C. 20004-1109  
Fax: (202) 637-5910

If to Executive:

Mr. Jeffrey M. Levy

All such notices shall be deemed to have been given on the date delivered, transmitted, or mailed in the manner provided above.

8. Assignment. Neither party may assign this Agreement or any rights or obligations hereunder without the consent of the other party.

9. Governing Law, Jurisdiction and Venue. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of New York, without giving effect to the principles of conflicts of law thereof. The parties hereby designate Chenango County, New York to be the proper jurisdiction and venue for any suit or action arising out of this Agreement. Each of the parties consents to personal jurisdiction in such venue for such a proceeding and agrees that it may be served with process in any action with respect to this Agreement or the transactions contemplated thereby by certified or registered mail, return receipt requested, or to its registered agent for service of process in the State of New York. Each of the parties irrevocably and unconditionally waives and agrees, to the fullest extent permitted by law, not to plead any objection that it may now or hereafter have to the laying of venue or the convenience of the forum of any action or claim with respect to this Agreement or the transactions contemplated thereby brought in the courts aforesaid.

10. Entire Agreement. This Agreement, together with the Change-in-Control Agreement, constitutes the entire understanding between NBTB, NBT Bank and their affiliates, and Executive relating to the subject matter hereof. Any previous discussions, agreements, commitments or understandings of any kind or nature between the parties hereto or between Executive and NBTB, NBT Bank or any of their affiliates, whether oral or written, regarding the subject matter hereof, including without limitation the terms and conditions of employment, compensation, benefits, retirement, competition following employment, and the like, are merged into and superseded by this Agreement. Neither this Agreement nor any provisions hereof can be modified, changed, discharged, or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge, or termination is sought.

11. Illegality; Severability.

(a) Anything in this Agreement to the contrary notwithstanding, this Agreement is not intended and shall not be construed to require any payment to Executive which would violate any federal or state statute or regulation, including without limitation the "golden parachute payment regulations" of the Federal Deposit Insurance Corporation codified to Part 359 of title 12, Code of Federal Regulations.

(b) If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable for any reason whatsoever:

(i) the validity, legality, and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal, or unenforceable) shall not in any way be affected or impaired thereby; and

(ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provisions held to be invalid, illegal, or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal, or unenforceable.

12. Arbitration. Subject to the right of each party to seek specific performance (which right shall not be subject to arbitration), if a dispute arises out of or is in any way related to this Agreement or the asserted breach thereof, such dispute shall be referred to arbitration before the American Arbitration Association the ("AAA") pursuant to the AAA's National Rules for the Resolution of Employment Disputes (the "Arbitration Rules"). A dispute subject to the provisions of this section will exist if either party notifies the other party in writing that a dispute subject to arbitration exists and states, with reasonable specificity, the issue subject to arbitration (the "Arbitration Notice"). The parties agree that, after the issuance of the Arbitration Notice, the parties will try in good faith between the date of the issuance of the Arbitration Notice and the date the dispute is set for arbitration to resolve the dispute by mediation in accordance with the Arbitration Rules. If the dispute is not resolved by the date set for arbitration, then any controversy or claim arising out of this Agreement or the asserted breach hereof shall be resolved by binding arbitration and judgment upon any award rendered by arbitrator(s) may be entered in a court having jurisdiction. In the event any claim or dispute involves an amount in excess of \$100,000, either party may request that the matter be heard and resolved by a single arbitrator. The arbitrator shall have the same power to compel the attendance of witnesses and to order the production of documents or other materials and to enforce discovery as could be exercised by a United States District Court judge sitting in the Northern District of New York. In the event of any arbitration, each party shall have a reasonable right to conduct discovery to the same extent permitted by the Federal Rules of Civil Procedure, provided that discovery shall be concluded within 90 days after the date the matter is set for arbitration. The arbitrator or arbitrators shall have the power to award reasonable attorneys' fees to the prevailing party. Any provisions in this Agreement to the contrary notwithstanding, this section shall be governed by the Federal Arbitration Act and the parties have entered into this Agreement pursuant to such Act.

13. Costs of Litigation. In the event litigation is commenced to enforce any of the provisions hereof, or to obtain declaratory relief in connection with any of the provisions hereof, the prevailing party shall be entitled to recover reasonable attorneys' fees. In the event this Agreement is asserted in any litigation as a defense to any liability, claim, demand, action, cause of action, or right asserted in such litigation, the party prevailing on the issue of that defense shall be entitled to recovery of reasonable attorneys' fees.

14. Affiliation. A company will be deemed to be an "affiliate" of, or "affiliated" NBTB or NBT Bank according to the definition of "Affiliate" set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

15. Headings. The section and subsection headings herein have been inserted for convenience of reference only and shall in no way modify or restrict any of the terms or provisions hereof.

\* \* \* \* \*

IN WITNESS WHEREOF, the parties hereto executed or caused this Agreement to be executed as of the day and year first above written.

NBT BANCORP INC.

By: /S/ Martin A. Dietrich  
\_\_\_\_\_  
Martin A. Dietrich  
President/CEO

/S/ Jeffrey M. Levy  
\_\_\_\_\_  
Jeffrey M. Levy  
Executive

April 23, 2007

Mr. Jeffrey M. Levy

Dear Mr. Levy:

NBT Bancorp Inc. (which, together with its wholly-owned subsidiary, NBT Bank, National Association, is referred to as the "Company") considers the stability of its key management group to be essential to the best interests of the Company and its shareholders. The Company recognizes that, as is the case with many publicly-held corporations, the possibility of a change in control may arise and that the attendant uncertainty may result in the departure or distraction of key management personnel to the detriment of the Company and its shareholders.

Accordingly, the Board of Directors of the Company (the "Board") has determined that appropriate steps should be taken to encourage members of the Company's key management group to continue as employees notwithstanding the possibility of a change in control of the Company.

The Board also believes it important that, in the event of a proposal for transfer of control of the Company, you be able to assess the proposal and advise the Board without being influenced by the uncertainties of your own situation.

In order to induce you to remain in the employ of the Company, this Agreement, which has been approved by the Board, sets forth the severance compensation which the Company agrees will be provided to you in the event your employment with the Company is terminated subsequent to a "change in control" of the Company under the circumstances described below.

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1. Agreement to Provide Services; Right to Terminate.

(a) Termination Prior to Certain Offers. Except as otherwise provided in paragraph (b) below, or in any written employment agreement between you and the Company, the Company or you may terminate your employment at any time. If, and only if, such termination occurs after a "change in control of the Company" (as defined in section 6), the provisions of this Agreement regarding the payment of severance compensation and benefits shall apply.

(b) Termination Subsequent to Certain Offers. In the event a tender offer or exchange offer is made by a "person" (as defined in section 6) for more than 30 percent of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors ("Voting Securities"), including shares of common stock, no par value, of the Company (the "Company Shares"), you agree that you will not leave the employ of the Company (other than as a result of Disability as such term is defined in section 6) and will render services to the Company in the capacity in which you then serve until such tender offer or exchange offer has been abandoned or terminated or a change in control of the Company has occurred as a result of such tender offer or exchange offer. If, during the period you are obligated to continue in the employ of the Company pursuant to this section 1(b), the Company reduces your compensation, terminates your employment without Cause, or you provide written notice of your decision to terminate your employment for Good Reason, your obligations under this section 1(b) shall thereupon terminate and you will be entitled to payments provided under Section 3(b).

2. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect until December 31, 2009; provided, however, that commencing December 31, 2007 and each December 31st thereafter, the remaining term of this Agreement shall automatically be extended for one additional year (to a total of three years) unless at least 90 days prior to such anniversary, the Company or you shall have given notice that this Agreement shall not be extended; and provided, however, that if a change in control of the Company shall occur while this Agreement is in effect, this Agreement shall automatically be extended for 24 months from the date the change in control of the Company occurs. This Agreement shall terminate if you or the Company terminates your employment prior to a change in control of the Company but without prejudice to any remedy the Company may have for breach of your obligations, if any, under section 1(b).

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3. Severance Payment and Benefits If Termination Occurs Following Change in Control for Disability, Without Cause, With Good Reason Within 24 Months of the Change or Without Good Reason within 12 Months of the Change. If, (I) within 24 months from the date of occurrence of any event constituting a change in control of the Company (it being recognized that more than one such event may occur in which case the 24-month period shall run from the date of occurrence of each such event), your employment with the Company is terminated (i) by the Company for Disability, (ii) by the Company without Cause, or (iii) by you with Good Reason (as defined in section 6), or (II) within 12 months from the date of occurrence of any event constituting a change in control of the Company (it being recognized that more than one such event may occur in which case the 12-month period shall run from the date of occurrence of each such event) you terminate your employment either with or without Good Reason, you shall be entitled to a severance payment and other benefits as follows:

(a) Disability. If your employment with the Company is terminated for Disability, your benefits shall thereafter be determined in accordance with the Company's long-term disability income insurance plan. If the Company's long-term disability income insurance plan is modified or terminated following a change in control, the Company shall substitute such a plan with benefits applicable to you substantially similar to those provided by such plan prior to its modification or termination. During any period that you fail to perform your duties hereunder as a result of incapacity due to physical or mental illness, you shall continue to receive your full base salary at the rate then in effect until your employment is terminated by the Company for Disability.

(b) Termination Without Cause or With Good Reason or Within 24 Months of Change in Control or Without Good Reason within 12 Months of the Change. If your employment with the Company is terminated without Cause by the Company or with Good Reason by you within 24 months of a change in control, or by you within 12 months of a change in control of the Company without Good Reason, then the Company shall pay to you, upon demand, the following amounts (net of applicable payroll taxes):

(i) Your full base salary through the Date of Termination at the rate in effect on the date the change in control of the Company occurs plus year-to-date accrued vacation.

(ii) As severance pay, an amount equal to the product of 1.00 multiplied by the greater of (A) the sum of your annualized salary for the calendar year in which the change in control of the Company occurs, the maximum target bonus that could have been paid to you for such year if all applicable targets and objectives had been achieved, or if no formal bonus program is in effect, the largest bonus amount paid to you during any one of the three preceding calendar years, your income from the exercise of nonqualified options during such year, your compensation income from any disqualifying disposition during such year of stock acquired pursuant to the exercise of incentive stock options and other annualized amounts that constitute taxable income to you from the Company for such year, without reduction for salary reduction amounts excludible from income under Section 402(e)(3) or 125 of the Internal Revenue Code of 1986, as amended (the "Code"), or (B) your average "Compensation" (as defined below) for the three calendar years preceding the calendar year in which the change in control of the Company occurs. As used in this subsection 3(b)(ii) your "Compensation" shall mean your base salary, bonus, income from the exercise of nonqualified options, compensation income from any disqualifying disposition of stock acquired pursuant to the exercise of incentive stock options and any other amounts that constitute taxable income to you from the Company, without reduction for salary reduction amounts excludible from income under Section 402(e)(3) or 125 of the Code.

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(c) **Related Benefits.** Unless you die or your employment is terminated by the Company for Cause or Disability, or by you other than for Good Reason and not within 12 months after a change in control of the Company, the Company shall maintain in full force and effect, for your continued benefit and, if applicable, for the continued benefit of your spouse and family, for three years after the Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, certain noncash employee benefit plans, programs, or arrangements (including, without limitation, pension and retirement plans and arrangements, life insurance and accident plans and arrangements, medical insurance plans and disability plans, but excluding stock option plans and vacation plans) in which you were entitled to participate immediately prior to the Date of Termination, as in effect at the Date of Termination, or, if more favorable to you and, if applicable, your spouse and family, as in effect generally at any time thereafter with respect to executive employees of the Company or any successor; provided that your continued participation is possible after Termination under the general terms and provisions of such plans, programs, and arrangements; provided, however, that if you become eligible to participate in a benefit plan, program, or arrangement of another employer which confers substantially similar benefits upon you, you shall cease to receive benefits under this subsection in respect of such plan, program, or arrangement. In the event that your participation in any such plan, program, or arrangement is not possible after Termination under the general terms and provisions of such plans, programs, and arrangements, the Company shall arrange to provide you with benefits substantially similar to those which you are entitled to receive under such plans, programs and arrangements or alternatively, pay an amount equal to the reasonable value of such substantially similar benefits. If, after termination of employment following a change in control of the Company, you elect or, if applicable, your spouse or family elects, COBRA continuation coverage, the Company will pay the applicable COBRA premium for the maximum period during which such coverage is available. If termination follows a change in control of the Company specified in Section 6(b)(iii), then you and, if applicable, your spouse and family may elect in lieu of COBRA continuation coverage to have the acquiring entity obtain an individual or group health insurance coverage and the acquiring entity will pay premiums thereunder for the maximum period during which you and, if applicable, your spouse and family could have elected to receive COBRA continuation coverage.

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(d) Establishment of Trust. Within five days following conclusion of a change in control of the Company, the Company shall establish a trust that conforms in all regards with the model trust published in Revenue Procedure 92-64 and deposit an amount sufficient to satisfy all liabilities of the Company under Section 3(b) of this Agreement.

(e) Automatic Extension. Notwithstanding the prior provisions of this Section, if an individual is elected to the Board of Directors who has not been nominated by the Board of Directors as constituted prior to his election, then the term of this Agreement will automatically be extended until two years from the date on which such individual was elected if such extended termination date is later than the normal termination date of this Agreement, otherwise, the termination date of this Agreement will be as provided above. This extension will take effect only upon the first instance of an individual being elected to the Board of Directors without having been nominated by the original Board.

(f) Alternative to Lump Sum Payout. The amount described in this subsection will be paid to you in a single lump-sum unless, at least 30 days before the conclusion of a change in control of the Company, you elect in writing to receive the severance pay in 3 equal annual payments with the first payment to be made within 30 days of demand and the subsequent payments to be made by January 31st of each year subsequent to the year in which the first payment is made, provided that under no circumstances will two payments be made during a single tax year of the recipient.

(g) Section 409A Compliance. Section 409A was added to the Internal Revenue Code by the American Jobs Creation Act of 2004 (the "Act"). The Act made significant changes in the tax law as it applies to executive compensation. One change involves delaying distributions to "key employees" (as defined below) by a minimum of six months. Therefore, severance payments payable hereunder must be made in compliance with the Act or a substantial excise tax (payable by you) would be imposed. For purposes of the Act, a "key employee" is generally one who is an officer of the Company with annual compensation greater than \$130,000 as provided in Section 416(i) of the Internal Revenue Code and the regulations promulgated thereunder. If you become entitled to the severance payments provided hereunder and if you are in fact a key employee at time payment is owed to you, the Act provides that these payments will be subject to a 20% excise tax. Under the Act, one of the ways to avoid application of the excise tax to severance due a "key employee" is to defer payment for six (6) months after separation from employment.

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Accordingly, if you become entitled to payments hereunder and if at this time you are in fact a "key employee" with the Company, the Company will defer commencement of your severance payments until six (6) months after your Date of Termination.

4. Payment If Termination Occurs Following Change in Control, Because of Death, For Cause, or Without Good Reason and not within 12 Months of the Change in Control. If your employment shall be terminated following any event constituting a change in control of the Company because of your death, or by the Company for Cause, or by you other than for Good Reason and not within 12 months after a change in control of the Company, the Company shall pay you your full base salary through the Date of Termination at the rate in effect on the date the change in control of the Company occurs plus year-to-date accrued vacation. The Company shall have no further obligations to you under this Agreement.

5. No Mitigation. You shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor, except as expressly set forth herein, shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by you as the result of employment by another employer after the Date of Termination, or otherwise.

6. Definitions of Certain Terms. For the purpose of this Agreement, the terms defined in this section 6 shall have the meanings assigned to them herein.

(a) Cause. Termination of your employment by the Company for "Cause" shall mean termination because, and only because, you committed an act of fraud, embezzlement, or theft constituting a felony or an act intentionally against the interests of the Company which causes the Company material injury. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct constituting Cause as defined above and specifying the particulars thereof in detail.

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(b) Change in Control of the Company. A "change in control of the Company" shall mean:

(i) A change in control 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 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 Company's Voting Securities; 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 Company's shareholders, 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 the Company is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of the Company in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock 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, 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 of the Company; or

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

(c) Date of Termination. "Date of Termination" shall mean (i) if your employment is terminated by the Company for Disability, 30 days after Notice of Termination is given (provided that you shall not have returned to the performance of your duties on a full-time basis during such 30-day period), and (ii) if your employment is terminated for any other reason, the date on which a Notice of Termination is given; provided that if within 30 days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties or by a final judgment, order, or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected). The term of this Agreement shall be extended until the Date of Termination.

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(d) Disability. Termination of your employment by the Company for "Disability" shall mean termination because of your absence from your duties with the Company on a full-time basis for 180 consecutive days as a result of your incapacity due to physical or mental illness and your failure to return to the performance of your duties on a full-time basis during the 30-day period after Notice of Termination is given.

(e) Good Reason. Termination by you of your employment for "Good Reason" shall mean termination based on any of the following:

(i) A change in your status or position(s) with the Company, which in your reasonable judgment, does not represent a promotion from your status or position(s) as in effect immediately prior to the change in control of the Company, or a change in your duties or responsibilities which, in your reasonable judgment, is inconsistent with such status or position(s), or any removal of you from, or any failure to reappoint or reelect you to, such position(s), except in connection with the termination of your employment for Cause or Disability or as a result of your death or by you other than for Good Reason.

(ii) A reduction by the Company in your base salary as in effect immediately prior to the change in control of the Company.

(iii) The failure by the Company to continue in effect any Plan (as hereinafter defined) in which you are participating at the time of the change in control of the Company (or Plans providing you with at least substantially similar benefits) other than as a result of the normal expiration of any such Plan in accordance with its terms as in effect at the time of the change in control of the Company, or the taking of any action, or the failure to act, by the Company which would adversely affect your continued participation in any of such Plans on at least as favorable a basis to you as is the case on the date of the change in control of the Company or which would materially reduce your benefits in the future under any of such Plans or deprive you of any material benefit enjoyed by you at the time of the change in control of the Company.

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(iv) The failure by the Company to provide and credit you with the number of paid vacation days to which you are then entitled in accordance with the Company's normal vacation policy as in effect immediately prior to the change in control of the Company.

(v) The Company's requiring you to be based anywhere other than where your office is located immediately prior to the change in control of the Company except for required travel on the Company's business to an extent substantially consistent with the business travel obligations which you undertook on behalf of the Company prior to the change in control of the Company.

(vi) The failure by the Company to obtain from any successor the assent to this Agreement contemplated by section 8 hereof.

(vii) Any purported termination by the Company of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of this Agreement; and for purposes of this Agreement, no such purported termination shall be effective.

(viii) Any refusal by the Company to continue to allow you to attend to matters or engage in activities not directly related to the business of the Company which, prior to the change in control of the Company, you were permitted by the Board to attend to or engage in.

For purposes of this subsection, "Plan" shall mean any compensation plan such as an incentive or stock option plan or any employee benefit plan such as a thrift, pension, profit sharing, medical, disability, accident, life insurance plan, or a relocation plan or policy or any other plan, program, or policy of the Company intended to benefit employees.

(f) Notice of Termination. A "Notice of Termination" of your employment given by the Company shall mean a written notice given to you of the termination of your employment which shall indicate the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(g) Person. The term "Person" shall mean and include any individual, corporation, partnership, group, association, or other "person," as such term is used in section 14(d) of the Exchange Act, other than the Company or any employee benefit plan(s) sponsored by the Company.

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7. Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer of the Company with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Successors; Binding Agreement.

(a) This Agreement shall inure to the benefit of, and be binding upon, any corporate or other successor or assignee of the Company which shall acquire, directly or indirectly, by merger, consolidation or purchase, or otherwise, all or substantially all of the business or assets of the Company. The Company shall require any such successor, by an agreement in form and substance satisfactory to you, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place.

(b) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee or, if there is no such designee, to your estate.

9. Maximization of After-Tax Amounts. Notwithstanding any other provision of this Agreement, and notwithstanding any other agreement or formal or informal compensation plan or arrangement, if you are a “disqualified individual,” as defined in Section 280G(c) of the Internal Revenue Code of 1986, as amended (the “Code”), your right to receive any payment or benefit under this Agreement shall be limited to the extent that: (i) such payment or benefit, taking into account any other “payment in the nature of compensation” (within the meaning of Section 280G of the Code) to you or for your benefit (“Compensation”), would cause any payment or benefit under this Agreement to be considered a “parachute payment” within the meaning of Section 280G(b)(2) of the Code as then in effect (a “Parachute Payment”) and (ii) as a result of receiving a Parachute Payment, the aggregate after-tax amount you would receive (under this Agreement and otherwise) would be less than the maximum after-tax amount that you could receive without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such payment or benefit under this Agreement, in conjunction with your other Compensation, would cause you to be considered to have received a Parachute Payment that would have the effect of decreasing the after-tax amount received by you as described in clause (ii) of the preceding sentence, then you shall have the right, in your sole discretion, to designate any payments or benefits under this Agreement, and any other Compensation, that shall be reduced or eliminated so as to avoid having the payment or benefit to you under this Agreement be deemed to be a Parachute Payment.

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10. Miscellaneous. No provision of this Agreement may be modified, waived, or discharged unless such modification, waiver, or discharge is agreed to in a writing signed by you and the Chief Executive Officer or President of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same, or at any prior or subsequent, time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction, and performance of this Agreement shall be governed by laws of the State of New York without giving effect to the principles of conflict of laws thereof.

11. Legal Fees and Expenses. The Company shall pay or reimburse any reasonable legal fees and expenses you may incur in connection with any legal action to enforce your rights under, or to defend the validity of, this Agreement. The Company will pay or reimburse such legal fees and expenses on a regular, periodic basis upon presentation by you of a statement or statements prepared by your counsel in accordance with its usual practices.

12. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

13. Payments During Controversy. Notwithstanding the pendency of any dispute or controversy, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary and installments of incentive compensation) and continue you as a participant in all compensation, benefit, and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with section 7(c). Amounts paid under this section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement. You shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

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14. Illegality. Anything in this Agreement to the contrary notwithstanding, this Agreement is not intended and shall not be construed to require any payment to you which would violate any federal or state statute or regulation, including without limitation the "golden parachute payment regulations" of the Federal Deposit Insurance Corporation codified to Part 359 of title 12, Code of Federal Regulations.

If this letter correctly sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter, which will then constitute our agreement on this subject.

Very truly yours,

NBT BANCORP INC.

By: /S/ Martin A. Dietrich

AGREED TO:

/S/ Jeffrey M. Levy  
Jeffrey M. Levy

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Description of Arrangement for Directors Fees

Except as set forth below, the following sets forth the amount of fees payable to outside directors of NBT Bancorp for their services as Directors in fiscal year 2008:

Event	Fee
Annual retainer	Cash (Member) - \$5,000 Restricted Stock (Member) - \$10,000 Restricted Stock (Chairman) - \$50,000 Deferred common stock (Member) – 400 shares Deferred common stock (Chairman) – 600 shares
Board meeting attended	Cash (Member) - \$900 per meeting Cash (Chairman) - \$1,000 per meeting
Telephonic board meeting	Cash (Member) - \$900 per meeting Cash (Chairman) - \$1,000 per meeting
Committee meeting attended	Cash (Member) - \$600 per meeting Cash (Chairman) - \$900 per meeting
Telephonic committee meeting	Cash (Member) - \$600 per meeting Cash (Chairman) - \$900 per meeting
Common stock options	Member - 1,000 shares multiplied by the number of board meetings attended in the prior year and divided by the number of meetings held in the prior year.  Chairman - 5,000 shares multiplied by the number of board meetings attended in the prior year and divided by the number of meetings held in the prior year.
Special meeting held with committee member representative at the request of management for the purpose of discussing board related matters.	\$900 per meeting

The Chairman of the Board receives \$1,000 for each board and committee meeting attended except for Compensation & Benefits Committee, Risk Management Committee and the Nominating, Organization & Board Affairs Committee for which the Chairman currently fails to meet "Director Independence" requirements identified under applicable sections of NASDAQ Corporate Governance Rules.

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## List of Subsidiaries of the Registrant

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

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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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, 333-107479, 333-107480, 333-127098 and 333-139956) of NBT Bancorp Inc. of our report dated February 28, 2008, with respect to the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2007 and 2006, 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, 2007, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 annual report on Form 10-K of NBT Bancorp Inc.

/s/ KPMG LLP  
KPMG LLP  
Albany, New York  
February 28, 2008

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

I, Martin A. Dietrich, certify that:

1. I have reviewed this annual report on Form 10-K of NBT Bancorp Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to 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: February 29, 2008  
/S/ Martin A. Dietrich

Martin A. Dietrich  
Chief Executive Officer

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

I, Michael J. Chewens, certify that:

1. I have reviewed this annual report on Form 10-K of NBT Bancorp Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to 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: February 29, 2008  
/S/ Michael J. Chewens

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

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, 2007, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Martin A. Dietrich

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Martin A. Dietrich  
Chief Executive Officer

February 29, 2008

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

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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, 2007, 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

February 29, 2008

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

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