NBT BANCORP INC
Form 10-Q
May 11, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009.
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________.

COMMISSION FILE NUMBER 0-14703

NBT BANCORP INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	16-1268674
(State of Incorporation)	(I.R.S. Employer Identification No.)

52 SOUTH BROAD STREET, NORWICH, NEW YORK 13815
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (607) 337-2265

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of April 30, 2009, there were 34,251,963 shares outstanding of the Registrant's common stock, $0.01 par value.

NBT BANCORP INC.
FORM 10-Q--Quarter Ended March 31, 2009

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NBT Bancorp Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

(In thousands, except share and per share data)	March 31, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 98,753	$ 107,409
Short-term interest bearing accounts	80,580	2,987
Securities available for sale, at fair value	1,111,372	1,119,665
Securities held to maturity (fair value $140,423 and $141,308)	139,195	140,209
Trading securities	1,741	1,407
Federal Reserve and Federal Home Loan Bank stock	37,920	39,045
Loans and leases	3,648,384	3,651,911
Less allowance for loan and lease losses	59,311	58,564
Net loans and leases	3,589,073	3,593,347
Premises and equipment, net	64,951	65,241
Goodwill	114,838	114,838
Intangible assets, net	22,784	23,367
Bank owned life insurance	72,111	72,276
Other assets	72,916	56,297
Total assets	$ 5,406,234	$ 5,336,088
Liabilities		
Demand (noninterest bearing)	$ 688,116	$ 685,495
Savings, NOW, and money market	2,063,222	1,885,551
Time	1,324,581	1,352,212
Total deposits	4,075,919	3,923,258
Short-term borrowings	127,187	206,492
Long-term debt	616,078	632,209
Trust preferred debentures	75,422	75,422
Other liabilities	69,030	66,862
Total liabilities	4,963,636	4,904,243
Stockholders’ equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at March 31, 2009 and December 31, 2008	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at March 31, 2009 and December 31, 2008; issued 36,459,326 and 36,459,344 at March 31, 2009 and December 31, 2008, respectively	365	365
Additional paid-in-capital	276,877	276,418
Retained earnings	251,881	245,340
Accumulated other comprehensive loss	(5,377)	(8,204)
Common stock in treasury, at cost, 3,806,659 and 3,853,548 shares at March 31, 2009 and December 31, 2008, respectively	(81,148)	(82,074)
Total stockholders’ equity	442,598	431,845
Total liabilities and stockholders’ equity	$ 5,406,234	$ 5,336,088

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries Consolidated Statements of Income (unaudited) (In thousands, except per share data)	Three months ended March 31, 2009	2008
Interest, fee, and dividend income		
Interest and fees on loans and leases	$ 55,411	$ 58,617
Securities available for sale	12,375	13,746
Securities held to maturity	1,234	1,514
Other	361	775
Total interest, fee, and dividend income	69,381	74,652
Interest expense		
Deposits	13,839	22,698
Short-term borrowings	147	2,340
Long-term debt	6,197	4,302
Trust preferred debentures	1,086	1,247
Total interest expense	21,269	30,587
Net interest income	48,112	44,065
Provision for loan and lease losses	6,451	6,478
Net interest income after provision for loan and lease losses	41,661	37,587
Noninterest income		
Service charges on deposit accounts	6,297	6,525
Insurance and Broker/dealer revenue	5,338	1,107
Trust	1,409	1,774
Net securities gains	-	15
Bank owned life insurance	872	807
ATM fees	2,182	2,097
Retirement plan administration fees	1,741	1,708
Other	1,751	2,062
Total noninterest income	19,590	16,095
Noninterest expense		
Salaries and employee benefits	21,427	16,770
Occupancy	4,165	3,610
Equipment	2,022	1,825
Data processing and communications	3,295	3,170
Professional fees and outside services	2,722	3,099
Office supplies and postage	1,530	1,339
Amortization of intangible assets	813	391
Loan collection and other real estate owned	748	567
FDIC insurance	1,529	188
Other	4,054	3,075
Total noninterest expense	42,305	34,034
Income before income tax expense	18,946	19,648
Income tax expense	5,874	5,932
Net income	$ 13,072	$ 13,716
Earnings per share		
Basic	$ 0.40	$ 0.43
Diluted	$ 0.40	$ 0.43

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (unaudited)

(in thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
Balance at December 31, 2007	$ 365	$ 273,275	$ 215,031	$ (3,575)	$ (87,796)	$ 397,300
Cumulative effect adjustment to record liability for split-dollar life insurance policies			(1,518)			(1,518)
Net income			13,716			13,716
Cash dividends - $0.20 per share			(6,416)			(6,416)
Purchase of 272,840 treasury shares					(5,939)	(5,939)
Net issuance of 29,193 shares to employee benefit plans and other stock plans, including tax benefit		55	(104)		576	527
Stock-based compensation		599				599
Forfeiture of 8,448 shares of restricted stock					(192)	(192)
Other comprehensive income				7,786		7,786
Balance at March 31, 2008	$ 365	$ 273,929	$ 220,709	$ 4,211	$ (93,351)	$ 405,863
Balance at December 31, 2008	$ 365	$ 276,418	$ 245,340	$ (8,204)	$ (82,074)	$ 431,845
Net income			13,072			13,072
Cash dividends - $0.20 per share			(6,531)			(6,531)
Net issuance of 48,596 shares to employee benefit plans and other stock plans, including tax benefit		133			967	1,100
Stock-based compensation		285				285
Forfeiture of 1,707 shares of restricted stock		41			(41)	-
Other comprehensive income				2,827		2,827
Balance at March 31, 2009	$ 365	$ 276,877	$ 251,881	$ (5,377)	$ (81,148)	$ 442,598

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries Consolidated Statements of Cash Flows (unaudited) (In thousands, except per share data)	Three Months Ended March 31, 2009	2008
Operating activities		
Net income	$ 13,072	$ 13,716
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Provision for loan and lease losses	6,451	6,478
Depreciation and amortization of premises and equipment	1,335	1,288
Net accretion on securities	116	72
Amortization of intangible assets	813	391
Stock based compensation	285	599
Bank owned life insurance income	(872)	(807)
Purchases of trading securities	(436)	-
Unrealized losses in trading securities	102	146
Proceeds from sales of loans held for sale	27,387	4,153
Originations and purchases of loans held for sale	(36,586)	(3,392)
Net gains on sales of loans held for sale	(166)	(13)
Net security gains	-	(15)
Net gain on sales of other real estate owned	(12)	(76)
Net (increase) decrease in other assets	(16,260)	738
Net increase (decrease) in other liabilities	969	(1,297)
Net cash (used in) provided by operating activities	(3,802)	21,981
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	113,516	167,340
Proceeds from sales	-	1,140
Purchases	(101,283)	(150,614)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	14,783	10,876
Purchases	(13,799)	(19,149)
Net decrease (increase) in loans	6,524	(54,621)
Net decrease (increase) in Federal Reserve and FHLB stock	1,125	(3,251)
Cash received from death benefit	1,037	-
Purchases of premises and equipment	(1,045)	(1,548)
Proceeds from sales of other real estate owned	87	266
Net cash provided by (used in) investing activities	20,945	(49,561)
Financing activities		
Net increase (decrease) in deposits	152,661	(17,867)
Net (decrease) increase in short-term borrowings	(79,305)	31,525
Proceeds from issuance of long-term debt	121	50,000
Repayments of long-term debt	(16,252)	(50,029)
Excess tax benefit from exercise of stock options	32	47
Proceeds from the issuance of shares to employee benefit plans and other stock plans	1,068	288
Purchase of treasury stock	-	(5,939)
Cash dividends and payment for fractional shares	(6,531)	(6,416)
Net cash provided by financing activities	51,794	1,609
Net increase (decrease) in cash and cash equivalents	68,937	(25,971)
Cash and cash equivalents at beginning of period	110,396	162,946

Cash and cash equivalents at end of period	$	179,333	$	136,975
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest	$	21,014	$	32,585
Income taxes paid		164		94
Noncash investing activities:				
Loans transferred to OREO	$	664	$	110

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Statements of Comprehensive Income (unaudited)	Three months ended March 31, 2009	2008
(In thousands)		
Net income	$ 13,072	$ 13,716
Other comprehensive income, net of tax		
Unrealized net holding gains arising during the period (pre-tax amounts of $4,026 and $13,368)	2,432	7,741
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of ($0 and ($15))	-	(9)
Pension and other benefits:		
Amortization of prior service cost and actuarial gains (pre-tax amounts of $658 and $90)	395	54
Total other comprehensive income	2,827	7,786
Comprehensive income	$ 15,899	$ 21,502

See accompanying notes to unaudited interim consolidated financial statements

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NBT BANCORP INC. and Subsidiaries
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

Note 1. Description of Business

NBT Bancorp Inc. (the "Registrant") is a registered financial holding company incorporated in the State of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Registrant is the parent holding company of NBT Bank, N.A. (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc. ("NBT Holdings"), 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 and other financial services. Through NBT Holdings, the Company operates Mang Insurance Agency, LLC ("Mang"), a full-service insurance agency. The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. The Registrant's primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Registrant are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial, and NBT Holdings.

The Bank is a full service commercial bank formed in 1856, which provides a broad range of financial products to individuals, corporations and municipalities throughout the central and upstate New York and northeastern Pennsylvania market area.

Note 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Registrant and its wholly owned subsidiaries, the Bank, NBT Financial and NBT Holdings. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company." All intercompany transactions have been eliminated in consolidation. Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation.

Note 3. New Accounting Pronouncements

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

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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 did not have a material impact on our financial condition or results of operations upon adoption.

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

In April 2009, the FASB issued FASB Staff Position (“FSP”) FAS No. 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (“FSP FAS 157-4”). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP FAS 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. In addition, if a company concludes that there has been a significant decrease in the volume and level of activity in relation to the “normal” market activity, transactions or quoted prices may not be determinative of fair value. In such cases, an adjustment to a transaction or quoted price may be necessary to estimate fair value or a change in valuation technique may be necessary. FSP FAS 157-4 is effective for periods ending after June 15, 2009 and early adoption is permitted for March 31, 2009 subject to certain provisions. The Company did not early adopt FSP FAS 157-4. FSP FAS 157-4 is not expected to have a material impact on our financial condition or results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FSP FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments (“FSP FAS 115-2 and FSP FAS 124-2”). FSP FAS 115-2 and FSP FAS 124-2 amends the other-than-temporary impairment guidance in U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments (“OTTI”) of equity securities. FSP FAS 115-2 and FSP FAS 124-2 focuses on triggering and presentation of OTTI for debt securities and applies to both available for sale (“AFS”) and held to maturity (“HTM”) debt securities. In addition, it modifies the current “intent and ability” indicator and changes the trigger used to assess collectibility of cash flows from “probable that the investor will be unable to collect all amounts due” to “the entity does not expect to recover the entire amortized

cost basis of the security". FSP FAS 115-2 and FSP FAS 124-2 also contains new disclosure requirements, including reasons and methodology for amounts not recognized in earnings. FSP FAS 115-2 and FSP FAS 124-2 is effective for periods ending after June 15, 2009 and early adoption is permitted for March 31, 2009 subject to certain provisions. The Company did not early adopt FSP FAS 115-2 and FSP FAS 124-2. FSP FAS 115-2 and FSP FAS 124-2 is not expected to have a material impact on our financial condition or results of operations.

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In April 2009, the FASB issued FSP FAS No. 107-1 and FSP Accounting Principals Board ("APB") 28-1 Interim Disclosures about Fair Value of Financial Instruments ("FSP FAS 107-1 and FSP APB 28-1"). FSP FAS 107-1 and FSP APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments ("FAS 107"), to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FAS 107 disclosures will now be required in interim financial statements for fair value of financial instruments, methods and significant assumptions used to estimate fair value, and significant concentrations of credit risk. FSP FAS 107-1 and APB 28-1 is effective for periods ending after June 15, 2009 and early adoption is permitted for March 31, 2009 subject to certain provisions. The Company did not early adopt FSP FAS 107-1 and FSP APB 28-1. FSP FAS 107-1 and FSP APB 28-1 is not expected to have a material impact on our financial condition or results of operations.

Note 4. Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan and lease losses, other real estate owned ("OREO"), income taxes, pension expense, fair values of lease residual assets, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term.

The allowance for loan and lease losses is the amount which, in the opinion of management, is necessary to absorb probable losses inherent in the loan and lease portfolio. The allowance is determined based upon numerous considerations, including local and national 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 loans. The Company considers the estimated cost to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

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

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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 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 U.S. GAAP.

Income taxes are accounted for under the asset and liability method. The Company files consolidated tax returns on the accrual basis. Deferred income taxes are recognized for the future tax consequences and benefits 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. 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 March 31, 2009 or December 31, 2008. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. Uncertain tax positions are recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position would be sustained upon examination by taxing authorities. Tax positions that meet the more than likely than not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.

Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected long-term 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 assumptions used to compute pension expense. The Company also considers the relevant indices and market interest rates in selecting an appropriate discount rate. A cash flow analysis for expected benefit payments from the plan is performed each year to also assist in selecting the discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the expected rate of increase in future compensation levels.

One of the most significant estimates associated with leasing operations is the estimated residual value of leased vehicles expected at the termination of the lease. A lease receivable asset, when established, includes the estimated residual value of the leased vehicle at the termination of the lease. Management is required to make various assumptions to estimate the fair value of the vehicle lease residual assets. If it is determined that there has been a decline in the estimated fair value of the residual that is judged by management to be other-than-temporary, an impairment charge would be recognized and recorded with other noninterest expenses in the consolidated statements of income.

Management is required to estimate the fair value of securities that are not traded in active markets or are supported by little or no market activity based on estimates consisting of both internal and external support. See Note 9 for additional information regarding fair value measurements.

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. Management is required to make estimates related to the likelihood of these contingencies being exercised to determine their fair value.

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Note 5. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policy to make such commitments as it uses for on-balance-sheet items. Commitments to extend credit and unused lines of credit totaled $503.7 million at March 31, 2009 and $537.6 million at December 31, 2008. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

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 credit 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 guidelines, portfolio maintenance and management procedures as 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. Standby letters of credit totaled $27.4 million at March 31, 2009 and $27.6 million at December 31, 2008. As of March 31, 2009, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

Note 6. Earnings Per Share

Basic earnings per share 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 earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as the Company's dilutive stock options and restricted stock).

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

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

Three months ended March 31,	2009	2008
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	32,478	32,054
Net income available to common shareholders	13,072	13,716
Basic EPS	$ 0.40	$ 0.43
Diluted EPS:		
Weighted average common shares outstanding	32,478	32,054
Dilutive effect of common stock options and restricted stock	167	197
Weighted average common shares and common share equivalents	32,645	32,251
Net income available to common shareholders	13,072	13,716
Diluted EPS	$ 0.40	$ 0.43

There were 1,216,128 stock options for the quarter ended March 31, 2009 and 1,215,439 stock options for the quarter ended March 31, 2008 that were not considered in the calculation of diluted earnings per share since the stock options' exercise price was greater than the average market price during these periods.

Note 7. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at March 31, 2009. 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 Employee Retirement Income Security Act ("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 the Company 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. Eligibility is contingent upon the direct transition from active employment status to retirement without any break in employment from the Company. Employees also must be participants in the Company's medical plan prior to their retirement. 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."

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The components of pension expense and postretirement expense are set forth below (in thousands):

	Pension Benefits Three months ended March 31,		Other Benefits Three months ended March 31,	
Components of net periodic benefit cost:	2009	2008	2009	2008
Service Cost	$ 587	$ 573	$ 6	$ 6
Interest Cost	862	804	56	60
Expected return on plan assets	(1,401)	(1,502)	-	-
Net amortization	671	96	(13)	(6)
Total cost (benefit)	$ 719	$ (29)	$ 49	$ 60

The Company is not required to make contributions to the plans in 2009. However, the Company made contributions to the plans totaling approximately $12.0 million during the first quarter of 2009. The Company recorded approximately $0.4 million, net of tax, as amortization of pension amounts previously recognized in Accumulated Other Comprehensive Loss during the three months ended March 31, 2009.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by the Company's defined benefit pension plan ("the Plan") which could impact the value of these investments.

Note 8. Trust Preferred Debentures

CNBF Capital Trust I is a Delaware statutory business trust formed in 1999, for the purpose of issuing $18 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust I is a Delaware statutory business trust formed in 2005, for the purpose of issuing $5 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust II is a Delaware statutory business trust formed in 2006, for the purpose of issuing $50 million in trust preferred securities and lending the proceeds to the Company to provide funding for the acquisition of CNB Bancorp, Inc. These three statutory business trusts are collectively referred herein to as "the Trusts." 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 FASB 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.

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As of March 31, 2009, the Trusts had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate	Trust Preferred Debt Owed To Trust	Final Maturity date
CNBF Capital Trust I	August 1999	18,000	3-month LIBOR plus 2.75%	$ 18,720	August 2029
NBT Statutory Trust I	November 2005	5,000	6.30% Fixed *	5,155	December 2035
NBT Statutory Trust II	February 2006	50,000	6.195% Fixed *	51,547	March 2036

* Fixed for 5 years, converts to floating at 3-month LIBOR plus 140 basis points ("bp").

The Company owns all of the common stock of the Trusts, which have issued trust preferred securities in conjunction with the Company issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities. In February 2005, the Federal Reserve Board issued a final rule that allows the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies. The Board's final rule limits the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Large, internationally active bank holding companies (as defined) are subject to a 15% limitation. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits. The quantitative limits do not preclude the Company from including the trust preferred securities in Tier 1 capital. However, the trust preferred securities could be redeemed without penalty if they were no longer permitted to be included in Tier 1 capital.

Note 9. Fair Value Measurements and Fair Value of Financial Instruments

The Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), effective January 1, 2008. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

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

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

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

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

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. As required by SFAS No. 157, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid agency securities, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate will be used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The following table sets forth the Company's financial assets and liabilities measured on a recurring basis that were accounted for at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2009
Assets:				
Securities Available for Sale	$ 7,214	$ 1,104,158	$ -	$ 1,111,372
Trading Securities	1,741	-	-	1,741
Total	$ 8,955	$ 1,104,158	$ -	$ 1,113,113

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 a 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.

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SFAS No. 157 requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis such as goodwill, loans held for sale, other real estate owned, lease residuals, collateral-dependent impaired loans, mortgage servicing rights, and held-to-maturity securities. In accordance with the provisions of SFAS No. 114, “Accounting by Creditors for Impairment of a Loan--an amendment of FASB Statements No. 5 and 15” (“SFAS No. 114”), the Company had collateral dependent impaired loans with a carrying value of approximately $4.5 million which had specific reserves included in the allowance for loan and lease losses of $0.7 million at March 31, 2009. During the three month period ended March 31, 2009, the Company established specific reserves of approximately $0.2 million, which were included in the provision for loan and lease losses for the respective periods. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

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NBT BANCORP INC. and Subsidiaries
Item 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The purpose of this discussion and analysis is to provide a concise description of the financial condition and results of operations of NBT Bancorp Inc. ("the Registrant") and its wholly owned consolidated subsidiaries, NBT Bank, N.A. (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), and NBT Holdings, Inc.("NBT Holdings") (collectively referred to herein as the "Company"). This discussion will focus on Results of Operations, Financial Position, Capital Resources and Asset/Liability Management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's 2008 Form 10-K for an understanding of the following discussion and analysis.

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 commercial banking and 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. Through its non-bank subsidiaries, the Company also provided insurance brokerage services and retirement plan consulting and recordkeeping services. 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, insurance and 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.

Because the Company has not actively pursued the types of loans, such as subprime, alt-A and no-interest loans, that have been the most problematic for many banks, the Company has not made substantial changes to its core business of investing deposit funds in loans and leases in its market areas in response to the recent and continuing economic crisis. However, in light of increased margin pressures due in part to the economic crisis, the Company has recently increased its focus on earning noninterest income, including through increases in ATM fees and the Company's acquisition of Mang Insurance Agency in September of 2008. The Company has also recently increased its underwriting standards on certain portfolios and increased its resources for collecting on past due loans.

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, 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," or other similar terms. There are a number of factors, many 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: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may affect interest margins; (4) general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit; (5) legislative or regulatory changes, including changes in accounting standards or tax laws, may adversely affect the businesses in which the Company is engaged; (6) competitors may have greater

financial resources and develop products that enable such competitors to compete more successfully than the Company; (7) adverse changes may occur in the securities markets or with respect to inflation; (8) acts of war or terrorism; (9) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; (10) internal control failures; and (11) the Company's success in managing the risks involved in the foregoing.

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The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and advises readers that various factors, including those described above and other factors discussed in the Company's annual and quarterly reports previously filed with the Securities and Exchange Commission, 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.

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

Critical Accounting Policies

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the judgment in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management's current evaluation of the allowance for loan and lease losses indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance may need to be increased. For example, if historical loan and lease loss experience significantly worsened or if current economic conditions further deteriorated, particularly in the Company's primary market area, additional provisions for loan and lease losses may 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 evaluations were significantly lowered, the Company's allowance for loan and lease policy may require additional provisions for loan and lease losses.

Management of the Company considers the accounting policy relating to pension accounting to be a critical accounting policy. 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 relevant indices 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.

Management of the Company considers the accounting policy relating to other-than-temporary impairment to be a critical accounting policy. Management systematically evaluates certain assets for other-than-temporary declines in market value, primarily investment securities and lease residual assets. Management considers historical values and current market conditions as a part of the assessment. Assets for which declines in market value are deemed to be other-than-temporary are written down to current market value and the resultant changes are included in earnings as noninterest expense.

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Overview

The following information should be considered in connection with the Company's results for the first three months of 2009:

- FDIC premiums increased in comparison to the first quarter of 2008 based on rate increases primarily due to current economic conditions. The Company expects FDIC premiums to remain at these increased levels during the remainder of 2009. In addition, unless repealed or amended by the FDIC, there will be a one-time special assessment of 20 additional basis points in FDIC premiums during the second quarter of 2009, which will be collected on September 30, 2009.

- Pension expenses increased in comparison to the first quarter of 2008 primarily due to the impact of market declines on pension assets. The Company expects pension expense to remain at these increased levels during the remainder of 2009.

- The Company's results for the quarter, unlike the first quarter of 2008, include the results of Mang, which was acquired by the Company on September 1, 2008. Mang provides brokered insurance products to individuals and businesses from locations in 18 upstate New York communities.

- The Company's common stock was added to the Standard & Poor's SmallCap 600 Index during the first quarter of 2009. Simultaneously with being added to the index, the Company launched a public offering of its common stock, which was completed during the second quarter of 2009.

The Company earned net income of $13.1 million ($0.40 diluted earnings per share) for the three months ended March 31, 2009, down slightly from net income of $13.7 million ($0.43 diluted earnings per share) for the three months ended March 31, 2008. Net interest income increased approximately $4.0 million, or 9.2%, for the three months ended March 31, 2009 as compared to the same period in 2008. The increase in net interest income was due primarily to a decrease in interest expense of approximately $9.3 million, or 30.5%. In addition, noninterest income increased $3.5 million, or 21.7%, for the three months ended March 31, 2009 as compared to the first quarter of 2008. The increases in net interest income and noninterest income were offset by a $8.3 million, or 24.3%, increase in noninterest expense for the three months ended March 31, 2009 as compared with the same period in 2008.

Table 1 depicts several annualized measurements of performance using U.S. GAAP net income that management reviews in analyzing the Company’s performance. Returns on average assets and equity measure how effectively an entity utilizes its total resources and capital, respectively. Net interest margin, which is the net federal taxable equivalent (FTE) interest income divided by average earning assets, is a measure of an entity's ability to utilize its earning assets in relation to the cost of funding. Interest income for tax-exempt securities and loans is adjusted to a taxable equivalent basis using the statutory Federal income tax rate of 35%.

Table 1 - Performance Measures

March 31,	2009	2008
Return on average assets (ROAA)	0.99%	1.07%
Return on average equity (ROAE)	12.14%	13.68%
Net Interest Margin	4.09%	3.84%

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Net Interest Income

Net interest income is the difference between interest income on earning assets, primarily loans and securities, and interest expense on interest bearing liabilities, primarily deposits and borrowings. Net interest income is affected by the interest rate spread, the difference between the yield on earning assets and cost of interest bearing liabilities, as well as the volumes of such assets and liabilities. Net interest income is one of the major determining factors in a financial institution's performance as it is the principal source of earnings. In response to the financial crisis, the Federal Open Market Committee lowered the target Federal Funds rate 500 bp, from 5.25% to 0.25% from September 2007 to December 2008 resulting in a corresponding drop in the Prime Rate from 8.25% to 3.25%. As a result of the lower rate environment, interest earning assets are repricing downward and the Company has lowered rates paid on interest-bearing liabilities. The impact of these actions is further explained in Table 2, which represents an analysis of net interest income on a FTE basis.

FTE net interest income increased $4.0 million, or 8.7%, during the three months ended March 31, 2009, compared to the same period of 2008. The increase in FTE net interest income resulted primarily from a decrease in the rate paid on interest bearing liabilities of 98 bp, to 2.07% for the three months ended March 31, 2009 from 3.05% for the same period in 2008. The interest rate spread increased 42 bp during the three months ended March 31, 2009 compared to the same period in 2008. The net interest margin increased by 25 bp to 4.09% for the three months ended March 31, 2009, compared with 3.84% for the same period in 2008. For the three months ended March 31, 2009, total FTE interest income decreased $5.3 million, or 7.0%. The yield on earning assets for the period decreased 57 bp to 5.84% for the three months ended March 31, 2009 from 6.41% for the same period in 2008. This decrease was partially offset by an increase in average interest earning assets of $143.0 million, or 3.0%, for the three months ended March 31, 2009 when compared to the same period in 2008, principally from growth in average loans and leases.

For the quarter ended March 31, 2009, total interest expense decreased $9.3 million, or 30.5%, primarily the result of the 200 bp decrease in the Federal Funds target rate since March 31, 2008, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest bearing liabilities increased $130.8 million, or 3.2%, for the three months ended March 31, 2009 when compared to the same period in 2008, principally from growth in long-term debt and money market deposit accounts. Total average interest bearing deposits increased $79.6 million, or 2.5%, for the three months ended March 31, 2009 when compared to the same period in 2008. The rate paid on average interest bearing deposits decreased 113 bp from 2.82% for the three months ended March 31, 2008 to 1.69% for the same period in 2009. For the three months ended March 31, 2009, the Company experienced a shift in its deposit mix from time deposits to money market deposit accounts and NOW accounts. Average time deposit accounts decreased approximately $271.8 million, or 16.8%, when compared to the same period in 2008, while money market accounts and NOW accounts collectively increased approximately $334.7 million, or 28.9%.

Total average borrowings, including trust preferred debentures, increased $51.2 million, or 6.4%, for the three months ended March 31, 2009 compared with the same period in 2008. Average short-term borrowings decreased by $155.1 million, or 51.1%, from $303.6 million for the three months ended March 31, 2008 to $148.4 million for the three months ended March 31, 2009. Interest expense from short-term borrowings decreased $2.2 million, or 93.7%. The rate paid on short-term borrowings decreased 270 bp from 3.10% for the three months ended March 31, 2008 to 0.40% for the same period in 2009. Average long-term debt increased $206.4 million, or 48.6%, for the three months ended March 31, 2009, compared with the same period in 2008. The rate paid on long-term debt decreased to 3.98% for the three months ended March 31, 2009, compared with 4.07% for the same period in 2008. As a result of the increase in the average balance of long-term debt, interest paid on long-term debt increased $1.9 million, or 44.0%, for the three months ended March 31, 2009 as compared to the same period in 2008.

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Table 2
Average Balances and Net Interest Income
The following tables include 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 has been adjusted to a taxable-equivalent basis using the statutory Federal income tax rate of 35%.

Three months ended March 31,

	2009			2008		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 2,684	$ 13	1.98%	$ 8,400	$ 79	3.78%
Securities available for sale (1)(excluding unrealized gains or losses)	1,089,512	13,114	4.88%	1,120,257	14,419	5.18%
Securities held to maturity (1)	138,700	1,861	5.44%	152,860	2,285	6.01%
Investment in FRB and FHLB Banks	38,852	349	3.64%	37,509	697	7.47%
Loans and leases (2)	3,658,682	55,626	6.17%	3,466,360	58,830	6.83%
Total interest earning assets	4,928,430	70,963	5.84%	4,785,386	76,310	6.41%
Other assets	423,046			378,958		
Total assets	5,351,476			5,164,344		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	942,223	3,109	1.34%	709,962	4,178	2.37%
NOW deposit accounts	550,241	786	0.58%	447,852	995	0.89%
Savings deposits	478,033	210	0.18%	461,307	762	0.66%
Time deposits	1,342,097	9,734	2.94%	1,613,878	16,763	4.18%
Total interest bearing deposits	3,312,594	13,839	1.69%	3,232,999	22,698	2.82%
Short-term borrowings	148,448	147	0.40%	303,576	2,340	3.10%
Trust preferred debentures	75,422	1,086	5.84%	75,422	1,247	6.65%
Long-term debt	631,238	6,197	3.98%	424,872	4,302	4.07%
Total interest bearing liabilities	4,167,702	21,269	2.07%	4,036,869	30,587	3.05%
Demand deposits	680,835			659,417		
Other liabilities	66,254			64,893		
Stockholders' equity	436,685			403,165		
Total liabilities and stockholders' equity	$ 5,351,476			$ 5,164,344		
Net interest income (FTE)		49,694			45,723	

Interest rate spread			3.77%			3.36%
Net interest margin			4.09%			3.84%
Taxable equivalent adjustment		1,582			1,658	
Net interest income	$	48,112		$	44,065	

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

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

Analysis of Changes in Taxable Equivalent Net Interest Income

Three months ended March 31,

	Increase (Decrease) 2009 over 2008		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ (39)	$ (27)	$ (66)
Securities available for sale	(424)	(881)	(1,305)
Securities held to maturity	(209)	(215)	(424)
Investment in FRB and FHLB Banks	26	(374)	(348)
Loans and leases	4,314	(7,518)	(3,204)
Total interest income	3,668	(9,015)	(5,347)
Money market deposit accounts	3,254	(4,323)	(1,069)
NOW deposit accounts	388	(597)	(209)
Savings deposits	29	(581)	(552)
Time deposits	(2,549)	(4,480)	(7,029)
Short-term borrowings	(811)	(1,382)	(2,193)
Trust preferred debentures	-	(161)	(161)
Long-term debt	1,986	(91)	1,895
Total interest expense	2,297	(11,615)	(9,318)
Change in FTE net interest income	$ 1,371	$ 2,600	$ 3,971

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 periods indicated:

	Three months ended March 31,	
	2009	2008
(in thousands)		
Service charges on deposit accounts	$ 6,297	$ 6,525
Insurance and Broker/dealer revenue	5,338	1,107
Trust	1,409	1,774
Net securities gains	-	15
Bank owned life insurance	872	807
ATM fees	2,182	2,097
Retirement plan administration fees	1,741	1,708
Other	1,751	2,062

Total noninterest income	$	19,590	$	16,095

Noninterest income for the three months ended March 31, 2009 was $19.6 million, up $3.5 million or 21.7% from $16.1 million for the same period in 2008. The increase in noninterest income was due primarily to an increase in insurance and broker/dealer revenue of approximately $4.2 million for the three months ended March 31, 2009, primarily due to the acquisition of Mang Insurance Agency, LLC during the third quarter of 2008. This increase was partially offset by a decrease in trust administration income of $0.4 million for the three months ended March 31, 2009, compared with the same period in 2008. This decrease was primarily the result of a decline in the value of trust assets under administration.

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Noninterest Expense

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

	Three months ended March 31,	
	2009	2008
(in thousands)		
Salaries and employee benefits	$ 21,427	$ 16,770
Occupancy	4,165	3,610
Equipment	2,022	1,825
Data processing and communications	3,295	3,170
Professional fees and outside services	2,722	3,099
Office supplies and postage	1,530	1,339
Amortization of intangible assets	813	391
Loan collection and other real estate owned	748	567
FDIC insurance	1,529	188
Other	4,054	3,075
Total noninterest expense	$ 42,305	$ 34,034

Noninterest expense for the three months ended March 31, 2009 was $42.3 million, up from $34.0 million for the same period in 2008. Salaries and employee benefits increased $4.7 million, or 27.8%, for the three months ended March 31, 2009, compared with the same period in 2008. The Company experienced increases of approximately $0.8 million and $0.4 million in pension and medical expenses, respectively, for the three months ended March 31, 2009 as compared with the same period in 2008. The balance of the increase was due primarily to increases in full-time-equivalent employees during 2009, largely due to new branch activity and the aforementioned acquisition. In addition, Occupancy, equipment and data processing and communications expenses were $9.5 million for the three months ended March 31, 2009, up $0.9 million, or 10.2%, from $8.6 million for the three months ended March 31, 2008. This increase was due primarily to an increase in expenses related to new branch activity during the past nine months. Professional fees and outside services decreased $0.4 million for the three months ended March 31, 2009, compared with the same period in 2008, due primarily to professional fees incurred in 2008 related to noninterest income initiatives. Amortization of intangible assets was $0.8 million for the three months ended March 31, 2009, up from $0.4 million for same period in 2008 due to the aforementioned acquisition. FDIC insurance increased approximately $1.3 million for the three months ended March 31, 2009, compared with the same period in 2008. Other operating expenses were $4.1 million for the three months ended March 31, 2009, up $1.0 million from $3.1 million for the three months ended March 31, 2008. This increase resulted primarily from various nonrecurring recoveries in 2008.

Income Taxes

Income tax expense for the three months ended March 31, 2009 and 2008 was $5.9 million. The effective rates were 31.0% and 30.2% for the three months ended March 31, 2009 and 2008, respectively.

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ANALYSIS OF FINANCIAL CONDITION

Securities

The Company classifies its securities at date of purchase as 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 recorded at amortized cost. 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. 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 nonaccrual status.

Held to maturity securities experienced a very slight decline from December 31, 2008 to March 31, 2009. At March 31, 2009, the balance of securities held to maturity was $139.2 million, as compared with $140.2 million at December 31, 2008. Available for sale securities also experienced a very slight decline. At March 31, 2009, the balance of available for sale securities declined by approximately $8.3 million, or less than 1%, from December 31, 2008.

Average total earning securities decreased $44.9 million, or 3.5%, for the three months ended March 31, 2009 when compared to the same period in 2008. The average balance of securities available for sale decreased $30.7 million, or 2.7%, for the three months ended March 31, 2009 when compared to the same period in 2008. The average balance of securities held to maturity decreased $14.2 million, or 9.3%, for the three months ended March 31, 2009, compared to the same period in 2008. The average total securities portfolio represents 24.9% of total average earning assets for the three months ended March 31, 2009, down from 26.6% for the same period in 2008.

The balance of securities available for sale decreased $8.3 million, or 0.7%, for the three months ended March 31, 2009 when compared to the same period in 2008. The balance of securities held to maturity decreased $1.0 million, or 0.7%, for the three months ended March 31, 2009, compared to the same period in 2008.

The following table details the composition of securities available for sale, securities held to maturity and regulatory investments for the periods indicated:

	March 31, 2009	December 31, 2008
Mortgage-backed securities:		
With maturities 15 years or less	21%	22%
With maturities greater than 15 years	6%	6%
Collateral mortgage obligations	28%	29%
Municipal securities	21%	20%
US agency notes	19%	17%
Other	5%	6%
Total	100%	100%

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Loans and Leases

A summary of loans and leases, net of deferred fees and origination costs, by category for the periods indicated follows:

(In thousands)	March 31, 2009	December 31, 2008
Residential real estate mortgages	$ 708,343	$ 722,723
Commercial	572,974	572,059
Commercial real estate mortgages	670,399	669,720
Real estate construction and development	73,454	67,859
Agricultural and agricultural real estate mortgages	111,418	113,566
Consumer	812,787	795,123
Home equity	615,917	627,603
Lease financing	83,092	83,258
Total loans and leases	$ 3,648,384	$ 3,651,911

Total loans and leases were $3.6 billion, or 67.5% of assets at March 31, 2009 and $3.7 billion, or 68.4% of assets at December 31, 2008. Total loans and leases decreased nominally from December 31, 2008. Residential real estate mortgages decreased by approximately $14.4 million, or 2.0%, from December 31, 2008 to March 31, 2009 due to an increase in refinancing activity in the low rate environment. In addition, the Company has increased sales of newly originated loans to secondary markets. Home equity loans decreased by approximately $11.7 million, or 1.9%, from December 31, 2008 to March 31, 2009 as the Company decreased home equity loan originations in the first quarter of 2009.

Allowance for Loan and Lease Losses, Provision for Loan and Lease Losses, and Nonperforming Assets

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 using a methodology designed to ensure the level of the allowance reasonably reflects the loan 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 degree of judgment exercised in evaluating the level 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 factors 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 thorough current assessment of a number of factors, which could affect collectibility. These factors include: past loss experience; the size, trend, composition, and nature of the loans and leases; changes in lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices; trends experienced in nonperforming and delinquent loans and leases; 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 judgment about information available to them at the time of their examination, which may not be currently available to management.

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After a thorough consideration and validation of the factors discussed above, 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 the 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. The allowance for loan and lease losses to outstanding loans and leases at March 31, 2009 was 1.63% compared with 1.60% at December 31, 2008. Management considers the allowance for loan losses to be adequate based on evaluation and analysis of the loan portfolio.

Table 3 reflects changes to the allowance for loan and lease losses for the periods presented. The allowance is increased by provisions for losses charged to operations and is reduced by net charge-offs. Charge-offs are made when the ability to collect loan principal within a reasonable time becomes unlikely. Any recoveries of previously charged-off loans are credited directly to the allowance for loan and lease losses.

Table 3
Allowance For Loan and Lease Losses

	Three months ended					
(dollars in thousands)	March 31, 2009			March 31, 2008		
Balance, beginning of period	$	58,564		$	54,183	
Recoveries		1,155			1,077	
Chargeoffs		(6,859)			(5,238)	
Net chargeoffs		(5,704)			(4,161)	
Provision for loan losses		6,451			6,478	
Balance, end of period	$	59,311		$	56,500	
Composition of Net Chargeoffs						
Commercial and agricultural	$	(2,188)	38%	$	(2,451)	59%
Real estate mortgage		(202)	4%		(118)	3%
Consumer		(3,314)	58%		(1,592)	38%
Net chargeoffs	$	(5,704)	100%	$	(4,161)	100%
Annualized net chargeoffs to average loans and leases		0.63%			0.48%	

Nonperforming assets consist of nonaccrual loans, loans 90 days or more past due and still accruing, restructured loans, OREO, and nonperforming securities. Loans are generally placed on nonaccrual when principal or interest payments become ninety days past due, unless the loan is well secured and in the process of collection. Loans may also be placed on nonaccrual when circumstances indicate that the borrower may be unable to meet the contractual principal or interest payments. OREO represents property acquired through foreclosure and is valued at the lower of the carrying amount or fair market value, less any estimated disposal costs. Nonperforming securities include securities which management believes are other-than-temporarily impaired, carried at their estimated fair value and are not accruing interest.

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Nonperforming Assets

(Dollars in thousands)	March 31, 2009	December 31, 2008
Nonaccrual loans		
Commercial and agricultural loans and real estate	$ 15,987	$ 15,891
Real estate mortgages	3,445	3,803
Consumer	4,335	3,468
Troubled debt restructured loans	980	1,029
Total nonaccrual loans	24,747	24,191
Loans 90 days or more past due and still accruing		
Commercial and agricultural loans and real estate	-	12
Real estate mortgages	383	770
Consumer	2,154	1,523
Total loans 90 days or more past due and still accruing	2,537	2,305
Total nonperforming loans	27,284	26,496
Other real estate owned (OREO)	1,254	665
Total nonperforming assets	28,538	27,161
Total nonperforming loans to total loans and leases	0.75%	0.73%
Total nonperforming assets to total assets	0.53%	0.51%
Total allowance for loan and lease losses to nonperforming loans	217.38%	221.03%

In addition to nonperforming loans, the Company has also identified approximately $94.0 million in potential problem loans at March 31, 2009 as compared to $95.4 million at December 31, 2008. Potential problem loans are loans that are currently performing, but known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in classification 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 March 31, 2009, potential problem loans primarily consisted of commercial real estate and commercial and agricultural loans. 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 Company recorded a provision for loan and lease losses of $6.5 million during the first quarter of 2009 and 2008. The provision remained at similar levels primarily due to an increase in net charge-offs during the quarter ended March 31, 2009 compared with the quarter ended March 31, 2008. This was offset by a decreased in nonperforming loans during the same period. Net charge-offs totaled $5.7 million for the three month period ending March 31, 2009, up from $4.2 million for the three months ended March 31, 2008. The increase in net charge-offs for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 was due primarily to increased charge-offs in the first quarter of 2009 related to commercial and agricultural loans.

Subprime mortgage lending, which has been the riskiest sector of the residential housing market, is not a market that the Company has ever actively pursued. The market does not apply a uniform definition of what constitutes “subprime” lending. Our reference to subprime lending relies upon the “Statement on Subprime Mortgage Lending” issued by the OTS and the other federal bank regulatory agencies, or the Agencies, on June 29, 2007, which further referenced the “Expanded Guidance for Subprime Lending Programs,” or the Expanded Guidance, issued by the Agencies by press release dated January 31, 2001. In the Expanded Guidance, the Agencies indicated that subprime lending does not refer to individual subprime loans originated and managed, in the ordinary course of business, as exceptions to prime risk selection standards. The Agencies recognize that many prime loan portfolios will contain such accounts. The Agencies also excluded prime loans that develop credit problems after acquisition and community development loans from the subprime arena. According to the Expanded Guidance, subprime loans are other loans to borrowers which display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions’ specific subprime definitions, are set forth, including having a FICO score of 660 or below. Based upon the definition and exclusions described above, the Company is a prime lender. Within the loan portfolio, there are loans that, at the time of origination, had FICO scores of 660 or below. However, since the Company is a portfolio lender, it reviews all data contained in borrower credit reports and does not base underwriting decisions solely on FICO scores. We believe the aforementioned loans, when made, were amply collateralized and otherwise conformed to our prime lending standards. The Company has not originated Alt A loans or no interest loans.

Deposits

Total deposits were $4.1 billion at March 31, 2009, up $152.7 million, or 3.9%, from December 31, 2008. The increase in deposits compared with December 31, 2008 was driven primarily by increases in money market accounts and NOW accounts.

Total average deposits for the three months ended March 31, 2009 increased $101.0 million, or 2.6%, from the same period in 2008. The Company experienced an increase in average money market accounts of $232.3 million, or 32.7%, for the three months ended March 31, 2009 compared to the same period in 2008. Average NOW accounts increased $102.4 million, or 22.9%, to $550.2 million for the three months ended March 31, 2009 from $447.9 million for the same period in 2008. This increase in average money market and NOW accounts was primarily due to a shift from time deposit accounts to money market accounts and NOW accounts. Average savings accounts increased $16.7 million, or 3.6%, for the three month period ending March 31, 2009 as compared to the same period in 2008. Average time deposits decreased $271.8 million, or 16.8%, for the three months ended March 31, 2009 from the same period in 2008. Average demand deposit accounts increased $21.4 million, or 3.2%, for the three months ended March 31, 2009 as compared to the same period in 2008. This was due primarily to an increasing customer base, as the Company continues to expand into new markets.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $127.2 million at March 31, 2009 compared to $206.5 million at December 31, 2008. Long-term debt was $616.1 million at March 31, 2009, as compared to $632.2 million at December 31, 2008. For more information about the Company’s borrowing capacity and liquidity position, see the section with the title caption of “Liquidity Risk” on page 36 of this report.

Capital Resources

Stockholders' equity of $442.6 million represented 8.2% of total assets at March 31, 2009, compared with $431.8 million, or 8.1% as of December 31, 2008. The Company did not purchase shares of its common stock during the

three month period ended March 31, 2009. At March 31, 2009, there were 1,000,000 shares available for repurchase under previously announced plans.

The Board of Directors considers the Company's earnings position and earnings potential when making dividend decisions. The Company does not have a target dividend pay out ratio.

As the capital ratios in Table 4 indicate, the Company remains “well capitalized.” Capital measurements are well in excess of regulatory minimum guidelines and meet the requirements to be considered well capitalized for all periods presented. Tier 1 leverage, Tier 1 capital and Risk-based capital ratios have regulatory minimum guidelines of 3%, 4% and 8% respectively, with requirements to be considered well capitalized of 5%, 6% and 10%, respectively.

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Table 4

Capital Measurements	March 31, 2009	December 31, 2008
Tier 1 leverage ratio	7.47%	7.17%
Tier 1 capital ratio	10.11%	9.75%
Total risk-based capital ratio	11.36%	11.00%
Cash dividends as a percentage of net income	49.96%	44.27%
Per common share:		
Book value	$ 13.55	$ 13.24
Tangible book value	$ 9.34	$ 9.01

Table 5 presents the high, low and closing sales price for the common stock as reported on the NASDAQ Stock Market, and cash dividends declared per share of common stock. The Company's price to book value ratio was 1.60 at March 31, 2009 and 1.75 in the comparable period of the prior year. The Company's price was 12.3 times trailing twelve months earnings at March 31, 2009, compared to 14.5 times for the same period last year.

Table 5
Quarterly Common Stock and Dividend Information

Quarter Endings	High	Low	Close	Cash Dividends Declared
2009				
March 31	$ 28.37	$ 15.42	$ 21.64	$ 0.20
2008				
March 31	$ 23.65	$ 17.95	$ 22.20	$ 0.20
June 30	25.00	20.33	20.61	0.20
September 30	36.47	19.05	29.92	0.20
December 31	30.83	21.71	27.96	0.20

On April 27, 2009, the Company announced the declaration of a regular quarterly cash dividend of $0.20 per share. The cash dividend will be paid on June 15, 2009 to stockholders of record as of June 1, 2009.

Liquidity and Interest Rate Sensitivity Management

Market Risk

Interest rate risk is among the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company’s business activities. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on the Company’s net interest income. Net interest income is susceptible to interest rate risk to the degree that 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.

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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 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 with static balance sheets: (1) a gradual increase of 200 bp, (2) and a gradual decrease of 100 bp taking place over a 12-month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded into them are handled accordingly based on the interest rate scenario. The resultant changes in net interest income are then measured against the flat rate scenario.

In the declining rate scenario, net interest income is projected to decrease when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The decrease in net interest income is a result of earning assets repricing downward at a faster rate than interest bearing liabilities. The inability to effectively lower deposit rates will likely reduce or eliminate the benefit of lower interest rates. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. Net interest income is projected to remain at lower levels than in a flat rate scenario through the simulation period primarily due to a lag in assets repricing while funding costs increase. The potential impact on earnings is dependent on the ability to lag deposit repricing. If short-term rates continue to increase, the Company expects competitive pressures will likely lead to core deposit pricing increases, which will likely continue compression of the net interest margin.

Net interest income for the next 12 months in the + 200/- 100 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the March 31, 2009 balance sheet position:

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Table 6
Interest Rate Sensitivity Analysis

Change in interest rates (in bp points)	Percent change in net interest income
+200	(1.06%)
-100	(0.95%)

The Company has taken several measures to mitigate exposure to an upward rate scenario. The Company has extended short term wholesale borrowings (three months or less) into longer term borrowings with maturities of three, four and five years along with purchasing monthly floating rate investments. In addition, the Company will continue to focus on growing noninterest bearing demand deposits and prudently managing deposit costs. Lastly, the Company originates 15-year, 20-year and 30-year residential real estate mortgages with the intent to sell.

Liquidity Risk

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

The primary liquidity measurement the Company utilizes is called the Basic Surplus, which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short- and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. At March 31, 2009, the Company's Basic Surplus measurement was 7.6% of total assets or $411 million as compared to the December 31, 2008 Basic Surplus of 6.6%, but was above the Company's minimum of 5% or $270 million set forth in its liquidity policies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the Company is able to operate with a more fully invested and, therefore, higher interest income generating, securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position.

The Company's primary source of funds is the Bank. Certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends. The approval of the 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 March 31, 2009, approximately $22.4 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 is also 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 General Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or

capital surplus.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information called for by Item 3 is contained in the Liquidity and Interest Rate Sensitivity Management section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2008. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the evaluation date, the Company's disclosure controls and procedures were effective in timely alerting them to any material information relating to the Company and its subsidiaries required to be included in the Company's periodic SEC filings.

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

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PART II. OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

The Company has revised the risk factors it previously disclosed in its Form 10-K for the year ended December 31, 2008. The risk factors set forth in this Item 1A supersede and replace the risk factors in the 2008 Form 10-K.

Deterioration in local economic conditions may negatively impact our financial performance.

The Company's success depends primarily on the general economic conditions of upstate New York and northeastern Pennsylvania and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in the upstate New York areas of Norwich, Oneonta, Amsterdam-Gloversville, Albany, Binghamton, Utica-Rome, Plattsburg, and Ogdensburg-Massena and the northeastern Pennsylvania areas of Scranton, Wilkes-Barre and East Stroudsburg. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources.

As a lender with the majority of our loans secured by real estate or made to businesses in New York and Pennsylvania, a downturn in the local economy could cause significant increases in nonperforming loans, which could hurt our profits. Declines in real estate values in our market areas could cause any of our loans to become inadequately collateralized, which would expose us to greater risk of loss. Additionally, a decline in real estate values could adversely impact our portfolio of residential and commercial real estate loans and could result in the decline of originations of such loans, as most of our loans, and the collateral securing our loans, are located in those areas.

Variations in interest rates may negatively affect our financial performance.

The Company's earnings and financial condition are largely dependent upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect the Company's earnings and financial condition. The Company cannot predict with certainty or control changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the Federal Reserve Board, affect interest income and interest expense. High interest rates could also affect the amount of loans that the Company can originate, because higher rates could cause customers to apply for fewer mortgages, or cause depositors to shift funds from accounts that have a comparatively lower cost, to accounts with a higher cost or experience customer attrition due to competitor pricing. With short-term interest rates at historic lows and the current Federal Funds target rate at 25 bp, the Company's interest-bearing deposit accounts, particulary core deposits, are repricing at historic lows as well. In the future, we anticipate that the interest rate environment will increase and the Federal funds target rate will start to increase. Depending on the nature and scale of those increases, the company's challenge will be managing the magnitude and scope of the repricing. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, net interest income will be negatively affected. Changes in the asset and liability mix may also affect net interest income. Similarly, lower interest rates cause higher yielding assets to prepay and floating or adjustable rate assets to reset to lower rates. If the Company is not able to reduce its funding costs sufficiently, due to either competitive factors or the maturity schedule of existing liabilities, then the Company's net

interest margin will decline.

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Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Net Interest Income" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 3. 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.

Our lending, and particularly our emphasis on commercial and construction lending, exposes us to the risk of losses upon borrower default.

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

As of March 31, 2009, approximately 38% of the Company's loan and lease portfolio consisted of commercial, agricultural, construction and commercial real estate loans. These types of loans generally expose a lender to greater risk of non-payment and loss than residential real estate loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of constructions. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Because the Company's loan portfolio contains a significant number of commercial and industrial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and/or an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Loans and Leases" in Item 2. 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.

If our allowance for loan and lease losses is not sufficient to cover actual loan and lease losses, our earnings will decrease.

The Company maintains an allowance for loan and lease losses, which is an allowance established through a provision for loan and lease losses charged to expense, that represents management's best estimate of probable losses that could be incurred within the existing portfolio of loans and leases. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan and lease portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan and lease portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the

allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan 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 "Allowance for Loan and Lease Losses, Provision for Loan and Lease Losses, and Nonperforming Assets" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan and losses.

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Strong competition within our industry and market area could hurt our performance and slow our growth.

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

The Company's ability to compete successfully depends on a number of factors, including, among other things:

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

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

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There can be no assurance that recent government action will help stabilize the U.S. financial system and will not have unintended adverse consequences.

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

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

The Company, primarily through the Bank and certain non-bank subsidiaries, is subject to extensive federal regulation and supervision. Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Company’s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company’s business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned “Supervision and Regulation” which is located in Item 1. Business in the Company’s Annual Report on Form 10-K.

Our ability to service our debt, pay dividends and otherwise pay our obligations as they come due is substantially dependent on capital distributions from our subsidiaries.

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

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We are subject to security and operational risks relating to our use of technology that could damage our reputation and our business.

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

We continually encounter technological change and the failure to understand and adapt to these changes could hurt our business.

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

Provisions of our certificate of incorporation, by-laws and stockholder rights plan, as well as Delaware law and certain banking laws, could delay or prevent a takeover of us by a third party.

Provisions of the Company's certificate of incorporation and by-laws, the Company's stock purchase rights plan, the corporate law of the State of Delaware and state and federal banking laws, including regulatory approval requirements, could delay, defer or prevent a third party from acquiring the Company, despite the possible benefit to the Company's stockholders, or otherwise adversely affect the market price of the Company's common stock. These provisions include: supermajority voting requirements for certain business combinations; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to the Company's board of directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, the Company is subject to Delaware law, which among other things prohibits the Company from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discouraging bids for the Company's common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, the Company's common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors other than candidates nominated by the Board.

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Recent negative developments in the housing market, financial industry and the domestic and international credit markets may adversely affect our operations and results.

Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. In particular, we have seen increases in foreclosures in our markets, increases in expenses such as FDIC premiums and pension expenses, and a declining reinvestment rate environment. We do not expect that the difficult conditions in the financial and housing markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions. In particular, we may be affected in one or more of the following ways:

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- Customer confidence levels may continue to decline and increase delinquencies and default rates, which could impact our charge-offs and provision for loan losses.

- Our ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets.

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

- We will continue to be required to pay significantly higher FDIC premiums than in the past.

We are subject to other-than-temporary impairment risk which could negatively impact our financial performance.

The Company recognizes an impairment charge when the decline in the fair value of equity, debt securities and cost-method investments below their cost basis are judged to be other-than-temporary. Significant judgment is used to identify events or circumstances that would likely have a significant adverse effect on the future use of the investment. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Information about unrealized gains and losses is subject to changing conditions. The values of securities with unrealized gains and losses will fluctuate, as will the values of securities that we identify as potentially distressed. Our current evaluation of other-than-temporary impairments reflects our intent to hold securities for a reasonable period of time sufficient for a forecasted recovery of fair value. However, our intent to hold certain of these securities may change in future periods as a result of facts and circumstances impacting a specific security. If our intent to hold a security with an unrealized loss changes, and we do not expect the security to fully recover prior to the expected time of disposition, we will write down the security to its fair value in the period that our intent to hold the security changes.

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

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We may be adversely affected by the soundness of other financial institutions.

The Company owns common stock of FHLB of New York in order to qualify for membership in the FHLB system, which enables it to borrow funds under the FHLB of New York's advance program. The carrying value and fair market value of our FHLB of New York common stock was $37.9 million as of March 31, 2009.

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

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) The Company made no purchases of its equity securities during the quarter ended March 31, 2009. At March 31, 2009, there were 1,000,000 shares available for repurchase under the stock repurchase plan authorized on January 28, 2008, in the amount of 1,000,000 shares. This plan expires on December 31, 2009.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Submission of Matters to a Vote of Security Holders

None

Item 5 – Other Information

None

Item 6 – Exhibits

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, 2008, filed on March 2, 2009 and incorporated herein by reference).

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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, 2008, filed on March 2, 2009 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 Registration'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 4.3 to the Registrant's Amendment No. 1 to Registration Statement on Form S-4 filed on December 27, 2005 and incorporated herein by reference).

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Written Statement of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this 11th day of May 2009.

NBT BANCORP INC.

By: /s/ Michael J. Chewens
Michael J. Chewens, CPA
Senior Executive Vice President
Chief Financial Officer and Corporate Secretary

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