NBT BANCORP INC
Form 10-Q
November 09, 2007

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

(Mark One)
T**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007.

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 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 T No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large Accelerated Filer T Accelerated Filer o Non-Accelerated Filer o

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

As of October 31, 2007, there were 32,235,152 shares outstanding of the Registrant's common stock, $0.01 par value.

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

(In thousands, except share and per share data)	**September 30, 2007**	December 31, 2006	September 30, 2006
Assets			
Cash and due from banks	**$ 139,453**	**$ 130,936**	**$ 143,678**
Short-term interest bearing accounts	**9,028**	**7,857**	**7,999**
Securities available for sale, at fair value	**1,146,524**	**1,106,322**	**1,111,473**
Securities held to maturity (fair value $143,483, $136,287, and $134,775)	**143,447**	**136,314**	**134,608**
Federal Reserve and Federal Home Loan Bank stock	**33,218**	**38,812**	**39,488**
Loans and leases	**3,422,217**	**3,412,654**	**3,369,732**
Less allowance for loan and lease losses	**54,808**	**50,587**	**50,646**
Net loans and leases	**3,367,409**	**3,362,067**	**3,319,086**
Premises and equipment, net	**64,406**	**66,982**	**66,988**
Goodwill	**103,400**	**103,356**	**102,858**
Intangible assets, net	**10,585**	**11,984**	**12,873**
Bank owned life insurance	**43,134**	**41,783**	**41,344**
Other assets	**90,468**	**81,159**	**78,776**
Total assets	**$ 5,151,072**	**$ 5,087,572**	**$ 5,059,171**
Liabilities			
Deposits:			
Demand (noninterest bearing)	**$ 671,729**	**$ 646,377**	**$ 634,308**
Savings, NOW, and money market	**1,595,622**	**1,566,557**	**1,577,510**
Time	**1,682,714**	**1,583,304**	**1,576,045**
Total deposits	**3,950,065**	**3,796,238**	**3,787,863**
Short-term borrowings	**305,865**	**345,408**	**324,461**
Long-term debt	**377,119**	**417,728**	**417,753**
Trust preferred debentures	**75,422**	**75,422**	**75,422**
Other liabilities	**56,955**	**48,959**	**54,123**
Total liabilities	**4,765,426**	**4,683,755**	**4,659,622**
Stockholders' equity			
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at September 30, 2007, December 31, 2006 and September 30, 2006	**-**	**-**	**-**
Common stock, $0.01 par value. Authorized 50,000,000 shares at September 30, 2007, December 31, 2006 and September 30, 2006; issued 36,459,445, 36,459,491, and 36,459,522 at September 30, 2007, December 31, 2006, and September 30, 2006, respectively	**365**	**365**	**365**
Additional paid-in-capital	**272,382**	**271,528**	**270,465**
Retained earnings	**212,771**	**191,770**	**185,375**
Accumulated other comprehensive loss	**(9,812)**	**(14,014)**	**(6,631)**
Common stock in treasury, at cost, 4,238,954, 2,203,549 and 2,398,600 shares at September 30, 2007, December 31, 2006, and September 30, 2006, respectively	**(90,060)**	**(45,832)**	**(50,025)**
Total stockholders' equity	**385,646**	**403,817**	**399,549**
Total liabilities and stockholders' equity	**$ 5,151,072**	**$ 5,087,572**	**$ 5,059,171**

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 September 30, **2007**	2006	Nine months ended September 30, **2007**	2006
Interest, fee, and dividend income				
Interest and fees on loans and leases	**$ 61,183**	$ 59,329	**$ 181,680**	$ 169,247
Securities available for sale	**13,847**	13,342	**40,876**	38,303
Securities held to maturity	**1,471**	1,293	**4,440**	3,321
Other	**680**	724	**2,139**	1,954
Total interest, fee, and dividend income	**77,181**	74,688	**229,135**	212,825
Interest expense				
Deposits	**27,062**	24,052	**79,996**	62,146
Short-term borrowings	**3,885**	3,828	**9,895**	11,876
Long-term debt	**3,770**	4,603	**12,253**	12,972
Trust preferred debentures	**1,277**	1,285	**3,817**	3,423
Total interest expense	**35,994**	33,768	**105,961**	90,417
Net interest income	**41,187**	40,920	**123,174**	122,408
Provision for loan and lease losses	**4,788**	2,480	**16,654**	5,911
Net interest income after provision for loan and lease losses	**36,399**	38,440	**106,520**	116,497
Noninterest income				
Service charges on deposit accounts	**6,195**	4,460	**15,600**	13,172
Broker/ dealer and insurance revenue	**1,027**	1,024	**3,203**	2,899
Trust	**1,701**	1,425	**4,930**	4,242
Net securities gains (losses)	**1,484**	7	**1,500**	(905)
Bank owned life insurance	**467**	431	**1,351**	1,204
ATM and debit card fees	**2,159**	1,888	**6,096**	5,322
Retirement plan administration fees	**1,586**	1,450	**4,779**	4,112
Other	**1,908**	1,832	**5,750**	6,251
Total noninterest income	**16,527**	12,517	**43,209**	36,297
Noninterest expense				
Salaries and employee benefits	**15,876**	15,628	**44,862**	47,711
Occupancy	**2,928**	3,044	**8,682**	8,779
Equipment	**1,797**	2,040	**5,567**	6,263
Data processing and communications	**2,779**	2,637	**8,501**	7,988
Professional fees and outside services	**2,256**	1,627	**5,840**	5,259
Office supplies and postage	**1,354**	1,275	**3,984**	3,912
Amortization of intangible assets	**413**	471	**1,232**	1,260
Loan collection and other real estate owned	**431**	222	**1,036**	722
Other	**3,393**	2,974	**10,409**	10,190
Total noninterest expense	**31,227**	29,918	**90,113**	92,084
Income before income tax expense	**21,699**	21,039	**59,616**	60,710
Income tax expense	**6,552**	6,497	**18,273**	18,411
Net income	**$ 15,147**	$ 14,542	**$ 41,343**	$ 42,299
Earnings per share				
Basic	**$ 0.46**	$ 0.43	**$ 1.23**	$ 1.25
Diluted	**$ 0.46**	$ 0.43	**$ 1.22**	$ 1.24

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	Unvested Awards Stock	Accumulated Other Comprehensive loss	Treasury Stock	Total
Balance at December 31, 2005	$ 344	$ 219,157	$ 163,989	$ (457)	$ (6,477)	$ (42,613)	$ 333,943
Net income			42,299				42,299
Cash dividends - $0.57 per share			(19,511)				(19,511)
Purchase of 766,004 treasury shares						(17,111)	(17,111)
Issuance of 2,058,661 shares of common stock in connection with purchase business combination	21	48,604					48,625
Issuance of 237,278 incentive stock options in purchase transaction		1,955					1,955
Acquisition of 2,500 shares of company stock in purchase transaction						(55)	(55)
Issuance of 436,703 shares to employee benefit plans and other stock plans, including excess tax benefit		683	(1,402)			8,315	7,596
Reclassification adjustment from the adoption of FAS123R		(457)		457			-
Stock-based compensation expense		2,007					2,007

Grant of 41,408 shares of restricted stock		(1,499)				1,499	-
Forfeit 2,625 shares of restricted stock		15				(60)	(45)
Other comprehensive loss					(154)		(154)
Balance at September 30, 2006	**$ 365**	**$ 270,465**	**$ 185,375**	**-**	**$ (6,631)**	**$ (50,025)**	**$ 399,549**
Balance at December 31, 2006	**$ 365**	**$ 271,528**	**$ 191,770**	**$ -**	**$ (14,014)**	**$ (45,832)**	**$ 403,817**
Net income			41,343				41,343
Cash dividends - $0.59 per share			(19,782)				(19,782)
Purchase of 2,261,267 treasury shares						(48,957)	(48,957)
Net issuance of 155,923 shares to employee benefit plans and other stock plans, including excess tax benefit		146	(560)			3,262	2,848
Stock-based compensation		2,175					2,175
Grant of 69,939 shares of restricted stock awards		(1,467)				1,467	-
Other comprehensive income					4,202		4,202
Balance at September 30, 2007	**$ 365**	**$ 272,382**	**$ 212,771**	**$ -**	**$ (9,812)**	**$ (90,060)**	**$ 385,646**

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)*	Nine Months Ended September 30, **2007**	2006
Operating activities		
Net income	**$ 41,343**	$ 42,299
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	**16,654**	5,911
Depreciation and amortization of premises and equipment	**3,990**	4,618
Net accretion on securities	**63**	154
Amortization of intangible assets	**1,232**	1,260
Stock-based compensation	**2,175**	2,007
Bank owned life insurance income	**(1,351)**	(1,204)
Proceeds from sale of loans held for sale	**20,344**	22,706
Originations and purchases of loans held for sale	**(21,175)**	(20,528)
Net gains on sales of loans held for sale	**(116)**	(64)
Net security (gains) losses	**(1,500)**	905
Net gain on sales of other real estate owned	**(320)**	(294)
Net gain on sale of branch	**-**	(470)
Net (increase) decrease in other assets	**(8,268)**	423
Net increase in other liabilities	**5,168**	2,427
Net cash provided by operating activities	**58,239**	60,150
Investing activities		
Net cash paid for sale of branch	**-**	(2,307)
Net cash used in CNB Bancorp, Inc. merger	**-**	(20,881)
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	**145,913**	144,491
Proceeds from sales	**10,553**	42,292
Purchases	**(188,444)**	(197,524)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	**59,536**	33,163
Purchases	**(66,784)**	(65,910)
Net increase in loans	**(22,136)**	(163,989)
Net decrease in Federal Reserve and FHLB stock	**5,594**	771
Purchases of premises and equipment, net	**(1,414)**	(2,726)
Proceeds from sales of other real estate owned	**847**	723
Net cash used in investing activities	**(56,335)**	(231,897)
Financing activities		
Net increase in deposits	**153,827**	298,658
Net decrease in short-term borrowings	**(39,543)**	(120,516)
Repayments of long-term debt	**(40,609)**	(19,132)
Proceeds from the issuance of trust preferred debentures	**-**	51,547
Tax benefit from exercise of stock options	**416**	301
Proceeds from the issuance of shares to employee benefit plans and other stock plans	**2,432**	6,700
Purchase of treasury stock	**(48,957)**	(17,111)
Cash dividends and payment for fractional shares	**(19,782)**	(19,511)
Net cash provided by financing activities	**7,784**	180,936
Net increase in cash and cash equivalents	**9,688**	9,189
Cash and cash equivalents at beginning of period	**138,793**	142,488

Cash and cash equivalents at end of period	**$ 148,481**	$ 151,677

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Supplemental disclosure of cash flow information	Nine Months Ended September 30,	
Cash paid during the period for:	**2007**	2006
Interest	**$ 102,152**	$ 87,269
Income taxes	**12,662**	15,160
Noncash investing activities:		
Loans transferred to OREO	**$ 1,087**	$ 559
Dispositions:		
Fair value of assets sold	**$ -**	$ 3,453
Fair value of liabilities transferred	**-**	5,760
Acquisitions:		
Fair value of assets acquired	**$ -**	$ 432,054
Fair value of liabilities assumed	**-**	360,648
Net cash and cash equivalents used in merger	**-**	20,881
Fair value of equity issued in purchase combination	**-**	50,525

See accompanying notes to unaudited interim consolidated financial statements.

	Three months ended September 30,		Nine months ended September 30,	
Consolidated Statements of Comprehensive Income (unaudited)	**2007**	2006	**2007**	2006
(In thousands)				
Net income	**$ 15,147**	$ 14,542	**$ 41,343**	$ 42,299
Other comprehensive income (loss), net of tax				
Unrealized net holding gains (losses) arising during the year (pre-tax amounts of $16,285, $17,443, $8,172, and $(780))	**9,830**	10,488	**4,889**	(468)
Less reclassification adjustment for net (gains) losses related to securities available for sale included in net income (pre-tax amounts of $(1,484), $(7), $(1,500) and $905)	**(892)**	(4)	**(902)**	543
Minimum pension liability adjustment	**-**	-	**-**	(229)
Amortization of previously recorded benefit plan amounts (pre-tax amounts of $119, $-, $358 and $-)	**72**	-	**215**	-
Total other comprehensive income (loss)	**9,010**	10,484	**4,202**	(154)
Comprehensive income	**$ 24,157**	$ 25,026	**$ 45,545**	$ 42,145

See accompanying notes to unaudited interim consolidated financial statements

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NBT BANCORP INC. and Subsidiary
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007

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 Company is the parent holding company of NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. Through these subsidiaries, the Company operates as one segment focused on community banking operations. The Company's primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Company are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank and NBT Financial.

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

Note 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of NBT Bancorp Inc. and its wholly owned subsidiaries, NBT Bank, N.A., NBT Financial Services, Inc., Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. 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 September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement may change current practice. Adoption is required as of the beginning of the first fiscal year that begins after November 15, 2007. Early application of this Standard is encouraged. The Company is assessing the effect that SFAS 157 will have on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to voluntarily choose, at election dates, to measure many financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the "fair value option"). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is assessing the effect that SFAS 159 will have on our consolidated financial position, results of operations and cash flows.

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Note 4. Business Combination

On February 10, 2006, the Company completed the acquisition through merger of CNB Bancorp, Inc. ("CNB"). CNB was a bank holding company for City National Bank and Trust Company ("CNB Bank") and Hathaway Agency, Inc. ("Hathaway"), headquartered in Gloversville, NY. CNB Bank conducted business from nine community bank offices in four upstate New York counties—Fulton, Hamilton, Montgomery and Saratoga. The stockholders of CNB received approximately $39 million in cash and 2,058,661 shares of NBT common stock. The aggregate transaction value was approximately $89.0 million. The transaction was accounted for under the purchase method of accounting. CNB had total assets of $399.0 million, loans of $197.6 million, deposits of $335.0 million and shareholders equity of $40.1 million. As part of the merger, the Company recorded approximately $65.6 million in goodwill and identifiable intangibles. CNB was merged with and into the Company, CNB Bank was merged with and into NBT Bank and Hathaway became a direct subsidiary of the Registrant. The results of operations are included in the consolidated financial statements from the date of acquisition, February 10, 2006.

Note 5. 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 losses, pension expense, 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 economic conditions, the growth and composition of the loan portfolio with respect to the mix between the various types of loans and their related risk characteristics, a review of the value of collateral supporting the loans, comprehensive reviews of the loan portfolio by the independent loan review staff and management, as well as consideration of volume and trends of delinquencies, nonperforming loans, and loan charge-offs. As a result of the test of adequacy, required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses.

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

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

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

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 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 September 30, 2007 and 2006, or December 31, 2006. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Note 6. 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 $667.3 million at September 30, 2007 and $536.3 million at December 31, 2006. 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 risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Standby letters of credit totaled $47.4 million at September 30, 2007 and $30.8 million at December 31, 2006. As of September 30, 2007, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

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Note 7. 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).

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 September 30,		**2007**		2006
(in thousands, except per share data)				
Basic EPS:				
Weighted average common shares outstanding		**32,708**		33,879
Net income available to common shareholders	**$**	**15,147**	$	14,542
Basic EPS	**$**	**0.46**	$	0.43
Diluted EPS:				
Weighted average common shares outstanding		**32,708**		33,879
Dilutive effect of common stock options and restricted stock		**213**		318
Weighted average common shares and common share equivalents		**32,921**		34,197
Net income available to common shareholders	**$**	**15,147**	$	14,542
Diluted EPS	**$**	**0.46**	$	0.43

Nine months ended September 30,		**2007**		2006
(in thousands, except per share data)				
Basic EPS:				
Weighted average common shares outstanding		**33,521**		33,824
Net income available to common shareholders	**$**	**41,343**	$	42,299
Basic EPS	**$**	**1.23**	$	1.25
Diluted EPS:				
Weighted average common shares outstanding		**33,521**		33,824
Dilutive effect of common stock options and restricted stock		**245**		316
Weighted average common shares and common share equivalents		**33,766**		34,140
Net income available to common shareholders	**$**	**41,343**	$	42,299
Diluted EPS	**$**	**1.22**	$	1.24

There were 1,227,585 stock options for the quarter ended September 30, 2007 and 361,379 stock options for the quarter ended September 30, 2006 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.

There were 619,853 stock options for the nine months ended September 30, 2007 and 372,604 stock options for the nine months ended September 30, 2006 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.

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Note 8. Nonperforming Loans

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

(In thousands)	**September 30, 2007**	December 31, 2006	September 30, 2006
Loans in nonaccrual status	**$ 29,087**	$ 13,665	$ 12,277
Loans contractually past due 90 days or more and still accruing interest	**1,620**	1,642	580
Total nonperforming loans	**$ 30,707**	$ 15,307	$ 12,857

There were no material commitments to extend further credit to borrowers with nonperforming loans. There are no loans classified as troubled debt restructures at September 30, 2007, December 31, 2006 and September 30, 2006.

Accumulated interest on the above nonaccrual loans of approximately $0.8 million and $0.5 million would have been recognized as income for the nine month periods ending September 30, 2007 and September 30, 2006, respectively, had these loans been in accrual status. Accumulated interest on the above nonaccrual loans of approximately $0.5 million and $0.2 million would have been recognized as income for the three month periods ending at September 30, 2007 and September 30, 2006, respectively, had these loans been in accrual status. Approximately $1.0 million and $0.6 million of interest on the above nonaccrual loans was collected for the nine month periods ending September 30, 2007 and September 30, 2006, respectively. Approximately $0.5 million and $0.3 million of interest on the above nonaccrual loans was collected for the three month periods ending September 30, 2007 and September 30, 2006, respectively.

Loans reviewed for specific reserve allowance consist primarily of large, impaired commercial and agricultural loans. The impaired loans subject to specific allowance allocation totaled $13.4 million at September 30, 2007, $2.2 million at December 31, 2006, and $1.7 million at September 30, 2006. At September 30, 2007, $11.2 million of the impaired loans reviewed had a specific reserve allocation of $6.3 million, or 55.8%, and $2.2 million of the impaired loans reviewed had no specific reserve allocation. At December 31, 2006, $1.1 million of the impaired loans reviewed had a specific reserve allocation of $0.2 million, or 19.9%, and $1.1 million of the impaired loans reviewed had no specific reserve allocation. There was no specific reserve allocation for the impaired loans reviewed at September 30, 2006.

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

(In thousands)	**September 30, 2007**	December 31, 2006	September 30, 2006
Average recorded investment on impaired loans	**$ 20,568**	$ 9,644	$ 9,374
Interest income recognized on impaired loans	**574**	384	305
Cash basis interest income recognized on impaired loans	**574**	384	305

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Note 9. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at September 30, 2007. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

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

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees' active service period. Only employees that were employed by NBT Bank on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Eligibility is contingent upon the direct transition from active employment status to retirement without any break in employment from NBT. 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."

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

	Pension Benefits Three months ended September 30,		**Other Benefits** Three months ended September 30,	
Components of net periodic benefit cost:	**2007**	**2006**	**2007**	**2006**
Service Cost	$ 526	$ 536	$ 6	$ 1
Interest Cost	740	606	54	51
Expected return on plan assets	(1,372)	(980)	-	-
Net amortization	134	182	(15)	(24)
Total	$ 28	$ 344	$ 45	$ 28

	Pension Benefits Nine months ended September 30,		**Other Benefits** Nine months ended September 30,	
Components of net periodic benefit cost:	**2007**	**2006**	**2007**	**2006**
Service Cost	$ 1,579	$ 1,589	$ 18	$ 3
Interest Cost	2,220	1,767	161	153
Expected return on plan assets	(4,118)	(2,865)	-	-
Net amortization	402	546	(44)	(72)
Total	$ 83	$ 1,037	$ 135	$ 84

The Company is not required to make contributions to the Plan in the remainder of 2007. The Company recorded approximately $215,000, net of tax, as amortization of pension amounts previously recognized in Accumulated Other Comprehensive Income as of September 30, 2007.

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Note 10. 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 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 Financial Accounting Standards Board Interpretation (“FIN”) No. 46 “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003) (FIN 46R).” In accordance with FIN 46R, which was implemented in the first quarter of 2004, the accounts of the Trusts are not included in the Company’s consolidated financial statements.

As of September 30, 2007, 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 three business 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 Company does not expect that the quantitative limits will preclude it 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.

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Note 11. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company was not required to recognize any change in the liability for unrecognized tax benefits. The total unrecognized tax benefits upon adoption were approximately $2.6 million. Included in this amount is $1.2 million which would impact the effective rate if recognized or reversed and $0.4 million which would impact goodwill.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, New York State, Pennsylvania and certain other states. The Company settled its examination of tax years 2004 and 2005 with the Internal Revenue Service during the second quarter of 2007. The settlement of the exam did not result in a material change in the liability for unrecognized tax benefits. All prior year federal returns are closed under the statute of limitations. The Company is also currently under examination by New York State for tax years 2000 through 2002. It is reasonably possible that a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time.

The Company's policy is to accrue interest and penalties as part of income tax expense. As of the date of adoption of FIN 48, the Company had accrued $0.5 million of interest. Interest accrued as of September 30, 2007 is $0.7 million.

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

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. (Bancorp) and its wholly owned subsidiaries, NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (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 2006 Form 10-K for an understanding of the following discussion and analysis.

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 possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may 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.

The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including 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 the result of any revisions that may be made to any forward-looking statements to reflect statements to the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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Critical Accounting Policies

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

Overview

The Company earned net income of $41.3 million ($1.22 diluted earnings per share) for the nine months ended September 30, 2007 compared to net income of $42.3 million ($1.24 diluted earnings per share) for the nine months ended September 30, 2006. The decrease in net income from 2006 to 2007 was primarily the result of a $10.7 million increase in provision for loan and lease losses compared to the same period last year. The increase in provision for loan and lease losses was partially offset by an increase in noninterest income of $6.9 million and a decrease in noninterest expense of $2.0 million. Although net interest margin declined by 12 bp from 3.73% for the nine months ended September 30, 2006 to 3.61% for the nine months ended September 30, 2007, net interest income remained relatively flat due to an increase in average earning assets of $202.7 million. The Company recorded net securities gains of $1.5 million for the nine months ended September 30, 2007 compared to net securities losses of $0.9 million for the nine months ended September 30, 2006. Excluding the effect of these securities transactions, noninterest income increased $4.5 million or 12.1% compared to the same period in 2006. The increase in noninterest income for the nine months ended September 30, 2007 resulted from increases in service charges on deposit accounts, ATM and debit card fees, retirement plan administration fees, trust administration fees, broker/dealer and insurance revenue, and bank owned life insurance income. The decrease in total noninterest expense for the nine months ended September 30, 2007 was due primarily to a decrease of $2.8 million, or 6.0%, in salaries and employee benefits. This decrease was due primarily to a reduction in incentive compensation and pension expenses in 2007.

The Company earned net income of $15.1 million ($0.46 diluted earnings per share) for the three months ended September 30, 2007 compared to net income of $14.5 million ($0.43 diluted earnings per share) for the three months ended September 30, 2006. The increase in net income from 2006 to 2007 was primarily the result of a $4.0 million increase in noninterest income compared to the same period last year. The increase in noninterest income resulted from increases in service charges on deposit accounts, ATM and debit card fees, retirement plan administration fees, trust administration fees, and gains from securities sales. The increase in noninterest income was partially offset by an

increase in the provision for loan and lease losses, which increased by $2.3 million for the three months ended September 30, 2007 compared with the three months ended September 30, 2006. The Company recorded net securities gains of $1.5 million for the three months ended September 30, 2007 as compared to nominal gains for the three months ended September 30, 2006. Excluding the effect of these securities transactions, noninterest income increased $2.5 million or 20.2% compared to the same period in 2006. There was a nominal increase in net interest income from $40.9 million for the three months ended September 30, 2006 to $41.2 million for the three months ended September 30, 2007. Although net interest margin declined by 4 bp from 3.60% for the three months ended September 30, 2006 to 3.56% for the three months ended September 30, 2007 net interest income remained relatively flat due to an increase in average earning assets of $92.9 million.

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Table 1 depicts several annualized measurements of performance using GAAP net income. 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 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

2007	**First Quarter**	**Second Quarter**	**Third Quarter**	**Nine Months**
Return on average assets (ROAA)	1.13%	0.95%	1.17%	1.08%
Return on average equity (ROAE)	14.06%	11.90%	15.41%	13.77%
Net Interest Margin	3.63%	3.63%	3.56%	3.61%
2006				
Return on average assets (ROAA)	1.18%	1.15%	1.15%	1.16%
Return on average equity (ROAE)	15.11%	14.71%	14.89%	14.93%
Net Interest Margin	3.86%	3.73%	3.60%	3.73%

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. Table 2 represents an analysis of net interest income on a federal taxable equivalent basis.

FTE net interest income increased $1.5 million during the nine months ended September 30, 2007, compared to the same period of 2006. The increase in FTE net interest income resulted primarily from 4.5% growth in average earning assets. The Company’s interest rate spread declined 19 bp during the nine months ended September 30, 2007 compared to the same period in 2006. The yield on earning assets for the period increased 20 bp, to 6.60% for the nine months ended September 30, 2007 from 6.40% for the same period in 2006. Meanwhile, the rate paid on interest-bearing liabilities increased 38 bp, to 3.54% for the nine months ended September 30, 2007 from 3.16% for the same period in 2006.

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FTE net interest income increased $0.4 million during the three months ended September 30, 2007, compared to the same period of 2006. The Company's interest rate spread declined 7 bp during the three months ended September 30, 2007 compared to the same period in 2006. The yield on earning assets for the period increased 9 bp, to 6.56% for the three months ended September 30, 2007 from 6.47% for the same period in 2006, while average earning assets increased by 2.0%. Meanwhile, the rate paid on interest-bearing liabilities increased 17 bp, to 3.55% for the three months ended September 30, 2007 from 3.38% for the same period in 2006.

For the nine months ended September 30, 2007, total interest income increased $17.0 million. The rates paid on interest earning assets increased from 6.40% for the nine months ended September 30, 2006 to 6.60% for the nine months ended September 30, 2007, primarily the result of the 50 bp increase in the Federal Funds target rate since January 1, 2006. Additionally, average interest earning assets increased $202.7 million for the nine months ended September 30, 2007 when compared to the same period in 2006, principally from growth in average loans and leases.

For the three months ended September 30, 2007, total interest income increased $2.6 million. The rates paid on interest earning assets increased from 6.47% for the three months ended September 30, 2006 to 6.56% for the three months ended September 30, 2007. Additionally, average interest earning assets increased $92.9 million for the three months ended September 30, 2007 when compared to the same period in 2006, principally from growth in average loans and leases.

For the nine months ended September 30, 2007, total interest expense increased $15.5 million, primarily the result of the 50 bp increase in the Federal Funds target rate since January 1, 2006, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest-bearing liabilities increased $170.2 million for the nine months ended September 30, 2007 when compared to the same period in 2006, principally from organic deposit growth as well as deposits assumed from the CNB transaction. Total average interest-bearing deposits increased $270.6 million for the nine months ended September 30, 2007 when compared to the same period in 2006. The rate paid on average interest-bearing deposits increased 50 bp from 2.77% for the nine months ended September 30, 2006 to 3.27% for the same period in 2007. The increase in average interest-bearing deposits resulted from organic deposit growth as well as the previously mentioned deposits assumed from the CNB transaction. For the nine months ended September 30, 2007, the Company experienced a shift in its deposit mix from savings accounts to money market and time deposit accounts, as interest sensitive customers shifted funds into higher paying interest bearing accounts. Savings accounts decreased approximately $50.6 million and money market and time deposit accounts collectively increased approximately $313.3 million.

For the three months ended September 30, 2007, total interest expense increased $2.2 million. Average interest-bearing liabilities increased $57.6 million for the three months ended September 30, 2007 when compared to the same period in 2006, from organic deposit growth. Total average interest-bearing deposits increased $112.6 million for the three months ended September 30, 2007 when compared to the same period in 2006. The rate paid on average interest-bearing deposits increased 26 bp from 3.03% for the three months ended September 30, 2006 to 3.29% for the same period in 2007. The increase in average interest-bearing deposits resulted from organic deposit growth. For the three months ended September 30, 2007, the Company experienced a shift in its deposit mix from savings accounts to money market and time deposit accounts, as interest sensitive customers shifted funds into higher paying interest bearing accounts. Savings accounts decreased approximately $45.9 million and money market and time deposit accounts collectively increased approximately $157.1 million.

Total average borrowings, including trust preferred debentures, decreased $100.4 million for the nine months ended September 30, 2007 compared with the same period in 2006. Average short-term borrowings decreased by $64.2 million, from $343.6 million for the nine months ended September 30, 2006 to $279.4 million for the nine months ended September 30, 2007. Despite this 18.7% decrease, interest expense from short-term borrowings only decreased $2.0 million, or 16.7%. The rate paid on short-term borrowings increased from 4.63% for the nine months ended

September 30, 2006 to 4.73% for the same period in 2007. Average trust preferred debentures increased $7.2 million for the nine months ended September 30, 2007, compared with the same period in 2006, primarily from the issuance of $51.5 million in trust preferred debentures in February 2006 to fund the cash portion of the CNB transaction and to provide regulatory capital. The rate paid on trust preferred debentures increased to 6.77% for the nine months ended September 30, 2007, compared with 6.72% for the same period in 2006, driven primarily by $51.5 million in trust preferred debentures issued in February 2006 with a fixed rate of 6.195% and $18.7 million in trust preferred debentures that reprice quarterly at 3-month LIBOR plus 275 bp.

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Total average borrowings, including trust preferred debentures, decreased $55.0 million for the three months ended September 30, 2007 compared with the same period in 2006. Average short-term borrowings increased by $9.1 million, from $313.1 million for the three months ended September 30, 2006 to $322.2 million for the three months ended September 30, 2007. Interest expense from short-term borrowings increased $0.1 million, or 1.5%. The rate paid on short-term borrowings decreased from 4.85% for the three months ended September 30, 2006 to 4.78% for the same period in 2007. Average trust preferred debentures remained consistent at $75.4 million for the three months ended September 30, 2007 and September 30, 2006. The rate paid on trust preferred debentures decreased to 6.72% for the three months ended September 30, 2007, compared with 6.76% for the same period in 2006.

Another important performance measurement of net interest income is the net interest margin. Despite a 19bp decrease in the Company’s net interest spread, the net interest margin only declined by 12 bp to 3.61% for the nine months ended September 30, 2007, compared with 3.73% for the same period in 2006. The Company thus far has mitigated some of the margin pressure by growing noninterest bearing demand deposit accounts. Average demand deposits increased $23.3 million or 3.8% for the nine months ended September 30, 2007, compared to the same period in 2006.

Despite a 7 bp decrease in the Company’s net interest spread, the net interest margin only declined by 4 bp to 3.56% for the three months ended September 30, 2007, compared with 3.60% for the same period in 2006. The Company thus far has mitigated some of the margin pressure by growing noninterest bearing demand deposit accounts. Average demand deposits increased $30.9 million or 4.9% for the three months ended September 30, 2007, compared to the same period in 2006.

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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%.

Nine months ended September 30,	2007			2006		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 8,523	$ 320	5.03%	$ 8,327	$ 294	4.73%
Securities available for sale (1)(excluding unrealized gains or losses)	1,131,533	42,682	5.04%	1,107,417	40,086	4.85%
Securities held to maturity (1)	144,693	6,704	6.19%	108,601	4,947	6.10%
Investment in FRB and FHLB Banks	33,668	1,820	7.23%	40,260	1,660	5.53%
Loans and leases (2)	3,419,983	182,283	7.13%	3,271,095	169,800	6.96%
Total interest earning assets	4,738,400	233,809	6.60%	4,535,700	216,787	6.40%
Other assets	358,208			343,085		
Total assets	$ 5,096,608			$ 4,878,785		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	$ 653,405	16,733	3.42%	$ 519,063	12,534	3.24%
NOW deposit accounts	445,647	2,697	0.81%	437,820	2,255	0.69%
Savings deposits	493,752	3,340	0.90%	544,319	3,455	0.85%
Time deposits	1,680,555	57,226	4.55%	1,501,554	43,902	3.92%
Total interest bearing deposits	3,273,359	79,996	3.27%	3,002,756	62,146	2.77%
Short-term borrowings	279,443	9,895	4.73%	343,557	11,876	4.63%
Trust preferred debentures	75,422	3,817	6.77%	68,247	3,423	6.72%
Long-term debt	378,035	12,253	4.33%	421,463	12,972	4.12%
Total interest bearing liabilities	4,006,259	105,961	3.54%	3,836,023	90,417	3.16%
Demand deposits	633,572			610,265		
Other liabilities	55,467			52,757		
Stockholders' equity	401,310			379,740		
Total liabilities and stockholders' equity	$ 5,096,608			$ 4,878,785		
Net interest income		$ 127,848			$ 126,370	
Interest rate spread			3.06%			3.25%
Net interest margin			3.61%			3.73%
Taxable equivalent adjustment		$ 4,674			$ 3,962	
Net interest income		$ 123,174			$ 122,408	

(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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Three months ended September 30,	2007			2006		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 7,714	$ 102	5.25%	$ 9,869	$ 122	4.91%
Securities available for sale (1)(excluding unrealized gains or losses)	1,142,009	14,458	5.02%	1,134,668	13,950	4.88%
Securities held to maturity (1)	144,713	2,216	6.08%	126,654	1,934	6.06%
Investment in FRB and FHLB Banks	33,637	579	6.83%	40,070	602	5.96%
Loans and leases (2)	3,437,798	61,405	7.09%	3,361,676	59,509	7.03%
Total interest earning assets	4,765,871	78,760	6.56%	4,672,937	76,117	6.47%
Other assets	356,225			356,260		
Total assets	$ 5,122,096			$ 5,029,197		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	$ 658,741	5,620	3.38%	$ 569,956	4,943	3.44%
NOW deposit accounts	441,243	892	0.80%	439,828	878	0.79%
Savings deposits	488,010	1,077	0.88%	533,940	1,195	0.89%
Time deposits	1,679,446	19,473	4.60%	1,611,141	17,036	4.20%
Total interest bearing deposits	3,267,440	27,062	3.29%	3,154,865	24,052	3.03%
Short-term borrowings	322,245	3,885	4.78%	313,099	3,828	4.85%
Trust preferred debentures	75,422	1,277	6.72%	75,422	1,285	6.76%
Long-term debt	354,037	3,770	4.23%	418,158	4,603	4.37%
Total interest bearing liabilities	4,019,144	35,994	3.55%	3,961,544	33,768	3.38%
Demand deposits	656,176			625,282		
Other liabilities	56,913			54,600		
Stockholders' equity	389,863			387,771		
Total liabilities and stockholders' equity	$ 5,122,096			$ 5,029,197		
Net interest income		$ 42,766			$ 42,349	
Interest rate spread			3.01%			3.08%
Net interest margin			3.56%			3.60%
Taxable equivalent adjustment		$ 1,579			$ 1,429	
Net interest income		$ 41,187			$ 40,920	

(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 September 30,

	Increase (Decrease) 2007 over 2006		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ (28)	$ 8	$ (20)
Securities available for sale	91	417	508
Securities held to maturity	277	5	282
Investment in FRB and FHLB Banks	(104)	81	(23)
Loans and leases	1,356	540	1,896
Total interest income	1,527	1,116	2,643
Money market deposit accounts	759	(82)	677
NOW deposit accounts	3	11	14
Savings deposits	(102)	(16)	(118)
Time deposits	744	1,693	2,437
Short-term borrowings	111	(54)	57
Trust preferred debentures	-	(8)	(8)
Long-term debt	(687)	(146)	(833)
Total interest expense	497	1,729	2,226
Change in FTE net interest income	$ 1,030	$ (613)	$ 417

Nine months ended September 30,

	Increase (Decrease) 2007 over 2006		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ 7	$ 19	$ 26
Securities available for sale	885	1,711	2,596
Securities held to maturity	1,671	86	1,757
Investment in FRB and FHLB Banks	(301)	461	160
Loans and leases	7,859	4,624	12,483
Total interest income	9,870	7,152	17,022
Money market deposit accounts	3,403	796	4,199
NOW deposit accounts	41	401	442
Savings deposits	(333)	218	(115)
Time deposits	5,595	7,729	13,324
Short-term borrowings	(2,264)	283	(1,981)
Trust preferred debentures	363	31	394
Long-term debt	(1,383)	664	(719)

Total interest expense	4,143	11,401	15,544
Change in FTE net interest income	$ 5,727	$ (4,249)	$ 1,478

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Noninterest Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
(in thousands)				
Service charges on deposit accounts	**$ 6,195**	$ 4,460	**$ 15,600**	$ 13,172
Broker/dealer and insurance revenue	**1,027**	1,024	**3,203**	2,899
Trust	**1,701**	1,425	**4,930**	4,242
Net securities gains (losses)	**1,484**	7	**1,500**	(905)
Bank owned life insurance income	**467**	431	**1,351**	1,204
ATM and debit card fees	**2,159**	1,888	**6,096**	5,322
Retirement plan administration fees	**1,586**	1,450	**4,779**	4,112
Other	**1,908**	1,832	**5,750**	6,251
Total noninterest income	**$ 16,527**	$ 12,517	**$ 43,209**	$ 36,297

Noninterest income for the three months ended September 30, 2007, was $16.5 million, up $4.0 million or 32.0% from $12.5 million for the same period in 2006. Fees from service charges on deposit accounts and ATM and debit cards collectively increased $2.0 million as the Company focused on enhancing fee income through various initiatives, as well as growth in our debit card base and demand deposit accounts. Retirement plan administration fees for the three months ended September 30, 2007, increased $0.1 million, compared with the same period in 2006. Trust administration income increased $0.3 million for the three months ended September 30, 2007, compared with the same period in 2006. This increase stems from market appreciation of existing accounts and an increase in customer accounts resulting from successful business development. Net securities gains for the three months ended September 30, 2007, were $1.5 million compared with nominal net securities gains for the same period in 2006. Excluding the effect of these securities transactions, noninterest income increased $2.5 million, or 20.2%, for the three months ended September 30, 2007, compared with the same period in 2006.

Noninterest income for the nine months ended September 30, 2007, was $43.2 million, up $6.9 million or 19.0% from $36.3 million for the same period in 2006. Fees from service charges on deposit accounts and ATM and debit cards collectively increased $3.2 million as the Company focused on enhancing fee income through various initiatives, as well as growth in our debit card base and demand deposit accounts. Retirement plan administration fees for the nine months ended September 30, 2007, increased $0.7 million, compared with the same period in 2006, as a result of our growing client base. Broker/dealer and insurance revenue for the nine months ended September 30, 2007, increased $0.3 million in large part due to the growth in brokerage income from retail financial services as well as the addition of Hathaway Insurance Agency as part of the acquisition of CNB in February of 2006. Bank-owned life insurance income for the nine months ended September 30, 2007, increased $0.1 million, compared with the same period in 2006. Trust administration income increased $0.7 million for the nine months ended September 30, 2007, compared with the same period in 2006. This increase stems from market appreciation of existing accounts and an increase in customer accounts resulting from successful business development. Other noninterest income for the nine months ended September 30, 2007, decreased $0.5 million, compared with the same period in 2006, primarily as a result of a gain on the sale of a branch in 2006. Net securities gains for the nine months ended September 30, 2007 were $1.5 million, compared with net securities losses of $0.9 million for the nine months ended September 30, 2006. Excluding the effect of these securities transactions, noninterest income increased $4.5 million, or 12.1%, for the nine months ended September 30, 2007, compared with the same period in 2006.

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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 September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
(in thousands)				
Salaries and employee benefits	**$ 15,876**	$ 15,628	**$ 44,862**	$ 47,711
Occupancy	**2,928**	3,044	**8,682**	8,779
Equipment	**1,797**	2,040	**5,567**	6,263
Data processing and communications	**2,779**	2,637	**8,501**	7,988
Professional fees and outside services	**2,256**	1,627	**5,840**	5,259
Office supplies and postage	**1,354**	1,275	**3,984**	3,912
Amortization of intangible assets	**413**	471	**1,232**	1,260
Loan collection and other real estate owned	**431**	222	**1,036**	722
Other	**3,393**	2,974	**10,409**	10,190
Total noninterest expense	**$ 31,227**	$ 29,918	**$ 90,113**	$ 92,084

Noninterest expense for the three months ended September 30, 2007, was $31.2 million, up from $29.9 million for the same period in 2006. This 4.4% increase was principally the result of an increase in professional fees and outside services of $0.6 million, or 38.7%, from 2006 due primarily to fees and costs related to the aforementioned noninterest income initiatives incurred during the period. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges, decreased collectively by $0.1 million, or 1.5%, for the three months ended September 30, 2007, compared with the same period in 2006. In addition, other noninterest expense for the three months ended September 30, 2007 was $3.4 million, up from $3.0 million for the same period in 2006. This increase was due primarily to flood-related insurance recoveries in 2006.

Noninterest expense for the nine months ended September 30, 2007, was $90.1 million, down from $92.1 million for the same period in 2006. This decrease was principally the result of a decrease of $2.8 million, or 6.0%, in salaries and employee benefits. This decrease was due primarily to a reduction in incentive compensation as well as a reduction in pension expenses of approximately $1.4 million, primarily due to a $15 million contribution to the defined benefit plan in 2006. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges, decreased collectively by $0.2 million, or 0.8%, for the nine months ended September 30, 2007, compared with the same period in 2006. Loan collection and other real estate owned expenses increased $0.3 million for the nine months ended September 30, 2007, over the same period in 2006. This increase was due primarily to an increase in the amount of real estate taxes paid on foreclosures in 2007 compared with 2006. Other operating expense for the nine months ended September 30, 2007, increased $0.2 million, or 2.1%, compared with the same period in 2006.

Income Taxes

Income tax expense for the three months ended September 30, 2007, was $6.6 million, up from $6.5 million for the same period in 2006. The effective rate for the three months ended September 30, 2007 was 30.2%, as compared with 30.9% for the same period in 2006. Income tax expense for the nine months ended September 30, 2007, was $18.3 million, down from $18.4 million for the same period in 2006. The effective rate for the nine months ended September 30, 2007, was 30.7%, up from 30.3% for the same period in 2006.

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ANALYSIS OF FINANCIAL CONDITION

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)	**September 30, 2007**	December 31, 2006	September 30, 2006
Residential real estate mortgages	$ 723,963	$ 739,607	$ 747,309
Commercial	615,212	658,647	615,561
Commercial real estate mortgages	584,503	581,736	583,014
Real estate construction and development	72,542	94,494	90,418
Agricultural and agricultural real estate mortgages	116,640	118,278	117,463
Consumer	646,266	586,922	589,377
Home equity	576,197	546,719	540,729
Lease financing	86,894	86,251	85,861
Total loans and leases	$ 3,422,217	$ 3,412,654	$ 3,369,732

Real estate construction and development loans presented in September 2006 have been reclassified to conform with current year presentation which represents the conversion of construction loans to permanent financing

Total loans and leases were $3.4 billion, or 66.4% of assets, at September 30, 2007, $3.4 billion, or 67.1% of assets, at December 31, 2006, and $3.4 billion, or 66.6%, at September 30, 2006. Total loans and leases increased slightly by $9.6 million or 0.3% from December 31, 2006 to September 30, 2007. This increase was due primarily to a 10.1% increase in consumer loans, most notably indirect installment loans, as a result of expansion of our dealer network. Home equity loans increased $29.5 million, or 5.4%, from December 31, 2006 to September 30, 2007 as the Company promoted the home equity products through promotions in 2007. The above mentioned increases were partially offset by decreases in commercial loans of 6.6%, residential real estate mortgages of 2.1%, and real estate construction and development loans of 23.2% at September 30, 2007 as compared with December 31, 2006. The Company has no subprime loans in its portfolio.

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

Average total securities increased $60.2 million for the nine months ended September 30, 2007 when compared to the same period in 2006. The average balance of securities available for sale increased $24.1 million for the nine months ended September 30, 2007 when compared to the same period in 2006. The average balance of securities held to maturity increased $36.1 million for the nine months ended September 30, 2007, compared to the same period in

2006. The average total securities portfolio represents 26.9% of total average earning assets for the nine months ended September 30, 2007, up from 26.8% for the same period in 2006.

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Average total securities increased $25.4 million for the three months ended September 30, 2007 when compared to the same period in 2006. The average balance of securities available for sale increased $7.3 million for the three months ended September 30, 2007 when compared to the same period in 2006. The average balance of securities held to maturity increased $18.1 million for the three months ended September 30, 2007, compared to the same period in 2006. The average total securities portfolio represents 27.0% of total average earning assets for the three months ended September 30, 2007 and 2006.

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

	At September 30,	
	2007	2006
Mortgage-backed securities:		
With maturities 15 years or less	22%	28%
With maturities greater than 15 years	3%	4%
Collateral mortgage obligations	22%	18%
Municipal securities	19%	18%
US agency notes	30%	27%
Other	4%	5%
Total	100%	100%

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. It is assessed for adequacy 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 inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that such judgments can have on the consolidated results of operations.

For purposes of evaluating the adequacy of the allowance, the Company considers a number of significant factors that affect the collectibility of the portfolio. For individually analyzed loans, these include estimates of loss exposure, which reflect the facts and circumstances that affect the likelihood of repayment of such loans as of the evaluation date. For homogeneous pools of loans and leases, estimates of the Company's exposure to credit loss reflect a 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 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 September 30, 2007 was 1.60% compared with 1.48% at December 31, 2006, and 1.50% at September 30, 2006. This increase was due to the increase in the provision for loan losses and an increase in the nonperforming loans as discussed in the following pages. Management considers the allowance for loan losses to be adequate based on evaluation and analysis of the loan portfolio.

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Table 4 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 is unlikely. Any recoveries of previously charged-off loans are credited directly to the allowance for loan and lease losses.

Table 4
Allowance For Loan and Lease Losses

	Three months ended September 30,			
(dollars in thousands)	**2007**		2006	
Balance, beginning of period	**$ 57,058**		$ 50,148	
Recoveries	**1,187**		946	
Chargeoffs	**(8,225)**		(2,928)	
Net chargeoffs	**(7,038)**		(1,982)	
Provision for loan losses	**4,788**		2,480	
Balance, end of period	**$ 54,808**		$ 50,646	
Composition of Net Chargeoffs				
Commercial and agricultural	**$ (4,617)**	**73%**	$ (1,001)	51%
Real estate mortgage	**(292)**	**3%**	27	-2%
Consumer	**(2,129)**	**24%**	(1,008)	51%
Net chargeoffs	**$ (7,038)**	**100%**	$ (1,982)	100%
Annualized net chargeoffs to average loans and leases	**0.81%**		0.23%	

Allowance For Loan and Lease Losses

	Nine months ended September 30,			
(dollars in thousands)	**2007**		2006	
Balance, beginning of period	**$ 50,587**		$ 47,455	
Recoveries	**3,691**		3,211	
Chargeoffs	**(16,124)**		(8,341)	
Net chargeoffs	**(12,433)**		(5,130)	
Allowance related to purchase acquisition	**-**		2,410	
Provision for loan losses	**16,654**		5,911	
Balance, end of period	**$ 54,808**		$ 50,646	
Composition of Net Chargeoffs				
Commercial and agricultural	**$ (7,098)**	**63%**	$ (2,505)	49%
Real estate mortgage	**(779)**	**5%**	(108)	2%
Consumer	**(4,556)**	**32%**	(2,517)	49%
Net chargeoffs	**$ (12,433)**	**100%**	$ (5,130)	100%
Annualized net chargeoffs to average loans and leases	**0.49%**		0.21%	

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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Table 5
Nonperforming Assets

(Dollars in thousands)	**September 30, 2007**	December 31, 2006	September 30, 2006
Nonaccrual loans			
Commercial and commercial real estate	**$ 16,394**	**$ 5,942**	**$ 5,089**
Agricultural	**7,817**	**3,404**	**3,536**
Real estate mortgages	**2,022**	**2,338**	**1,891**
Consumer	**2,854**	**1,981**	**1,887**
Total nonaccrual loans	**29,087**	**13,665**	**12,403**
Loans 90 days or more past due and still accruing			
Commercial and commercial real estate	**387**	**128**	**65**
Agricultural	**6**	**10**	**-**
Real estate mortgages	**667**	**682**	**806**
Consumer	**560**	**822**	**1,176**
Total loans 90 days or more past due and still accruing	**1,620**	**1,642**	**2,047**
Total nonperforming loans	**30,707**	**15,307**	**14,450**
Other real estate owned (OREO)	**917**	**389**	**395**
Total nonperforming assets	**31,624**	**15,696**	**14,845**
Total nonperforming loans to loans and leases	**0.90%**	**0.45%**	**0.43%**
Total nonperforming assets to assets	**0.61%**	**0.31%**	**0.29%**
Total allowance for loan and lease losses to nonperforming loans	**178.49%**	**330.48%**	**350.49%**

Total nonperforming assets were $31.6 million at September 30, 2007, $15.7 million at December 31, 2006, and $14.8 million at September 30, 2006. Nonaccrual loans were $29.1 million at September 30, 2007, as compared to $13.7 million at December 31, 2006 and $12.4 million at September 30, 2006. The increase in nonperforming assets from December 31, 2006 to September 30, 2007 is primarily due to one owner-occupied commercial real estate relationship, as well as several agricultural loans that became nonaccrual during the second quarter of 2007. These agricultural loans have been affected by the recent low milk prices, which caused considerable strain on the borrowers' cash flow and their ability to pay their loans. In addition to low milk prices, the agricultural loans have continued to be impacted by the record flooding of 2006 as well as high fuel costs. On a linked quarter basis, nonaccrual loans totaled $29.1 million at September 30, 2007, $33.7 million at June 30, 2007, $16.3 million at March 31, 2007, and $13.7 million at December 31, 2006. The increase in nonaccrual loans in the second quarter of 2007 was due to the above mentioned owner-occupied commercial real estate relationship as well as several agricultural loans. These agricultural loans continued to be adversely affected by record low milk prices and were moved to nonaccrual status after reviewing the most recently received financial information in the second quarter of 2007. The decrease in nonperforming loans during the third quarter was due primarily to commercial loan charge-offs and payoffs during the period as well as loan sales totaling approximately $3.8 million. OREO increased from $0.4 million at September 30, 2006 to $0.9 million at September 30, 2007.

In addition to the nonperforming loans discussed above, the Company has also identified approximately $80.6 million in potential problem loans at September 30, 2007 as compared to $69.8 million at December 31, 2006. Potential problem loans are loans that are currently performing, but where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as 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 September 30, 2007, 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.

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Included in potential problem loans is one commercial business credit relationship which totaled approximately $11.6 million at September 30, 2007. Management has been closely monitoring this loan, which was performing in accordance with its contractual terms at that date. However, subsequent to quarter end, the credit has become past due 30 days for the first time. This situation will be continually monitored during the fourth quarter and could lead to the credit being classified as non-accrual and impaired by year end.

Net chargeoffs totaled $12.4 million for the nine months ended September 30, 2007, up $7.3 million from the $5.1 million charged off during the same period in 2006. The provision for loan and lease losses totaled $16.7 million for the nine months ended September 30, 2007, compared with the $5.9 million provided during the same period in 2006. This increase in the provision was due primarily to the above mentioned increase in nonperforming loans, net chargeoffs, and potential problem loans.

Net chargeoffs totaled $7.0 million for the three months ended September 30, 2007, up $5.0 million from the $2.0 million charged off during the same period in 2006. The increase in the net chargeoffs for this period was mainly attributable to commercial and agricultural loan credits as well as consumer loan credits. The provision for loan and lease losses totaled $4.8 million for the three months ended September 30, 2007, compared with the $2.5 million provided during the same period in 2006. This increase in the provision was due primarily to the above mentioned commercial and agricultural credits and consumer loan credits.

Deposits

Total deposits were $4.0 billion at September 30, 2007, up $153.8 million, or 4.1%, from December 31, 2006, and up $162.2 million, or 4.3%, from the same period in the prior year. The increase in deposits compared with September 30, 2006, was driven by organic deposit growth (driven primarily by time deposit growth).

Total average deposits for the nine months ended September 30, 2007 increased $293.9 million, or 8.1%, from the same period in 2006. The Company experienced an increase in average time deposits of $179.0 million or 11.9%, for the nine months ended September 30, 2007 compared to the same period in 2006, and an increase average money market deposit accounts of $134.3 million or 25.9%, for the nine months ended September 30, 2007 compared to the same period in 2006. These increases were caused by a shift in the deposit mix from interest sensitive customers into higher paying time accounts. Average savings and NOW accounts experienced a decrease of $42.7 million for the nine month period ended September 30, 2007 as compared to the same period in 2006. This decrease was the result of the previously mentioned shift in deposit mix from lower cost deposit accounts to higher cost deposit accounts with more attractive interest rates (which have increased due to the rising rate environment). Average demand deposit accounts increased $23.3 million for the nine months ended September 30, 2007 as compared to the same period in 2006.

Total average deposits for the three months ended September 30, 2007 increased $143.5 million, or 3.8%, from the same period in 2006. The Company experienced an increase in average time deposits of $68.3 million or 4.2%, for the three months ended September 30, 2007 compared to the same period in 2006, and an increase average money market deposit accounts of $88.8 million or 15.6%, for the three months ended September 30, 2007 compared to the same period in 2006. These increases were caused by a shift in the deposit mix from interest sensitive customers into higher paying time accounts. Average savings and NOW accounts experienced a decrease of $44.5 million for the three month period ended September 30, 2007 as compared to the same period in 2006. This decrease was the result of the previously mentioned shift in deposit mix from lower cost deposit accounts to higher cost deposit accounts with more attractive interest rates (which have increased due to the rising rate environment). Average demand deposit accounts increased $30.9 million for the three months ended September 30, 2007 as compared to the same period in 2006.

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Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $305.9 million at September 30, 2007 compared to $345.4 million and $324.5 million at December 31, and September 30, 2006, respectively. Long-term debt was $377.1 million at September 30, 2007, and was $417.7 and $417.8 million at December 31, and September 30, 2006, respectively. 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 in this discussion.

Capital Resources

Stockholders' equity of $385.6 million represents 7.5% of total assets at September 30, 2007, compared with $403.8 million, or 7.9% at December 31, 2006, and $399.5 million, or 7.9% as of September 30, 2006. On July 23, 2007, the NBT Board of Directors authorized a new repurchase program whereby NBT may repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, as market conditions warrant in open market and privately negotiated transactions. When this repurchase was authorized, there were 636,780 shares remaining under previous authorizations. These remaining shares were combined with this new authorization, increasing the total shares available for repurchase to 1,636,780. Under previously mentioned stock repurchase plans, the Company purchased 2,261,267 shares of its common stock during the nine-month period ended September 30, 2007, for a total cost of $49.0 million with an average price of $21.65 per share. For the three-month period ended September 30, 2007, the Company purchased 1,160,900 shares of its common stock for a total of $23.9 million at an average price of $20.60 per share. There were 475,880 shares remaining for purchase under stock repurchase plans at September 30, 2007.

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.

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As the capital ratios in Table 6 indicate, the Company remains “well capitalized.” Capital measurements are significantly 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.

Table 6

Capital Measurements

2007	**March 31,**	**June 30,**	**September 30,**
Tier 1 leverage ratio	7.60%	7.37%	7.06%
Tier 1 capital ratio	10.53%	10.21%	9.77%
Total risk-based capital ratio	11.78%	11.46%	11.02%
Cash dividends as a percentage of net income	46.21%	50.74%	47.85%
Per common share:			
Book value	$ 11.99	$ 11.72	$ 11.97
Tangible book value	$ 8.61	$ 8.29	$ 8.43

2006	March 31,	June 30,	September 30,
Tier 1 leverage ratio	7.77%	7.27%	7.38%
Tier 1 capital ratio	10.30%	9.90%	10.15%
Total risk-based capital ratio	11.56%	11.15%	11.40%
Cash dividends as a percentage of net income	48.20%	46.99%	46.13%
Per common share:			
Book value	$ 11.22	$ 11.15	$ 11.73
Tangible book value	$ 7.84	$ 7.72	$ 7.90

The accompanying Table 7 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 1.82 at September 30, 2007 and 1.98 in the comparable period of the prior year. The Company's price was 13.3 times trailing twelve months earnings at September 30, 2007, compared to 14.2 times for the same period last year.

Table 7
Quarterly Common Stock and Dividend Information

Quarter Endings	High	Low	Close	Cash Dividends Declared
2006				
March 31	$ 23.90	$ 21.02	$ 23.25	$ 0.190
June 30	23.24	21.03	23.23	0.190
September 30	24.57	21.44	23.26	0.190
December 31	26.47	22.36	25.51	0.190
2007				
March 31	**$ 25.81**	**$ 21.73**	**$ 23.43**	**$ 0.200**
June 30	**$ 23.45**	**$ 21.80**	**$ 22.56**	**$ 0.200**
September 30	**$ 23.80**	**$ 17.10**	**$ 21.74**	**$ 0.200**

On October 22, 2007, NBT Bancorp Inc. announced the declaration of a regular quarterly cash dividend of $0.20 per share. The cash dividend will be paid on December 15, 2007 to stockholders of record as of December 1, 2007.

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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.

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 200 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.

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Net interest income for the next 12 months in the + 200/- 200 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the September 30, 2007 balance sheet position:

Table 8
Interest Rate Sensitivity Analysis

Change in interest rates (in bp points)	Percent change in net interest income
+200	(4.44%)
-200	1.07%

The Company has taken several measures to mitigate net interest margin compression. The Company began originating 20-year and 30-year residential real estate mortgages with the intent to sell beginning with the second quarter of 2005. Over time, the Company has shortened the average life of its investment securities portfolio by limiting purchases of mortgage-backed securities and redirecting proceeds into short-duration CMOs and US Agency notes and bonds. Lastly, the Company will continue to focus on growing noninterest bearing demand deposits and prudently managing deposit costs.

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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 September 30, 2007, the Company's Basic Surplus measurement was 6.62% of total assets or $341 million, which was above the Company's minimum of 5% or $258 million set forth in its liquidity policies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the Company is able to operate with a more fully invested and, therefore, higher interest income generating, securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position. At September 30, 2007, the Company Basic Surplus declined slightly compared to the December 31, 2006 Basic Surplus of 7.9%.

The Company's primary source of funds is from its subsidiary, NBT Bank. Certain restrictions exist regarding the ability of the Company's subsidiary bank to transfer funds to the Company in the form of cash dividends. The approval of the Office of Comptroller of the Currency (OCC) is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years (as defined in the regulations). At September 30, 2007, approximately $32.0 million of the total stockholders' equity of NBT Bank was available for payment of dividends to the Company without approval by the OCC. NBT Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. NBT Bank is currently in compliance with these requirements. Under the State of Delaware Business Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Information called for by Item 3 is contained in the Liquidity and Interest Rate Sensitivity Management section of the Management Discussion and Analysis.

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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, 2007. 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

Management of the Company does not believe there have been any material changes in the risk factors that were disclosed in the Form 10-K filed with the Securities and Exchange Commission on March 1, 2007.

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

(a) Not applicable

(b) Not applicable

(c) The table below sets forth the information with respect to purchases made by the Company (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under The Plans (1)
7/1/07 - 7/31/07	119,600	$ 18.65	119,600	1,517,180
8/1/07 - 8/31/07	903,400	20.75	903,400	613,780
9/1/07 - 9/30/07	137,900	21.33	137,900	475,880
Total	**1,160,900**	**$ 20.60**	**1,160,900**	**475,880**

1) On July 23, 2007, the NBT Board of Directors authorized a new repurchase program whereby NBT may repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, as market conditions warrant in open market and privately negotiated transactions. When this repurchase was authorized, there were 636,780 shares remaining under previous authorizations. These remaining shares were combined with this new authorization, increasing the total shares available for repurchase to 1,636,780. Under previously mentioned stock repurchase plans, the Company purchased 2,261,267 shares of its common stock during the nine-month period ended September 30, 2007, for a total of $49.0 million at an average price of $21.65 per share. For the three-month period ended September 30, 2007, the Company purchased 1,160,900 shares of its common stock for a total of $23.9 million at an average price of $20.60 per share. There were 475,880 shares remaining for purchase under stock repurchase plans at September 30, 2007.

Item 3 – Defaults Upon Senior Securities

None

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

None

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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, 2001, filed on March 29, 2002 and incorporated herein by reference).

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

3.3 Rights Agreement, dated as of November 15, 2004, between NBT Bancorp Inc. and Registrar and Transfer Company, as Rights Agent (filed as Exhibit 4.1 to Registrant's Form 8-K, file number 0-14703, filed on November 18, 2004, and incorporated by reference herein).

3.4 Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the 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 4.1 to the Registrant's Amendment No. 1 to Registration Statement on Form S-4 filed on December 27, 2005 and incorporated herein by reference).

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.

32.2 Written Statement of the Chief Financial 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 9th day of November 2007.

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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