NBT BANCORP INC
Form 10-Q
November 10, 2008

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, 2008.

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________.

COMMISSION FILE NUMBER 0-14703

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

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

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

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

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

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

Large accelerated filer T Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

As of October 31, 2008, there were 32,534,341 shares outstanding of the Registrant's common stock, $0.01 par value.

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NBT BANCORP INC.
FORM 10-Q--Quarter Ended September 30, 2008

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

(In thousands, except share and per share data)	September 30, 2008	December 31, 2007	September 30, 2007
Assets			
Cash and due from banks	$ 141,167	$ 155,495	$ 139,453
Short-term interest bearing accounts	2,426	7,451	9,028
Securities available for sale, at fair value	1,101,103	1,132,230	1,137,890
Securities held to maturity (fair value $144,303, $149,519, and $143,483)	149,952	149,111	143,447
Federal Reserve and Federal Home Loan Bank stock	39,122	38,102	33,218
Loans and leases	3,607,321	3,455,851	3,422,217
Less allowance for loan and lease losses	55,803	54,183	54,808
Net loans and leases	3,551,518	3,401,668	3,367,409
Premises and equipment, net	65,201	64,042	64,406
Goodwill	113,514	103,398	103,400
Intangible assets, net	24,242	10,173	10,585
Bank owned life insurance	45,037	43,614	43,134
Other assets	101,876	96,492	99,102
Total assets	$ 5,335,158	$ 5,201,776	$ 5,151,072
Liabilities			
Demand (noninterest bearing)	$ 703,406	$ 666,698	$ 671,729
Savings, NOW, and money market	1,874,608	1,614,289	1,595,622
Time	1,412,780	1,591,106	1,682,714
Total deposits	3,990,794	3,872,093	3,950,065
Short-term borrowings	150,477	368,467	305,865
Long-term debt	633,462	424,887	377,119
Trust preferred debentures	75,422	75,422	75,422
Other liabilities	63,875	63,607	56,955
Total liabilities	4,914,030	4,804,476	4,765,426
Stockholders’ equity			
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at September 30, 2008, December 31, 2007 and September 30, 2007	-	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at September 30, 2008, December 31, 2007 and September 30, 2007; issued 36,459,366, 36,459,421, and 36,459,445 at September 30, 2008, December 31, 2007, and September 30, 2007, respectively	365	365	365
Additional paid-in-capital	275,296	273,275	272,382
Retained earnings	237,153	215,031	212,771
Accumulated other comprehensive loss	(8,052)	(3,575)	(9,812)
Common stock in treasury, at cost, 3,928,316, 4,133,328, and 4,238,954 shares at September 30, 2008, December 31, 2007, and September 30, 2007, respectively	(83,634)	(87,796)	(90,060)
Total stockholders’ equity	421,128	397,300	385,646
Total liabilities and stockholders’ equity	$ 5,335,158	$ 5,201,776	$ 5,151,072

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, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Interest, fee, and dividend income				
Interest and fees on loans and leases	$ 58,154	$ 61,183	$ 173,991	$ 181,680
Securities available for sale	13,451	13,847	40,614	40,876
Securities held to maturity	1,343	1,471	4,335	4,440
Other	673	680	2,187	2,139
Total interest, fee, and dividend income	73,621	77,181	221,127	229,135
Interest expense				
Deposits	18,351	27,062	59,761	79,996
Short-term borrowings	763	3,885	4,465	9,895
Long-term debt	6,310	3,770	16,241	12,253
Trust preferred debentures	1,154	1,277	3,547	3,817
Total interest expense	26,578	35,994	84,014	105,961
Net interest income	47,043	41,187	137,113	123,174
Provision for loan and lease losses	7,179	4,788	19,460	16,654
Net interest income after provision for loan and lease losses	39,864	36,399	117,653	106,520
Noninterest income				
Service charges on deposit accounts	7,414	6,195	20,877	15,600
Broker/ dealer and insurance revenue	2,338	1,027	4,811	3,203
Trust	1,720	1,701	5,593	4,930
Net securities gains	1,510	1,484	1,543	1,500
Bank owned life insurance	491	467	1,423	1,351
ATM fees	2,334	2,159	6,656	6,096
Retirement plan administration fees	1,461	1,586	4,840	4,779
Other	1,694	1,908	5,733	5,750
Total noninterest income	18,962	16,527	51,476	43,209
Noninterest expense				
Salaries and employee benefits	16,850	15,876	50,526	44,862
Occupancy	3,359	2,928	10,396	8,682
Equipment	1,908	1,797	5,595	5,567
Data processing and communications	3,155	2,779	9,440	8,501
Professional fees and outside services	2,205	2,256	7,825	5,840
Office supplies and postage	1,322	1,354	3,992	3,984
Amortization of intangible assets	462	413	1,231	1,232
Loan collection and other real estate owned	505	431	1,802	1,036
Impairment on lease residual assets	2,000	-	2,000	-
Other	5,292	3,393	13,708	10,409
Total noninterest expense	37,058	31,227	106,515	90,113
Income before income tax expense	21,768	21,699	62,614	59,616
Income tax expense	6,685	6,552	19,158	18,273
Net income	$ 15,083	$ 15,147	$ 43,456	$ 41,343
Earnings per share				
Basic	$ 0.47	$ 0.46	$ 1.36	$ 1.23
Diluted	$ 0.46	$ 0.46	$ 1.34	$ 1.22

See accompanying notes to unaudited interim consolidated financial statements.

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

(in thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock In Treasury	Total
Balance at December 31, 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 tax benefit		146	(560)		3,262	2,848
Stock-based compensation		2,175				2,175
Issuance 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
Balance at December 31, 2007	$ 365	$ 273,275	$ 215,031	$ (3,575)	$ (87,796)	$ 397,300
Cumulative effect adjustment to record liability for split-dollar life insurance policies			(1,518)			(1,518)
Net income			43,456			43,456
Cash dividends - $0.60 per share			(19,314)			(19,314)
Purchase of 272,840 treasury shares					(5,939)	(5,939)
Net issuance of 451,254 shares to employee benefit plans and other stock plans, including tax benefit		942	(502)		9,535	9,975
Stock-based compensation		1,645				1,645
Issuance of 26,598 shares of restricted stock awards		(566)			566	-
Other comprehensive loss				(4,477)		(4,477)
Balance at September 30, 2008	$ 365	$ 275,296	$ 237,153	$ (8,052)	$ (83,634)	$ 421,128

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, 2008	2007
Operating activities		
Net income	$ 43,456	$ 41,343
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	19,460	16,654
Depreciation and amortization of premises and equipment	3,886	3,990
Net accretion on securities	317	63
Amortization of intangible assets	1,231	1,232
Stock based compensation	1,645	2,175
Bank owned life insurance income	(1,423)	(1,351)
Proceeds from sales of loans held for sale	20,992	20,344
Originations and purchases of loans held for sale	(20,608)	(21,175)
Net gains on sales of loans held for sale	(125)	(116)
Net security gains	(1,543)	(1,500)
Net gain on sales of other real estate owned	(214)	(320)
Impairment on lease residual assets	2,000	-
Net increase in other assets	(2,380)	(8,268)
Net increase in other liabilities	(1,240)	5,168
Net cash provided by operating activities	65,454	58,239
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	312,286	145,913
Proceeds from sales	1,140	10,553
Purchases	(288,104)	(188,444)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	64,117	59,536
Purchases	(65,046)	(66,784)
Net increase in loans	(172,374)	(22,136)
Net (increase) decrease in Federal Reserve and FHLB stock	(1,020)	5,594
Net cash used in Mang Insurance Agency, LLC acquisition	(25,873)	-
Purchases of premises and equipment	(4,665)	(1,414)
Proceeds from sales of other real estate owned	724	847
Net cash used in investing activities	(178,815)	(56,335)
Financing activities		
Net increase in deposits	118,701	153,827
Net decrease in short-term borrowings	(217,990)	(39,543)
Proceeds from issuance of long-term debt	340,021	125,102
Repayments of long-term debt	(131,446)	(165,711)
Excess tax benefit from exercise of stock options	800	416
Proceeds from the issuance of shares to employee benefit plans and other stock plans	9,175	2,432
Purchase of treasury stock	(5,939)	(48,957)
Cash dividends and payment for fractional shares	(19,314)	(19,782)
Net cash provided by financing activities	94,008	7,784
Net (decrease) increase in cash and cash equivalents	(19,353)	9,688
Cash and cash equivalents at beginning of period	162,946	138,793

Cash and cash equivalents at end of period	$	143,593	$	148,481

See accompanying notes to unaided interim consolidated financial statements

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Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest	$	87,534	$	102,152
Income taxes paid		11,463		12,662
Noncash investing activities:				
Loans transferred to OREO	$	805	$	1,087
Acquistions:				
Fair value of assets acquired	$	28,875	$	-
Fair value of liabilities assumed		3,002		-

See accompanying notes to unaided interim consolidated financial statements

	Three months ended September 30,				Nine months ended September 30,			
Consolidated Statements of Comprehensive Income (unaudited) (In thousands)		2008		2007		2008		2007
Net income	$	15,083	$	15,147	$	43,456	$	41,343
Other comprehensive income, net of tax								
Unrealized net holding gains (losses) arising during the period (pre-tax amounts of $802, $16,285, ($5,576), and $8,172)		480		9,830		(3,711)		4,889
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of ($1,510), ($1,484), ($1,543), and ($1,500))		(908)		(892)		(928)		(902)
Amortization of prior service cost and actuarial gains (pre-tax amounts of $90, $119, $270, and $358)		54		72		162		215
Total other comprehensive (loss) income		(374)		9,010		(4,477)		4,202
Comprehensive income	$	14,709	$	24,157	$	38,979	$	45,545

See accompanying notes to unaudited interim consolidated financial statements

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NBT BANCORP INC. and Subsidiaries
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008

Note 1. Description of Business

NBT Bancorp Inc. (the “Registrant”) is a registered financial holding company incorporated in the State of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Registrant is the parent holding company of NBT Bank, N.A. (the “Bank”), NBT Financial Services, Inc. (“NBT Financial”), NBT Holdings, Inc., Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. Through these subsidiaries, the Registrant operates as one segment focused on community banking operations. The Registrant’s primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Registrant are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from its subsidiaries.

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

Note 2. Basis of Presentation

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

Note 3. New Accounting Pronouncements

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (“SFAS No. 160”). SFAS No. 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other things, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and requires consolidated net income to be reported at amounts that

include the amounts attributable to both the parent and the noncontrolling interest. SFAS No. 160 also amends SFAS No. 128, Earnings per Share, so that earnings per share calculations in consolidated financial statements will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and is applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. SFAS No. 160 is not expected to have a material impact on our financial condition or results of operations.

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In February 2008, the FASB issued FASB Staff Position FAS 140-3, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ("FSP FAS 140-3"). FSP FAS 140-3 was issued to provide guidance on accounting for a transfer of a financial asset and repurchase financing. FSP FAS 140-3 presumes that an initial transfer of a financial asset and repurchase financing are considered part of the same arrangement ("linked transaction") under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. However, if certain criteria are met, the initial transfer and repurchase financing should not be evaluated as a linked transaction and should be evaluated separately under SFAS No. 140. FSP FAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Earlier application is not permitted. FSP FAS 140-3 should be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after the beginning of the fiscal year for which FSP FAS 140-3 is effective. The adoption will not have a material impact on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS No. 161"). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The new standard also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. SFAS No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk–related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 is not expected to have a material impact on our financial condition or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. The hierarchy under SFAS 162 is as follows: A) FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, and American Institute of Certified Public Accountants ("AICPA") Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB; B) FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position; C) AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the FASB Emerging Issues Task Force ("EITF"), and the Topics discussed in Appendix D of EITF Abstracts (EITF D-Topics); and D) Implementation guides (Q&As) published by the FASB staff, AICPA Accounting Interpretations, AICPA Industry Audit and Accounting Guides and Statements of Position not cleared by the FASB, and practices that are widely recognized and prevalent either generally or in the industry. The Statement will be effective November 15, 2008. SFAS No. 162 is not expected to have a material impact on our financial condition or results of operations.

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In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ("FSP EITF 03-6-1"), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company is currently evaluating the impact the adoption of FSP EITF 03-6-1 will have on our financial statements.

Note 4. Use of Estimates

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

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.

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Income taxes are accounted for under the asset and liability method. The Company files consolidated tax returns on the accrual basis. Deferred income taxes are recognized for the future tax consequences and benefits attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at September 30, 2008 and 2007, or December 31, 2007. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides recognition criteria and a related measurement model for tax provisions taken by companies. In accordance with FIN 48, a tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions are recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position would be sustained upon examination by taxing authorities. Tax positions that meet the more than likely than not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. The adoption of FIN 48 did not result in a change to the liability of unrecognized benefits.

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

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

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

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its stand-by letters of credit. The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. 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. Management is required to make estimates related to the

likelihood of these contingencies being exercised to determine their fair value.

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Note 5. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policy to make such commitments as it uses for on-balance-sheet items. Commitments to extend credit and unused lines of credit totaled $546.0 million at September 30, 2008, $546.8 million at December 31, 2007, and $573.3 at September 30, 2007. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds and municipal securities. The credit risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, 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 $26.7 million at September 30, 2008, $27.5 million at December 31, 2007, and $26.4 million at September 30, 2007. As of September 30, 2008, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

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Note 6. Earnings Per Share

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

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,	2008	2007
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	32,137	32,708
Net income available to common shareholders	15,083	15,147
Basic EPS	$ 0.47	$ 0.46
Diluted EPS:		
Weighted average common shares outstanding	32,137	32,708
Dilutive effect of common stock options and restricted stock	316	213
Weighted average common shares and common share equivalents	32,453	32,921
Net income available to common shareholders	15,083	15,147
Diluted EPS	$ 0.46	$ 0.46

Nine months ended September 30,	2008	2007
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	32,060	33,521
Net income available to common shareholders	43,456	41,343
Basic EPS	$ 1.36	$ 1.23
Diluted EPS:		
Weighted average common shares outstanding	32,060	33,521
Dilutive effect of common stock options and restricted stock	255	245
Weighted average common shares and common share equivalents	32,315	33,766
Net income available to common shareholders	43,456	41,343
Diluted EPS	$ 1.34	$ 1.22

There were 228,587 stock options for the quarter ended September 30, 2008 and 1,227,585 stock options for the quarter ended September 30, 2007 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 840,882 stock options for the nine months ended September 30, 2008 and 619,853 stock options for the nine months ended September 30, 2007 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 7. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at September 30, 2008. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with Employee Retirement Income Security Act ("ERISA") standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

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

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees' active service period. Only employees that were employed by the Company on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Eligibility is contingent upon the direct transition from active employment status to retirement without any break in employment from the Company. Employees also must be participants in the Company's medical plan prior to their retirement. The Company funds the cost of postretirement health care as benefits are paid. The Company elected to recognize the transition obligation on a delayed basis over twenty years. These postretirement benefits are referred to herein as "Other Benefits."

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:	2008	2007	2008	2007
Service Cost	$ 573	$ 526	$ 6	$ 6
Interest Cost	804	740	60	54
Expected return on plan assets	(1,502)	(1,372)	-	-
Net amortization	96	134	(6)	(15)
Total (benefit) cost	$ (29)	$ 28	$ 60	$ 45

	Pension Benefits Nine months ended September 30,		Other Benefits Nine months ended September 30,	
Components of net periodic benefit cost:	2008	2007	2008	2007
Service Cost	$ 1,718	$ 1,579	$ 18	$ 18
Interest Cost	2,414	2,220	180	161
Expected return on plan assets	(4,507)	(4,118)	-	-
Net amortization	289	402	(19)	(44)
Total (benefit) cost	$ (86)	$ 83	$ 179	$ 135

The Company is not required to make contributions to the plans in 2008. The Company recorded approximately $0.3 million, net of tax, as amortization of pension amounts previously recognized in Accumulated Other Comprehensive

Income or Loss during the nine months ended September 30, 2008.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by the Company's defined benefit pension plan ("the Plan") which could impact the value of investments. There has been a negative return on Plan assets through September 30, 2008 which could ultimately affect the funded status of the Plan. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual valuation for the year ended December 31, 2008 is performed.

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Note 8. Trust Preferred Debentures

CNBF Capital Trust I is a Delaware statutory business trust formed in 1999, for the purpose of issuing $18 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust I is a Delaware statutory business trust formed in 2005, for the purpose of issuing $5 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust II is a Delaware statutory business trust formed in 2006, for the purpose of issuing $50 million in trust preferred securities and lending the proceeds to the Company to provide funding for the acquisition of CNB Bancorp, Inc. These three statutory business trusts are collectively referred herein 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, 2008, the Trusts had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

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

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

The Company owns all of the common stock of the Trusts, which have issued trust preferred securities in conjunction with the Company issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities. In February 2005, the Federal Reserve Board issued a final rule that allows the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies. The Board’s final rule limits the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Large, internationally active bank holding companies (as defined) are subject to a 15% limitation. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits. The 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 9. Fair Value Measurements and Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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In accordance with FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, the Company has delayed the application of SFAS No. 157 for nonfinancial assets, such as goodwill and real property held for sale, and nonfinancial liabilities until January 1, 2009.

In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The FSP is effective October 10, 2008, and for prior periods for which financial statements have not been issued. Adoption did not have a material impact on the Company's financial position or results of operations.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
Assets:				
Securities Available for Sale	$ 6,422	$ 1,094,681	$ -	$ 1,101,103
Total	$ 6,422	$ 1,094,681	$ -	$ 1,101,103

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

SFAS No. 157 requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis. In accordance with the provisions of SFAS No. 114, "Accounting by Creditors for Impairment of a Loan--an amendment of FASB Statements No. 5 and 15" ("SFAS No. 114"), the Company had collateral dependent impaired loans with a carrying value of approximately $6.4 million which had specific reserves included in the allowance for loan and lease losses of $1.3 million at September 30, 2008. During the nine and three month periods ended September 30, 2008, the Company established specific reserves of approximately $2.1 million and $0.4 million, which were included in the provision for loan and lease losses for the respective periods. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

Simultaneously with the adoption of SFAS No. 157, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", effective January 1, 2008. SFAS No. 159 gives entities the option to measure eligible financial assets, financial liabilities and Company commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value and does not eliminate disclosure requirements included in other accounting standards. As of September 30, 2008, the Company has not

elected the fair value option for any eligible items.

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Note 10. Acquisition

On September 1, 2008, the Company completed the acquisition of Mang Insurance Agency, LLC (“Mang”), headquartered in Binghamton, New York. As part of the acquisition, the Company acquired approximately $15.3 million of intangible assets and $10.5 million of goodwill, which has been allocated to NBT Holdings, Inc. for reporting purposes. The results of operations are included in the consolidated financial statements from the date of acquisition, September 1, 2008.

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

General

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. ("the Registrant") and its wholly owned subsidiaries, NBT Bank, N.A. (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc., 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 2007 Form 10-K for an understanding of the following discussion and analysis.

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

Forward-looking Statements

Certain statements in this filing and future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act. These statements may be identified by the use of phrases such as "anticipate," "believe," "expect," "forecasts," "projects," or other similar terms. There are a number of factors, many which are beyond the Company's control that could cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may affect interest margins; (4) general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit; (5) legislative or regulatory changes, including changes in accounting standards or tax laws, may adversely affect the businesses in which the Company is engaged; (6) competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than the Company; (7) adverse changes may occur in the securities markets or with respect to inflation; (8) acts of war or terrorism; (9) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; (10) internal control failures; and (11) the Company's success in managing the risks involved in the foregoing.

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

affect the Company’s financial performance and could cause the Company’s actual results or circumstances for future periods to differ materially from those anticipated or projected.

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

Critical Accounting Policies

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

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

Recent Economic Developments

In the past year, declining housing values have resulted in deteriorating economic conditions across the U.S., resulting in significant writedowns in the values of mortgage-backed securities and derivative securities by financial institutions, government sponsored entities, and major commercial and investment banks. This has led to decreased confidence in financial markets among borrowers, lenders, and depositors as well as extreme volatility in the capital and credit markets and the failure of some entities in the financial sector. The Company is fortunate that the markets it serves have been impacted to a lesser extent than many areas around the country.

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In response to the financial crises affecting the banking system and financial markets, there have been several recent announcements of Federal programs designed to purchase assets from, provide equity capital to, and guarantee the liquidity of, the industry.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. The EESA authorizes the U.S. Treasury to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The Company did not originate or invest in sub-prime assets and, therefore, does not expect to participate in the sale of any of our assets into these programs. EESA also immediately increases the FDIC deposit insurance limit from $100,000 to $250,000 through December 31, 2009.

On October 14, 2008, the U.S. Treasury announced that it will purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), the U.S. Treasury will make $250 billion of capital available (from the $700 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program.

Overview

The Company earned net income of $15.1 million ($0.46 diluted earnings per share) for the three months ended September 30, 2008, which was the same as net income of $15.1 million ($0.46 diluted earnings per share) for the three months ended September 30, 2007. Net interest income increased approximately $5.9 million, or 14.2%, for the three months ended September 30, 2008 as compared to the same period in 2007. The increase in net interest income was due primarily to a decrease in interest expense of approximately $9.4 million, or 26.2%. In addition, noninterest income increased $2.4 million, or 14.7%, for the three months ended September 30, 2008 as compared to the third quarter of 2007. The increases in net interest income and noninterest income were partially offset by a $5.8 million, or 18.7%, increase in noninterest expense for the three months ended September 30, 2008 as compared with the same period in 2007. In addition, the provision for loan and lease losses was up $2.4 million for the three months ended September 30, 2008 as compared to the same period in 2007.

The Company earned net income of $43.5 million ($1.34 diluted earnings per share) for the nine months ended September 30, 2008 compared to net income of $41.3 million ($1.22 diluted earnings per share) for the nine months ended September 30, 2007. The increase in net income from 2007 to 2008 was primarily the result of an increase in net interest income of approximately $13.9 million, or 11.3%. The increase in net interest income was due primarily to a decrease in interest expense of approximately $21.9 million, or 20.7%. Also contributing to the increase in net income was an increase in noninterest income of approximately $8.3 million, or 19.1%. The increases in net interest income and noninterest income were partially offset by a $16.4 million, or 18.2%, increase in noninterest expense for the nine months ended September 30, 2008 as compared with the same period in 2007. In addition, the provision for loan and lease losses was up $2.8 million for the nine months ended September 30, 2008 as compared to the same period in 2007.

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 federal taxable equivalent (FTE) interest income divided by average earning assets, is a measure of an entity's ability to utilize its earning assets in relation to the cost of funding. Interest income for tax-exempt securities and loans is adjusted to a taxable equivalent basis using the statutory Federal income tax rate of 35%.

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Table 1 - Performance Measures

2008	First Quarter	Second Quarter	Third Quarter	Nine Months Ended Sept 30, 2008
Return on average assets (ROAA)	1.07%	1.12%	1.13%	1.11%
Return on average equity (ROAE)	13.68%	14.49%	14.58%	14.26%
Net Interest Margin	3.84%	3.94%	3.94%	3.91%
2007				
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%

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 (FTE) basis.

FTE net interest income increased $5.9 million, or 13.8%, during the three months ended September 30, 2008, compared to the same period of 2007. The increase in FTE net interest income resulted primarily from a decrease in the rate paid on interest bearing liabilities of 98 bp, to 2.57% for the three months ended September 30, 2008 from 3.55% for the same period in 2007. The interest rate spread increased 51 bp during the three months ended September 30, 2008 compared to the same period in 2007. For the three months ended September 30, 2008, total FTE interest income decreased $3.5 million, or 4.5%. The yield on earning assets for the period decreased 47 bp to 6.09% for the three months ended September 30, 2008 from 6.56% for the same period in 2007. This decrease was partially offset by an increase in average interest earning assets of $148.8 million, or 3.1%, for the three months ended September 30, 2008 when compared to the same period in 2007, principally from growth in average loans and leases.

For the quarter ended September 30, 2008, total interest expense decreased $9.4 million, or 26.2%, primarily the result of the 275 bp decrease in the Federal Funds target rate since September 30, 2007, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest bearing liabilities increased $94.9 million, or 2.4%, for the three months ended September 30, 2008 when compared to the same period in 2007, principally from growth in long-term debt and money market deposit accounts. Total average interest bearing deposits decreased $9.1 million, or 0.3%, for the three months ended September 30, 2008 when compared to the same period in 2007. The rate paid on average interest bearing deposits decreased 105 bp from 3.29% for the three months ended September 30, 2007 to 2.24% for the same period in 2008. For the three months ended September 30, 2008, the Company experienced a shift in its deposit mix from savings and time deposits to money market deposit accounts and NOW accounts. Average savings and time deposit accounts collectively decreased approximately $180.8 million, or 8.3%, when compared to the same period in 2007, while money market accounts and NOW accounts collectively increased approximately $171.6 million, or 15.6%.

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Total average borrowings, including trust preferred debentures, increased $104.0 million, or 13.8%, for the three months ended September 30, 2008 compared with the same period in 2007. Average short-term borrowings decreased by $167.6 million, or 52.0%, from $322.2 million for the three months ended September 30, 2007 to $154.6 million for the three months ended September 30, 2008. Interest expense from short-term borrowings decreased $3.1 million, or 80.4%. The rate paid on short-term borrowings decreased 282 bp from 4.78% for the three months ended September 30, 2007 to 1.96% for the same period in 2008. Average long-term debt increased $271.7 million, or 76.7%, for the three months ended September 30, 2008, compared with the same period in 2007. The rate paid on long-term debt decreased to 4.01% for the three months ended September 30, 2008, compared with 4.23% for the same period in 2007. As a result of the increase in the average balance of long-term debt, interest paid on long-term debt increased $2.5 million, or 67.4%, for the three months ended September 30, 2008 as compared to the same period in 2007.

The interest rate spread increased 51 bp for the three months ended September 30, 2008 as compared with the three months ended September 30, 2007. The net interest margin increased by 38 bp to 3.94% for the three months ended September 30, 2008, compared with 3.56% for the same period in 2007.

FTE net interest income increased $14.2 million, or 11.1%, during the nine months ended September 30, 2008, compared to the same period of 2007. The increase in FTE net interest income resulted primarily from a decrease in the yield on interest bearing liabilities of 79 bp to 2.75% for the nine months ended September 30, 2008 from 3.54% for the same period in 2007. The interest rate spread increased 41 bp during the nine months ended September 30, 2008 compared to the same period in 2007. For the nine months ended September 30, 2008, total FTE interest income decreased $7.8 million, or 3.3%. The yield on earning assets for the period decreased 38 bp to 6.22% for the nine months ended September 30, 2008 from 6.60% for the same period in 2007. This decrease was partially offset by an increase in average interest earning assets of $118.2 million, or 2.5% for the nine months ended September 30, 2008 when compared to the same period in 2007, principally from growth in average loans and leases.

For the nine months ended September 30, 2008, total interest expense decreased $21.9 million, or 20.7%, primarily the result of the 275 bp decrease in the Federal Funds target rate since September 30, 2007, which impacts the Company’s short-term borrowing, money market account and time deposit rates. Additionally, average interest bearing liabilities increased $76.7 million, or 1.9%, for the nine months ended September 30, 2008 when compared to the same period in 2007, principally from growth in long-term debt and money market deposit accounts. Total average interest bearing deposits decreased $44.0 million, or 1.3%, for the nine months ended September 30, 2008 when compared to the same period in 2007. The rate paid on average interest bearing deposits decreased 80 bp from 3.27% for the nine months ended September 30, 2007 to 2.47% for the same period in 2008. For the nine months ended September 30, 2008, the Company experienced a shift in its deposit mix from savings and time deposits to money market deposit accounts and NOW accounts. Average savings and time deposit accounts collectively decreased approximately $145.7 million, or 6.7%, when compared to the same period in 2007, while money market accounts and NOW accounts collectively increased approximately $101.7 million, or 9.2%.

Total average borrowings, including trust preferred debentures, increased $120.7 million, or 16.5%, for the nine months ended September 30, 2008 compared with the same period in 2007. Average short-term borrowings decreased by $41.2 million, or 14.8%, from $279.4 million for the nine months ended September 30, 2007 to $238.2 million for the nine months ended September 30, 2008. Interest expense from short-term borrowings decreased $5.4 million, or 54.9%. The rate paid on short-term borrowings decreased from 4.73% for the nine months ended September 30, 2007 to 2.50% for the same period in 2008. Average long-term debt increased $161.9 million, or 42.8%, for the nine months ended September 30, 2008, compared with the same period in 2007. The rate paid on long-term debt decreased to 4.02% for the nine months ended September 30, 2008, compared with 4.33% for the same period in 2007. As a result of the increase in the average balance of long-term debt, interest paid on long-term debt increased $4.0 million, or 32.5%, for the nine months ended September 30, 2008 as compared to the same period in 2007.

The interest rate spread increased 41 bp for the nine months ended September 30, 2008 as compared with the nine months ended September 30, 2007. The net interest margin increased by 30 bp to 3.91% for the nine months ended September 30, 2008, compared with 3.61% for the same period in 2007.

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Table 2

Average Balances and Net Interest Income

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

Three months ended September 30,

	2008			2007		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 4,077	$ 20	1.95%	$ 7,714	$ 102	5.25%
Securities available for sale (1)(excluding unrealized gains or losses)	1,116,089	14,159	5.05%	1,142,009	14,458	5.02%
Securities held to maturity (1)	148,397	2,026	5.43%	144,713	2,216	6.08%
Investment in FRB and FHLB Banks	40,401	653	6.43%	33,637	579	6.83%
Loans and leases (2)	3,605,700	58,371	6.44%	3,437,798	61,405	7.09%
Total interest earning assets	4,914,664	75,229	6.09%	4,765,871	78,760	6.56%
Other assets	386,976			356,225		
Total assets	5,301,640			5,122,096		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	779,954	3,593	1.83%	658,741	5,620	3.38%
NOW deposit accounts	491,673	1,060	0.86%	441,243	892	0.80%
Savings deposits	474,602	514	0.43%	488,010	1,077	0.88%
Time deposits	1,512,072	13,184	3.47%	1,679,446	19,473	4.60%
Total interest bearing deposits	3,258,301	18,351	2.24%	3,267,440	27,062	3.29%
Short-term borrowings	154,567	763	1.96%	322,245	3,885	4.78%
Trust preferred debentures	75,422	1,154	6.09%	75,422	1,277	6.72%
Long-term debt	625,733	6,310	4.01%	354,037	3,770	4.23%
Total interest bearing liabilities	4,114,023	26,578	2.57%	4,019,144	35,994	3.55%
Demand deposits	706,803			656,176		
Other liabilities	69,355			56,913		
Stockholders' equity	411,459			389,863		
Total liabilities and stockholders' equity	$ 5,301,640			$ 5,122,096		
Net interest income (FTE)		48,651			42,766	
Interest rate spread			3.52%			3.01%
Net interest margin			3.94%			3.56%
Taxable equivalent adjustment		1,608			1,579	
Net interest income		$ 47,043			$ 41,187	

(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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Nine months ended September 30,

	2008			2007		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 6,517	$ 145	2.98%	$ 8,523	$ 320	5.03%
Securities available for sale (1)(excluding unrealized gains or losses)	1,112,582	42,689	5.13%	1,131,533	42,682	5.04%
Securities held to maturity (1)	153,010	6,544	5.71%	144,693	6,704	6.19%
Investment in FRB and FHLB Banks	39,730	2,042	6.87%	33,668	1,820	7.23%
Loans and leases (2)	3,544,787	174,635	6.58%	3,419,983	182,283	7.13%
Total interest earning assets	4,856,626	226,055	6.22%	4,738,400	233,809	6.60%
Other assets	379,504			358,208		
Total assets	5,236,130			5,096,608		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	736,313	10,724	1.95%	653,405	16,733	3.42%
NOW deposit accounts	464,396	2,943	0.85%	445,647	2,697	0.81%
Savings deposits	469,335	1,780	0.51%	493,752	3,340	0.90%
Time deposits	1,559,294	44,314	3.80%	1,680,555	57,226	4.55%
Total interest bearing deposits	3,229,338	59,761	2.47%	3,273,359	79,996	3.27%
Short-term borrowings	238,200	4,465	2.50%	279,443	9,895	4.73%
Trust preferred debentures	75,422	3,547	6.28%	75,422	3,817	6.77%
Long-term debt	539,961	16,241	4.02%	378,035	12,253	4.33%
Total interest bearing liabilities	4,082,921	84,014	2.75%	4,006,259	105,961	3.54%
Demand deposits	678,277			633,572		
Other liabilities	67,805			55,467		
Stockholders' equity	407,127			401,310		
Total liabilities and stockholders' equity	$ 5,236,130			$ 5,096,608		
Net interest income (FTE)		142,041			127,848	
Interest rate spread			3.47%			3.06%
Net interest margin			3.91%			3.61%
Taxable equivalent adjustment		4,928			4,674	
Net interest income		$ 137,113			$ 123,174	

(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) 2008 over 2007		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ (35)	$ (47)	$ (82)
Securities available for sale	(260)	(39)	(299)
Securities held to maturity	28	(218)	(190)
Investment in FRB and FHLB Banks	104	(30)	74
Loans and leases	3,483	(6,517)	(3,034)
Total interest income	3,320	(6,851)	(3,531)
Money market deposit accounts	1,359	(3,386)	(2,027)
NOW deposit accounts	105	63	168
Savings deposits	(29)	(534)	(563)
Time deposits	(1,813)	(4,476)	(6,289)
Short-term borrowings	(1,464)	(1,658)	(3,122)
Trust preferred debentures	-	(123)	(123)
Long-term debt	2,719	(179)	2,540
Total interest expense	877	(10,293)	(9,416)
Change in FTE net interest income	$ 2,443	$ 3,442	$ 5,885

Nine months ended September 30,

	Increase (Decrease) 2008 over 2007		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ (64)	$ (111)	$ (175)
Securities available for sale	(441)	448	7
Securities held to maturity	277	(437)	(160)
Investment in FRB and FHLB Banks	308	(86)	222
Loans and leases	6,959	(14,607)	(7,648)
Total interest income	7,039	(14,793)	(7,754)
Money market deposit accounts	2,501	(8,510)	(6,009)
NOW deposit accounts	117	129	246
Savings deposits	(158)	(1,402)	(1,560)
Time deposits	(3,909)	(9,003)	(12,912)
Short-term borrowings	(1,295)	(4,135)	(5,430)
Trust preferred debentures	-	(270)	(270)
Long-term debt	4,806	(818)	3,988
Total interest expense	2,062	(24,009)	(21,947)

Change in FTE net interest income	$	4,977	$	9,216	$	14,193

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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 periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
(in thousands)				
Service charges on deposit accounts	$ 7,414	$ 6,195	$ 20,877	$ 15,600
Broker/dealer and insurance revenue	2,338	1,027	4,811	3,203
Trust	1,720	1,701	5,593	4,930
Net securities gains	1,510	1,484	1,543	1,500
Bank owned life insurance	491	467	1,423	1,351
ATM fees	2,334	2,159	6,656	6,096
Retirement plan administration fees	1,461	1,586	4,840	4,779
Other	1,694	1,908	5,733	5,750
Total noninterest income	$ 18,962	$ 16,527	$ 51,476	$ 43,209

Noninterest income for the three months ended September 30, 2008 was $19.0 million, up $2.5 million, or 14.7%, from $16.5 million for the same period in 2007. The increase in noninterest income was due primarily to an increase in service charges on deposit accounts and ATM fees, which collectively increased $1.4 million as the benefits of various initiatives continued to enhance fee income. In addition, broker/dealer and insurance revenue increased approximately $1.3 million for the three month period ended September 30, 2008 due primarily to revenue generated by Mang, which was acquired during the third quarter of 2008. Other noninterest income decreased $0.2 million for the three month period ended September 30, 2008, compared with the same period in 2007. Net securities gains for the three month periods ended September 30, 2008 and 2007 were approximately $1.5 million for both periods.

Noninterest income for the nine months ended September 30, 2008 was $51.5 million, up $8.3 million or 19.1% from $43.2 million for the same period in 2007. The increase in noninterest income was due primarily to an increase in service charges on deposit accounts and ATM fees, which collectively increased $5.8 million as the benefits of various initiatives continued to enhance fee income. In addition, trust income increased $0.7 million for the nine month period ended September 30, 2008, compared with the same period in 2007. This increase stems primarily from an increase in customer accounts resulting from successful business development. Broker/dealer and insurance revenue increased approximately $1.6 million for the nine month period ended September 30, 2008, primarily due to the aforementioned acquisition of Mang. Net securities gains for the nine month periods ended September 30, 2008 and 2007 were approximately $1.5 million for both periods.

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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,	
(in thousands)	2008	2007	2008	2007
Salaries and employee benefits	$ 16,850	$ 15,876	$ 50,526	$ 44,862
Occupancy	3,359	2,928	10,396	8,682
Equipment	1,908	1,797	5,595	5,567
Data processing and communications	3,155	2,779	9,440	8,501
Professional fees and outside services	2,205	2,256	7,825	5,840
Office supplies and postage	1,322	1,354	3,992	3,984
Amortization of intangible assets	462	413	1,231	1,232
Loan collection and other real estate owned	505	431	1,802	1,036
Impairment on lease residual assets	2,000	-	2,000	-
Other	5,292	3,393	13,708	10,409
Total noninterest expense	$ 37,058	$ 31,227	$ 106,515	$ 90,113

Noninterest expense for the three months ended September 30, 2008 was $37.1 million, up from $31.2 million for the same period in 2007. Salaries and employee benefits increased $1.0 million, or 6.1%, for the three months ended September 30, 2008 compared with the same period in 2007. This increase was due primarily to increases in full time equivalent employees during 2008. Occupancy, equipment and data processing and communications charges were $8.4 million for the three months ended September 30, 2008, up $0.9 million, or 12.2%, from $7.5 million for the three months ended September 30, 2007. This increase was due primarily to an increase in expenses related to the five new branches the Company has opened within the past year. The Company recorded an other than temporary impairment charge on vehicle lease residual assets totaling $2.0 million as a result of a decline in the fair value of its vehicle lease residual assets, caused by the current economic conditions. Other operating expenses were $5.3 million for the three months ended September 30, 2008, up $1.9 million from $3.4 million for the three months ended September 30, 2007. This increase resulted primarily from the aforementioned losses incurred from sales of certain returned lease vehicles totaling approximately $0.9 million during the third quarter of 2008 due to reduced values of the vehicles. In addition, Federal Deposit Insurance Corporation ("FDIC") insurance premiums increased approximately $0.5 million for the three month period ending September 30, 2008 as compared to the same period in 2007.

Noninterest expense for the nine months ended September 30, 2008 was $106.5 million, up from $90.1 million for the same period in 2007. Salaries and employee benefits increased $5.7 million, or 12.6%, for the nine months ended September 30, 2008 compared with the same period in 2007. This increase was due primarily to increases in full time equivalent employees during 2008 largely due to new branch activity as well as the aforementioned acquisition of Mang, and reduced levels of incentive compensation in 2007. Occupancy, equipment and data processing and communications charges were $25.4 million for the nine months ended September 30, 2008, up $2.6 million, or 11.8%, from $22.8 million for the nine months ended September 30, 2007. This increase was due primarily to an increase in expenses related to the aforementioned branch openings. Professional fees and outside services increased $2.0 million for the nine month period ended September 30, 2008, compared with the same period in 2007, due primarily to fees and costs related to the aforementioned noninterest income initiatives. Loan collection and other real estate owned expenses were $1.8 million for the nine month period ended September 30, 2008, up from $1.0 million for same period in 2007. The Company recorded an other than temporary impairment charge on vehicle lease residual assets totaling $2.0 million as a result of a decline in the fair value of its vehicle lease residual assets, caused by the current economic conditions. Other operating expenses were $13.7 million for the nine months ended September 30,

2008, up $3.3 million from $10.4 million for the nine months ended September 30, 2007. This increase resulted primarily from the aforementioned losses incurred from sales of certain returned lease vehicles totaling approximately $1.0 million during the period due to reduced values of the vehicles. In addition, FDIC insurance premiums increased approximately $0.6 million for the nine month period ending September 30, 2008 as compared to the same period in 2007.

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Income Taxes

Income tax expense for the three month period ended September 30, 2008 was $6.7 million, up from $6.6 million for the same period in 2007. The effective rates were 30.7% and 30.2% for the three month periods ended September 30, 2008 and 2007, respectively.

Income tax expense for the nine month period ended September 30, 2008 was $19.2 million, up from $18.3 million for the same period in 2007. The effective rates were 30.6% and 30.7% for the nine month periods ended September 30, 2008 and 2007, respectively.

ANALYSIS OF FINANCIAL CONDITION

Securities

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

Average total earning securities decreased $22.2 million, or 1.7%, for the three months ended September 30, 2008 when compared to the same period in 2007. The average balance of securities available for sale decreased $25.9 million, or 2.3%, for the three months ended September 30, 2008 when compared to the same period in 2007. The average balance of securities held to maturity increased $3.7 million, or 2.5%, for the three months ended September 30, 2008, compared to the same period in 2007. The average total securities portfolio represents 25.7% of total average earning assets for the three months ended September 30, 2008, down from 27.0% for the same period in 2007.

Average total earning securities decreased $10.6 million, or 0.8%, for the nine months ended September 30, 2008 when compared to the same period in 2007. The average balance of securities available for sale decreased $19.0 million, or 1.7%, for the nine months ended September 30, 2008 when compared to the same period in 2007. The average balance of securities held to maturity increased $8.3 million, or 5.7%, for the nine months ended September 30, 2008, compared to the same period in 2007. The average total securities portfolio represents 26.1% of total average earning assets for the nine months ended September 30, 2008, down from 26.9% for the same period in 2007.

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

	At September 30,	
	2008	2007
Mortgage-backed securities:		
With maturities 15 years or less	22%	22%
With maturities greater than 15 years	6%	3%
Collateral mortgage obligations	29%	22%
Municipal securities	20%	19%
US agency notes	19%	30%
Other	4%	4%
Total	100%	100%

The increase in collateral mortgage obligations and the decrease in US agency notes from September 30, 2007 to September 30, 2008 were due primarily to calls of agency securities that were reinvested in Government National Mortgage Association ("GNMA") securities.

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, 2008	December 31, 2007	September 30, 2007
Residential real estate mortgages	$ 722,303	$ 719,182	$ 723,963
Commercial	559,889	579,213	570,741
Commercial real estate mortgages	671,187	630,677	626,333
Real estate construction and development	90,211	81,350	72,542
Agricultural and agricultural real estate mortgages	85,053	116,190	116,640
Consumer	791,064	660,382	648,907
Home equity	601,223	582,731	576,197
Lease financing	86,391	86,126	86,894
Total loans and leases	$ 3,607,321	$ 3,455,851	$ 3,422,217

Total loans and leases were $3.6 billion, or 67.6% of assets, at September 30, 2008, $3.5 billion, or 66.4% of assets at December 31, 2007, and $3.4 billion, or 66.4%, at September 30, 2007. Total loans and leases increased by $151.5 million or 4.4% from December 31, 2007, and $185.1 million or 5.4% from September 30, 2007. These increases were due primarily to increases in consumer loans, most notably indirect installment loans, as a result of the addition and strengthening of dealer relationships. Consumer loans at September 30, 2008 increased $130.7 million from December 31, 2007 and $142.2 million from September 30, 2007.

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

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

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Management considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the degree of judgment exercised in evaluating the level of the allowance required to cover credit losses in the portfolio and the material effect that such judgments can have on the consolidated results of operations.

For purposes of evaluating the adequacy of the allowance, the Company considers a number of significant factors that affect the collectibility of the portfolio. For individually analyzed loans, these factors include estimates of loss exposure, which reflect the facts and circumstances that affect the likelihood of repayment of such loans as of the evaluation date. For homogeneous pools of loans and leases, estimates of the Company's exposure to credit loss reflect a thorough current assessment of a number of factors, which could affect collectibility. These factors include: past loss experience; the size, trend, composition, and nature of the loans and leases; changes in lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices; trends experienced in nonperforming and delinquent loans and leases; current economic conditions in the Company's market; portfolio concentrations that may affect loss experienced across one or more components of the portfolio; the effect of external factors such as competition, legal and regulatory requirements; and the experience, ability, and depth of lending management and staff. In addition, various regulatory agencies, as an integral component of their examination process, periodically review the Company's allowance for loan and lease losses. Such agencies may require the Company to recognize additions to the allowance based on their judgment about information available to them at the time of their examination, which may not be currently available to management.

After a thorough consideration and validation of the factors discussed above, required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses. These charges are necessary to maintain the allowance at a level which management believes is reasonably reflective of the overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans and leases, additions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above. The allowance for loan and lease losses to outstanding loans and leases at September 30, 2008 was 1.55% compared with 1.57% at December 31, 2007, and 1.60% at September 30, 2007. Management considers the allowance for loan losses to be adequate based on evaluation and analysis of the loan portfolio.

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

Table 3
Allowance For Loan and Lease Losses

	Three months ended September 30,					
(dollars in thousands)	2008			2007		
Balance, beginning of period	$	54,510		$	57,058	
Recoveries		807			1,187	
Chargeoffs		(6,693)			(8,225)	
Net chargeoffs		(5,886)			(7,038)	
Provision for loan losses		7,179			4,788	
Balance, end of period	$	55,803		$	54,808	
Composition of Net Chargeoffs						
Commercial and agricultural	$	(3,414)	58%	$	(4,617)	66%
Real estate mortgage		(121)	2%		(292)	4%
Consumer		(2,351)	40%		(2,129)	30%
Net chargeoffs	$	(5,886)	100%	$	(7,038)	100%
Annualized net chargeoffs to average loans and leases		0.65%			0.81%	

Allowance For Loan and Lease Losses

	Nine months ended September 30,					
(dollars in thousands)	2008			2007		
Balance, beginning of period	$	54,183		$	50,587	
Recoveries		2,867			3,691	
Chargeoffs		(20,707)			(16,124)	
Net chargeoffs		(17,840)			(12,433)	
Provision for loan losses		19,460			16,654	
Balance, end of period	$	55,803		$	54,808	
Composition of Net Chargeoffs						
Commercial and agricultural	$	(11,865)	67%	$	(7,098)	57%
Real estate mortgage		(321)	2%		(779)	6%
Consumer		(5,654)	31%		(4,556)	37%
Net chargeoffs	$	(17,840)	100%	$	(12,433)	100%
Annualized net chargeoffs to average loans and leases		0.67%			0.49%	

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

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Nonperforming Assets

(Dollars in thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Nonaccrual loans			
Commercial and agricultural loans and real estate	$ 15,816	$ 20,491	$ 24,211
Real estate mortgages	2,777	1,372	2,022
Consumer	3,344	2,934	2,854
Troubled debt restructured loans	1,094	4,900	-
Total nonaccrual loans	23,031	29,697	29,087
Loans 90 days or more past due and still accruing			
Commercial and agricultural loans and real estate	-	51	393
Real estate mortgages	636	295	667
Consumer	1,055	536	560
Total loans 90 days or more past due and still accruing	1,691	882	1,620
Total nonperforming loans	24,722	30,579	30,707
Other real estate owned (OREO)	855	560	917
Total nonperforming assets	25,577	31,139	31,624
Total nonperforming loans to total loans and leases	0.69%	0.88%	0.90%
Total nonperforming assets to total assets	0.48%	0.60%	0.61%
Total allowance for loan and lease losses to nonperforming loans	225.72%	177.19%	178.49%

Total nonperforming assets were $25.6 million at September 30, 2008, $31.1 million at December 31, 2007, and $31.6 million at September 30, 2007. Nonaccrual loans were $23.0 million at September 30, 2008, as compared to $29.7 million at December 31, 2007 and $29.1 million at September 30, 2007. The decrease in nonperforming loans at September 30, 2008 from December 31, 2007 and September 30, 2007 was primarily the result of net charge-offs during the nine month period ending September 30, 2008 related to two large commercial loans, both of which had been previously identified and one of the two reserved for in 2007.

In addition to the nonperforming loans discussed above, the Company has also identified approximately $73.6 million in potential problem loans at September 30, 2008 as compared to $73.3 million at December 31, 2007 and $80.6 million at September 30, 2007. 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 classification of such loans as nonperforming at some time in the future. At the Company, potential problem loans are typically loans that are performing but are classified by the Company’s loan rating system as “substandard.” At September 30, 2008, potential problem loans primarily consisted of commercial real estate and commercial and agricultural loans. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses.

The Company recorded a provision for loan and lease losses of $7.2 million during the third quarter of 2008 compared with $4.8 million for the three months ending September 30, 2007. The increase in the provision for loan and lease losses for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was due primarily to an additional charge off in the third quarter of 2008 related to the aforementioned large commercial loan which had not previously been reserved for. Net charge-offs totaled $5.9 million for the three month period ending September 30, 2008, down from $7.0 million for the three months ended September 30, 2007. The decrease in net charge-offs for the three months ended September 30, 2008 compared to the three months ended September 30,

2007 was due primarily to agricultural loan credit charge-offs in the third quarter of 2007, which did not repeat in the third quarter of 2008.

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The Company recorded a provision for loan and lease losses of $19.5 million during the nine months ended September 30, 2008 as compared with $16.7 million for the nine months ended September 30, 2007. Net charge-offs totaled $17.8 million for the nine months ended September 30, 2008, up from $12.4 million for the same period a year ago. The increase in net charge-offs for the nine months ended September 30, 2008 was due primarily to additional charge-offs in 2008 related to two large commercial loans, which had been previously identified and reserved for in 2007 and an additional charge-off related to one of the aforementioned large commercial loans in the third quarter, which had not previously been reserved for.

Deposits

Total deposits were $4.0 billion at September 30, 2008, up $118.7 million, or 3.1%, from year-end 2007, and up $40.7 million, or 1.0%, from September 30, 2007. The increase in deposits compared with December 31, 2007 and September 30, 2007, was driven primarily by increases in demand deposit, money market accounts, and NOW accounts.

Total average deposits for the three months ended September 30, 2008 increased $41.5 million, or 1.1%, from the same period in 2007. The Company experienced an increase in average money market accounts of $121.2 million, or 18.4%, for the three months ended September 30, 2008 compared to the same period in 2007. Average NOW accounts increased $50.4 million, or 11.4%, to $491.7 million for the three months ended September 30, 2008 from $441.2 million for the same period in 2007. This increase in average money market and NOW accounts was primarily due to a shift from savings accounts and time deposit accounts to money market accounts and NOW accounts. Average savings accounts decreased $13.4 million, or 2.7%, for the three month period ending September 30, 2008 as compared to the same period in 2007. Average time deposits decreased $167.4 million, or 10.0%, for the three months ended September 30, 2008 from the same period in 2007. Average demand deposit accounts increased $50.6 million, or 7.7%, for the three months ended September 30, 2008 as compared to the same period in 2007. This was due primarily to an increasing customer base, as the Company continues to expand into new markets.

Total average deposits for the nine months ended September 30, 2008 increased $0.7 million from the same period in 2007. The Company experienced an increase in average money market accounts of $82.9 million, or 12.7%, for the nine months ended September 30, 2008 compared to the same period in 2007. Average NOW accounts increased $18.7 million, or 4.2%, to $464.4 million at September 30, 2008 from $445.6 million for the same period in 2007. This increase in average money market and NOW accounts was primarily due to a shift from savings accounts and time deposit accounts to money market accounts and NOW accounts. Average savings accounts decreased $24.4 million, or 4.9%, for the nine month period ending September 30, 2008 as compared to the same period in 2007. Average time deposits decreased $121.3 million, or 7.2%, for the nine months ended September 30, 2008 from the same period in 2007. Average demand deposit accounts increased $44.7 million, or 7.1%, for the nine months ended September 30, 2008 as compared to the same period in 2007. This was due primarily to an increasing customer base, as the Company continues to expand into new markets.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $150.5 million at September 30, 2008 compared to $368.5 million and $305.9 million at December 31, and September 30, 2007, respectively. Long-term debt was $633.5 million at September 30, 2008, as compared to $424.9 and $377.1 million at December 31, and September 30, 2007, respectively. The Company shifted from short-term borrowings to long-term debt to reduce its interest rate risk exposure in the current interest rate environment. For more information about the Company’s borrowing capacity and liquidity position, see the section with the title caption of “Liquidity Risk” on page 36 of this report.

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Capital Resources

Stockholders' equity of $421.1 million represented 7.9% of total assets at September 30, 2008, compared with $397.3 million, or 7.6% as of December 31, 2007, and $385.6 million, or 7.5% at September 30, 2007. Under previously disclosed stock repurchase plans, the Company purchased 272,840 shares of its common stock during the nine month period ended September 30, 2008, for a total of $5.9 million at an average price of $21.77 per share. There were no shares purchased during the three month period ended September 30, 2008. At September 30, 2008, there were 1,203,040 shares available for repurchase under previously announced plans.

In September 2006, the FASB ratified a consensus reached by the EITF on Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," which clarifies the accounting for the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements. The EITF concluded that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for the actuarial present value of the future death benefit as of the employee's expected retirement date. The consensus became effective for fiscal years beginning after December 15, 2007. As a result, the Company recorded a liability and a cumulative-effect adjustment to retained earnings of approximately $1.5 million in the first quarter of 2008.

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

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

Table 4

Capital Measurements	September 30, 2008	December 31, 2007
Tier 1 leverage ratio	7.04%	7.14%
Tier 1 capital ratio	9.51%	9.79%
Total risk-based capital ratio	10.76%	11.05%
Cash dividends as a percentage of net income	44.44%	52.11%
Per common share:		
Book value	$ 12.95	$ 12.29
Tangible book value	$ 8.71	$ 8.78

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Table 5 presents the high, low and closing sales price for the common stock as reported on the NASDAQ Stock Market, and cash dividends declared per share of common stock. The Company's price to book value ratio was 2.31 at September 30, 2008 and 1.82 in the comparable period of the prior year. The Company's price was 18.5 times trailing twelve months earnings at September 30, 2008, compared to 13.3 times for the same period last year.

Table 5
Quarterly Common Stock and Dividend Information

Quarter Endings	High	Low	Close	Cash Dividends Declared
2007				
March 31	$ 25.81	$ 21.73	$ 23.43	$ 0.19
June 30	23.45	21.80	22.56	0.20
September 30	23.80	17.10	21.74	0.20
December 31	25.00	20.58	22.82	0.20
2008				
March 31	$ 23.65	$ 17.95	$ 22.20	$ 0.20
June 30	25.00	20.33	20.61	0.20
September 30	36.47	19.05	29.92	0.20

On October 27, 2008, 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, 2008 to stockholders of record as of December 1, 2008.

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.

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

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

The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Two additional models are run with static balance sheets: (1) a gradual increase of 200 bp, (2) and a gradual decrease of 100 bp taking place over a 12-month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded into them are handled accordingly based on the interest rate scenario. The resultant changes in net interest income are then measured against the flat rate scenario.

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

Net interest income for the next 12 months in the + 200/- 100 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the September 30, 2008 balance sheet position:

Table 8
Interest Rate Sensitivity Analysis

Change in interest rates (in bp points)	Percent change in net interest income
+200	(2.98%)
-100	(0.38%)

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

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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, 2008, the Company’s Basic Surplus measurement was 6.4% of total assets or $342 million as compared to the December 31, 2007 Basic Surplus of 7.3%, but was above the Company’s minimum of 5% or $267 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, 2008, the Company Basic Surplus declined compared to the December 31, 2007 Basic Surplus of 7.3%.

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, 2008, approximately $38.5 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 is also 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 General Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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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, 2008. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the evaluation date, the Company's disclosure controls and procedures were effective in timely alerting them to any material information relating to the Company and its subsidiaries required to be included in the Company's periodic SEC filings.

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

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PART II. OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

In addition to the risk factors that were disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2008, the following additional risks and uncertainties should be considered:

There can be no assurance that recent action by governmental agencies and regulators, as well as recently enacted legislation authorizing the U.S. government to invest in, and purchase large amounts of illiquid assets from, financial institutions will help stabilize the U.S. financial system.

In recent periods, various Federal agencies and bank regulators have taken steps to stabilize and stimulate the financial services industry. Changes also have been made in tax policy for financial institutions. In addition, on October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the "EESA"). The legislation reflects an initial legislative response to the financial crises affecting the banking system and financial markets and going concern threats to financial institutions. Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. As an initial program, the U.S. Treasury is exercising its authority to purchase an aggregate of $250 billion of capital instruments from financial entities throughout the United States. There can be no assurance, however, as to the actual impact that the EESA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

Difficult market conditions have adversely affected our industry.

Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

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

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- Market developments may affect customer confidence levels and may cause increases in delinquencies and default rates, which we expect could impact our charge-offs and provision for loan losses.

- Our ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

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

- We may be required to pay significantly higher Federal Deposit Insurance Corporation premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Current levels of market volatility are unprecedented.
The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

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

(a) Not applicable

(b) Not applicable

(c) The Company made no purchases of its equity securities during the quarter ended September 30, 2008. Under a previously disclosed stock repurchase plan authorized on July 23, 2007, the Company purchased 272,840 shares of its common stock during the nine month period ended September 30, 2008, for a total of $5.9 million at an average price of $21.77 per share. At September 30, 2008, there were 1,203,040 shares available for repurchase under previously announced plans. There were 203,040 shares available for repurchase under the stock repurchase plan authorized on July 23, 2007, in the amount of 1,000,000 shares. This plan expires on December 31, 2008. There were 1,000,000 shares available for repurchase under the stock repurchase plan authorized on January 28, 2008, in the amount of 1,000,000 shares. This plan expires on December 31, 2009.

Item 3 – Defaults Upon Senior Securities

None

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

None

Item 5 – Other Information

On November 10, 2008, the Registrant and the Bank entered into a Split-Dollar Agreement (the "Agreement"), with a face value of $4,000,000, for the benefit of Martin A. Dietrich, the President and Chief Executive Officer of the Registrant and the Bank. Pursuant to the Agreement, the Bank shall be the direct beneficiary of the total death proceeds, less (a) $2,000,000 or (b) $750,000 if the Employee is a member of the Board of the Bank but no longer an executive officer of the Bank at the time of his death. The Agreement may be terminated by the Bank at any time after Mr. Dietrich has ceased to be either the President and Chief Executive Officer or a member of the Board of Directors of the Bank, other than by reason of his disability or death, and will terminate automatically upon termination of Mr. Dietrich's employment with the Bank or the cessation of his membership on the Board of Directors of the Bank for any reason other than his disability or death. Pursuant to the terms of the Agreement, the Bank will pay the premiums on the related policy and will be the sole owner of the policy. The economic benefit of the Agreement to Mr. Dietrich will be imputed to him on an annual basis. The foregoing description of the Agreement is not complete and is qualified in its entirety by reference to the Agreement filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

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

10.1 Split-Dollar Agreement dated November 10, 2008.

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 10th day of November 2008.

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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