NBT BANCORP INC
Form 10-Q
August 09, 2007

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

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

OR

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

COMMISSION FILE NUMBER 0-14703

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

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

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

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

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

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

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

As of July 31, 2007, there were 33,326,160 shares outstanding of the Registrant's common stock, $0.01 par value.

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

(In thousands, except share and per share data)	June 30, 2007	December 31, 2006	June 30, 2006
Assets			
Cash and due from banks	$ 134,058	$ 130,936	$ 136,005
Short-term interest bearing accounts	7,252	7,857	9,575
Securities available for sale, at fair value	1,118,124	1,106,322	1,100,416
Securities held to maturity (fair value $146,944, $136,287, and $109,562)	147,537	136,314	110,331
Federal Reserve and Federal Home Loan Bank stock	33,061	38,812	40,338
Loans and leases	3,432,300	3,412,654	3,347,876
Less allowance for loan and lease losses	57,058	50,587	50,148
Net loans and leases	3,375,242	3,362,067	3,297,728
Premises and equipment, net	65,286	66,982	66,948
Goodwill	103,412	103,356	102,803
Intangible assets, net	10,998	11,984	13,338
Bank owned life insurance	42,667	41,783	40,926
Other assets	83,997	81,159	77,504
Total assets	$ 5,121,634	$ 5,087,572	$ 4,995,912
Liabilities			
Demand (noninterest bearing)	$ 681,732	$ 646,377	$ 642,901
Savings, NOW, and money market	1,606,473	1,566,557	1,567,171
Time	1,670,961	1,583,304	1,537,829
Total deposits	3,959,166	3,796,238	3,747,901
Short-term borrowings	290,387	345,408	320,637
Long-term debt	352,151	417,728	421,736
Trust preferred debentures	75,422	75,422	75,422
Other liabilities	53,574	48,959	52,610
Total liabilities	4,730,700	4,683,755	4,618,306
Stockholders' equity			
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at June 30, 2007, December 31, 2006 and June 30, 2006	-	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at June 30, 2007, December 31, 2006 and June 30, 2006; issued 36,459,462, 36,459,491, and 36,459,537 at June 30, 2007, December 31, 2006, and June 30, 2006, respectively	365	365	365
Additional paid-in-capital	271,639	271,528	270,307
Retained earnings	204,175	191,770	177,808
Accumulated other comprehensive loss	(18,822)	(14,014)	(17,114)
Common stock in treasury, at cost, 3,091,395, 2,203,549 and 2,576,398 shares at	(66,423)	(45,832)	(53,760)

June 30, 2007, December 31, 2006, and June 30, 2006, respectively						
Total stockholders’ equity		**390,934**		403,817		377,606
Total liabilities and stockholders’ equity	**$**	**5,121,634**	$	5,087,572	$	4,995,912

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 June 30, **2007**	2006	Six months ended June 30, **2007**	2006
Interest, fee, and dividend income				
Interest and fees on loans and leases	**$ 60,689**	$ 57,085	**$ 120,497**	$ 109,918
Securities available for sale	**13,562**	13,084	**27,029**	24,961
Securities held to maturity	**1,525**	1,043	**2,969**	2,028
Other	**719**	619	**1,459**	1,230
Total interest, fee, and dividend income	**76,495**	71,831	**151,954**	138,137
Interest expense				
Deposits	**26,950**	20,869	**52,934**	38,094
Short-term borrowings	**2,918**	4,111	**6,010**	8,048
Long-term debt	**3,997**	4,227	**8,483**	8,369
Trust preferred debentures	**1,272**	1,255	**2,540**	2,138
Total interest expense	**35,137**	30,462	**69,967**	56,649
Net interest income	**41,358**	41,369	**81,987**	81,488
Provision for loan and lease losses	**9,770**	1,703	**11,866**	3,431
Net interest income after provision for loan and lease losses	**31,588**	39,666	**70,121**	78,057
Noninterest income				
Service charges on deposit accounts	**4,936**	4,493	**9,405**	8,712
Broker/ dealer and insurance revenue	**1,093**	967	**2,176**	1,875
Trust	**1,792**	1,459	**3,229**	2,817
Net securities gains (losses)	**21**	22	**16**	(912)
Bank owned life insurance	**450**	392	**884**	773
ATM and debit card fees	**2,041**	1,789	**3,937**	3,434
Retirement plan administration fees	**1,601**	1,431	**3,193**	2,662
Other	**2,058**	2,003	**3,842**	4,419
Total noninterest income	**13,992**	12,556	**26,682**	23,780
Noninterest expense				
Salaries and employee benefits	**13,022**	16,335	**28,986**	32,083
Occupancy	**2,585**	2,747	**5,754**	5,735
Equipment	**1,837**	2,067	**3,770**	4,223
Data processing and communications	**2,845**	2,649	**5,722**	5,351
Professional fees and outside services	**1,926**	1,800	**3,584**	3,632
Office supplies and postage	**1,334**	1,456	**2,630**	2,637
Amortization of intangible assets	**410**	466	**819**	789
Loan collection and other real estate owned	**228**	289	**605**	500
Other	**3,827**	3,885	**7,016**	7,216
Total noninterest expense	**28,014**	31,694	**58,886**	62,166
Income before income tax expense	**17,566**	20,528	**37,917**	39,671
Income tax expense	**5,502**	6,359	**11,721**	11,914
Net income	**$ 12,064**	$ 14,169	**$ 26,196**	$ 27,757
Earnings per share				
Basic	**$ 0.36**	$ 0.41	**$ 0.77**	$ 0.82
Diluted	**$ 0.36**	$ 0.41	**$ 0.77**	$ 0.81

See accompanying notes to unaudited interim consolidated financial statements.

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

(in thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Unvested Awards Stock	Accumulated Other Comprehensive loss	Treasury Stock	Total
Balance at December 31, 2005	$ 344	$ 219,157	$ 163,989	$ (457)	$ (6,477)	$ (42,613)	$ 333,943
Net income			27,757				27,757
Cash dividends - $0.38 per share			(13,044)				(13,044)
Purchase of 738,504 treasury shares						(16,501)	(16,501)
Issuance of 2,058,661 shares of common stock in connection with purchase business combination	21	48,604					48,625
Issuance of 237,278 incentive stock options in purchase transaction		1,955					1,955
Acquisition of 2,500 shares of company stock in purchase transaction						(55)	(55)
Issuance of 227,205 shares to employee benefit plans and other stock plans, including tax benefit		345	(894)			4,634	4,085
Reclassification adjustment from the adoption of FAS123R		(457)		457			-
Stock-based compensation expense		1,523					1,523
Grant of 41,408 shares of restricted stock		(835)				835	-
Forfeit 2,625 shares of restricted stock		15				(60)	(45)
					(10,637)		(10,637)

Other comprehensive loss							
Balance at June 30, 2006	**$ 365**	**$ 270,307**	**$ 177,808**	**$ -**	**$ (17,114)**	**$ (53,760)**	**$ 377,606**
Balance at December 31, 2006	**$ 365**	**$ 271,528**	**$ 191,770**	**$ -**	**$ (14,014)**	**$ (45,832)**	**$ 403,817**
Net income			26,196				26,196
Cash dividends - $0.39 per share			(13,291)				(13,291)
Purchase of 1,100,367 treasury shares						(25,037)	(25,037)
Net issuance of 142,582 shares to employee benefit plans and other stock plans, including tax benefit		134	(500)			2,979	2,613
Stock-based compensation		1,444					1,444
Grant of 69,939 shares of restricted stock awards		(1,467)				1,467	-
Other comprehensive loss					(4,808)		(4,808)
Balance at June 30, 2007	**$ 365**	**$ 271,639**	**$ 204,175**	**$ -**	**$ (18,822)**	**$ (66,423)**	**$ 390,934**

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NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(In thousands, except per share data)

	Six Months Ended June 30, 2007	2006
Operating activities		
Net income	**$ 26,196**	$ 27,757
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	**11,866**	3,431
Depreciation and amortization of premises and equipment	**2,688**	3,114
Net accretion on securities	**46**	140
Amortization of intangible assets	**819**	789
Stock-based compensation	**1,444**	1,523
Bank owned life insurance income	**(884)**	(773)
Proceeds from sale of loans held for sale	**13,164**	14,977
Originations and purchases of loans held for sale	**(14,024)**	(12,806)
Net gains on sales of loans held for sale	**(76)**	(167)
Net security (gains) losses	**(16)**	912
Net gain on sales of other real estate owned	**(131)**	(167)
Net gain on sale of branch	**-**	(470)
Net (increase) decrease in other assets	**(1,897)**	8,726
Net increase in other liabilities	**7,696**	364
Net cash provided by operating activities	**46,891**	47,350
Investing activities		
Net cash paid for sale of branch	**-**	(2,307)
Net cash used in CNB Bancorp, Inc. merger	**-**	(20,881)
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	**101,382**	89,093
Proceeds from sales	**10,553**	42,292
Purchases	**(131,816)**	(148,539)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	**27,185**	21,206
Purchases	**(38,487)**	(29,636)
Net increase in loans	**(25,060)**	(139,871)
Net decrease (increase) in Federal Reserve and FHLB stock	**5,751**	(79)
Purchases of premises and equipment, net	**(992)**	(1,182)
Proceeds from sales of other real estate owned	**495**	397
Net cash used in investing activities	**(50,989)**	(189,507)
Financing activities		
Net increase in deposits	**162,928**	258,696
Net decrease in short-term borrowings	**(55,021)**	(124,340)
Repayments of long-term debt	**(65,577)**	(15,149)
Proceeds from the issuance of trust preferred debentures	**-**	51,547
Tax benefit from exercise of stock options	**359**	432
Proceeds from the issuance of shares to employee benefit plans and other stock plans	**2,254**	3,608
Purchase of treasury stock	**(25,037)**	(16,501)
Cash dividends and payment for fractional shares	**(13,291)**	(13,044)
Net cash provided by financing activities	**6,615**	145,249
Net increase in cash and cash equivalents	**2,517**	3,092

Cash and cash equivalents at beginning of period		**138,793**		142,488
Cash and cash equivalents at end of period	**$**	**141,310**	$	145,580

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Supplemental disclosure of cash flow information	Six Months Ended June 30,			
Cash paid during the period for:		**2007**		2006
Interest	**$**	**69,241**	$	54,888
Income taxes		**5,752**		9,496
Noncash investing activities:				
Loans transferred to OREO	**$**	**955**	$	389
Dispositions:				
Fair value of assets sold	**$**	**-**	$	3,453
Fair value of liabilities transferred		**-**		5,760
Acquisitions:				
Fair value of assets acquired	**$**	**-**	$	432,054
Fair value of liabilities assumed		**-**		360,648
Net cash and cash equivalents used in merger		**-**		20,881
Fair value of equity issued in purchase combination		**-**		50,525

See accompanying notes to unaudited interim consolidated financial statements.

	Three months ended June 30,				Six months ended June 30,			
Consolidated Statements of Comprehensive Income (unaudited)		**2007**		2006		**2007**		2006
(In thousands)								
Net income	**$**	**12,064**	$	14,169	**$**	**26,196**	$	27,757
Other comprehensive loss, net of tax								
Unrealized net holding losses arising during the year (pre-tax amounts of $(11,918), $(8,134), $(8,112), and $(18,224))		**(7,174)**		(4,890)		**(4,941)**		(10,955)
Less reclassification adjustment for net (gains) losses related to securities available for sale included in net income (pre-tax amounts of $(21), $(22), $(16) and $912)		**(13)**		(13)		**(10)**		547
Minimum pension liability adjustment		**-**		-		**-**		(229)
Amortization of previously recorded benefit plan amounts (pre-tax amounts of $149, $0, $239 and $0)		**89**		-		**143**		-
Total other comprehensive loss		**(7,098)**		(4,903)		**(4,808)**		(10,637)
Comprehensive income	**$**	**4,966**	$	9,266	**$**	**21,388**	$	17,120

See accompanying notes to unaudited interim consolidated financial statements

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

Note 1. Description of Business

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

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

Note 2. Basis of Presentation

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

Note 3. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 – *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement may change current practice. Adoption is required as of the beginning of the first fiscal year that begins after November 15, 2007. Early application of this Standard is encouraged. The Company is assessing the effect that SFAS 157 will have on our consolidated financial position, results of operations and cash flows.

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

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Note 4. Business Combination

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

Note 5. Use of Estimates

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

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

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

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

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

Income taxes are accounted for under the asset and liability method. The Company files consolidated tax returns on the accrual basis. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at June 30, 2007 and 2006, or December 31, 2006. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Note 6. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policy to make such commitments as it uses for on-balance-sheet items. Commitments to extend credit and unused lines of credit totaled $514.1 million at June 30, 2007 and $536.3 million at December 31, 2006. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Standby letters of credit totaled $36.0 million at June 30, 2007 and $30.8 million at December 31, 2006. As of June 30, 2007, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

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Note 7. Earnings Per Share

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

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

Three months ended June 30,		**2007**		2006
(in thousands, except per share data)				
Basic EPS:				
Weighted average common shares outstanding		**33,694**		34,164
Net income available to common shareholders	**$**	**12,064**	$	14,169
Basic EPS	**$**	**0.36**	$	0.41
Diluted EPS:				
Weighted average common shares outstanding		**33,694**		34,164
Dilutive effect of common stock options and restricted stock		**242**		307
Weighted average common shares and common share equivalents		**33,936**		34,471
Net income available to common shareholders	**$**	**12,064**	$	14,169
Diluted EPS	**$**	**0.36**	$	0.41

Six months ended June 30,		**2007**		2006
(in thousands, except per share data)				
Basic EPS:				
Weighted average common shares outstanding		**33,934**		33,795
Net income available to common shareholders	**$**	**26,196**	$	27,757
Basic EPS	**$**	**0.77**	$	0.82
Diluted EPS:				
Weighted average common shares outstanding		**33,934**		33,795
Dilutive effect of common stock options and restricted stock		**261**		316
Weighted average common shares and common share equivalents		**34,195**		34,111
Net income available to common shareholders	**$**	**26,196**	$	27,757
Diluted EPS	**$**	**0.77**	$	0.81

There were 620,788 stock options for the quarter ended June 30, 2007 and 690,941 stock options for the quarter ended June 30, 2006 that were not considered in the calculation of diluted earnings per share since the stock options' exercise price was greater than the average market price during these periods.

There were 298,693 stock options for the six months ended June 30, 2007 and 382,016 stock options for the six months ended June 30, 2006 that were not considered in the calculation of diluted earnings per share since the stock options' exercise price was greater than the average market price during these periods.

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Note 8. Nonperforming Loans

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

(In thousands)	**June 30, 2007**	December 31, 2006	June 30, 2006
Loans in nonaccrual status	**$ 33,730**	$ 13,665	$ 12,277
Loans contractually past due 90 days or more and still accruing interest	**689**	1,642	580
Total nonperforming loans	**$ 34,419**	$ 15,307	$ 12,857

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

Accumulated interest on the above nonaccrual loans of approximately $0.7 million and $0.3 million would have been recognized as income for the six month periods ending at June 30, 2007 and June 30, 2006, respectively, had these loans been in accrual status. Accumulated interest on the above nonaccrual loans of approximately $0.5 million and $0.2 million would have been recognized as income for the three month periods ending at June 30, 2007 and June 30, 2006, respectively, had these loans been in accrual status. Approximately $0.5 million and $0.3 million of interest on the above nonaccrual loans was collected for the six month periods ending June 30, 2007 and June 30, 2006, respectively. Approximately $0.3 million and $0.2 million of interest on the above nonaccrual loans was collected for the three month periods ending June 30, 2007 and June 30, 2006, respectively.

Impaired loans, which primarily consist of nonaccruing commercial, small business and agricultural loans, totaled $29.3 million at June 30, 2007, $9.3 million at December 31, 2006, and $8.4 million at June 30, 2006. At June 30, 2007, $20.3 million of the total impaired loans had a specific reserve allocation of $8.3 million or 41.2%, as compared with $2.2 million of total impaired loans at December 31, 2006 which had a specific reserve allocation of $0.2 million or 9.6%. There was no specific reserve allocation for the impaired loans at June 30, 2006.

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

(In thousands)	**June 30, 2007**	December 31, 2006	June 30, 2006
Average recorded investment on impaired loans	**$ 16,495**	$ 9,644	$ 9,427
Interest income recognized on impaired loans	**216**	384	152
Cash basis interest income recognized on impaired loans	**216**	384	152

Note 9. Defined Benefit Postretirement Plans

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

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

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

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

	Pension Benefits Three months ended June 30,		**Other Benefits** Three months ended June 30,	
Components of net periodic benefit cost:	**2007**	**2006**	**2007**	**2006**
Service Cost	$ 527	$ 536	$ 6	$ 1
Interest Cost	740	606	53	51
Expected return on plan assets	(1,403)	(980)	-	-
Net amortization	163	182	(14)	(24)
Total	$ 27	$ 344	$ 45	$ 28

	Pension Benefits Six months ended June 30,		**Other Benefits** Six months ended June 30,	
Components of net periodic benefit cost:	**2007**	**2006**	**2007**	**2006**
Service Cost	$ 1,053	$ 1,053	$ 12	$ 2
Interest Cost	1,480	1,161	107	102
Expected return on plan assets	(2,746)	(1,885)	-	-
Net amortization	268	364	(29)	(48)
Total	$ 55	$ 693	$ 90	$ 56

The Company is not required to make contributions to the Plan in the remainder of 2007. The Company recorded approximately $143,000, net of tax, as amortization of previously recognized pension amounts in Accumulated Other Comprehensive Income as of June 30, 2007.

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Note 10. Trust Preferred Debentures

CNBF Capital Trust I is a Delaware statutory business trust formed in 1999, for the purpose of issuing $18 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust I is a Delaware statutory business trust formed in 2005, for the purpose of issuing $5 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust II is a Delaware statutory business trust formed in 2006, for the purpose of issuing $50 million in trust preferred securities and lending the proceeds to the Company to provide funding for the acquisition of CNB Bancorp, Inc. These three statutory business trusts are collectively referred herein as "the Trusts." The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities ("VIEs") for which the Company is not the primary beneficiary, as defined in Financial Accounting Standards Board Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003) (FIN 46R)." In accordance with FIN 46R, which was implemented in the first quarter of 2004, the accounts of the Trusts are not included in the Company's consolidated financial statements.

As of June 30, 2007, the Trusts had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate	Trust Preferred Debt Owed To Trust	Final Maturity date
CNBF Capital Trust I	August-99	18,000	3-month LIBOR plus 2.75%	18,720	August-29
NBT Statutory Trust I	November-05	5,000	6.30% Fixed *	5,155	December-35
NBT Statutory Trust II	February-06	50,000	6.195% Fixed *	51,547	March-36

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

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

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Note 11. Income Taxes

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

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

The Company's policy is to accrue interest and penalties as part of income tax expense. As of the date of adoption of FIN 48, the Company had accrued $0.5 million of interest. Interest accrued as of June 30, 2007 is $0.6 million.

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

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. (Bancorp) and its wholly owned subsidiaries, NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (collectively referred to herein as the Company). This discussion will focus on Results of Operations, Financial Position, Capital Resources and Asset/Liability Management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's 2006 Form 10-K for an understanding of the following discussion and analysis.

FORWARD LOOKING STATEMENTS

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

The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including those described above and other factors discussed in the Company’s annual and quarterly reports previously filed with the Securities and Exchange Commission, could affect the Company’s financial performance and could cause the Company’s actual results or circumstances for future periods to differ materially from those anticipated or projected.

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

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Critical Accounting Policies

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

Management of the Company considers the accounting policy relating to pension accounting to be a critical accounting policy. Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected rate of return on plan assets, the discount rate, and the rate of increase in future compensation levels. Changes to these assumptions could impact earnings in future periods. The Company takes into account the plan asset mix, funding obligations, and expert opinions in determining the various rates used to estimate pension expense. The Company also considers the Moody's AA and AAA corporate bond yields and other market interest rates in setting the appropriate discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the rate of increase in future compensation levels.

Overview

The Company earned net income of $26.2 million ($0.77 diluted earnings per share) for the six months ended June 30, 2007 compared to net income of $27.8 million ($0.81 diluted earnings per share) for the six months ended June 30, 2006. The decrease in net income from 2006 to 2007 was primarily the result of an $8.4 million increase in provision for loan and lease losses compared to the same period last year. The increase in provision for loan and lease losses was partially offset by an increase in noninterest income of $2.9 million and a decrease in noninterest expense of $3.3 million. Although net interest margin declined by 17 bp from 3.80% to 3.63% for the six months ended June 30, 2007 compared to June 30, 2006, net interest income remained relatively flat due to an increase in average earning assets of $258.5 million. Included in noninterest income for the six months ended June 30, 2006 were $0.9 million in net losses from investment securities sales. Excluding the effect of these securities transactions in 2006, noninterest income increased $2.0 million or 8.0% compared to the same period in 2006. The increase in noninterest income for the six months ended June 30, 2007 resulted from increases in service charges on deposit accounts, ATM and debit card fees, retirement plan administration fees, trust administration fees, broker/dealer and insurance revenue, and bank owned life insurance income. The decrease in total noninterest expense for the six months ended June 30, 2007 was due primarily to a decrease of $3.1 million, or 9.7%, in salaries and employee benefits. This decrease was due primarily to a reduction in incentive compensation and pension expenses incurred in 2007.

The Company earned net income of $12.1 million ($0.36 diluted earnings per share) for the three months ended June 30, 2007 compared to net income of $14.2 million ($0.41 diluted earnings per share) for the three months ended June 30, 2006. The decrease in net income from 2006 to 2007 was primarily the result of an $8.1 million increase in provision for loan and lease losses compared to the same period last year. The increase in provision for loan and lease losses was partially offset by an increase in noninterest income of $1.4 million and a decrease in noninterest expense of $3.7 million, while net interest income remained relatively flat at $41.4 million. Although net interest margin declined by 10 bp from 3.73% to 3.63% for the three months ended June 30, 2007 compared to June 30, 2006, net interest income remained relatively flat due to an increase in average earning assets of $158.3 million. The increase in noninterest income resulted from increases in service charges on deposit accounts, ATM and debit card fees, retirement plan administration fees, trust administration fees, broker/dealer and insurance revenue, and bank owned life insurance income. The decrease in total noninterest expense was due primarily to a decrease of $3.3 million, or 20.3%, in salaries and employee benefits. This decrease was due primarily to a reduction in incentive compensation and pension expenses incurred in 2007. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges, decreased by $0.3 million, or 3.6%, for the three months ended June 30, 2007, compared with the same period in 2006. Income tax expense for the three months ended June 30, 2007, was $5.5 million, down from $6.4 million for the same period in 2006.

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

Table 1 - Performance Measures

2007	**First Quarter**	**Second Quarter**	**Six Months**
Return on average assets (ROAA)	1.13%	0.95%	1.04%
Return on average equity (ROAE)	14.06%	11.90%	12.98%
Net Interest Margin	3.63%	3.63%	3.63%
2006			
Return on average assets (ROAA)	1.18%	1.15%	1.17%
Return on average equity (ROAE)	15.11%	14.71%	14.93%
Net Interest Margin	3.86%	3.73%	3.80%

Net Interest Income

Net interest income is the difference between interest income on earning assets, primarily loans and securities, and interest expense on interest-bearing liabilities, primarily deposits and borrowings. Net interest income is affected by the interest rate spread, the difference between the yield on earning assets and cost of interest-bearing liabilities, as well as the volumes of such assets and liabilities. Net interest income is one of the major determining factors in a financial institution's performance as it is the principal source of earnings. Table 2 represents an analysis of net interest income on a federal taxable equivalent basis.

FTE net interest income increased $0.5 million during the six months ended June 30, 2007, compared to the same period of 2006. The increase in FTE net interest income resulted primarily from 5.8% growth in average earning assets. The Company's interest rate spread declined 24 bp during the six months ended June 30, 2007 compared to the same period in 2006. The yield on earning assets for the period increased 26 bp, to 6.62% for the six months ended June 30, 2007 from 6.36% for the same period in 2006. Meanwhile, the rate paid on interest-bearing liabilities increased 50 bp, to 3.53% for the six months ended June 30, 2007 from 3.03% for the same period in 2006.

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FTE net interest income decreased nominally during the three months ended June 30, 2007, compared to the same period of 2006. The Company's interest rate spread declined 18 bp during the three months ended June 30, 2007 compared to the same period in 2006. The yield on earning assets for the period increased 20 bp, to 6.60% for the three months ended June 30, 2007 from 6.40% for the same period in 2006, while average earning assets increased by 3.5%. Meanwhile, the rate paid on interest-bearing liabilities increased 38 bp, to 3.52% for the three months ended June 30, 2007 from 3.14% for the same period in 2006.

For the six months ended June 30, 2007, total interest expense increased $13.3 million, primarily the result of the 100 bp increase in the Federal Funds target rate since January 1, 2006, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest-bearing liabilities increased $227.5 million for the six months ended June 30, 2007 when compared to the same period in 2006, principally from organic deposit growth as well as deposits assumed from the CNB transaction. Total average interest-bearing deposits increased $350.9 million for the six months ended June 30, 2007 when compared to the same period in 2006. The rate paid on average interest-bearing deposits increased 63 bp from 2.63% for the six months ended June 30, 2006 to 3.26% for the same period in 2007. The increase in average interest-bearing deposits resulted from organic deposit growth as well as the previously mentioned deposits assumed from the CNB transaction. For the six months ended June 30, 2007, the Company experienced a shift in its deposit mix from savings and NOW accounts to money market and time deposit accounts, as interest sensitive customers shifted funds into higher paying interest bearing accounts. Savings and NOW accounts collectively decreased approximately $41.8 million and money market and time deposit accounts collectively increased approximately $392.8 million (time deposits was the primary driver of the increase).

For the three months ended June 30, 2007, total interest expense increased $4.7 million. Average interest-bearing liabilities increased $120.7 million for the three months ended June 30, 2007 when compared to the same period in 2006, from organic deposit growth. Total average interest-bearing deposits increased $267.3 million for the three months ended June 30, 2007 when compared to the same period in 2006. The rate paid on average interest-bearing deposits increased 52 bp from 2.75% for the three months ended June 30, 2006 to 3.27% for the same period in 2007. The increase in average interest-bearing deposits resulted from organic deposit growth. For the three months ended June 30, 2007, the Company experienced a shift in its deposit mix from savings and NOW accounts to money market and time deposit accounts, as interest sensitive customers shifted funds into higher paying interest bearing accounts. Savings and NOW accounts collectively decreased approximately $39.7 million and money market and time deposit accounts collectively increased approximately $307.0 million (time deposits was the primary driver of the increase). If short-term rates continue to rise, the Company anticipates that this trend will continue placing greater pressure on the net interest margin.

Total average borrowings, including trust preferred debentures, decreased $123.4 million for the six months ended June 30, 2007 compared with the same period in 2006. Average short-term borrowings decreased by $101.4 million, from $359.0 million for the six months ended June 30, 2006 to $257.7 million for the six months ended June 30, 2007. Despite this 28.2% decrease, interest expense from short-term borrowings only decreased $2.0 million, or 25.3%. The rate paid on short-term borrowings increased from 4.53% for the six months ended June 30, 2006 to 4.70% for the same period in 2007. Average trust preferred debentures increased $10.8 million for the six months ended June 30, 2007, compared with the same period in 2006, primarily from the issuance of $51.5 million in trust preferred debentures in February 2006 to fund the cash portion of the CNB transaction and to provide regulatory capital. The rate paid on trust preferred debentures increased to 6.79% for the six months ended June 30, 2007, compared with 6.69% for the same period in 2006, driven primarily by $51.5 million in trust preferred debentures issued in February 2006 with a fixed rate of 6.195% and $18.7 million in trust preferred debentures that reprice quarterly at 3-month LIBOR plus 275 bp.

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Total average borrowings, including trust preferred debentures, decreased $146.6 million for the three months ended June 30, 2007 compared with the same period in 2006. Average short-term borrowings decreased by $96.5 million, from $346.6 million for the three months ended June 30, 2006 to $250.1 million for the three months ended June 30, 2007. Interest expense from short-term borrowings decreased $1.2 million, or 29.0%. The rate paid on short-term borrowings decreased from 4.76% for the three months ended June 30, 2006 to 4.68% for the same period in 2007. Average trust preferred debentures remained consistent at $75.4 million for the three months ended June 30, 2007 and June 30, 2006. The rate paid on trust preferred debentures increased to 6.76% for the three months ended June 30, 2007, compared with 6.67% for the same period in 2006, driven primarily by $51.5 million in trust preferred debentures issued in February 2006 with a fixed rate of 6.195% and $18.7 million in trust preferred debentures that reprice quarterly at 3-month LIBOR plus 275 bp.

Another important performance measurement of net interest income is the net interest margin. Despite a 24 bp decrease in the Company's net interest spread, the net interest margin only declined by 17 bp to 3.63% for the six months ended June 30, 2007, compared with 3.80% for the same period in 2006. The Company thus far has mitigated some of the margin pressure by growing noninterest bearing demand deposit accounts. Average demand deposits increased $19.5 million or 3.2% for the six months ended June 30, 2007, compared to the same period in 2006.

Despite an 18 bp decrease in the Company's net interest spread, the net interest margin only declined by 10 bp to 3.63% for the three months ended June 30, 2007, compared with 3.73% for the same period in 2006. The Company thus far has mitigated some of the margin pressure by growing noninterest bearing demand deposit accounts. Average demand deposits increased $13.1 million or 2.1% for the three months ended June 30, 2007, compared to the same period in 2006.

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Table 2
Average Balances and Net Interest Income
The following tables include the condensed consolidated average balance sheet, an analysis of interest income/expense and average yield/rate for each major category of earning assets and interest bearing liabilities on a taxable equivalent basis. Interest income for tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory Federal income tax rate of 35%.

Six months ended June 30,	**2007**			2006		
(dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	**$ 8,934**	**$ 218**	**4.93%**	$ 7,543	$ 172	4.61%
Securities available for sale (1)	**1,126,209**	**28,223**	**5.05%**	1,093,566	26,136	4.83%
Securities held to maturity (1)	**144,683**	**4,488**	**6.26%**	99,425	3,013	6.12%
Investment in FRB and FHLB Banks	**33,684**	**1,241**	**7.43%**	40,357	1058	5.30%
Loans and leases (2)	**3,410,928**	**120,879**	**7.15%**	3,225,053	110,291	6.91%
Total interest earning assets	**4,724,438**	**155,049**	**6.62%**	4,465,944	140,670	6.36%
Other assets	**359,215**			336,389		
Total assets	**$ 5,083,653**			$ 4,802,333		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	**$ 650,693**	**11,113**	**3.44%**	$ 493,194	7,591	3.11%
NOW deposit accounts	**447,886**	**1,805**	**0.81%**	436,799	1377	0.64%
Savings deposits	**496,670**	**2,262**	**0.92%**	549,594	2,260	0.83%
Time deposits	**1,681,119**	**37,754**	**4.53%**	1,445,854	26,866	3.75%
Total interest bearing deposits	**3,276,368**	**52,934**	**3.26%**	2,925,441	38,094	2.63%
Short-term borrowings	**257,687**	**6,010**	**4.70%**	359,039	8,048	4.53%
Trust preferred debentures	**75,422**	**2,540**	**6.79%**	64,600	2138	6.69%
Long-term debt	**390,233**	**8,483**	**4.38%**	423,142	8,369	4.00%
Total interest bearing liabilities	**3,999,710**	**69,967**	**3.53%**	3,772,222	56,649	3.03%
Demand deposits	**622,083**			602,632		
Other liabilities	**54,732**			51,821		
Stockholders' equity	**407,128**			375,658		
Total liabilities and stockholders' equity	**$ 5,083,653**			$ 4,802,333		
Net interest income (FTE basis)		**$ 85,082**			$ 84,021	

Interest rate spread		**3.09%**		3.33%
Net interest margin		**3.63%**		3.80%
Taxable equivalent adjustment	**$ 3,095**		$ 2,533	
Net interest income	**$ 81,987**		$ 81,488	

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

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Three months ended June 30, (dollars in thousands)		**2007** Average Balance		**2007** Interest	**2007** Yield/ Rates		2006 Average Balance		2006 Interest	2006 Yield/ Rates
ASSETS										
Short-term interest bearing accounts	**$**	**8,618**	**$**	**108**	**5.04%**	$	7,346	$	89	4.86%
Securities available for sale (1)		**1,128,973**		**14,167**	**5.03%**		1,132,330		13,699	4.85%
Securities held to maturity (1)		**148,467**		**2,315**	**6.26%**		101,481		1,549	6.12%
Investment in FRB and FHLB Banks		**32,576**		**611**	**7.53%**		40,166		530	5.29%
Loans and leases (2)		**3,423,130**		**60,878**	**7.13%**		3,302,136		57,275	6.96%
Total interest earning assets		**4,741,764**		**78,079**	**6.60%**		4,583,459		73,142	6.40%
Other assets		**356,885**					353,548			
Total assets	**$**	**5,098,649**				$	4,937,007			
LIABILITIES AND STOCKHOLDERS' EQUITY										
Money market deposit accounts	**$**	**658,394**		**5,647**	**3.44%**	$	534,112		4,352	3.27%
NOW deposit accounts		**454,468**		**860**	**0.76%**		442,037		731	0.66%
Savings deposits		**501,246**		**1,142**	**0.91%**		553,393		1,184	0.86%
Time deposits		**1,693,133**		**19,301**	**4.57%**		1,510,373		14,602	3.88%
Total interest bearing deposits		**3,307,241**		**26,950**	**3.27%**		3,039,915		20,869	2.75%
Short-term borrowings		**250,112**		**2,918**	**4.68%**		346,585		4,111	4.76%
Trust preferred debentures		**75,422**		**1,272**	**6.76%**		75,422		1255	6.67%
Long-term debt		**374,042**		**3,997**	**4.29%**		424,176		4,227	4.00%
Total interest bearing liabilities		**4,006,817**		**35,137**	**3.52%**		3,886,098		30,462	3.14%
Demand deposits		**627,172**					614,049			
Other liabilities		**57,919**					50,677			
Stockholders' equity		**406,741**					386,183			
Total liabilities and stockholders' equity	**$**	**5,098,649**				$	4,937,007			
Net interest income (FTE basis)			**$**	**42,942**				$	42,680	
Interest rate spread					**3.08%**					3.26%
Net interest margin					**3.63%**					3.73%
Taxable equivalent adjustment			**$**	**1,584**				$	1,311	
Net interest income			**$**	**41,358**				$	41,369	

(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 June 30,

	Increase (Decrease) 2007 over 2006		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ 16	$ 3	$ 19
Securities available for sale	(41)	509	468
Securities held to maturity	732	34	766
Investment in FRB and FHLB Banks	(113)	194	81
Loans and leases	2,130	1,473	3,603
Total interest income	2,568	2,369	4,937
Money market deposit accounts	1,056	239	1,295
NOW deposit accounts	21	108	129
Savings deposits	(116)	74	(42)
Time deposits	1,894	2,805	4,699
Short-term borrowings	(1,127)	(66)	(1,193)
Trust preferred debentures	-	17	17
Long-term debt	(522)	292	(230)
Total interest expense	970	3,705	4,675
Change in FTE net interest income	$ 1,598	$ (1,336)	$ 262

Six months ended June 30,

	Increase (Decrease) 2007 over 2006		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ 33	$ 13	$ 46
Securities available for sale	795	1,292	2,087
Securities held to maturity	1,402	73	1,475
Investment in FRB and FHLB Banks	(195)	378	183
Loans and leases	6,498	4,090	10,588
Total interest income	8,340	6,039	14,379
Money market deposit accounts	2,622	900	3,522
NOW deposit accounts	36	392	428
Savings deposits	(229)	231	2
Time deposits	4,771	6,117	10,888
Short-term borrowings	(2,352)	314	(2,038)
Trust preferred debentures	364	38	402

Long-term debt	(679)	793	114
Total interest expense	3,567	9,751	13,318
Change in FTE net interest income	$ 4,773	$ (3,712)	$ 1,061

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Noninterest Income

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	**2007**	2006
(in thousands)				
Service charges on deposit accounts	**$ 4,936**	$ 4,493	**$ 9,405**	$ 8,712
Broker/dealer and insurance fees	**1,093**	967	**2,176**	1,875
Trust	**1,792**	1,459	**3,229**	2,817
Net securities gains (losses)	**21**	22	**16**	(912)
Bank owned life insurance income	**450**	392	**884**	773
ATM fees	**2,041**	1,789	**3,937**	3,434
Retirement plan administration fees	**1,601**	1,431	**3,193**	2,662
Other	**2,058**	2,003	**3,842**	4,419
Total noninterest income	**$ 13,992**	$ 12,556	**$ 26,682**	$ 23,780

Noninterest income for the three months ended June 30, 2007, was $14.0 million, up $1.4 million or 11.4% from $12.6 million for the same period in 2006. Fees from service charges on deposit accounts and ATM and debit cards collectively increased $0.7 million from growth in our debit card base as well as growth in our demand deposit accounts. Retirement plan administration fees for the three months ended June 30, 2007, increased $0.2 million, compared with the same period in 2006, as a result of our growing client base. Broker/dealer and insurance revenue for the three months ended June 30, 2007, increased $0.1 million in large part due to the growth in brokerage income from retail financial services. Bank-owned life insurance income for the three months ended June 30, 2007, increased $0.1 million, compared with the same period in 2006. Trust administration income increased $0.3 million for the three months ended June 30, 2007, compared with the same period in 2006. This increase stems from market appreciation of existing accounts and an increase in customer accounts resulting from successful business development.

Noninterest income for the six months ended June 30, 2007, was $26.7 million, up $2.9 million or 12.2% from $23.8 million for the same period in 2006. Fees from service charges on deposit accounts and ATM and debit cards collectively increased $1.2 million from growth in our debit card base as well as growth in our demand deposit accounts. Retirement plan administration fees for the six months ended June 30, 2007, increased $0.5 million, compared with the same period in 2006, as a result of our growing client base. Broker/dealer and insurance revenue for the six months ended June 30, 2007, increased $0.3 million in large part due to the growth in brokerage income from retail financial services as well as the addition of Hathaway Insurance Agency as part of the acquisition of CNB. Bank-owned life insurance income for the six months ended June 30, 2007, increased $0.1 million, compared with the same period in 2006. This increase was due in large part to the acquisition of CNB. Trust administration income increased $0.4 million for the six months ended June 30, 2007, compared with the same period in 2006. This increase stems from market appreciation of existing accounts and an increase in customer accounts resulting from successful business development. Other noninterest income for the six months ended June 30, 2007, decreased $0.6 million, compared with the same period in 2006, primarily as a result of a gain on the sale of a branch in 2006. Net securities gains for the six months ended June 30, 2007, were nominal, compared with net securities losses of $0.9 million for the six months ended June 30, 2006. Excluding the effect of these securities transactions, noninterest income increased $2.0 million, or 8.0%, for the six months ended June 30, 2007, compared with the same period in 2006.

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

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
(in thousands)				
Salaries and employee benefits	**$ 13,022**	$ 16,335	**$ 28,986**	$ 32,083
Occupancy	**2,585**	2,747	**5,754**	5,735
Equipment	**1,837**	2,067	**3,770**	4,223
Data processing and communications	**2,845**	2,649	**5,722**	5,351
Professional fees and outside services	**1,926**	1,800	**3,584**	3,632
Office supplies and postage	**1,334**	1,456	**2,630**	2,637
Amortization of intangible assets	**410**	466	**819**	789
Loan collection and other real estate owned	**228**	289	**605**	500
Other	**3,827**	3,885	**7,016**	7,216
Total noninterest expense	**$ 28,014**	$ 31,694	**$ 58,886**	$ 62,166

Noninterest expense for the three months ended June 30, 2007, was $28.0 million, down from $31.7 million for the same period in 2006. This decrease was principally the result of a decrease of $3.3 million, or 20.3%, in salaries and employee benefits. This decrease was due primarily to a reduction in incentive compensation and pension expenses incurred during the period, as well as a reduction in full-time equivalent employees. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges, decreased collectively by $0.3 million, or 3.6%, for the three months ended June 30, 2007, compared with the same period in 2006 as the Company focused on cost structure and improving efficiency.

Noninterest expense for the six months ended June 30, 2007, was $58.9 million, down from $62.2 million for the same period in 2006. This decrease was principally the result of a decrease of $3.1 million, or 9.7%, in salaries and employee benefits. This decrease was due primarily to a reduction in incentive compensation and a reduction in pension expenses due to a $15 million contribution to the defined benefit plan in 2006. Office expenses, such as supplies and postage, occupancy, equipment and data processing and communications charges, decreased collectively by $0.1 million, or 0.4%, for the six months ended June 30, 2007, compared with the same period in 2006. Loan collection and other real estate owned expenses increased $0.1 million for the six months ended June 30, 2007, over the same period in 2006. This increase was due primarily to an increase in the amount of real estate taxes paid on foreclosures in 2007 compared with 2006. Other operating expense for the six months ended June 30, 2007, decreased $0.2 million, or 2.8%, compared with the same period in 2006.

Income Taxes

Income tax expense for the three months ended June 30, 2007, was $5.5 million, down from $6.4 million for the same period in 2006. The effective rate for the three months ended June 30, 2007 was 31.3%, as compared with 31.0% for the same period in 2006. Income tax expense for the six months ended June 30, 2007, was $11.7 million, down from $11.9 million for the same period in 2006. The effective rate for the six months ended June 30, 2007, was 30.9%, up from 30.0% for the same period in 2006. The increase in the effective tax rate for the six months ended June 30, 2007, versus the same period in 2006 resulted primarily from a tax refund received in the first quarter of 2006.

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ANALYSIS OF FINANCIAL CONDITION

Loans and Leases

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

(In thousands)	**June 30, 2007**	December 31, 2006	June 30, 2006
Residential real estate mortgages	$ 726,256	$ 739,607	$ 736,601
Commercial	626,198	658,647	652,577
Commercial real estate mortgages	592,676	581,736	600,483
Real estate construction and development	78,859	94,494	89,584
Agricultural and agricultural real estate mortgages	120,476	118,278	117,106
Consumer	628,264	586,922	539,494
Home equity	572,779	546,719	528,588
Lease financing	86,792	86,251	83,443
Total loans and leases	$ 3,432,300	$ 3,412,654	$ 3,347,876

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

Total loans and leases were $3.4 billion, or 67.0% of assets, at June 30, 2007, $3.4 billion, or 67.1% of assets, at December 31, 2006, and $3.3 billion, or 67.0%, at June 30, 2006. Total loans and leases increased slightly by $19.6 million or 0.6% from December 31, 2006 to June 30, 2007. This increase was due primarily to a 7.0% increase in consumer loans, most notably indirect installment loans, as a result of expansion of our dealer network. Home equity loans increased $26.1 million, or 4.8%, from December 31, 2006 to June 30, 2007 as the Company promoted the home equity products through promotions in 2007. The above mentioned increases were partially offset by a decrease in commercial loans of 4.9% at June 30, 2007 as compared with December 31, 2006.

Securities

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

Average total earning securities increased $77.9 million for the six months ended June 30, 2007 when compared to the same period in 2006. The average balance of securities available for sale increased $32.6 million for the six months ended June 30, 2007 when compared to the same period in 2006. The average balance of securities held to maturity increased $45.3 million for the six months ended June 30, 2007, compared to the same period in 2006. The average total securities portfolio represents 26.9% of total average earning assets for the six months ended June 30, 2007, up from 26.7% for the same period in 2006.

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Average total earning securities increased $43.6 million for the three months ended June 30, 2007 when compared to the same period in 2006. The average balance of securities available for sale decreased $3.4 million for the three months ended June 30, 2007 when compared to the same period in 2006. The average balance of securities held to maturity increased $47.0 million for the three months ended June 30, 2007, compared to the same period in 2006. The average total securities portfolio represents 26.9% of total average earning assets for the three months ended June 30, 2007 and June 30, 2006.

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

	At June 30,	
	2007	2006
Mortgage-backed securities:		
With maturities 15 years or less	24%	30%
With maturities greater than 15 years	3%	4%
Collateral mortgage obligations	20%	18%
Municipal securities	19%	17%
US agency notes	30%	27%
Other	4%	4%
Total	100%	100%

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

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

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

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

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After a thorough consideration and validation of the factors discussed above, required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses. These charges are necessary to maintain the allowance at a level which management believes is reasonably reflective of overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans and leases, additions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above. The allowance for loan and lease losses to outstanding loans and leases at June 30, 2007 was 1.66% compared with 1.48% at December 31, 2006, and 1.50% at June 30, 2006. This increase was due to the increase in the provision for loan losses as discussed in the following pages. Management considers the allowance for loan losses to be adequate based on evaluation and analysis of the loan portfolio.

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Table 4 reflects changes to the allowance for loan and lease losses for the periods presented. The allowance is increased by provisions for losses charged to operations and is reduced by net charge-offs. Charge-offs are made when the ability to collect loan principal within a reasonable time is unlikely. Any recoveries of previously charged-off loans are credited directly to the allowance for loan and lease losses.

Table 4
Allowance For Loan and Lease Losses

	Three months ended June 30,					
(dollars in thousands)		**2007**			2006	
Balance, beginning of period	**$**	**50,554**		$	49,818	
Recoveries		**1,161**			1,091	
Chargeoffs		**(4,427)**			(2,464)	
Net chargeoffs		**(3,266)**			(1,373)	
Provision for loan losses		**9,770**			1,703	
Balance, end of period	**$**	**57,058**		$	50,148	
Composition of Net Chargeoffs						
Commercial and agricultural	**$**	**(1,910)**	**58%**	$	(646)	47%
Real estate mortgage		**(180)**	**6%**		(64)	5%
Consumer		**(1,176)**	**36%**		(663)	48%
Net chargeoffs	**$**	**(3,266)**	**100%**	$	(1,373)	100%
Annualized net chargeoffs to average loans and leases		**0.32%**			0.20%	

Allowance For Loan and Lease Losses

	Six months ended June 30,					
(dollars in thousands)		**2007**			2006	
Balance, beginning of period	**$**	**50,587**		$	47,455	
Recoveries		**2,605**			2,266	
Chargeoffs		**(8,000)**			(5,414)	
Net chargeoffs		**(5,395)**			(3,148)	
Allowance related to purchase acquisition		**-**			2,410	
Provision for loan losses		**11,866**			3,431	
Balance, end of period	**$**	**57,058**		$	50,148	
Composition of Net Chargeoffs						
Commercial and agricultural	**$**	**(2,611)**	**48%**	$	(1,504)	48%
Real estate mortgage		**(487)**	**9%**		(135)	4%
Consumer		**(2,297)**	**43%**		(1,509)	48%
Net chargeoffs	**$**	**(5,395)**	**100%**	$	(3,148)	100%
Annualized net chargeoffs to average loans and leases		**0.32%**			0.20%	

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

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Table 5
Nonperforming Assets

(Dollars in thousands)	**June 30, 2007**	December 31, 2006	June 30, 2006
Nonaccrual loans			
Commercial and commercial real estate	**$ 20,366**	**$ 5,942**	**$ 5,367**
Agricultural	**8,918**	**3,404**	**3,072**
Real estate mortgages	**2,114**	**2,338**	**2,177**
Consumer	**2,332**	**1,981**	**1,661**
Total nonaccrual loans	**33,730**	**13,665**	**12,277**
Loans 90 days or more past due and still accruing			
Commercial and commercial real estate	**160**	**128**	**-**
Agricultural	**-**	**10**	