NBT BANCORP INC
Form 10-Q
August 11, 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 June 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 July 31, 2008, there were 32,167,367 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, 2008	December 31, 2007	June 30, 2007
Assets			
Cash and due from banks	$ 145,635	$ 155,495	$ 134,058
Short-term interest bearing accounts	1,782	7,451	7,252
Securities available for sale, at fair value	1,104,491	1,132,230	1,109,543
Securities held to maturity (fair value $148,952, $149,519, and $146,944)	148,656	149,111	147,537
Federal Reserve and Federal Home Loan Bank stock	41,323	38,102	33,061
Loans and leases	3,602,895	3,455,851	3,432,300
Less allowance for loan and lease losses	54,510	54,183	57,058
Net loans and leases	3,548,385	3,401,668	3,375,242
Premises and equipment, net	64,871	64,042	65,286
Goodwill	103,398	103,398	103,412
Intangible assets, net	9,404	10,173	10,998
Bank owned life insurance	44,546	43,614	42,667
Other assets	97,009	96,492	92,578
Total assets	$ 5,309,500	$ 5,201,776	$ 5,121,634
Liabilities			
Demand (noninterest bearing)	$ 700,279	$ 666,698	$ 681,732
Savings, NOW, and money market	1,643,702	1,614,289	1,606,473
Time	1,595,132	1,591,106	1,670,961
Total deposits	3,939,113	3,872,093	3,959,166
Short-term borrowings	205,624	368,467	290,387
Long-term debt	619,720	424,887	352,151
Trust preferred debentures	75,422	75,422	75,422
Other liabilities	65,749	63,607	53,574
Total liabilities	4,905,628	4,804,476	4,730,700
Stockholders’ equity			
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at June 30, 2008, December 31, 2007 and June 30, 2007	-	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at June 30, 2008, December 31, 2007 and June 30, 2007; issued 36,459,383, 36,459,421, and 36,459,462 at June 30, 2008, December 31, 2007, and June 30, 2007, respectively	365	365	365
Additional paid-in-capital	274,016	273,275	271,639
Retained earnings	228,787	215,031	204,175
Accumulated other comprehensive loss	(7,678)	(3,575)	(18,822)
Common stock in treasury, at cost, 4,303,776, 4,133,328, and 3,091,395 shares at June 30, 2008, December 31, 2007, and June 30, 2007, respectively	(91,618)	(87,796)	(66,423)
Total stockholders’ equity	403,872	397,300	390,934
Total liabilities and stockholders’ equity	$ 5,309,500	$ 5,201,776	$ 5,121,634

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, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Interest, fee, and dividend income				
Interest and fees on loans and leases	$ 57,220	$ 60,689	$ 115,837	$ 120,497
Securities available for sale	13,417	13,562	27,163	27,029
Securities held to maturity	1,478	1,525	2,992	2,969
Other	739	719	1,514	1,459
Total interest, fee, and dividend income	72,854	76,495	147,506	151,954
Interest expense				
Deposits	18,712	26,950	41,410	52,934
Short-term borrowings	1,362	2,918	3,702	6,010
Long-term debt	5,629	3,997	9,931	8,483
Trust preferred debentures	1,146	1,272	2,393	2,540
Total interest expense	26,849	35,137	57,436	69,967
Net interest income	46,005	41,358	90,070	81,987
Provision for loan and lease losses	5,803	9,770	12,281	11,866
Net interest income after provision for loan and lease losses	40,202	31,588	77,789	70,121
Noninterest income				
Service charges on deposit accounts	6,938	4,936	13,463	9,405
Broker/ dealer and insurance revenue	1,366	1,093	2,473	2,176
Trust	2,099	1,792	3,873	3,229
Net securities gains	18	21	33	16
Bank owned life insurance	480	450	932	884
ATM fees	2,225	2,041	4,322	3,937
Retirement plan administration fees	1,671	1,601	3,379	3,193
Other	1,622	2,058	4,039	3,842
Total noninterest income	16,419	13,992	32,514	26,682
Noninterest expense				
Salaries and employee benefits	16,906	13,022	33,676	28,986
Occupancy	3,427	2,585	7,037	5,754
Equipment	1,862	1,837	3,687	3,770
Data processing and communications	3,115	2,845	6,285	5,722
Professional fees and outside services	2,521	1,926	5,620	3,584
Office supplies and postage	1,331	1,334	2,670	2,630
Amortization of intangible assets	378	410	769	819
Loan collection and other real estate owned	730	228	1,297	605
Other	5,153	3,827	8,416	7,016
Total noninterest expense	35,423	28,014	69,457	58,886
Income before income tax expense	21,198	17,566	40,846	37,917
Income tax expense	6,541	5,502	12,473	11,721
Net income	$ 14,657	$ 12,064	$ 28,373	$ 26,196
Earnings per share				
Basic	$ 0.46	$ 0.36	$ 0.89	$ 0.77
Diluted	$ 0.45	$ 0.36	$ 0.88	$ 0.77

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	Treasury Stock	Total
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
Issuance 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
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			28,373			28,373
Cash dividends - $0.40 per share			(12,848)			(12,848)
Purchase of 272,840 treasury shares					(5,939)	(5,939)
Net issuance of 75,794 shares to employee benefit plans and other stock plans, including tax benefit		149	(251)		1,551	1,449
Stock-based compensation		1,158				1,158
Issuance of 26,598 shares of restricted stock awards		(566)			566	-
Other comprehensive loss				(4,103)		(4,103)
Balance at June 30, 2008	$ 365	$ 274,016	$ 228,787	$ (7,678)	$ (91,618)	$ 403,872

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)	Six Months Ended June 30, 2008	2007
Operating activities		
Net income	$ 28,373	$ 26,196
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	12,281	11,866
Depreciation and amortization of premises and equipment	2,583	2,688
Net amortization on securities	210	46
Amortization of intangible assets	769	819
Stock based compensation	1,158	1,444
Bank owned life insurance income	(932)	(884)
Proceeds from sales of loans held for sale	9,166	13,164
Originations and purchases of loans held for sale	(10,411)	(14,024)
Net gains on sales of loans held for sale	(31)	(76)
Net security gains	(33)	(16)
Net gain on sales of other real estate owned	(80)	(131)
Net decrease (increase) in other assets	78	(1,897)
Net increase in other liabilities	2,932	7,696
Net cash provided by operating activities	46,063	46,891
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	259,177	101,382
Proceeds from sales	1,140	10,553
Purchases	(239,110)	(131,816)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	39,772	27,185
Purchases	(39,373)	(38,487)
Net increase in loans	(158,527)	(25,060)
Net (increase) decrease in Federal Reserve and FHLB stock	(3,221)	5,751
Purchases of premises and equipment	(3,412)	(992)
Proceeds from sales of other real estate owned	290	495
Net cash used in investing activities	(143,264)	(50,989)
Financing activities		
Net increase in deposits	67,020	162,928
Net decrease in short-term borrowings	(162,843)	(55,021)
Proceeds from issuance of long-term debt	325,015	75,100
Repayments of long-term debt	(130,182)	(140,677)
Excess tax benefit from exercise of stock options	121	359
Proceeds from the issuance of shares to employee benefit plans and other stock plans	1,328	2,254
Purchase of treasury stock	(5,939)	(25,037)
Cash dividends and payment for fractional shares	(12,848)	(13,291)
Net cash provided by financing activities	81,672	6,615
Net (decrease) increase in cash and cash equivalents	(15,529)	2,517
Cash and cash equivalents at beginning of period	162,946	138,793
Cash and cash equivalents at end of period	$ 147,417	$ 141,310

Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest	$	60,084	$	69,241
Income taxes paid		6,915		5,752
Noncash investing activities:				
Loans transferred to OREO	$	805	$	955

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Statements of Comprehensive Income (unaudited) (In thousands)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Net income	$ 14,657	$ 12,064	$ 28,373	$ 26,196
Other comprehensive income, net of tax				
Unrealized net holding losses arising during the period (pre-tax amounts of ($19,746), ($11,918), ($6,378), and ($8,112))	(11,932)	(7,174)	(4,191)	(4,941)
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of ($18), ($21), ($33), and ($16))	(11)	(13)	(20)	(10)
Amortization of prior service cost and actuarial gains (pre-tax amounts of $90, $149,$180, and $239)	54	89	108	143
Total other comprehensive loss	(11,889)	(7,098)	(4,103)	(4,808)
Comprehensive income	$ 2,768	$ 4,966	$ 24,270	$ 21,388

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, 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"), 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 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., 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 a 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 Company is still evaluating the provisions of FSP FAS 140-3, but does not believe its adoption will have a material impact on its 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 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. SFAS No. 162 is not expected to have a material impact on our financial condition or results of operations.

Note 4. Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan 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.

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 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 June 30, 2008 and 2007, or December 31, 2007. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

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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.

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 $686.8 million at June 30, 2008 and $654.0 million at December 31, 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 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 $25.8 million at June 30, 2008, $27.5 million at December 31, 2007, and $36.0 million at June 30, 2007. As of June 30, 2008, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

Note 6. Earnings Per Share

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

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

Three months ended June 30,	2008	2007
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	31,989	33,694
Net income available to common shareholders	14,657	12,064
Basic EPS	$ 0.46	$ 0.36
Diluted EPS:		
Weighted average common shares outstanding	31,989	33,694
Dilutive effect of common stock options and restricted stock	253	242
Weighted average common shares and common share equivalents	32,242	33,936
Net income available to common shareholders	14,657	12,064
Diluted EPS	$ 0.45	$ 0.36

Six months ended June 30,	2008	2007
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	32,021	33,934
Net income available to common shareholders	28,373	26,196
Basic EPS	$ 0.89	$ 0.77
Diluted EPS:		
Weighted average common shares outstanding	32,021	33,934
Dilutive effect of common stock options and restricted stock	225	261
Weighted average common shares and common share equivalents	32,246	34,195
Net income available to common shareholders	28,373	26,196
Diluted EPS	$ 0.88	$ 0.77

There were 606,083 stock options for the quarter ended June 30, 2008 and 620,788 stock options for the quarter ended June 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 1,184,995 stock options for the six months ended June 30, 2008 and 298,693 stock options for the six months ended June 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.

Note 7. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at June 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."

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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 June 30,		Other Benefits Three months ended June 30,	
Components of net periodic (benefit) cost:	2008	2007	2008	2007
Service Cost	$ 572	$ 527	$ 6	$ 6
Interest Cost	806	740	60	53
Expected return on plan assets	(1,503)	(1,403)	-	-
Net amortization	97	163	(7)	(14)
Total	$ (28)	$ 27	$ 59	$ 45

	Pension Benefits Six months ended June 30,		Other Benefits Six months ended June 30,	
Components of net periodic (benefit) cost:	2008	2007	2008	2007
Service Cost	$ 1,145	$ 1,053	$ 12	$ 12
Interest Cost	1,610	1,480	120	107
Expected return on plan assets	(3,005)	(2,746)	-	-
Net amortization	193	268	(13)	(29)
Total	$ (57)	$ 55	$ 119	$ 90

The Company is not required to make contributions to the plans in 2008. The Company recorded approximately $0.1 million, net of tax, as amortization of pension amounts previously recognized in Accumulated Other Comprehensive Income or Loss during the six months ended June 30, 2008.

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.

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As of June 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.

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.

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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 June 30, 2008
Assets:				
Securities Available for Sale	$ 9,060	$ 1,095,431	$ -	$ 1,104,491
Total	$ 9,060	$ 1,095,431	$ -	$ 1,104,491

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 $9.7 million which had specific reserves included in the allowance for loan and lease losses of $1.5 million at June 30, 2008. During the six and three month periods ending June 30, 2008, the Company established specific reserves of approximately $1.7 million and $0.2 million, which were included in the provision for loan and lease losses for the respective periods. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

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 June 30, 2008, the Company has not elected the fair value option for any eligible items.

Note10. Subsequent Event

NBT Bancorp, Inc. signed a definitive agreement to acquire Mang Insurance Agency on July 3, 2008. The acquisition has been approved by the board of directors of both companies and is expected to close in the third quarter of 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. ("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 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, 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.

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. 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 including in earnings as realized losses.

Overview

The Company earned net income of $14.7 million ($0.45 diluted earnings per share) for the three months ended June 30, 2008 compared to net income of $12.1 million ($0.36 diluted earnings per share) for the three months ended June 30, 2007. This increase in net income was primarily the result of an increase in net interest income of approximately $4.6 million, or 11.2%. The increase in net interest income was due primarily to a decrease in interest expense of approximately $8.3 million, or 23.6%. Also contributing to the increase in net income was an increase in noninterest income of approximately $2.4 million, or 17.3%. The increases in net interest income and noninterest income were partially offset by a $7.4 million, or 26.4%, increase in noninterest expense for the three months ended June 30, 2008 as compared with the same period in 2007.

The Company earned net income of $28.4 million ($0.88 diluted earnings per share) for the six months ended June 30, 2008 compared to net income of $26.2 million ($0.77 diluted earnings per share) for the six months ended June 30, 2007. The increase in net income from 2007 to 2008 was primarily the result of an increase in net interest income of approximately $8.1 million, or 9.9%. The increase in net interest income was due primarily to a decrease in interest expense of approximately $12.5 million, or 17.9%. Also contributing to the increase in net income was an increase in noninterest income of approximately $5.8 million, or 21.9%. The increases in net interest income and noninterest income were partially offset by a $10.6 million, or 18.0%, increase in noninterest expense for the six months ended June 30, 2008 as compared with the same period in 2007.

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

Table 1 - Performance Measures

2008	First Quarter	Second Quarter	Six Months
Return on average assets (ROAA)	1.07%	1.12%	1.10%
Return on average equity (ROAE)	13.68%	14.49%	14.09%
Net Interest Margin	3.84%	3.94%	3.89%
2007			
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%

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 $4.7 million, or 11.0%, during the three months ended June 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 88 bp, to 2.64% for the three months ended June 30, 2008 from 3.52% for the same period in 2007. The interest rate spread increased 44 bp during the three months ended June 30, 2008 compared to the same period in 2007. For the three months ended June 30, 2008, total FTE interest income decreased $3.6 million, or 4.8%. The yield on earning assets for the period decreased 44 bp to 6.16% for the three months ended June 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 $127.4 million, or 2.7%, for the three months ended June 30, 2008 when compared to the same period in 2007, principally from growth in average loans and leases.

FTE net interest income increased $8.3 million, or 9.8%, during the six months ended June 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 69 bp to 2.84% for the six months ended June 30, 2008 from 3.53% for the same period in 2007. The interest rate spread increased 35 bp during the six months ended June 30, 2008 compared to the same period in 2007. For the six months ended June 30, 2008, total FTE interest income decreased $4.4 million, or 2.9%. The yield on earning assets for the period decreased 34 bp to 6.28% for the six months ended June 30, 2008 from 6.62% for the same period in 2007. This decrease was partially offset by an increase in average interest earning assets of $102.9 million, or 2.2% for the six months ended June 30, 2008 when compared to the same period in 2007, principally from growth in average loans and leases.

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For the quarter ended June 30, 2008, total interest expense decreased $8.3 million, or 23.6%, primarily the result of the 325 bp decrease in the Federal Funds target rate since June 30, 2007, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest bearing liabilities increased $90.7 million, or 2.3%, for the three months ended June 30, 2008 when compared to the same period in 2007, principally from growth in long-term debt, short-term borrowings and money market deposit accounts. Total average interest bearing deposits decreased $110.8 million, or 3.4%, for the three months ended June 30, 2008 when compared to the same period in 2007. The rate paid on average interest bearing deposits decreased 92 bp from 3.27% for the three months ended June 30, 2007 to 2.35% for the same period in 2008. For the three months ended June 30, 2008, the Company experienced a shift in its deposit mix from savings and time deposits to money market deposit accounts. Average savings and time deposit accounts collectively decreased approximately $169.9 million, or 7.7%, and money market accounts increased approximately $60.1 million, or 9.1%. Average NOW accounts remained relatively steady at $453.4 million for the three months ended June 30, 2008, as compared to $454.5 million for the same period in 2007.

For the six months ended June 30, 2008, total interest expense decreased $12.5 million, or 17.9%, primarily the result of the 325 bp decrease in the Federal Funds target rate since June 30, 2007, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest bearing liabilities increased $67.5 million, or 1.7%, for the six months ended June 30, 2008 when compared to the same period in 2007, principally from growth in long-term debt, short-term borrowings and money market deposit accounts. Total average interest bearing deposits decreased $61.7 million, or 1.9%, for the six months ended June 30, 2008 when compared to the same period in 2007. The rate paid on average interest bearing deposits decreased 67 bp from 3.26% for the six months ended June 30, 2007 to 2.59% for the same period in 2008. For the six months ended June 30, 2008, the Company experienced a shift in its deposit mix from savings and time deposits to money market deposit accounts. Average savings and time deposit accounts collectively decreased approximately $128.0 million, or 5.9%, and money market accounts increased approximately $63.6 million, or 9.8%. Average NOW accounts remained relatively steady at $450.6 million at June 30, 2008, as compared to $447.9 million for the same period in 2007.

Total average borrowings, including trust preferred debentures, increased $201.6 million, or 28.8%, for the three months ended June 30, 2008 compared with the same period in 2007. Average short-term borrowings increased by $7.3 million, or 2.9%, from $250.1 million for the three months ended June 30, 2007 to $257.4 million for the three months ended June 30, 2008. Interest expense from short-term borrowings decreased $1.6 million, or 53.3%. The rate paid on short-term borrowings decreased from 4.68% for the three months ended June 30, 2007 to 2.13% for the same period in 2008. Average long-term debt increased $194.3 million, or 51.9%, for the three months ended June 30, 2008, compared with the same period in 2007. The rate paid on long-term debt decreased to 3.98% for the three months ended June 30, 2008, compared with 4.29% 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 $1.6 million, or 40.8%, for the three months ended June 30, 2008 as compared to the same period in 2007.

Total average borrowings, including trust preferred debentures, increased $129.2 million, or 17.9%, for the six months ended June 30, 2008 compared with the same period in 2007. Average short-term borrowings increased by $22.8 million, or 8.8%, from $257.7 million for the six months ended June 30, 2007 to $280.5 million for the six months ended June 30, 2008. Interest expense from short-term borrowings decreased $2.3 million, or 38.4%. The rate paid on short-term borrowings decreased from 4.70% for the six months ended June 30, 2007 to 2.65% for the same period in 2008. Average long-term debt increased $106.4 million, or 27.3%, for the six months ended June 30, 2008, compared with the same period in 2007. The rate paid on long-term debt decreased to 4.02% for the six months ended June 30, 2008, compared with 4.38% 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 $1.4 million, or 17.1%, for the six months ended June 30, 2008 as compared to the same period in 2007.

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The interest rate spread increased 44 bp for the three months ended June 30, 2008 as compared with the three months ended June 30, 2007. The net interest margin increased by 31 bp to 3.94% for the three months ended June 30, 2008, compared with 3.63% for the same period in 2007.

The interest rate spread increased 35 bp for the six months ended June 30, 2008 as compared with the six months ended June 30, 2007. The net interest margin increased by 26 bp to 3.89% for the six months ended June 30, 2008, compared with 3.63% 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 June 30,	2008			2007		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 7,100	$ 47	2.64%	$ 8,618	$ 108	5.04%
Securities available for sale (1)(excluding unrealized gains or losses)	1,101,362	14,110	5.15%	1,128,973	14,167	5.03%
Securities held to maturity (1)	157,822	2,233	5.69%	148,467	2,315	6.26%
Investment in FRB and FHLB Banks	41,274	692	6.74%	32,576	611	7.53%
Loans and leases (2)	3,561,632	57,434	6.49%	3,423,130	60,878	7.13%
Total interest earning assets	4,869,190	74,516	6.16%	4,741,764	78,079	6.60%
Other assets	372,496			356,885		
Total assets	5,241,686			5,098,649		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	718,542	2,953	1.65%	658,394	5,647	3.44%
NOW deposit accounts	453,364	887	0.79%	454,468	860	0.76%
Savings deposits	472,039	504	0.43%	501,246	1,142	0.91%