

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996.

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)-337-6000

Indicate by check mark whether the Registrant (1) has filed all reports
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 No

As of October 31, 1996, there were 8,442,314 shares outstanding,
including 511,594 shares held in the treasury, of the Registrant's
common stock, No Par, Stated Value \$1.00. There were no shares of the
Registrant's preferred stock, No Par, Stated Value \$1.00, outstanding
at that date.

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NBT BANCORP INC. and Subsidiary CONSOLIDATED BALANCE SHEETS	September 30, 1996	December 31, 1995	September 30, 1995
(dollars in thousands)	(Unaudited)	(See Notes)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 51,743	\$ 44,379	\$ 38,554
Loans available for sale	3,788	6,089	5,052
Securities available for sale	368,025	393,536	126,557
Securities held to maturity (market value-\$48,839, \$40,306 and \$271,161)	48,842	40,311	269,889
Loans:			
Commercial and agricultural	268,167	247,320	243,584
Real estate mortgage	118,847	120,972	124,196
Consumer	247,618	220,093	218,634
Total loans	634,632	588,385	586,414
Less allowance for loan losses	9,965	9,120	9,354
Net loans	624,667	579,265	577,060
Premises and equipment, net	16,259	16,467	15,831
Intangible assets, net	10,348	11,551	8,919
Other assets	17,641	14,668	16,690
TOTAL ASSETS	\$1,141,313	\$1,106,266	\$1,058,552
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Interest bearing	\$ 798,857	\$ 741,805	\$ 732,234
Noninterest bearing	119,510	131,227	132,070
Total deposits	918,367	873,032	864,304
Short-term borrowings	91,626	115,945	82,442
Long-term debt	23,055	3,012	3,014
Other liabilities	6,395	6,233	5,751
Total liabilities	1,039,443	998,222	955,511
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, no par, stated value \$1.00; shares authorized-2,500,000	-	-	-
Common stock, no par, stated value \$1.00; shares authorized-12,500,000; issued 8,442,314, 8,442,314 and 8,452,099	8,442	8,442	8,050
Capital surplus	75,461	75,464	69,159
Retained earnings	29,928	24,076	29,346
Unrealized gain (loss) on securities available for sale, net of income tax effect	(3,867)	2,822	(1,022)
Common stock in treasury at cost, 489,092, 170,275, and 154,401 shares	(8,094)	(2,760)	(2,492)
Total stockholders' equity	101,870	108,044	103,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,141,313	\$1,106,266	\$1,058,552

See notes to consolidated financial statements.

NBT BANCORP INC. and Subsidiary CONSOLIDATED STATEMENTS OF INCOME	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995

(dollars in thousands, except per share amounts)

(Unaudited)

Interest and fee income:				
Loans	\$14,831	\$13,916	\$42,615	\$39,682
Securities - taxable	6,380	5,736	18,679	16,224
Securities - tax exempt	435	309	1,131	1,050
Other	32	22	71	112
Total interest and fee income	21,678	19,983	62,496	57,068
Interest expense:				
Deposits	7,981	7,514	23,747	21,342
Short-term borrowings	1,151	1,329	2,902	3,769
Long-term debt	235	99	395	378
Total interest expense	9,367	8,942	27,044	25,489
Net interest income	12,311	11,041	35,452	31,579
Provision for loan losses	875	340	2,175	1,178
Net interest income after provision for loan losses	11,436	10,701	33,277	30,401
Noninterest income:				
Trust income	654	558	1,963	1,863
Service charges on deposit accounts	847	757	2,421	2,235
Securities gains	194	82	1,205	93
Other income	431	389	1,188	1,116
Total noninterest income	2,126	1,786	6,777	5,307
Noninterest expense:				
Salaries and employee benefits	4,355	4,248	13,096	12,222
Net occupancy expense	596	562	1,894	1,751
Equipment expense	421	457	1,324	1,292
FDIC insurance	1	(43)	2	860
Amortization of intangible assets	395	313	1,185	942
Other operating expense	2,692	2,578	8,181	7,696
Total noninterest expense	8,460	8,115	25,682	24,763
Income before income taxes	5,102	4,372	14,372	10,945
Income taxes	1,764	1,735	5,386	4,180
Net income	\$ 3,338	\$ 2,637	\$ 8,986	\$ 6,765
Net income per common share	\$ 0.41	\$ 0.32	\$ 1.10	\$ 0.80
Cash dividends per common share	\$ 0.130	\$ 0.115	\$ 0.390	\$ 0.343
Average common shares outstanding	8,003,891	8,336,651	8,137,962	8,404,132

See notes to consolidated financial statements.

NBT BANCORP INC. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30,
1996 1995

(dollars in thousands)

(Unaudited)

Operating activities:

Net income	\$ 8,986	\$ 6,765
Adjustments to reconcile net income to the cash provided by operating activities:		
Provision for loan losses	2,175	1,178
Depreciation and amortization	1,139	1,106
Amortization of premiums and accretion of discounts on securities	99	(116)
Amortization of intangible assets	1,185	942
Proceeds from sales of loans originated for sale	3,820	12,990
Loans originated for sale	(3,294)	(8,745)
Realized gains on sales of securities	(1,205)	(93)
Decrease in interest receivable	934	497
Increase in interest payable	165	434
Payments of restructuring liabilities	-	(958)
Other, net	1,932	1,331

Net cash provided by operating activities 15,936 15,331

Investing activities:

Securities available for sale:		
Proceeds from maturities	27,282	30,833
Proceeds from sales	154,417	2,329
Purchases	(167,595)	(45,808)
Securities held to maturity:		
Proceeds from maturities	23,848	40,070
Purchases	(32,380)	(37,224)
(Increase) in loans	(45,802)	(12,546)
Purchase of premises and equipment, net	(931)	(1,554)

Net cash used in investing activities (41,161) (23,900)

Financing activities:		
Net increase in deposits	45,335	72,861
Net (decrease) in short-term borrowings		
with original maturities of three months or less	(24,319)	(58,145)
Proceeds from issuance of other long-term debt	20,050	-
Repayments of long-term debt	(7)	(5,720)
Common stock issued,		
including treasury shares reissued	1,515	3,844
Purchase of treasury stock	(6,851)	(6,262)
Cash dividends and payment for fractional shares	(3,134)	(2,865)

Net cash provided by financing activities	32,589	3,713

Net increase (decrease) in cash and cash equivalents	7,364	(4,856)
Cash and cash equivalents at beginning of year	44,379	43,410

Cash and cash equivalents at end of period	\$ 51,743	\$ 38,554

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 26,879	\$ 25,055
Income taxes	5,257	3,392
Noncash investing activity:		
Transfer of loans available for sale to loans held to maturity	1,775	-

See notes to consolidated financial statements.		

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of NBT BANCORP INC. (the Registrant, Company or NBT) and its wholly-owned subsidiary, NBT Bank, National Association (Bank). All intercompany transactions have been eliminated in consolidation. Certain amounts previously reported in the financial statements have been reclassified to conform with the current presentation.

The determination of the allowance for loan losses is a material estimate that is particularly susceptible to significant change in the near term. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Net income per common share is computed based on the weighted average number of common shares and common share equivalents outstanding during each period after giving retroactive effect to stock dividends. Cash dividends per common share are computed based on declared rates adjusted retroactively for stock dividends.

The balance sheet at December 31, 1995 has been derived from audited financial statements at that date. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to FORM 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant's annual report on FORM 10-K for the year ended December 31, 1995.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

The Registrant adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" on January 1, 1996 on a prospective basis. SFAS 122 requires the recognition as separate assets rights to service mortgage loans for others, however those servicing rights are acquired, and also requires capitalized mortgage servicing rights to be assessed for impairment based on the fair value of those rights. The adoption of SFAS 122 did not have a material impact on the Registrant's financial condition or results of operations.

On January 1, 1996 the Registrant adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes a fair value based method of determining compensation cost for grants of stock options under stock-based compensation plans. SFAS No. 123 permits entities to expense an estimated fair value of employee stock options or to continue to measure compensation cost for these plans using the intrinsic value contained in Accounting Principals Board Opinion No. 25 (APB 25). Under APB 25 compensation cost is the excess, if any, of the quoted market price of the stock at the date of grant over the amount employees must pay to acquire it. The Registrant has elected to continue accounting for these plans under the intrinsic value method of accounting for stock-based compensation plans. Additionally, the Registrant will present pro forma footnote disclosures of net income and net income per share, as if a fair value based method had been applied, upon the presentation of a complete set of financial statements, which would generally be prepared as of the end of its fiscal year, as required by SFAS No. 123.

In June of 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The statement, which becomes effective for transactions occurring after December 31, 1996, provides accounting and reporting

standards for transfers and servicing of financial assets and extinguishment of liabilities based on the financial components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes all assets it does not control and derecognizes liabilities when extinguished. The statement also provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. Management does not anticipate that the implementation of the statement will have a material impact on the consolidated financial position or consolidated results of operations of the Company.

COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, various commitments and contingent liabilities arise, including commitments to extend credit and standby letters of credit. Also, off-balance sheet financial instruments such as interest rate swaps, forward contracts, futures, options on financial futures, and interest rate caps, collars and floors bear risk based on financial market conditions. The following table summarizes the Registrant's exposure to these off-balance sheet commitments and contingent liabilities as of September 30, 1996:

	Contractual or Notional Value at September 30, 1996
Financial instruments with off-balance sheet credit risk:	
Commitments to extend credit	\$95,987,000
Standby letters of credit	1,862,000
Financial instruments with off-balance sheet market risk	None

The purpose of this discussion is to focus on material information about the Registrant's financial condition and results of operations. Reference should be made to the Registrant's consolidated financial statements and footnotes thereto included in this FORM 10-Q as well as to the Registrant's 1995 FORM 10-K for an understanding of the following discussion and analysis. The Registrant has a long history of distributing stock dividends; in December, 1995 a 5% stock dividend was distributed for the thirty-sixth consecutive year. Throughout this discussion and analysis, amounts per common share have been adjusted retroactively for stock dividends and splits for purposes of comparability.

On October 22, 1996 the Registrant announced the declaration of a 5% stock dividend and a regular quarterly cash dividend of \$0.15 per share. The cash dividend represents an increase of \$0.02 per share over recent dividends declared. The stock and cash dividends will be paid on December 13, 1996, to shareholders of record as of November 29, 1996. The cash dividend will be paid on the increased number of shares. Amounts per common share have not been adjusted for the prospective December 13, 1996 stock dividend. The adjustment for purposes of comparability will occur after the payment date.

HIGHLIGHTS OF THE REGISTRANT'S 1996 PERFORMANCE

Net income of \$3.3 million (\$0.41 per share) was realized in the third quarter of 1996, representing a 27% increase from third quarter 1995 net income of \$2.6 million (\$0.32 per share). One of the major contributing factors for the increase in net income was increased net interest income. Higher earnings on assets, driven by increased volumes of loans and securities depicted in the table AVERAGE BALANCES, exceeded liability cost increases, also driven by increased volume during the third quarter of 1996. Increased security gains and noninterest income during the third quarter of 1996 also contributed to the improved profitability. Offsetting these favorable increases in income were an increased provision for loan losses, as net charge-offs increased in 1996, and increased noninterest expenses as depicted in the table NONINTEREST EXPENSE AND PRODUCTIVITY MEASUREMENTS.

Net income of \$9.0 million (\$1.10 per share) was realized for the nine month period ended September 30, 1996, a 33% increase from 1995 nine month net income of \$6.8 million (\$0.80 per share). The increased profitability for the nine month period of 1996 was driven by factors similar to those for the third quarter of 1996. Additionally, reducing interest income during 1995 was a \$0.5 million nonrecurring charge to write-off accrued interest income receivable on nonaccrual or previously charged-off loans.

Measurements of productivity, as depicted in the table NONINTEREST EXPENSE AND PRODUCTIVITY MEASUREMENTS, improved in 1996 from the comparable third quarter and nine month periods of 1995. Third quarter 1996 productivity measurements improved from those of the prior quarters of 1996. The trend in improving these ratios is a result of the Registrant's expense control and income generation improvement efforts.

The table PERFORMANCE MEASUREMENTS depicts several measurements of performance on an annualized basis. Return on average assets and equity measures how effectively an entity utilizes its total resources and capital, respectively. The return on average assets and the return on average equity ratios, as well as net interest margin, increased in 1996 from the comparable third quarter and nine month periods of 1995.

Net interest margin, net federal taxable equivalent (FTE) interest income divided by average interest earning assets, is a measure of an entity's ability to utilize its earning assets in relation to the interest cost of funding. Taxable equivalency adjusts income by

increasing tax exempt income to a level that is comparable to taxable income before federal taxes are applied. The positive trend in net interest margin is critical to the improved profitability of the Registrant.

PERFORMANCE MEASUREMENTS

	First Quarter	Second Quarter	Third Quarter	Nine Months	Fourth Quarter	Twelve Months

1996						
Return on average assets	1.09%	0.99%	1.18%	1.09%		
Return on average common equity	10.94%	10.90%	13.28%	11.69%		
Net interest margin	4.66%	4.64%	4.70%	4.67%		

1995						
Return on average assets	0.76%	0.87%	1.00%	0.88%	0.95%	0.90%
Return on average common equity	7.83%	8.79%	10.28%	8.98%	9.74%	9.18%
Net interest margin	4.30%	4.49%	4.54%	4.45%	4.40%	4.43%

FINANCIAL CONDITION

The table AVERAGE BALANCES highlights the changes in the balance sheet. Since period end balances can be distorted by one day fluctuations, the discussion and analysis concentrates on average balances when appropriate to give a better indication of balance sheet trends.

AVERAGE BALANCES

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995

Securities available for sale	\$ 372,901	\$ 130,172	\$ 372,707	\$ 118,130
Securities held to maturity	51,698	262,924	45,260	267,113

Total securities	424,599	393,096	417,967	385,243
Loans available for sale	3,379	4,891	4,591	6,306
Loans	629,458	579,519	609,238	571,639
Deposits	920,922	842,445	911,451	831,839
Short-term borrowings	86,610	90,594	74,908	85,909
Long-term debt	14,775	3,714	6,960	6,236
Stockholders' equity	100,028	101,782	102,684	100,668
Assets	1,130,081	1,045,437	1,103,523	1,030,717
Earning assets	1,064,122	980,228	1,034,832	967,403
Interest bearing liabilities	\$ 908,594	\$ 809,986	\$ 874,949	\$ 802,300

Loans: Average loans for the third quarter and nine month period of 1996 increased \$50 million and \$38 million, or 9% and 7%, respectively, from the comparable periods of the previous year. The increase in the portfolio volume occurred in commercial loans. Real estate loans decreased as the volume of mortgage refinancing and new mortgage loan origination has diminished in response to interest rate increases. Commercial, consumer and real estate loans comprised 43%, 37%, and 20% of the average portfolio for the nine months ended September 30, 1996. Comparable measures for a year previous were 39%, 39%, and 22%.

Allowance and provision for loan losses: The allowance for loan losses is a valuation allowance offset against total loans which has been established to provide for the estimated possible losses related to the collection of the Bank's loan portfolio. The allowance is maintained at a level considered adequate to provide for loan loss exposure based on management's estimate of potential future losses considering an evaluation of portfolio risk, prevailing and anticipated economic factors, and past loss experience. Management determines the provision and allowance for loan losses based on a number of factors including a comprehensive in-house loan review program conducted throughout the year. The loan portfolio is continually evaluated in order to identify

potential problem loans, credit concentration, and other risk factors such as current and projected economic conditions locally and nationally. The levels of risk for which allowances are established are based on estimates of losses on larger specifically identified loans, and on loan categories analyzed in total where, based on past experience, risk factors can be assessed. General economic trends can greatly affect loan losses and there are no assurances that further changes to the allowance for loan losses may not be significant in relation to the amount provided during a particular period. Management does, however, consider the allowance for loan losses to be adequate for the reporting periods based on evaluation and analysis of the loan portfolio.

The table entitled ALLOWANCE FOR LOAN LOSSES portrays activity for the periods presented. The allowance is increased by provisions for losses charged to operations and is reduced by net charge-offs, the amount of loans written off as uncollectible less recoveries of loans previously written off. Charge-offs are made when the collectibility of loan principal within a reasonable time is unlikely. Any recoveries of previously charged-off loans are credited directly to the allowance for loan losses. Net charge-offs have increased from the prior year's comparable periods both as a dollar amount and as a percentage of average loan balances. Net charge-offs for the nine months ended September 30, 1996 also have increased from the full year 1995 measure as a percentage of average loan balances. These increases are primarily due to commercial loan charge-offs caused by the sustained period of sluggish economic conditions continuing to be experienced in northern and central New York State.

The provision for loan losses increased by \$0.5 million, 157%, for the third quarter of 1996 from the comparable period a year ago. The provision for the nine month period of 1996 reflects an increase of \$1.0 million, 55% from the comparable period a year ago. The increased provisions relate to previously discussed estimates of management which also incorporate the growth in unseasoned loans the Company has generated in its loan portfolio. These provisions have increased the allowance for loan losses by \$0.9 million, or from \$9.1 million at December 31, 1995 to \$10.0 million at September 30, 1996. The allowance has also increased as a percentage of loans for the same period, from 1.55% to 1.57%.

Nonperforming is a term used to describe assets on which revenue recognition has been discontinued or is restricted. As depicted in the table, NONPERFORMING ASSETS AND RISK ELEMENTS, nonaccrual loans have remained relatively static due to the previously mentioned economic conditions occurring in the Bank's market area. The allowance for loan losses has been allocated based on identified problem credits or categorical trends and includes a specifically allocated amount of \$1.0 million related to impaired loans. After allocation, the unallocated portion at September 30, 1996, was approximately \$2.7 million. The unallocated portion is available for further unforeseen or unexpected losses or unidentified problem credits. Management will continue to target and maintain a minimum allowance equal to the allocated requirement plus an unallocated portion, as appropriate.

ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Balance, beginning of period	\$9,438	\$9,280	\$ 9,120	\$ 9,026
Recoveries	230	199	692	594
Charge-offs	(578)	(465)	(2,022)	(1,444)
Net charge-offs	(348)	(266)	(1,330)	(850)
Provision for loan losses	875	340	2,175	1,178
Balance, end of period	\$9,965	\$9,354	\$ 9,965	\$ 9,354

COMPOSITION OF NET CHARGE-OFFS

Commercial and agricultural	\$ (212)	61%	\$ (136)	51%	\$ (708)	53%	\$ (331)	39%
Real estate mortgage	(88)	25%	(7)	3%	(171)	13%	(59)	7%
Consumer	(48)	14%	(123)	46%	(451)	34%	(460)	54%
Net (charge-offs) recoveries	\$ (348)	100%	\$ (266)	100%	\$(1,330)	100%	\$ (850)	100%
Annualized net charge-offs to average loans		0.22%		0.18%		0.29%		0.20%
Annualized net charge-offs to average loans for the year ended December 31, 1995								0.25%

Asset Quality: NBT has maintained its focus on sound credit quality in the loan portfolio, reflecting conservative lending practices and policies. The measurement of asset quality is the responsibility of the Registrant's loan review function which also determines the adequacy of the allowance for loan losses. Loan review utilizes a loan rating system to rate substantially all of its loans based on risks which include internal loan classifications, historical analysis of prior period charge-offs, and evaluation of expected losses on internally classified credits. Loan ratings are continually reviewed to determine their propriety. Reporting separately from the loan review function, the banking and credit function is responsible for lending credit policy, systems and procedures, collections, recovery and workout policies and systems.

Classified and special mention loans, excluding those on nonaccrual status, totalled \$27.4 million, \$22.8 million, and \$22.4 million, 4.3%, 3.9%, and 3.8% of outstanding loans, at September 30, 1996, December 31, 1995 and September 30, 1995, respectively. The increase occurred in the categories of special mention, those assets which do not contain current exposure to a sufficient degree of risk to warrant an adverse classification but do possess a correctable deficiency or potential weakness deserving management's close attention, and substandard, those assets having a well defined weakness and the potential for some loss if the weakness is not corrected. The Registrant does not have any material loans classified as doubtful, whose balances declined during the period, or loss and the loan portfolio does not contain any highly leveraged or foreign loans.

A significant portion of the outstanding balances are secured with various forms of collateral. In this regard, management has determined that there are no material adverse trends or material potential losses not already considered in the allowance calculation, nor indications of trends or events that would have a material effect on the Registrant's operations, capital or liquidity. A substantial portion of the Registrant's loans are secured by real estate located in central and northern New York State. Accordingly, the ultimate collectibility of a substantial portion of the Registrant's portfolio is susceptible to changes in real estate market conditions in those areas.

The Bank's classification of a loan as a nonaccruing loan is based in part on bank regulatory guidelines. Accrual of interest is discontinued if the loan is placed on nonaccrual status. Nonaccrual classification does not mean that the loan principal will not be collected; rather, that timely collection of interest is doubtful. When, in the opinion of management the collection of principal appears unlikely, the loan balance is charged-off in total or in part. Loans are transferred to a nonaccrual basis generally when principal or interest payments become

ninety days delinquent, unless the loan is well secured and in the process of collection or when management concludes circumstances indicate that borrowers may be unable to meet contractual principal or interest payments. When a loan is transferred to a non-accrual status, any unpaid accrued interest is reversed and charged against income. Interest income on non-accruing loans is recognized on a cash basis, only when cash payments are received which are not applied to principal.

Management, considering current information and events regarding the borrower's ability to repay the obligation, considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loans effective interest rate or, as a practical expedient, at the loans observable market price or the fair value of collateral if the loan is collateral dependant. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses.

Payments received on nonaccrual and impaired loans are first applied to principal. Depending on management's assessment of the ultimate collectibility of the loan, interest income may be recognized on a cash basis. Nonaccrual loans are restored to an accrual status when management determines that the financial condition of the borrower has improved significantly to the extent that there has been a sustained period of repayment performance so that the loan is brought current and the collectibility of both interest and principal appears assured.

As depicted in the table, NONPERFORMING ASSETS AND RISK ELEMENTS, nonperforming assets (NPA) have decreased during 1996. The decrease was attributable to reductions in commercial and agricultural nonaccrual loans and other real estate owned (OREO) which was partially offset by increased nonaccrual real estate mortgages, whose collateral value supports continuation as assets, as well as increased nonaccrual consumer loans.

The decrease in nonaccrual commercial and agricultural loans was driven by the repayment of several loans totalling \$0.9 million upon the sale of the underlying collateral and the return to accrual status, under the Registrant's policy previously discussed, of three loans totalling \$0.9 million, as depicted in the table CHANGES IN NONACCRUAL AND IMPAIRED LOANS. As depicted in the table, CHANGES IN OREO, the decrease in OREO occurred as the Registrant disposed of foreclosed real estate carried in this category.

The Registrant did not hold any restructured loans, loans whose repayment criteria was renegotiated to less than the original agreement terms because of the borrower's financial difficulties, which were not in compliance with the modified terms at September 30, 1996, December 31, 1995, and September 30, 1995. Loans 90 days past due and not included in nonperforming loans have decreased in all categories during 1996.

NONPERFORMING ASSETS AND RISK ELEMENTS

(in thousands)	September 30, 1996		December 31, 1995		September 30, 1995	
Impaired commercial and agricultural loans	\$2,941	71%	\$3,945	82%	\$3,405	83%
Other nonaccrual loans:						
Real estate mortgage	\$ 507	12%	\$ 332	7%	\$ 391	9%
Consumer	680	17%	540	11%	346	8%
Total nonaccrual loans	4,128	100%	4,817	100%	4,142	100%
Other real estate owned	1,115		2,000		1,619	
Total nonperforming assets	5,243		6,817		5,761	
Loans 90 days or more past due and still accruing:						
Commercial and agricultural	221	36%	559	42%	906	53%
Real estate mortgage	193	31%	448	34%	478	28%
Consumer	201	33%	325	24%	335	19%
Total	\$ 615	100%	\$1,332	100%	\$1,719	100%
Restructured loans, in compliance with modified terms:						
Commercial and agricultural	-		142		145	
Total assets containing risk elements	\$5,858		\$8,291		\$7,625	
Nonperforming loans to total loans		0.65%		0.82%		0.71%
Nonperforming assets to total assets		0.46%		0.62%		0.54%
Allowance for loan losses to nonperforming loans		241%		189%		226%
Allowance as a percentage of period end loans		1.57%		1.55%		1.60%

Charge-offs flowing through the allowance for loan losses depicted in the table CHANGES IN NONACCRUAL AND IMPAIRED LOANS represent gross charge-offs taken against nonaccrual loans; excluded are charge-offs taken against accruing loans and interest reversals. When real estate collateralizing a loan is foreclosed, the difference between the fair value of the collateral property, reflected as additions in the table CHANGES IN OREO, and the book value of the loan, if any, is charged-off through the allowance for loan losses. Any subsequent write-downs due to a decline in the fair value of the OREO property after foreclosure is reflected in noninterest expense.

CHANGES IN NONACCRUAL AND IMPAIRED LOANS

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Balance at beginning of period	\$4,669	\$4,402	\$ 4,817	\$ 4,639
Loans placed on nonaccrual	1,164	883	4,824	2,262
Charge-offs	(361)	(231)	(1,240)	(623)
Payments	(786)	(620)	(2,892)	(1,461)
Transfers to OREO	(232)	(292)	(463)	(675)
Loans returned to accrual	(326)	-	(918)	-
Balance at end of period	\$4,128	\$4,142	\$ 4,128	\$ 4,142

CHANGES IN OREO

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Balance at beginning of period	\$ 986	\$1,095	\$ 2,000	\$ 840
Additions	244	712	511	1,095
Sales	(55)	(150)	(1,158)	(241)
Write-downs	(60)	(38)	(238)	(75)
Balance at end of period	\$1,115	\$1,619	\$ 1,115	\$1,619

Securities: The total average balance of securities available for sale and held to maturity for the three month period ending September 30, 1996 increased \$32 million, or 8%, from the comparable period a year ago. A similar increase, \$33 million, or 8%, occurred for the nine month period ending September 30, 1996 compared to the comparable period of 1995. This increase occurred as the Bank utilized its ability to leverage its securities portfolio through the use of borrowed funds to improve net interest income. The Registrant holds no trading securities, securities bought for the purpose of sale in the near term. The Registrant classifies securities as available for sale or held to maturity at the time of purchase. Classification is determined by potential responses to changes in interest rates, prepayment risk, and liquidity needs for an indefinite period of time, and the intent, supported by the ability, to hold the security to its maturity. Generally accepted accounting principles limit the reclassification of securities after the initial determination.

Concurrent with the adoption, on December 1, 1995, of the FASB publication "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" (Guide), the Registrant was permitted to reassess the appropriateness of the classifications of all securities held at that time and implement reclassification without calling into question the intent of the Registrant to hold other debt securities to maturity in the future. The Registrant transferred U.S. Treasury, Federal Agency, and Mortgage-backed securities with amortized costs totalling \$217.2 million, having fair values totalling \$220.7 million, from the held to maturity portfolio to the available for sale portfolio. As required by the Guide, financial statements prior to adoption were not restated.

At September 30, 1996, the amortized cost of securities available for sale, \$379 million, exceeded fair value by \$7 million of market depreciation while at December 31, 1995, the fair value of \$394 million exceeded amortized cost by \$5 million of market appreciation. This depreciation in fair value has been caused predominately by increases in interest rates which tends to have an opposite effect on the fair value of securities. At September 30, 1995, the amortized cost of securities available for sale, \$129 million, exceeded fair value by \$2 million of market depreciation. Throughout 1996 and 1995, most financial institutions experienced similar patterns of variations in the fair value of securities due to general changes in interest rates.

Tax-exempt securities averaged \$33 million, or 8% of the securities portfolio, for the nine month period ended September 30, 1996 and \$30 million, or 8% of the securities portfolio, for the comparable period of 1995. Obligations of the State of New York and its political subdivisions constitute 100% of the Bank's tax exempt securities portfolio. The portfolio did not include any direct obligations of the State of New York as the entire tax exempt securities portfolio was comprised of nonrated investments in the local communities within the twenty county market area served by the Bank's Municipal Banking Department. It remains the Registrant's practice to invest, subject to availability, in qualified and designated local municipal issues which receive favorable federal income tax treatment. The Registrant highly values its business relationships with a variety of municipalities within its local service area and meeting their funding needs through investment in their security issues is a meaningful way to develop such business relationships.

Deposits: Average total deposits for the quarter ended September 30, 1996, increased \$78 million, or 9%, from the comparable period in 1995. Average total deposits for the nine months ended September 30, 1996

increased \$80 million or 10%, from the comparable period in 1995. The acquisition of three branches in December 1995 and their deposit base of \$43 million is a major cause of this increase. Average municipal and negotiated term certificates of deposit increased \$47 million, or 37%, and \$32 million, or 26%, for the third quarter and for the first nine months of 1996, respectively, compared to the similar periods of 1995. Municipal deposits tend to flow into the Bank as taxes are collected and flow out as the municipalities make payments over time. These deposits can be utilized to augment short-term borrowings when interest rates and security pledging requirements render this temporary substitution beneficial.

Throughout 1995 trends in the deposit portfolio shifting were experienced as increases occurred in the certificate of deposit component of the portfolio while demand, NOW, MMDA, and savings account balances decreased as funds in these lower yielding products were moved to higher yielding certificates as rates rose. This trend has stabilized in the first nine months of 1996. For the nine months ending September 30, 1996, approximately 46% of the portfolio consisted of time deposits, 18% savings deposits, 11% money market demand deposits, 12% interest bearing NOW checking deposits, and 13% noninterest bearing demand deposits. Comparable 1995 portfolio percentages were 43%, 19%, 13%, 10%, and 15%.

Borrowed funds: Long-term debt and short-term borrowings comprise borrowed funds. Short-term borrowings include federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings, which consist primarily of FHLB advances with an original maturity of one year or less. Borrowed funds averaged \$101 million for the three month period ending September 30, 1996, up \$7 million or 8%, from the comparable period of 1995. Borrowed funds averaged \$82 million for the nine month period ending September 30 1996, down \$10 million, or 11%, from the comparable period of 1995 due to the additional funding provided by increased deposits in 1996.

LIQUIDITY AND INTEREST RATE SENSITIVITY MANAGEMENT

Liquidity management requires the ability to raise cash quickly at a reasonable cost without principal loss to meet the cash flow requirements of depositors desiring to withdraw funds or borrowers requiring funds to meet their credit needs. The Asset-Liability Management Committee of the Registrant is responsible for liquidity management. This committee of the Registrant's senior staff has developed liquidity guidelines which cover all assets and liabilities, as well as off-balance sheet items that are potential sources or uses of liquidity. The Registrant's funding needs are evaluated continually, measuring the adequacy of reliable sources of cash relative to the stability of deposits and borrowing capacity. The liquidity position is managed by maintaining adequate levels of liquid assets. The committee monitors the Registrant's liquidity position utilizing an internally developed measurement, the basic surplus ratio, defined to be net access to cash and secured borrowings. At September 30 and December 31, 1995 and September 30, 1996 this ratio was 14%, 17%, and 12%, respectively, exceeding the committee's minimum guideline of 5-7%. Additional liquidity is available through the Bank's access to borrowed funds. The Bank has unused lines of credit available for short-term financing of \$73 million, \$300 million for repurchase agreements, and the capacity for additional FHLB advances of \$84 million, at September 30, 1996.

Interest rate risk is determined by the relative sensitivities of earning asset yields and interest bearing liability rates to changes in interest rates. The Registrant utilizes a funding matrix to identify repricing opportunities, the ability to adjust loan and deposit product rates as well as cash flow from maturities and repayments, along a time line for both assets and liabilities. The funding matrix indicates that the Registrant is asset sensitive and, in management's opinion, is positioned to benefit over time from a rising interest rate environment; however, the nature and timing of the benefit will be initially impacted by the extent to which core deposit rates are increased as rates rise. Based on an analysis performed as of September 30, 1996, given the scenario of a 100 basis point increase or decline in interest rates occurring over an extended time horizon, the Registrant estimated that there would be less than a 2% impact on net interest income relative to a flat rate environment over the next twelve month period.

CAPITAL RESOURCES AND DIVIDENDS

Stockholders' equity of \$102 million represents 8.9% of total assets at September 30, 1996, compared with \$103 million, or 9.7%, a year previous, and \$108 million, or 9.8%, at December 31, 1995. The decreased dollar amounts and percentage relationships since December 31, 1995 are due to the depreciation in fair value reflected in the mark to market effect of the securities available for sale portfolio and additional shares held in the treasury, partially offset by earnings retention. Similar to the effects experienced by many other financial institutions, the decline in the fair value of the Bank's securities available for sale portfolio in 1996, whose unrealized loss is reflected net of taxes in stockholders' equity, has impacted the equity balances and ratios. The unrealized loss would only be recognized in income if securities available for sale were, in fact, actually sold. It is highly unlikely that the Registrant would require such a sale to meet its liquidity needs. During 1995 the aforementioned unrealized net gain or loss reflected in equity improved from an unrealized net loss at the beginning of the year to a net gain at the end of the year. This change took place in response to market fluctuations primarily caused by changes in interest rates.

Both book and tangible book value, stockholders' equity (less intangible assets) divided by the number of common shares outstanding, depicted in the table CAPITAL MEASUREMENTS have been affected by the aforementioned 1995 improvement and 1996 decline in the fair value of the securities available for sale portfolio as well as increased holdings of treasury stock. Tangible book value changes in the declining market value time frame are mitigated by the offsetting decrease in intangible assets through amortization.

On a per share basis, cash dividends declared were increased in December 1995 as the Registrant declared a 5% stock dividend in November 1995 followed by a 13% increase in the cash dividend to \$0.13 per share. Cash dividend per share amounts and total cash dividends paid as a percentage of net income are set forth in the table CAPITAL MEASUREMENTS. The Board of Directors considers the Registrant's earnings position and earnings potential when making dividend decisions.

The Registrant's wholly owned subsidiary pays cash dividends to the Registrant which are used to fund dividend payments to its stockholders. Certain restrictions exist regarding the ability of the Bank to transfer funds to the Registrant in the form of cash dividends. The approval of the Comptroller of the Currency is required for the Bank to pay dividends in excess of its earnings retained in the current year plus retained net profits for the preceding two years or when the Bank fails to meet certain minimum regulatory capital standards. At September 30, 1996, the Bank has the ability to pay \$8 million to the Registrant without obtaining prior regulatory approval. Under the State of Delaware Business Corporation Law, the Registrant may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

Capital is an important factor in ensuring the safety of depositors' accounts. The Registrant remains well capitalized with capital ratios that are significantly in excess of regulatory guidelines. During 1996, the Registrant's wholly owned banking subsidiary earned the highest possible national safety and soundness rating from two national bank rating services, Bauer Financial Services and Veribanc, Inc. Their ratings are based on capital levels, loan portfolio quality, and security portfolio strength.

The Tier 1 Risk-Based Capital Ratio and Total Risk-Based Capital Ratio presented in the table CAPITAL MEASUREMENTS measure the amount of capital in relation to the degree of risk perceived in assets and off-balance sheet exposure. This concept recognizes that certain higher risk assets require more capital to support them than lower risk assets. Both ratios were well in excess of the minimum Regulatory guidelines of 4% and 8%, respectively. Both capital and the degree of risk used to weight assets and off-balance sheet items are defined by bank holding company regulatory agencies. As defined, capital may exclude most intangible assets as well as a portion of the allowance for loan losses in excess of delineated percentages of loan balances. Unrealized gains and losses on securities classified as available for sale, net of the tax effect, for financial reporting purposes are excluded from capital for the computation of capital adequacy ratios.

There are limitations for the amount of the allowance for loan losses that can be considered for capital ratios and for the amount of deferred tax assets that can be used to meet capital requirements. For all periods presented, the Registrant was permitted to include all of its deferred tax assets in its capital ratio computations. Risk factors used to weight assets and off-balance sheet credit equivalent items range from 0% for cash, amounts due from the Federal Reserve and securities issued by the U.S. Treasury to 100% for certain types of loans and securities. Regulations promulgated by bank and bank holding company regulatory agencies are intended primarily for the protection of the Bank's depositors and customers rather than the holders of the Registrant's securities.

The Tier 1 Leverage Ratio compares capital, as defined for regulatory purposes, to quarterly average assets without regard to risk weights and certain intangible assets. This ratio measures the utilization of capital to support the balance sheet and is well in excess of the minimum Regulatory guideline of 4%.

CAPITAL MEASUREMENTS

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter

1996				
Tier 1 leverage ratio	8.83%	8.55%	8.49%	
Tier 1 capital ratio	14.73%	14.29%	14.00%	
Total risk-based capital ratio	15.98%	15.54%	15.25%	
Cash dividends as a percentage of net income	36.90%	38.55%	34.87%	
Per common share:				
Book value	\$12.64	\$12.58	\$12.81	
Tangible book value	\$11.27	\$11.25	\$11.51	

1995				
Tier 1 leverage ratio	9.19%	9.21%	9.17%	8.80%
Tier 1 capital ratio	16.13%	16.03%	15.71%	15.21%
Total risk-based capital ratio	17.39%	17.28%	16.97%	16.46%
Cash dividends as a percentage of net income	50.50%	43.57%	35.91%	42.85%
Per common share:				
Book value	\$11.95	\$12.23	\$12.42	\$13.06
Tangible book value	\$10.82	\$11.12	\$11.34	\$11.66

The common shares of NBT BANCORP INC. are traded in the NASDAQ National Market System under the symbol NBTB. High, low, and closing stock prices, and cash dividends declared by quarter, restated to give retroactive effect to stock dividends, are depicted in the table following. At September 30, 1996 the total market capitalization of NBT's common stock was approximately \$134 million, compared with \$130 million a year ago and \$143 million at December 31, 1995. The change in market capitalization is due to an increase in the number of shares outstanding as a result of the December 1995 stock dividend, offset by an increased number of shares held as treasury stock, and changes in the market price.

QUARTERLY COMMON STOCK AND DIVIDEND INFORMATION

Quarter Ending	High	Low	Close	Cash Dividends Declared

1995				
March 31	\$16.19	\$15.24	\$15.24	\$0.114
June 30	15.71	15.00	15.48	0.114
September 30	15.95	15.00	15.71	0.115
December 31	18.00	15.24	17.50	0.130

1996				
March 31	\$17.50	\$16.00	\$17.00	\$0.130
June 30	17.50	16.38	16.38	0.130
September 30	17.25	15.75	16.88	0.130

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin: The most significant impact on the Registrant's net income between periods is derived from the interaction of changes in the volume of and rates earned on interest earning assets and paid on interest bearing liabilities. The volume of earning securities and loans, compared to the volume of interest bearing deposits and borrowings, combined with interest rate spread, produces the changes in the net interest income between periods. Interest rate spread is the difference between FTE yield on average earning assets and cost on average interest bearing liabilities. The table, COMPARATIVE ANALYSIS OF FEDERAL TAXABLE EQUIVALENT NET INTEREST INCOME, presents the relative contribution of changes in average interest rates and average volume of interest earning assets and interest bearing liabilities on FTE net interest income between periods. Changes in interest income and expense arising from the combination of rate and volume variances, which cannot be segregated, are allocated proportionally to rate and volume based on their relative absolute magnitudes.

FTE total interest income and net interest income increased for the third quarter of 1996 compared to the same period of 1995 primarily due favorable volume variances. These favorable variances were predominately driven by increased loan and securities volume. The volume of average earning assets increased from \$980 million for the third quarter of 1995 to \$1,064 million for the same period of 1996.

Total interest expense increased for the third quarter of 1996 compared to the same period of 1995 due to a combination of favorable rate variances and an increased volume of interest bearing liabilities. These variances were predominately driven by increased certificate of deposit volume. The average volume of interest bearing liabilities increased to \$909 million for the third quarter of 1996, compared to \$810 million during the same period a year ago.

The improvement in FTE net interest income for the third quarter of 1996 can be attributed to increased volumes of interest earning assets augmented by decreased rates on certificates of deposit and other borrowed funds. The combined impact of these favorable forces improved interest rate spread.

FTE total interest income increased for the first nine months of 1996 compared to the same period of 1995 due to a combination of favorable rate and volume variances. These favorable variances were predominately driven by increased loan and securities volume and yield. The volume of average earning assets increased from \$967 million for the first nine months of 1995 to \$1,035 million for the same period of 1996. Reducing the increased yield for the first nine months of 1995 was a nonrecurring write-off of \$0.5 million of accrued interest receivable on loans previously charged-off or on nonaccrual status.

Total interest expense increased for the first nine months of 1996 compared to the same period of 1995 primarily due to an increased volume of interest bearing liabilities driven by increased certificate of deposit volume. The Registrant's mix of deposit products has changed throughout 1995 and 1996 in response to the movement of customer funds into this more costly deposit product as a response to interest rate changes as well as the varying mix of deposits of the three branches acquired in December 1995. As previously discussed, increases in average municipal and negotiated term certificates of deposit also occurred which were used to supplant short-term borrowings when beneficial. The average volume of interest bearing liabilities increased to \$875 million for the first nine months of 1996, compared to \$802 million during the same period a year ago.

The improvement in FTE net interest income for the first nine months of 1996 can be attributed primarily to increased rates for interest earning assets and decreased rates on interest bearing liabilities. Favorable volume variances on interest earning assets, partially offset by increased volume variances on interest bearing liabilities, also contributed to the improvement. The magnitude of the interest earning assets volume and rate increases was greater than that for interest bearing liabilities. Consequently, interest rate spread improved.

Net interest margin has improved from 1995 to 1996 as portrayed in the tables of COMPARATIVE ANALYSES OF FEDERAL TAXABLE EQUIVALENT NET INTEREST INCOME and PERFORMANCE MEASUREMENTS; however, the effects of soft loan demand and competitive pricing continue to be reflected in the compressed net interest margin. A strong net interest margin is critical to the ability to cover noninterest expenses and produce an acceptable level of net income. Net interest margin for the first nine months of 1995 was 4.45% excluding the effect of the previously mentioned accrued interest receivable write-off which occurred in the first quarter of 1995.

COMPARATIVE ANALYSIS OF FEDERAL TAXABLE EQUIVALENT NET INTEREST INCOME

Three months ended September 30,

Annualized Yield/Rate		(dollars in thousands)	Amounts		Total	Variance Volume	Rate	
1996	1995		1996	1995				
8.57%	4.18%	Interest bearing deposits	\$ 5	\$ 5	\$ -	\$ (3)	\$ 3	
5.41%	5.95%	Federal funds sold	7	8	(1)	-	(1)	
5.16%	5.21%	Other short-term investments	20	9	11	11	-	
6.52%	6.31%	Securities available for sale	6,201	2,090	4,111	4,043	68	
8.24%	10.06%	Loans available for sale	70	124	(54)	(34)	(20)	
Securities held to maturity:								
6.15%	6.07%	Taxable	190	3,649	(3,459)	(3,498)	39	
6.64%	7.68%	Tax exempt	658	474	184	257	(73)	
9.37%	9.45%	Loans	14,796	13,801	995	1,161	(166)	

8.20%	8.16%	Total interest income	21,947	20,160	1,787	1,937	(150)	

2.94%	3.04%	Money Market Deposit Accounts	723	810	(87)	(59)	(28)	
1.59%	1.88%	NOW accounts	457	395	62	130	(68)	
2.82%	2.95%	Savings accounts	1,159	1,134	25	77	(52)	
5.20%	5.49%	Certificates of deposit	5,642	5,175	467	767	(300)	
5.29%	5.82%	Other borrowed funds	1,151	1,329	(178)	(56)	(122)	
6.33%	10.58%	Long-term debt	235	99	136	190	(54)	

4.10%	4.38%	Total interest expense	9,367	8,942	425	1,049	(624)	

Net interest income			\$12,580	\$11,218	\$ 1,362	\$ 888	\$ 474	

4.10%	3.78%	Interest rate spread						

4.70%	4.54%	Net interest margin						

FTE adjustment			\$ 269	\$ 177				

Nine Months Ended September 30,

Annualized Yield/Rate		(dollars in thousands)	Amounts		Total	Variance Volume	Rate	
1996	1995		1996	1995				
5.84%	4.23%	Interest bearing deposits	\$ 14	\$ 15	\$ (1)	\$ (6)	\$ 5	
5.60%	5.84%	Federal funds sold	15	16	(1)	-	(1)	
5.19%	5.85%	Other short-term investments	42	81	(39)	(31)	(8)	
6.44%	6.15%	Securities available for sale	18,076	5,516	12,560	12,273	287	
8.61%	9.16%	Loans available for sale	296	432	(136)	(112)	(24)	
		Securities held to maturity:						
6.66%	6.05%	Taxable	624	10,718	(10,094)	(11,085)	991	
7.01%	7.10%	Tax exempt	1,719	1,606	113	132	(19)	
9.31%	9.19%	Loans	42,421	39,279	3,142	2,592	550	

8.16%	7.97%	Total interest income	63,207	57,663	5,544	3,763	1,781	

2.93%	2.88%	Money Market Deposit Accounts	2,304	2,386	(82)	(130)	48	
1.73%	1.72%	NOW accounts	1,365	1,060	305	298	7	
2.95%	2.95%	Savings accounts	3,530	3,428	102	104	(2)	
5.23%	5.35%	Certificates of deposit	16,548	14,468	2,080	2,399	(319)	
5.17%	5.87%	Other borrowed funds	2,902	3,769	(867)	(453)	(414)	
7.58%	8.10%	Long-term debt	395	378	17	42	(25)	

4.13%	4.25%	Total interest expense	27,044	25,489	1,555	2,260	(705)	

Net interest income			\$36,163	\$32,174	\$ 3,989	\$ 1,503	\$2,486	

4.03%	3.72%	Interest rate spread						

4.67%	4.45%	Net interest margin						

FTE adjustment			\$ 711	\$ 595				

NONINTEREST INCOME

(dollars in thousands)	First Quarter	Second Quarter	Third Quarter	Nine Months	Fourth Quarter	Twelve Months
1996						
Trust income	\$ 654	\$ 655	\$ 654	\$1,963		
Service charges on deposit accounts	775	799	847	2,421		
Securities gains	792	219	194	1,205		
Other income	363	394	431	1,188		
Total noninterest income	\$2,584	\$2,067	\$2,126	\$6,777		
1995						
Trust income	\$ 662	\$ 643	\$ 558	\$1,863	\$ 576	\$2,439
Service charges on deposit accounts	731	747	757	2,235	760	2,995
Securities gains	-	11	82	93	52	145
Other income	374	353	389	1,116	407	1,523
Total noninterest income	\$1,767	\$1,754	\$1,786	\$5,307	\$1,795	\$7,102

Noninterest Income: The table entitled NONINTEREST INCOME presents quarterly and year to date amounts of noninterest income. All components of noninterest income have increased for the third quarter and first nine months of 1996 in comparison to the comparable periods of 1995 as a result of the Registrant's income generation improvements. The Registrant sold U.S. Treasury and Agency securities as well as U.S. agency mortgage backed securities carried in its available for sale portfolio having amortized costs totalling \$121 million and \$33 million, respectively, realizing gains totalling \$1.2 million during the first nine months of 1996; these transactions lead to the majority of the increase in noninterest income for the first nine months of 1996.

NONINTEREST EXPENSE AND PRODUCTIVITY MEASUREMENTS

(dollars in thousands)	First Quarter	Second Quarter	Third Quarter	Nine Months	Fourth Quarter	Twelve Months

1996						
Salaries and wages	\$3,208	\$3,174	\$3,146	\$ 9,528		
Employee benefits	1,244	1,115	1,209	3,568		
Net occupancy expense	674	624	596	1,894		
Equipment expense	462	441	421	1,324		
FDIC insurance	1	-	1	2		
Legal, audit, and outside services	983	1,086	958	3,027		
Loan collection and other loan related expenses	343	520	459	1,322		
Amortization of intangible assets	395	395	395	1,185		
Other operating expense	1,276	1,281	1,275	3,832		

Total noninterest expense	\$8,586	\$8,636	\$8,460	\$25,682		

Efficiency ratio	64.34%	62.23%	58.29%	61.53%		
Expense ratio	2.55%	2.46%	2.30%	2.43%		
Average full-time equivalent employees	534	530	516	527		
Average assets per average full-time equivalent employee (millions)	\$ 2.0	\$ 2.1	\$ 2.2	\$ 2.1		

1995						
Salaries and wages	\$2,966	\$3,047	\$3,358	\$ 9,371	\$3,057	\$12,428
Employee benefits	1,058	903	890	2,851	1,030	3,881
Net occupancy expense	603	586	562	1,751	610	2,361
Equipment expense	411	424	457	1,292	402	1,694
FDIC insurance	451	452	(43)	860	81	941
Legal, audit, and outside services	941	908	921	2,770	868	3,638
Loan collection and other loan related expenses	345	352	290	987	484	1,471
Amortization of intangible assets	315	314	313	942	329	1,271
Other operating expense	1,323	1,249	1,367	3,939	1,400	5,339

Total noninterest expense	\$8,413	\$8,235	\$8,115	\$24,763	\$8,261	\$33,024

Efficiency ratio	70.40%	65.79%	62.80%	66.23%	65.02%	65.92%
Expense ratio	2.64%	2.54%	2.43%	2.54%	2.45%	2.51%
Average full-time equivalent employees	535	542	551	543	539	542
Average assets per average full-time equivalent employee (millions)	\$ 1.9	\$ 1.9	\$ 1.9	\$ 1.9	\$ 2.0	\$ 1.9

Noninterest expense: The table entitled NONINTEREST EXPENSE AND PRODUCTIVITY MEASUREMENTS presents components of noninterest expense for the periods indicated. Noninterest expense for the third quarter and nine months ended September 30, 1996 has increased slightly from the comparable periods a year previous. The increase was spread throughout the components of noninterest expense and is the result of several factors.

Salary, wages and benefits expense are the second largest expense after interest expense. Salary expense for the quarter ended September 30, 1996 is approximately \$0.2 million below the 1995 level for the comparable period due to a reduced number of average full-time equivalent employees offset in part by annual merit increases. Salary expense for the nine months ended September 30, 1996 is approximately \$0.2 million above the 1995 levels for the comparable periods. This increase is in part due to the timing of a substantial number of performance appraisal based merit increases occurring effective the first of the calendar year. Benefits expense for the third quarter and first nine months of 1996 has increased over comparable periods of 1995 due to actuarially based increases in retirement expense and performance based incentives.

During 1995 the FDIC Bank Insurance Fund (BIF) attained congressionally mandated reserve goals, established during the deposit crisis that began in the prior decade. In the third quarter of 1995, the Bank received a refund of premiums it had paid in excess of the lower rates that became effective June 1995, resulting in the FDIC benefit shown in the table. During both the third and fourth quarters of 1995 the premium rates for well capitalized banks were lowered from \$0.23 to \$0.04 per annum per \$100 of insured deposits. The Bank is well capitalized and benefited from the overall lower rates as well as the spread in the lower premium rates between well, adequately and under capitalized institutions. Total premiums vary based upon deposit levels and composition. The FDIC further dropped its premium for well capitalized banks to the legal minimum of \$2,000 per annum for 1996, further benefiting the Bank as reflected in the reduced expense.

Deposit insurance premiums can have a material impact on the profitability of the Registrant; the FDIC determines its premium assessment basis and rate semi-annually based on the BIF reserve. The assessment for 1997 has not yet been determined however there has been significant activity in Congress which may impact future premiums. On September 30, 1996 the Deposit Insurance Funds Act of 1996 (DIFA) was signed into law. DIFA includes language to recapitalize the Savings Association Insurance Fund (SAIF), merge the SAIF with the BIF to create the Deposit Insurance Fund (DIF) on January 1, 1999, and provide funding to meet the Financing Corp. (FICO) \$780 million annual bond obligation. This would be financed by semiannual FICO payments of \$0.0129 per \$100 of BIF insured deposits, in addition to regular deposit premiums, for 1997 through 1999 increasing to approximately \$0.0243 per \$100 for 2000 until the FICO bonds are retired. DIFA eliminates the mandatory premium for well capitalized banks of \$2,000 per annum.

Additionally, DIFA requires that the FDIC rebate any amount that the BIF exceeds the designated reserve ratio (DRR) of 1.25% of total estimated insured deposits at the end of any semiannual period beginning after January 1, 1997. This is limited by two factors; the rebate cannot exceed the assessment paid by the insured institution for the semiannual period and institutions that are not well capitalized or that exhibit moderately severe to unsatisfactory financial, operational or compliance weakness are ineligible. The FDIC, as an exception to the ceiling if the DRR is met, may assess premiums against the most risky institutions to maintain the integrity of the risk-based premium system and provide institutions with the incentive to reduce their premiums.

Outside service cost increased for the third quarter and nine months ended September 30, 1996 due to the cost of various studies to improve operating results. Loan collection costs for the same periods increased due to expenses related to the holding and disposition of OREO. Intangible amortization increased during 1996 as intangible assets related to the acquisition of three branches in December 1995 was recognized. The amortization of intangible asset components lapses gradually over time.

The efficiency ratio is computed as total noninterest expense (excluding nonrecurring charges) divided by FTE net interest income plus noninterest income (excluding net securities gains and losses and nonrecurring income). The efficiency ratio indicates the cost of income production. Decreases indicate improvement as expense changes are less than proportional to income changes. The expense ratio is computed as total noninterest expense (excluding nonrecurring charges) less noninterest income (excluding net securities gains and losses and nonrecurring income) divided by average assets. The expense ratio indicates the cost of supporting the asset base; a decrease indicates improvement as expense changes are less than proportional to the asset base. Average assets per average full-time equivalent employee measures the staffing level to support the asset base; an increased ratio indicates improvement reflecting increased assets managed by each employee. These measures all reflect improved performance in the third quarter and first nine months of 1996 as compared to the comparable periods of 1995. Since these measures are annualized it is valid to compare the quarterly, periodic and annual measurements to each other which depict a trend of improvement. The Registrant continues its expense control efforts and has initiated a reengineering project in 1996 to continue to improve its performance for its shareholders and its service to the Bank's customers.

Provision for Income Taxes: The provision for income taxes has increased for the third quarter and first nine months of 1996 compared to the comparable periods of 1995 as income subject to taxes has increased. The effective tax rates for the third quarter and first nine months of 1996 were 35% and 37%, compared to 40% and 38%, respectively, for the comparable periods of 1995. The Company implemented an ongoing tax saving strategy in June, 1996, reducing the effective tax rate, expense, and tax payments. This saving was offset by increased 1996 taxable income subject to the 35% statutory federal rate, compared to the 34% incremental federal rate in 1995, leading to the increase in tax expense.

SELECTED FIVE YEAR DATA	1995	1994	1993	1992	1991
(dollars in thousands, except per share amounts)					
Net income	\$9,329	\$6,508	\$8,505	\$8,043	\$7,179
Return on average assets	0.90%	0.64%	0.93%	0.94%	0.85%
Return on average equity	9.18%	6.53%	8.79%	8.89%	8.45%
Net interest margin	4.43%	4.81%	5.26%	5.52%	5.64%
Efficiency ratio	65.92%	70.22%	71.05%	69.48%	68.52%
Expense ratio	2.51%	2.96%	3.21%	3.19%	3.23%
Tier 1 leverage ratio	8.80%	9.05%	9.24%	9.01%	7.92%
Tier 1 capital ratio	15.21%	16.09%	15.40%	15.30%	14.12%
Total risk-based capital ratio	16.46%	17.35%	16.66%	16.61%	14.12%
Cash dividends as a percentage of net income	42.47%	55.22%	38.82%	36.94%	38.58%
Per Common Share:					
Net income	\$ 1.11	\$ 0.76	\$ 1.00	\$ 0.97	\$ 0.88
Cash dividends declared	\$ 0.473	\$ 0.427	\$ 0.394	\$ 0.358	\$ 0.339
Book value	\$13.06	\$11.68	\$11.98	\$11.26	\$10.65
Tangible book value	\$11.66	\$10.51	\$10.43	\$ 9.18	\$ 8.03
Stock dividends distributed	5.00%	5.00%	5.00%	5.00%	5.00%
Market price:					
High	\$18.00	\$16.78	\$16.78	\$13.16	\$11.75
Low	\$15.00	\$13.61	\$11.45	\$ 9.05	\$ 9.01
End of year	\$17.50	\$15.71	\$16.55	\$12.53	\$ 9.46
Price/earnings multiple	15.77x	12.72x	10.79x	12.89x	16.55x
Price/book value multiple	1.34x	1.34x	1.38x	1.11x	0.89x
Total assets	1,106,266	1,044,557	953,907	868,616	838,884
Total stockholders' equity	108,044	98,307	101,108	94,012	87,826
Average common shares outstanding (thousands)	8,381	8,513	8,474	8,316	8,195

PART II. OTHER INFORMATION

Item 1 -- Legal Proceedings

There have been no material legal proceedings initiated or settled during the quarter ended September 30, 1996. The Registrant and its principal subsidiary, NBT Bank, National Association (collectively NBT), initiated a suit in the Supreme Court of the State of New York, Chenango County, on October 28, 1988, against Fleet/Norstar Financial Group, Inc., Fleet/Norstar New York, Inc., and Norstar Bank of Upstate N.Y. (collectively NORSTAR) for tortious interference with NBT's contract rights and prospective business relationship with Central National Bank, Canajoharie, New York. NBT sought damages from NORSTAR for lost profits and special and punitive damages. On March 26, 1996 the New York Court of Appeals affirmed the lower Courts' orders dismissing the Registrant's claims.

Item 2 -- Changes in Securities

Following are listed changes in the Registrant's Common Stock outstanding during the quarter ended September 30, 1996 as well as certain actions which have been taken which may affect the number of shares of Common Stock (shares) outstanding in the future. There was no Preferred Stock outstanding during the quarter ended September 30, 1996.

The Registrant has Stock Option Plans covering key employees. Outstanding at September 30, 1996 are nonqualified stock options covering 273,231 shares at exercise prices ranging between \$9.46 and \$16.68 with expiration dates between January 10, 1997, and April 23, 2006. There are 577,568 shares of authorized common stock designated for possible issuance under the Plans, including the aforementioned shares. The number of shares designated for the Plans, the number of shares under existing options and the option price per share may be adjusted upon certain changes in capitalization, such as stock dividends, stock splits and other occurrences as enumerated in the Plans. (FORMS S-8, Registration Statement Nos. 33-18976 and 33-77410, filed with the Commission on December 9, 1987 and April 6, 1994, respectively).

The Registrant has granted its former Chairman stock options in connection with the discharge of severance obligations of the Registrant and the Bank under an employment agreement. The option covers 129,988 and 27,232 shares with exercise prices of \$15.42 and \$16.10, respectively, and bears an expiration date of January 31, 1997. The number of shares under option and the option price per share may be adjusted upon certain changes in capitalization, such as stock dividends, stock splits and other occurrences. The shares which would be issued, upon payment of the exercise price, from authorized, but unissued common stock, or shares held in the treasury. This stock option does not serve to reduce the number of options available under the previously mentioned Stock Option Plans. (FORM S-8, Registration Statement No. 333-02925, filed with the Commission on April 29, 1996). The Registrant has a Dividend Reinvestment Plan. There are 134,003 additional shares of authorized but unissued common stock designated for possible issuance under the Plan. (FORM S-3, Registration Statement No. 33-12247, filed with the Commission on February 26, 1987).

The Registrant's Board of Directors has authorized the purchase on the open market by the Registrant of additional shares of treasury stock. These treasury shares are to be used for a variety of corporate purposes, primarily to meet the needs of the Registrant's Employee Stock Ownership Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, Stock Option Plans and Bank Trust Department directed IRA and HR-10 accounts. Purchases and sales during 1996 totalled 411,858 and 93,041, respectively, with 489,092 shares in treasury at September 30, 1996. Purchases were made at the prevailing market price in effect at the dates of the transactions. Subsequent sales to both the Registrant's Employee Stock Ownership Plan and Dividend Reinvestment and Stock Purchase Plan, if any, were made at the five day average of the highest and lowest quoted selling price of the Registrant's common stock on the National Market System of NASDAQ. Sales under the Registrant's Stock Option Plans were made at the option price. The price per common share ranged between \$16.21 and \$17.03; any

difference between cost and sales price was recorded in capital surplus.

As approved at the April 22, 1995 annual meeting the Registrant is authorized to issue 2.5 million shares of preferred stock, no par value, \$1.00 stated value. The Board of Directors is authorized to fix the particular designations, preferences, rights, qualifications, and restrictions for each series of preferred stock issued. The Registrant has a Stockholder Rights Plan (Plan) designed to ensure that any potential acquiror of the Registrant negotiate with the Board of Directors and that all Registrant stockholders are treated equitably in the event of a takeover attempt. When the Plan was adopted, the Registrant paid a dividend of one Preferred Share Purchase Right (Right) for each outstanding share of common stock of the Registrant. Similar Rights are attached to each share of the Registrant's common stock issued after November 15, 1994, the date of adoption subject to adjustment. Under the Plan, the Rights will not be exercisable until a person or group acquires beneficial ownership of 20 percent or more of the Registrant's outstanding common stock, begins a tender or exchange offer for 25 percent or more of the Registrant's outstanding common stock, or an adverse person, as declared by the Board of Directors, acquires 10 percent or more of the Registrant's outstanding common stock. Additionally, until the occurrence of such an event, the Rights are not severable from the Registrant's common stock and therefore, the Rights will be transferred upon the transfer of shares of the Registrant's common stock. Upon the occurrence of such events, each Right entitles the holder to purchase one one-hundredth of a share of Series R Preferred Stock, no par value, and \$1.00 stated value per share of the Company at a price of \$100.

The Plan also provides that upon the occurrence of certain specified events, the holders of Rights will be entitled to acquire additional equity interests in the Company or in the acquiring entity, such interests having a market value of two times the Right's exercise price of \$100. The Rights, which expire November 14, 2004, are redeemable in whole, but not in part, at the Company's option prior to the time they are exercisable, for a price of \$0.01 per Right.

Item 3 -- Defaults Upon Senior Securities

This item is omitted because there were no defaults upon the Registrant's senior securities during the quarter ended September 30, 1996.

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

This item is omitted as there is no disclosure required for the quarter ended September 30, 1996.

Item 5 -- Other Information

Not Applicable

Item 6 -- Exhibits and Reports on FORM 8-K

An index to exhibits follows the signature page of this FORM 10-Q.

No reports on FORM 8-K were filed by the Registrant during the quarter ended September 30, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on FORM 10-Q to be signed on its behalf by the undersigned thereunto duly authorized, this 12th day of November, 1996.

NBT BANCORP INC.

By: /s/ JOE C. MINOR

Joe C. Minor
Vice-President
Chief Financial Officer and Treasurer
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INDEX TO EXHIBITS

The following documents are attached as Exhibits to this FORM 10-Q or, if annotated by the symbol *, are incorporated by reference as Exhibits as indicated by the page number or exhibit cross-reference to the prior filings of the Registrant with the Commission.

FORM 10-Q Exhibit Number - - - - -		Exhibit Cross-Reference -----
10.1	Lease Extension of Vail Mills Office.	Herein
27.	Financial Data Schedule for the nine months ended September 30, 1996.	Herein

EXHIBIT 10.1

Lease extension of Vail Mills Office

NBT Bank

November 15, 1994

Mr. Fred Showers
Mrs. Reta L. Showers
48 West main Street
Broadalbin, New York 12025

Re: Land Lease located at Route 30, Mayfield, New York
Expiration Date: June 30, 1996

Dear Mr. & Mrs. Showers:

According to the negotiated terms of the lease for land located at Route 30, Mayfield, New York, we are electing to renew for a one year period commencing July 1, 1996 through June 20, 1997. This lease would continue the current annual rental of \$6,300 payable in monthly payments of \$525.

If the terms and conditions in this letter meet with your approval, please sign one copy and return it for my file. Should you have any questions, feel free to give me a call at 607-337-6115.

Sincerely,

/s/Donna L. Deuel

Donna L. Deuel
Assistant Vice President
Administrative Services

ldd/cdd

/s/Fred Showers

Date

Fred Showers

/s/Reta L. Showers

Reta L. Showers

cc: Joe C. Minor
William R. Aitkens
Edward Sulem

NBT Bank, N.A., 52 South Broad Street, P.O. Box 315, Norwich, New York 13815
* Telephone 607-337-6000

EXHIBIT 27
Financial Data Schedule

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NBT BANCORP INC.'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

1,000

9-MOS	DEC-31-1996	SEP-30-1996
	4,823	46,920
		0
		0
368,025	48,842	634,632
	48,839	9,965
		1,141,313
		918,367
		91,626
	6,395	23,055
	0	0
		8,442
		93,428
1,141,313		
	42,615	
	19,810	
	71	
	62,496	
	23,747	
	27,044	
	35,452	
		2,175
	1,205	
	25,682	
	14,372	
8,986		0
		0
		8,986
		1.10
		1.10
		4.67
		4,128
		615
		0
	27,410	
	9,120	
		2,022
		692
	9,965	
	7,229	
		0
2,736		