SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
- ---
ACT OF 1934

For the quarterly period ended September 30, 2002.
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
- ---
ACT OF 1934

For the transition period from ________ to ________.

COMMISSION FILE NUMBER 0-14703

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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As of October 31, 2002, there were 32,730,689 shares outstanding of the Registrant's common stock, $0.01 par value.

NBT BANCORP INC.
FORM 10-Q -- Quarter Ended September 30, 2002

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NBT BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	SEPTEMBER 30, 2002 (UNAUDITED)	December 31, 2001	September 30, 2001 (Unaudited)
ASSETS			
Cash and due from banks	$ 133,739	$ 123,201	$ 105,112
Short-term interest bearing accounts	5,671	6,756	6,633
Trading securities, at fair value	237	126	2,531
Securities available for sale, at fair value	993,786	909,341	947,162
Securities held to maturity (fair value - $89,444, $101,495 and $97,647)	87,272	101,604	96,744
Federal Reserve and Federal Home Loan Bank stock	22,630	21,784	21,784
Loans and leases	2,367,688	2,339,636	2,354,164
Less allowance for loan and lease losses	43,330	44,746	38,034
Net loans and leases	2,324,358	2,294,890	2,316,130
Premises and equipment, net	61,193	62,685	61,506
Goodwill	15,476	15,476	14,906
Intangible assets, net	31,178	35,212	36,074
Other assets	53,145	67,127	58,287
TOTAL ASSETS	$ 3,728,685	$ 3,638,202	$ 3,666,869
LIABILITIES, GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S JUNIOR SUBORDINATED DEBENTURES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand (noninterest bearing)	$ 452,250	$ 431,407	$ 421,833
Savings, NOW, and money market	1,156,204	1,097,156	1,075,835
Time	1,313,511	1,387,049	1,441,654
Total deposits	2,921,965	2,915,612	2,939,322
Short-term borrowings	113,242	122,013	101,201
Long-term debt	350,603	272,331	274,560
Other liabilities	39,485	44,891	42,266
Total liabilities	3,425,295	3,354,847	3,357,349
Guaranteed preferred beneficial interests in Company's junior subordinated debentures	17,000	17,000	17,000
Stockholders' equity:			
Preferred stock, $0.01 par value; shares authorized-2,500,000; none issued	-	-	-
Common stock, $0.01 par value; shares authorized-50,000,000; shares issued 34,401,212, 34,252,661, and 34,218,062 at September 30, 2002, December 31, 2001, and September 30, 2001, respectively	344	343	342
Additional paid-in-capital	210,425	209,176	208,687
Retained earnings	88,137	72,531	92,137
Unvested restricted stock awards	(142)	-	-
Accumulated other comprehensive income	16,138	3,921	10,955
Treasury stock at cost 1,670,403 1,147,848, and 1,171,900 shares at September 30, 2002, December 31, 2001 and September 30, 2001, respectively	(28,512)	(19,616)	(19,601)
Total stockholders' equity	286,390	266,355	292,520
TOTAL LIABILITIES, GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S JUNIOR SUBORDINATED DEBENTURES AND STOCKHOLDERS' EQUITY	$ 3,728,685	$ 3,638,202	$ 3,666,869

All amounts for September 30, 2001 have been restated to give effect to a pooling of interests transaction.

See notes to unaudited interim consolidated financial statements.

NBT BANCORP INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME	Three months ended September 30, 2002	Three months ended September 30, 2001	Nine months ended September 30, 2002	Nine months ended September 30, 2001
(in thousands, except per share data)		(Unaudited)		
INTEREST, FEE AND DIVIDEND INCOME:				
Loans	$ 41,970	$ 47,076	$ 125,587	$ 142,169
Securities available for sale	13,732	15,125	41,912	45,879
Securities held to maturity	1,056	1,265	3,472	3,973
Trading securities	2	254	6	599
Other	251	512	846	1,713
Total interest, fee and dividend income	57,011	64,232	171,823	194,333
INTEREST EXPENSE:				
Deposits	15,748	24,242	49,004	78,397
Short-term borrowings	417	1,136	1,052	4,565
Long-term debt	4,139	3,545	11,633	10,178
Total interest expense	20,304	28,923	61,689	93,140
Net interest income	36,707	35,309	110,134	101,193
Provision for loan and lease losses	2,424	9,188	6,527	17,271
Net interest income after provision for loan losses	34,283	26,121	103,607	83,922
NONINTEREST INCOME:				
Trust	743	1,096	2,366	3,212
Service charges on deposit accounts	3,531	3,253	9,820	9,250
Broker/dealer and insurance fees	1,393	1,360	4,371	3,283
Net securities (losses) gains	(6)	(2,327)	(439)	(1,077)
Gain on sale of a building	-	-	-	1,367
Gain on sale of branch, net	-	-	220	-
Other	2,585	2,369	7,555	7,096
Total noninterest income	8,246	5,751	23,893	23,131
NONINTEREST EXPENSE:				
Salaries and employee benefits	11,925	12,464	37,230	35,766
Office supplies and postage	1,116	1,154	3,240	3,515
Occupancy	2,032	2,111	6,297	6,577
Equipment	1,672	1,858	5,204	5,291
Professional fees and outside services	1,446	1,701	4,843	4,301
Data processing and communications	2,705	2,997	7,868	8,001
Amortization of intangible assets	799	1,103	2,489	3,079
Capital securities	221	291	667	1,036
Deposit overdraft write-offs	-	-	-	2,125
Merger, acquisition, and reorganization costs	(130)	231	(130)	231
Loan collection and other real estate owned	610	549	2,335	1,356
Other operating	3,751	4,883	9,069	9,868
Total noninterest expense	26,147	29,342	79,112	81,146
Income before income taxes	16,382	2,530	48,388	25,907
Income taxes	5,388	1,061	15,895	8,214
NET INCOME	$ 10,994	$ 1,469	$ 32,493	$ 17,693
Earnings per share:				
Basic	$ 0.33	$ 0.04	$ 0.98	$ 0.54
Diluted	$ 0.33	$ 0.04	$ 0.97	$ 0.53

All amounts for the 2001 periods have been restated to give effect to a pooling of interests transaction.

See notes to unaudited interim consolidated financial statements.

NBT BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share and per share data)

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Unvested Restricted Stock	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
BALANCE AT DECEMBER 31, 2000	$ 332	$ 195,422	$ 88,921	-	$ (1,934)	$ (13,100)	$269,641
Net income			17,693				17,693
Cash dividends - $0.51 per share (1)			(14,477)				(14,477)
Retirement of 63,034 shares of treasury stock of pooled company	(1)	(708)				709	-
Purchase of 727,046 treasury shares						(10,722)	(10,722)
Net issuance of 138,981 shares to employee benefits plans and other stock plans, including tax benefit		(2,018)				3,512	1,494
Issuance of 1,075,365 shares to purchase First National Bancorp, Inc.	11	15,991					16,002
Other comprehensive income					12,889		12,889
BALANCE AT SEPTEMBER 30, 2001	$ 342	$ 208,687	$ 92,137	-	$ 10,955	$ (19,601)	$292,520
BALANCE AT DECEMBER 31, 2001	$ 343	$ 209,176	$ 72,531	-	$ 3,921	$ (19,616)	$266,355
Net income			32,493				32,493
Cash dividends - $0.51 per share			(16,887)				(16,887)
Purchase of 526,833 treasury shares						(9,078)	(9,078)
Net issuance of 138,981 shares to employee benefit plans and other stock plans, including tax benefit	1	1,277				(56)	1,222
Grant of 14,648 shares of restricted stock awards		(28)		(222)		250	-
Cancellation of 800 restricted stock awards				12		(12)	-
Amortization of restricted stock Awards				68			68
Other comprehensive income					12,217		12,217
BALANCE AT SEPTEMBER 30, 2002	$ 344	$ 210,425	$ 88,137	$ (142)	$ 16,138	$ (28,512)	$286,390

See notes to unaudited interim consolidated financial statements.

Note:

(1) For the period ended September 30, 2001, dividends per share data represents historical dividends per share of NBT Bancorp Inc. stand-alone and the cash dividends paid represents NBT Bancorp Inc. and CNB Financial Corp combined as all unaudited interim consolidated financial statements have been restated to give effect to the merger with CNB Financial Corp., which was accounted for as a pooling-of-interests and closed on November 8, 2001.

NBT BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30, 2002 (Unaudited)	2001
OPERATING ACTIVITIES:		
Net income	$ 32,493	$ 17,693
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,527	17,271
Depreciation of premises and equipment	5,075	4,511
Net accretion on securities	(811)	(1,355)
Amortization of intangible assets	2,489	3,079
Amortization of restricted stock awards	68	-
Proceeds from sale of loans held for sale	6,026	20,194
Origination of loans held for sale	(5,524)	(19,325)
Net losses (gains) on sales of loans	77	(243)
Net loss on disposal of premises and equipment	-	118
Net (gain) loss on sale of other real estate owned	(80)	211
Net security losses	439	1,077
Proceeds from maturities of trading securities	-	219
Proceeds from sale of trading securities	-	27,214
Purchases of trading securities	(166)	(6,194)
Gain on sale of a building	-	(1,367)
Gain on sale of a branch, net	(220)	-
Net decrease (increase) in other assets	7,721	(2,224)
Net decrease in other liabilities	(5,052)	(8,549)
Net cash provided by operating activities	49,062	52,330
INVESTING ACTIVITIES:		
Net cash and cash equivalents provided by acquisitions	-	23,067
Net cash paid in conjunction with branch sale	(29,171)	-
Securities available for sale:		
Proceeds from maturities	254,991	223,179
Proceeds from sales	216,609	77,923
Purchases	(535,222)	(269,504)
Securities held to maturity:		
Proceeds from maturities	40,600	37,042
Purchases	(26,344)	(17,824)
(Purchases) proceeds of FRB and FHLB stock	(846)	10,351
Net increase in loans	(42,217)	(49,598)
Purchase of premises and equipment, net	(4,490)	(5,704)
Proceeds from sales of other real estate owned	1,113	1,566
Net cash (used in) provided by investing activities	(124,977)	30,498
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	40,611	(27,879)
Net (decrease) in short-term borrowings	(8,772)	(83,973)
Proceeds from issuance of long-term debt	80,000	246,291
Repayments of long-term debt	(1,728)	(212,260)
Proceeds from issuance of treasury shares to employee benefit plans and other stock plans, including tax benefit	1,222	1,494
Purchase of treasury stock	(9,078)	(10,722)
Cash dividends	(16,887)	(14,477)
Net cash provided by (used in) financing activities	85,368	(101,526)
Net increase (decrease) in cash and cash equivalents	9,453	(18,698)
Cash and cash equivalents at beginning of period	129,957	130,443
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 139,410	$ 111,745

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	Nine Months Ended September 30, 2002	 2001
Cash paid during the period for:		
Interest	$ 66,100	$ 98,133
Income taxes	8,800	3,489
Transfers:		
Loans transferred to OREO	$ 2,560	3,402
Transfer of securities available for sale to trading securities	-	3,804
BRANCH DIVESTITURE:		
Assets sold	$ 3,323	-
Liabilities sold	34,263	-
ACQUISITIONS:		
Fair value of assets acquired	-	$ 109,549
Fair value of liabilities assumed	-	110,501
Common stock issued for acquisitions	-	16,002

All amounts for the 2001 periods have been restated to give effect to a pooling of interests transaction.

See notes to unaudited interim consolidated financial statements.

NBT BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three months ended September 30, 2002	Three months ended September 30, 2001	Nine months ended September 30, 2002	Nine months ended September 30, 2001
	(Unaudited)			
Net Income	$ 10,994	$ 1,469	$ 32,493	$ 17,693
Other comprehensive income, net of tax				
Unrealized holding gains arising during period [pre-tax amounts of $11,516 $15,423, $19,893 and $21,315]	6,924	9,143	11,961	12,587
Less: Reclassification adjustment for net losses included in net income [pre-tax amounts of $0, $1,577, $426 and $503]	-	948	256	302
Total other comprehensive income	6,924	10,091	12,217	12,889
Comprehensive income	$ 17,918	$ 11,560	$ 44,710	$ 30,582

All amounts for the 2001 periods have been restated to give effect to pooling of interests.

See notes to unaudited interim consolidated financial statements.

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements include the accounts of NBT Bancorp Inc. (the Registrant) and its wholly-owned subsidiaries, NBT Bank, N.A. (NBT or Bank), NBT Financial Services, Inc., and CNBF Capital Trust I. 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.

The consolidated balance sheet at December 31, 2001 has been derived from audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 three and nine months ended September 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements included in the Registrant's annual report on Form 10-K for the year ended December 31, 2001, and notes thereto referred to above. The Company's unaudited interim consolidated financial statements as of and for the periods ended September 30, 2001, have been restated to give effect to the merger with CNB Financial Corp., which closed on November 8, 2001, and was accounted for as a pooling of interests.

NOTE 2. 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 liabilites 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, fair values of financial instruments and status of contingencies are particularly susceptible to material change in the near term.

NOTE 3. 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.

At September 30, 2002 and December 31, 2001, commitments to extend credit and unused lines of credit totaled $448.4 million and $343.1 million, respectively, and standby letters of credit totaled $30.1 million and $21.1 million, respectively at those same dates. Since commitments to extend credit and unused lines of credit may expire without being used, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using managements credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

NOTE 4. EARNINGS PER SHARE

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

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

Three months ended September 30,	2002	2001
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	33,016	33,229
Net income available to common shareholders	$10,994	$ 1,469
Basic EPS	$ 0.33	$ 0.04
Diluted EPS:		
Weighted average common shares outstanding	33,016	33,229
Dilutive effect of common stock options and restricted stock	279	271
Weighted average common shares and common share equivalents	33,295	33,500
Net income available to common shareholders	$10,994	$ 1,469
Diluted EPS	$ 0.33	$ 0.04

Nine months ended September 30,	2002	2001
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	33,088	32,854
Net income available to common shareholders	$32,493	$17,693
Basic EPS	$ 0.98	$ 0.54
Diluted EPS:		
Weighted average common shares outstanding	33,088	32,854
Dilutive effect of common stock options and restricted stock	242	250
Weighted average common shares and common share equivalents	33,330	33,104
Net income available to common shareholders	$32,493	$17,693
Diluted EPS	$ 0.97	$ 0.53

There were 387,272 outstanding stock options for the quarter ended September 30, 2002 and 949,926 outstanding stock options for the quarter ended September 30, 2001 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 420,743 outstanding stock options for the nine month period ended September 30, 2002 and 949,926 outstanding stock options for the nine month period ended September 30, 2001, 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 5. MERGERS AND ACQUISITIONS

On June 1, 2001, the Company completed the acquisition of First National Bancorp, Inc. (FNB) whereby FNB was merged with and into NBT Bancorp Inc. At the same time FNB's subsidiary, First National Bank of Northern New York (FNB Bank) was merged into the Bank. The acquisition was accounted for using the purchase method. As such, both the assets and liabilities assumed have been recorded on the consolidated balance sheet of the Company at estimated fair value as of the date of acquisition and the results of operations are included in the Company's consolidated statement of income from the acquisition date forward. To complete the transaction, the Company issued approximately 1,075,000 shares of its common stock valued at $16.0 million. Goodwill, representing the cost over net assets acquired, was approximately $7.0 million and was being amortized prior to the adoption of SFAS No. 142 on January 1, 2002, on a straight-line basis based on a 20 year amortization period.

On September 14, 2001, the Company acquired $14.4 million in deposits from Mohawk Community Bank. Unidentified intangible assets, accounted for in accordance with SFAS No. 72 "Accounting for Certain Acquisitions of Banking or Thrift Institutions" and representing the excess of cost over net assets acquired, was $665,000 and is being amortized over 15 years on a straight-line basis. Additionally, the Company identified $119,000 of core deposit intangible asset.

On November 8, 2001, the Company, pursuant to a merger agreement dated June 18, 2001, completed its merger with CNB Financial Corp. (CNB) and its wholly owned subsidiary, Central National Bank (CNB Bank), whereby CNB was merged with and into the Company, and CNB Bank was merged with and into NBT Bank. CNB Bank then became a division of the Bank. In connection with the merger, CNB stockholders received 1.2 shares of the Company's common stock for each share of CNB stock and the Company issued approximately 8.9 million shares of common stock. The transaction was structured to be tax-free to shareholders of CNB and has been accounted for as a pooling-of-interests. Accordingly, the September 30, 2001, unaudited consolidated financial statements have been restated to present combined consolidated financial condition and results of operations of the Company and CNB as if the merger had been in effect for all periods presented. At September 30, 2001, CNB had consolidated assets of $983.1 million, deposits of $853.7 million and equity of $62.8 million. Net income for the nine months ended September 30, 2001 was $0.3 million or $0.04 per diluted share. CNB Bank operated 29 full service banking offices in nine upstate New York counties.

At September 30, 2002, after payments of certain merger, acquisition and reorganization costs, the Company had a remaining accrued liability for merger, acquisition and reorganization costs related to the merger with CNB of $1.8 million, which was comprised mainly of severance costs (expected to be paid out by the end of the year) and estimated costs related to branch closings (expected to be settled by the end of the year except for certain long-term lease commitments).

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001. At that time, the Company had certain embedded derivative instruments from the recently acquired CNB Bank investment portfolio related to a deposit product and two debt securities that had costs and returns linked to the performance of the NASDAQ 100 index. Management determined that these debt securities and the deposit product did not qualify for hedge accounting under SFAS No. 133. The embedded derivatives were separated from the underlying host instruments for financial reporting purposes and accounted for at fair value. In connection with the adoption of SFAS No. 133 as of January 1, 2001, the Company recorded a charge to earnings for a transition adjustment of $159,000 ($95,000, after-tax) for the net impact of recording these embedded derivatives on the consolidated balance sheet at fair value. Due to the insignificance of the amount, the transition adjustment is not reflected as a cumulative effect of a change in accounting principle on the consolidated statement of income for the nine months ended September 30, 2001, but is instead recorded in net securities (losses) gains. During the year ended December 31, 2001, and before the closing of the CNB merger, the Company recorded a $640,000 net loss related to the adjustment of the embedded derivatives to fair value. As of December 31, 2001, the embedded derivatives referred to above were completely written off as these derivatives had no value. During the first quarter of 2002, the two debt securities with embedded derivative instruments from the recently acquired CNB Bank investment portfolio were sold at approximately their carrying value, as the securities did not meet the risk profile of the Company's security portfolio.

On August 16, 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." Statement 143 addresses financial accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated asset retirement costs. Statement 143 applies to all entities. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Under this Statement, the liability is discounted and the accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. The FASB issued this Statement to provide consistency for the accounting and reporting of liabilities associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is permitted. The Company does not expect a material impact on its consolidated financial statements when this Statement is adopted.

On October 3, 2001, The FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This Statement also supersedes the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The changes in this Statement improve financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by broadening the presentation of discontinued operations to include more disposal transactions. The Company's core deposit intangible asset will be measured for impairment under SFAS No. 144. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company adopted the provisions of SFAS No. 144 effective January 1, 2002, and the adoption did not have a material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," which required gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Upon adoption of SFAS No. 145, companies will be required to apply the criteria in Accounting Principles Board, or APB, Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" in determining the classification of gains and losses resulting from the extinguishment of debt. Upon adoption, companies must reclassify prior period items that do not meet the extraordinary item classification criteria in APB Opinion No. 30. Additionally, SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. All other provisions of SFAS No. 145 are effective for transactions occurring and/or financial statements issued on or after May 15, 2002. The implementation of SFAS No. 145 provisions, which were effective May 15, 2002, did not have a material impact on our financial condition or results of operations. The implementation of the remaining provisions is not expected to have a material impact on our financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This Statement is effective for exit or disposal activities initiated after December 31, 2002. Adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144.

The Company adopted the provisions of SFAS No. 141 effective July 1, 2001, and adopted the provisions of SFAS No. 142 effective January 1, 2002. SFAS No. 141 requires that upon adoption of SFAS No. 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. Upon adoption of SFAS No. 142, the Company is required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Goodwill is required to be tested for impairment as of the beginning of the fiscal year in which the Statement is adopted.

During the first quarter of 2002, upon the implementation of SFAS No. 142, the Company performed a reevaluation of the remaining useful lives of all previously recognized intangible assets and found no adjustment necessary. The Company has completed its transitional goodwill impairment evaluation and has concluded there is no impairment losses from the adoption of SFAS No. 142. The Company has not identified any intangible assets with indefinite useful lives.

In connection with the sale of a branch during 2002, $1.5 million in unidentified intangible assets were included in the carrying amount of the branch in determining the gain on disposal.

Pro forma net income and net income per share for the three and nine months ended September 30, 2001, adjusted to eliminate historical amortization of goodwill and related tax effects, are as follows:

	Three months ended September 30, 2001 (in thousands, except per share data)
Reported net income	$ 1,469
Add: goodwill amortization (nondeductible for tax)	238
Pro forma net income	$ 1,707
Reported net income per share:	
Basic	$ 0.04
Diluted	$ 0.04
Pro forma net income per share:	
Basic	$ 0.05
Diluted	$ 0.05

	Nine months ended September 30, 2001 (in thousands, except per share data)
Reported net income	$ 17,693
Add: goodwill amortization (nondeductible for tax)	566
Pro forma net income	$ 18,259
Reported net income per share:	
Basic	$ 0.54
Diluted	$ 0.53
Pro forma net income per share:	
Basic	$ 0.56
Diluted	$ 0.55

The unidentified intangible assets acquired in the acquisition of a bank or thrift (including acquisitions of branches), where the fair value of the liabilities assumed exceeds the fair value of the assets acquired, is currently amortized to expense under SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions." In October 2002, SFAS No. 147, "Acquisitions of Certain Financial Institutions," was issued. This statement amends FASB statements No. 72 and 144 and FASB Interpretation No. 9. Except for transactions between two or more mutual enterprises, this Statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." In addition, this Statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that SFAS No. 144 requires for other long-lived assets that are held and used. The provisions of this statement are to be applied retroactively to January 1, 2002. The Statement is effective after September 30, 2002. Upon adoption of SFAS No. 147, the Company estimates that amortization of intangibles assets will decrease by approximately $1.9 million, from $2.5 million to $0.6 million, and net income would increase by $1.3 million or $0.04 per diluted share for the nine months ended September 30, 2002. Furthermore, upon adoption of Statement No. 147 on October 1, 2002, approximately $30.6 million in unidentified intangible assets will be reclassified as goodwill retroactive to January 1, 2002.

The Company's intangible assets consist of the following:

(in thousands)	September 30, 2002	December 31, 2001	September 30, 2001
Core deposit intangibles	$ 5,433	5,433	5,433
Unidentified intangible assets from branch acquisitions	36,404	37,952	37,952
	41,837	43,385	43,385
Accumulated amortization	(10,659)	(8,173)	(7,311)
Intangible assets, net	$ 31,178	35,212	36,074

Estimated annual amortization expense of intangible assets, absent any impairment or change in estimated useful lives and excluding the impact of SFAS No. 147 is summarized as follows for each of the next five years:

(in thousands)	
For the years ending December 31,	
2002 (remaining three months)	$ 777
2003	3,095
2004	2,752
2005	2,752
2006	2,752

Upon adoption of SFAS No. 147, estimated annual amortization expense of intangible assets, absent any impairment or change in estimated useful lives is summarized as follows for each of the next five years:

(in thousands)	
For the years ending December 31,	
2002 (remaining three months)	$167
2003	608
2004	264
2005	264
2006	264
2007	264

NBT BANCORP INC. AND SUBSIDIARIES

Item 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. (Bancorp) and its wholly owned subsidiaries, NBT Bank, N.A. (NBT), NBT Financial Services, Inc., and CNBF Capital Trust I (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 2001 Form 10-K for an understanding of the following discussion and analysis.

FORWARD LOOKING STATEMENTS

Certain statements in this filing and future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, 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 of which are beyond the Company's control that could cause actual results to differ materially from those contemplated by the forward looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may reduce 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, may adversely affect the businesses in which the Company is engaged; (6) costs or difficulties related to the integration of the businesses of the Company and its merger partners may be greater than expected; (7) expected cost savings associated with recent mergers and acquisitions may not be fully realized or realized within the expected time frames; (8) deposit attrition, customer loss, or revenue loss following recent mergers and acquisitions may be greater than expected; (9) competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than the Company; and (10) adverse changes may occur in the securities markets or with respect to inflation.

The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including those described above, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to differ materially from those anticipated or projected.

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

OVERVIEW

The Company earned net income of $11.0 million ($0.33 diluted earnings per share) for the three months ended September 30, 2002, compared to net income of $1.5 million ($0.04 diluted earnings per share) for the same period in 2001. The quarter to quarter increase in net income from 2001 to 2002 was due primarily to decreases in the provision for loan and lease losses of $6.8 million and total noninterest expenses of $3.2 million coupled with increases in noninterest income of $2.5 million and net interest income of $1.4 million offset by a $4.3 million increase in income tax expense.

The Company earned net income of $32.5 million ($0.97 diluted earnings per share) for the nine months ended September 30, 2002, compared to net income of $17.7 million ($0.53 diluted earnings per share) for the same period in 2001. The increase in net income from 2001 to 2002 was due primarily to increases in net interest income of $8.9 million and noninterest income of $0.8 million coupled with decreases in the provision for loan and lease losses of $10.7 million and noninterest expense of $2.0 million, offset by an increase in income tax expense of $7.7 million.

The above decreases noted in the provision for loan and lease losses reflects an improvement in loan quality and lower net charge-offs in 2002 compared to 2001. The above increases in net interest income resulted primarily from downward re-pricing of interest-bearing liabilities (primarily time deposits) at a faster rate than earning assets in 2002 when compared to 2001. The Company's net interest margin for the nine months ended September 30, 2002, was 4.46%, up 34 basis points from a net interest margin of 4.12% for the same period in 2001. The increase in noninterest income for the nine months ended September 30, 2002 when compared to the same period in 2001 was due primarily to increases in broker/dealer and insurance fees, service charges on deposit accounts, other income and a decrease in net securities losses offset by a decrease in trust revenue. The decrease in noninterest expense for the nine months ended September 30, 2002 when compared to the same period in 2001 resulted primarily from a decrease in other expense as the Company took a $1.8 million charge for the other-than-temporary impairment in residual values on automobile leases (third quarter 2001 event) and a $2.1 million charge taken for certain deposit overdrafts (first quarter 2001 event), offset by increases in salaries and employee benefits of $1.5 million and loan collection and other real estate owned costs of $1.0 million. The increase in income tax expense was due primarily to a $22.5 million increase in net income before taxes for the nine months ended September 30, 2002, when compared to the same period in 2001.

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. Both the return on average assets and the return on average equity ratios increased for the quarter and year-to-date compared to the same periods in the previous year.

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 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 MEASUREMENTS

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	YEAR TO DATE
2002				
Return on average assets (ROAA)	1.21%	1.19%	1.18%	1.19%
Return on average equity (ROAE)	15.98%	15.89%	15.37%	15.72%
Efficiency ratio	57.57%	58.34%	57.33%	57.75%
Net interest margin	4.54%	4.48%	4.35%	4.46%
2001				
ROAA	1.10%	0.73%	0.16%	0.65%
ROAE	14.42%	9.42%	2.02%	8.45%
Efficiency ratio	60.64%	60.16%	65.07%	62.03%
Net interest margin	4.06%	4.10%	4.19%	4.12%

TABLE 2

AVERAGE BALANCES AND NET INTEREST INCOME

Table 2 presents the Company's 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.

	Three months ended September 30, 2002			2001		
(dollars in thousands)	AVERAGE BALANCE	INTEREST	YIELD/ RATES	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$ 15,374	$ 109	2.81%	$ 10,256	$ 132	5.11%
Trading securities	260	2	3.05	6,239	254	16.15
Securities available for sale (2)	965,055	14,254	5.86	944,590	15,563	6.54
Securities held to maturity (2)	86,840	1,379	6.30	98,097	1,546	6.25
Investment in FRB and FHLB Banks	22,718	142	2.48	21,473	380	7.02
Loans and leases (1)	2,350,015	42,149	7.12	2,360,770	47,361	7.96
Total interest earning assets	3,440,263	58,035	6.69	3,441,425	65,236	7.52
Other assets	242,946			240,321		
TOTAL ASSETS	$3,683,209			$3,681,746		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	$ 271,049	1,145	1.68	$ 243,318	1,588	2.59
NOW deposit accounts	376,641	905	0.95	348,024	1,453	1.66
Savings deposits	494,304	1,841	1.48	443,607	2,538	2.27
Time deposits	1,315,059	11,857	3.58	1,494,832	18,663	4.95
Total interest bearing deposits	2,457,053	15,748	2.54	2,529,781	24,242	3.80
Short-term borrowings	106,018	417	1.56	117,133	1,136	3.85
Long-term debt	350,650	4,139	4.68	274,489	3,545	5.12
Total interest bearing liabilities	2,913,721	20,304	2.76%	2,921,403	28,923	3.93%
Demand deposits	426,733			403,980		
Other liabilities (3)	58,945			67,585		
Stockholders' equity	283,810			288,778		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,683,209			$3,681,746		
NET INTEREST INCOME		$ 37,731			$ 36,313	
INTEREST RATE SPREAD			3.93%			3.59%
NET INTEREST MARGIN			4.35%			4.19%
Taxable equivalent adjustment			$ 1,024			$ 1,004

(1) For purposes of these computations, nonaccrual loans are included in the average loan and lease balances outstanding.

(2) Securities are shown at average amortized cost, and include nonaccruing securities.

(3) Included in other liabilities are $17.0 million of the Company's junior subordinated debentures.

(dollars in thousands)	2002 AVERAGE BALANCE	2002 INTEREST	2002 YIELD/ RATES	2001 Average Balance	2001 Interest	2001 Yield/ Rates
	Nine months ended September 30,					
ASSETS						
Short-term interest bearing accounts	$ 13,584	$ 302	2.97%	$ 11,912	$ 469	5.26%
Trading securities	198	6	4.05	6,685	599	11.98
Securities available for sale (2)	939,634	43,503	6.19	933,941	47,038	6.73
Securities held to maturity (2)	96,009	4,536	6.32	100,835	4,971	6.59
Investment in FRB and FHLB Banks	21,582	544	3.37	24,647	1,244	6.75
Loans and leases (1)	2,330,096	126,127	7.24	2,300,360	142,893	8.31
Total interest earning assets	3,401,103	175,018	6.88	3,378,380	197,214	7.80
Other assets	235,743			237,577		
TOTAL ASSETS	$3,636,846			$3,615,957		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	$ 272,078	3,266	1.60	$ 250,956	5,849	3.12
NOW deposit accounts	380,524	2,733	0.96	339,147	4,075	1.61
Savings deposits	478,122	5,383	1.51	420,311	7,446	2.37
Time deposits	1,339,836	37,622	3.75	1,495,161	61,027	5.46
Total interest bearing deposits	2,470,560	49,004	2.65	2,505,575	78,397	4.18
Short-term borrowings	89,521	1,052	1.57	131,547	4,565	4.64
Long-term debt	329,623	11,633	4.72	255,216	10,178	5.33
Total interest bearing liabilities	2,889,704	61,689	2.85%	2,892,338	93,140	4.31%
Demand deposits	415,033			374,224		
Other liabilities (3)	55,804			69,302		
Stockholders' equity	276,305			280,093		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,636,846			$3,615,957		
NET INTEREST INCOME		$ 113,329			$ 104,074	
INTEREST RATE SPREAD			4.03%			3.49%
NET INTEREST MARGIN			4.46%			4.12%
Taxable equivalent adjustment		$ 3,195			$ 2,881	

(1) For purposes of these computations, nonaccrual loans are included in the average loan and lease balances outstanding.

(2) Securities are shown at average amortized cost., and include nonaccruing securities.

(3) Included in other liabilities are $17.0 million of the Company's junior subordinated debentures.

Table 3 presents the changes in interest income, interest expense and net interest income due to changes in volume and changes in rate. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

TABLE 3
Analysis of Changes in Taxable Equivalent Net Interest Income

Three months ended September 30,

	INCREASE (DECREASE) 2002 OVER 2001		
(in thousands)	VOLUME	RATE	TOTAL
Short-term interest bearing accounts	$ 66	$ (89)	$ (23)
Trading securities	(243)	(9)	(252)
Securities available for sale	337	(1,646)	(1,309)
Securities held to maturity	(177)	10	(167)
Investment in FRB and FHLB Banks	22	(260)	(238)
Loans and leases	(216)	(4,996)	(5,212)
Total interest income	(211)	(6,990)	(7,201)
Money market deposit accounts	181	(624)	(443)
NOW deposit accounts	119	(667)	(548)
Savings deposits	290	(987)	(697)
Time deposits	(2,244)	(4,562)	(6,806)
Short-term borrowings	(108)	(611)	(719)
Long-term debt	984	(390)	594
Total interest expense	(778)	(7,841)	(8,619)
CHANGE IN FTE NET INTEREST INCOME	$ 567	$ 851	$ 1,418

Nine months ended September 30,

	INCREASE (DECREASE) 2002 OVER 2001		
(in thousands)	VOLUME	RATE	TOTAL
Short-term interest bearing accounts	$ 37	$ (204)	$ (167)
Trading securities	(197)	(396)	(593)
Securities available for sale	264	(3,799)	(3,535)
Securities held to maturity	(228)	(207)	(435)
Investment in FRB and FHLB Banks	(77)	(623)	(700)
Loans and leases	1,610	(18,376)	(16,766)
Total interest income	1,409	(23,605)	(22,196)
Money market deposit accounts	254	(2,837)	(2,583)
NOW deposit accounts	297	(1,639)	(1,342)
Savings deposits	651	(2,714)	(2,063)
Time deposits	(4,361)	(19,044)	(23,405)
Short-term borrowings	(494)	(3,019)	(3,513)
Long-term debt	2,626	(1,171)	1,455
Total interest expense	(1,028)	(30,423)	(31,451)
CHANGE IN FTE NET INTEREST INCOME	$ 2,436	$ 6,819	$ 9,255

RESULTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2002, COMPARED TO THREE MONTHS ENDED
SEPTEMBER 30, 2001

Net Interest Income

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

Federal taxable equivalent (FTE) net interest income increased $1.4 million during the three months ended September 30, 2002, compared to the same period of 2001. The increase in FTE net interest income resulted primarily from interest-bearing liabilities repricing downward at a faster rate than earning assets. The rate paid on interest-bearing liabilities decreased 117 basis points ("bp"), to 2.76% for the three months ended September 30, 2002, from 3.93% for the same period in 2001. Meanwhile, the yield on earning assets decreased 83 bp, to 6.69% for the three months ended September 30, 2002, from 7.52% for the same period in 2001.

Total FTE interest income for the three months ended September 30, 2002, decreased $7.2 million compared to the same period in 2001, a result of the previously mentioned decrease in yield on earning assets. The decrease in the yield on earning assets can be primarily attributed to the falling rate environment in 2001. During the same time period, total interest expense decreased $8.6 million, primarily the result of the falling rate environment mentioned above, as well as an improvement in the mix of the Company's interest-bearing liabilities. Average time deposits, the most significant component of average interest-bearing liabilities, decreased to 45.1% of average interest-bearing liabilities for the three months ended September 30, 2002, from 51.2% for the same period in 2001. Offsetting this decrease in average time deposits, was an increase in lower cost NOW, MMDA, and Savings deposits, to 39.2% of average interest-bearing liabilities for the three months ended September 30, 2002 from 35.4% for the same period in 2001. Total borrowings increased slightly to 15.7% of average interest-bearing liabilities for the three months ended September 30, 2002, from 13.4% for the same period in 2001.

Another important performance measurement of net interest income is the net interest margin. Net interest margin increased to 4.35% for the three months ended September 30, 2002, up from 4.19% for the comparable period in 2001. The increase in the net interest margin can be primarily attributed to the previously mentioned increase in the interest rate spread driven by the decrease in the rate paid on interest bearing liabilities exceeding the decrease in yield on earning assets. The net interest margin declined from 4.48% for the three months ended June 30, 2002 to 4.35% for the three months ended September 30, 2002. The above noted decline in net interest margin resulted primarily from earning assets repricing down at a faster rate than interest bearing liabilities. If interest rates remain static, the Company expects this trend to continue for the next few quarters.

Noninterest Income

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

(in thousands)	THREE MONTHS ENDED SEPTEMBER 30, 2002	2001
Service charges on deposit accounts	$ 3,531	$ 3,253
Broker/dealer and insurance fees	1,393	1,360
Trust	743	1,096
Other	2,612	2,379
Total noninterest income before net securities and loan valuation losses	8,279	8,088
Net securities losses	(6)	(2,327)
Loan valuation losses	(27)	(10)
Total noninterest income	$ 8,246	$ 5,751

Noninterest income excluding net securities and loan valuation losses, for the three months ended September 30, 2002, increased 2.4% to $8.3 million from $8.1 million for the same period in 2001. The primary drivers of this increase were service charges on deposit accounts and other income. Service charges on deposit accounts increased $0.3 million or 8.5% for the three months ended September 30, 2002, compared to the same period in 2001. The increase in service charges on deposit accounts was due primarily to strong growth in the Company's core deposit base during 2002. Other income increased $0.2 million or 9.8% for the three months ended September 30, 2002, compared to the same period in 2001. The increase in other income resulted primarily from strong growth in fee income generated from commercial banking activities.

Offsetting these increases in noninterest income was a decrease in trust revenue of $0.4 million for the three months ended September 30, 2002, compared to the same period in 2001. The decrease in trust revenue resulted primarily from adverse stock market conditions in 2002, which resulted in a decrease in assets managed by the Company's trust division, thereby lowering the trust division's fee base. Broker/dealer and insurance fees remained relatively unchanged for the three months ended September 30, 2002, compared to the same period in 2001, as adverse stock market conditions have affected the Company's financial service providers ability to significantly increase fee income. Additionally, during the second and third quarters of 2002, the Company reorganized and realigned certain delivery platforms for two of its financial service providers. This strategic initiative limited these financial service providers sales efforts during this period. The Company plans to roll out the new financial service platform in the fourth quarter of 2002, and expects this new platform to result in an increase in broker/dealer fees in 2003.

Net securities losses for the three months ended September 30, 2002, amounted to less than $0.1 million. During this period, the Company sold $6.1 million of asset backed securities previously held by CNB Financial Corp. (CNB), which the Company acquired on November 8, 2001, containing a higher level of credit risk due to a rapid deterioration in the financial condition of the underlying collateral during the quarter, resulting in a $2.6 million loss. Offsetting these losses, were gains of $2.6 million resulting primarily from the sale of various securities amounting to $51.1 million. The securities sold were considered to generally contain a high risk of rapid pre-payments in a falling rate environment. The proceeds from the sale of these securities were invested in short duration, stable cash flow producing mortgage-backed securities and short callable agency securities. These transactions enabled the Company to improve the credit quality and stabilize the cash flow stream of its investment portfolio.

Noninterest Expense

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

(in thousands)	THREE MONTHS ENDED SEPTEMBER 30, 2002	THREE MONTHS ENDED SEPTEMBER 30, 2001
Salaries and employee benefits	$ 11,925	$ 12,464
Occupancy	2,032	2,111
Equipment	1,672	1,858
Data processing and communications	2,705	2,997
Professional fees and outside services	1,446	1,701
Office supplies and postage	1,116	1,154
Amortization of intangible assats	799	1,103
Capital securities	221	291
Loan collection and other real estate owned	610	549
Other	3,751	4,883
Total noninterest expense before merger, Acquisition and reorganazation costs	26,277	29,111
Merger, acquisition and reorganization costs	(130)	231
Total noninterest expense	$ 26,147	$ 29,342

Noninterest expense excluding merger, acquisition and reorganization costs decreased $2.8 million or 9.7% to $26.3 million for the three months ended September 30, 2002, from $29.1 million for the same period in 2001. Salaries and employee benefits decreased $0.5 million or 4.3%, to $11.9 million for the three months ended September 30, 2002, from $12.5 million for the same period in 2001. The decrease in salaries and employee benefits resulted primarily from a decrease in salary expense of $0.9 million due to a decrease in full time equivalent employees, resulting from the integration of companies acquired in 2001. Offsetting this decrease was an increase in benefit costs of $0.5 million due primarily to increases in retirement and medical costs. Other expense decreased $1.1 million, to $3.8 million for the three months ended September 30, 2002, from $4.9 million for the same period in 2001. This decrease was driven primarily by a $1.8 million charge taken for the other-than-temporary impairment in residual values of automobile leases in 2001 held by CNB. Occupancy, equipment, professional fees, data processing and communications decreased $0.8 million in the quarter ended September 30, 2002, when compared to the same period in 2001, primarily due to the successful integration of companies acquired in 2001.

Amortization of intangible assets decreased $0.3 million, to $0.8 million for the three months ended September 30, 2002, from $1.1 million for the same period in 2001. The decrease in amortization of intangible assets resulted from the adoption of Statement of Financial Accounting Standards (SFAS) No. 142. Had the requirements of SFAS No. 142 been applied to the 2001 period, amortization of intangible assets would have been $0.9 million.

As discussed in note 6 to the September 30, 2002 unaudited interim consolidated financial statements, upon adoption of SFAS No. 147 on October 1, 2002, the Company will retroactively apply the provisions of SFAS No. 147 to all quarters in 2002. This retroactive application of SFAS No. 147 will result in a reduction in amortization of intangible assets by $0.6 million, resulting in amortization expense totaling $0.2 million for the three months ended September 30, 2002. Prospectively, amortization of intangible assets will be likewise reduced, such that amortization of intangible assets will approximate $0.2 million for the three months end December 31, 2002, and $0.6 million for 2003.

Income Taxes

Income tax expense for the three months ended September 30, 2002, was $5.4 million resulting in an effective tax rate of 32.9%, compared to $1.1 million, or 41.9%, for the same period in 2001. The higher effective tax rate in the 2001 period resulted primarily from changes in tax planning strategies at CNB resulting from its planned merger with NBT. Prior to CNB's planned merger with NBT, it anticipated an effective tax rate for 2001 which would have been significantly impacted by the planned purchase of tax exempt securities in the second half of 2001. As a result of the planned merger, such purchases were not made which increased CNB's estimated 2001 effective tax rate and therefore, required an increase in tax expense for the three months ended September 30, 2001.

NINE MONTHS ENDED SEPTEMBER 30, 2002, COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

Net Interest Income

FTE net interest income increased $9.3 million to $113.3 million for 2002 compared to $104.1 million for 2001. The net interest margin improved 34 bp from 4.12% to 4.46%. The increase in FTE net interest income resulted primarily from interest-bearing liabilities re-pricing downward at a faster rate than earning assets. The rate paid on interest-bearing liabilities decreased 146 bp, to 2.85% for 2002, from 4.31% for 2001. Meanwhile, the yield on earning assets decreased 92 bp, to 6.88% for 2002, from 7.80% for 2001.

Total FTE interest income for 2002, decreased $22.2 million compared to 2001, a result of the previously mentioned decrease in yield on earning assets. During the same time period, total interest expense decreased $31.5 million, primarily the result of the falling rate environment mentioned above, as well as an improvement in the mix of the Company's interest-bearing liabilities. Time deposits, the most significant component of interest-bearing liabilities, decreased to 46.4% of interest-bearing liabilities for 2002 from 51.7% for 2001. Offsetting this decrease in interest-bearing liabilities, was an increase in lower cost NOW, MMDA, and Savings deposits, to 39.1% of interest-bearing liabilities for 2002 from 34.9% for 2001. Total borrowings remained relatively unchanged, comprising 14.5% and 13.4% of interest-bearing liabilities for 2002 and 2001, respectively.

Noninterest Income

The following table sets forth information by category of noninterest income for the periods indicated:

(in thousands)	For the nine months ended September 30, 2002	2001
Service charges on deposit accounts	$ 9,820	$ 9,250
Broker/dealer and insurance fees	4,371	3,283
Trust	2,366	3,212
Other	7,632	7,080
Total noninterest income before securities, loan valuation, branch, and building sales transactions	24,189	22,825
Net securities (losses)	(439)	(1,077)
Loan valuation (losses) gains	(77)	16
Gain on sale of a branch, net	220	-
Gain on sale of a building	-	1,367
Total	$ 23,893	$ 23,131

Noninterest income before securities losses, loan valuation losses and gains, gain on sale of a branch, and gain on sale of a building increased $1.4 million or 6.0% to $24.2 million for 2002 from $22.8 million for the same period in 2001. Broker/dealer and insurance fees increased $1.1 million, primarily driven by one of the Company's financial services providers, Colonial Financial Services, Inc., which began operations in June 2001, resulting in a full nine months of revenue totaling $1.2 million in 2002 compared to four months of revenue in 2001 totaling $0.3 million. Service charges on deposit accounts in 2002 increased $0.6 million or 6.2% over the same period a year earlier as a result of the Company's acquisition of FNB in June of 2001, which added 6 branches to the Company's branch network. Additionally, the Company has experienced a strong increase in core deposits during 2002 resulting in higher fee income from deposit accounts. Other income increased $0.6 million or 7.8% in 2002 when compared to 2001, due mainly to the Company's market expansion, driving growth in fees from retail banking activities. Offsetting these increases was a decrease in trust revenue of $0.8 million or 26.3% for 2002 when compared to 2001. This decrease in trust revenue resulted primarily from adverse stock market conditions in 2002, which lead to a decrease in assets under management in the trust division, thereby lowering the trust division's fee base. Additionally, the number of estate accounts serviced by the trust division decreased in 2002 compared to 2001.

Noninterest Expense

The following table sets forth information by category of noninterest expense for the periods indicated:

(in thousands)	NINE MONTHS ENDED SEPTEMBER 30, 2002	2001
Salaries and employee benefits	$ 37,230	$ 35,766
Occupancy	6,297	6,577
Equipment	5,204	5,291
Data processing and communications	7,868	8,001
Professional fees and outside services	4,843	4,301
Office supplies and postage	3,240	3,515
Amortization of intangible assets	2,489	3,079
Capital securities	667	1,036
Loan collection and other real estate owned	2,335	1,356
Other	9,069	9,868
Total noninterest expense before the below noted items	79,242	78,790
Merger, acquisition, and reorganization costs	(130)	231
Certain deposit overdraft write-offs	-	2,125
Total noninterest expense	$ 79,112	$ 81,146

Noninterest expense before merger, acquisition, and reorganization costs and certain deposit overdraft write-offs, increased $0.5 million or 0.6% to $79.2 million for 2002 from $78.8 million for 2001. Salaries and employee benefits increased $1.5 million or 4.1%, to $37.2 million for 2002 from $35.8 million for 2001. The increase in salaries and employee benefits was due primarily to increases in incentive compensation of $1.2 million, employee medical costs of $0.3 million and retirement expense of $0.5 million offset by a decrease in salary expense of $0.6 million. Professional fees and costs of outside services increased $0.5 million, to $4.8 million for 2002 from $4.3 million for 2001. The increase in professional fees and costs of outside services resulted mainly from professional fees for legal matters.

Loan collection and other real estate owned expenses increased $1.0 million, to $2.3 million for 2002 from $1.4 million for 2001. This increase is due primarily to the increase in nonperforming loans during 2001, which resulted in an increase in collection activity and foreclosure costs during 2002. Other expense decreased $0.8 million, to $9.1 million for 2002 from $9.9 million for 2001. The decrease in other expense was due primarily to a $1.8 million charge taken in 2001 for the other-than-temporary impairment in residual values for leased automobiles from CNB offset by increases related to $0.3 million of expense related to a noncompetition agreement, and an increase in marketing expense of $0.3 million. Occupancy, equipment, data processing, communications, and office supplies & postage experienced decreases for 2002 when compared to 2001. These decreases resulted primarily from cost savings realized from recent acquisitions completed during 2001 and 2000.

Capital securities expense decreased $0.4 million, to $0.7 million for 2002 from $1.0 million for 2001. The decrease in capital securities expense is a result of the Company's guaranteed preferred beneficial interests in Company's junior subordinated debentures, which are tied to a variable interest rate index (3-month LIBOR plus 275 bp) that was much lower for the first nine months of 2002 when compared to the same period in 2001.

Amortization of intangible assets decreased $0.6 million, to $2.5 million for 2002 from $3.1 million for 2001. The decrease in amortization of intangible assets resulted from the adoption of SFAS No. 142. Had the requirements of SFAS No. 142 been applied to 2001, amortization of intangible assets would have been $0.6 million.

As discussed in note 6 to the unaudited interim consolidated financial statements, upon adoption of SFAS No. 147 on October 1, 2002, the Company will retroactively apply the provision of SFAS No. 147 to all quarters in 2002. This retroactive application of SFAS No. 147 will result in a reduction in amortization of intangible assets by $1.9 million, resulting in amortization expense totaling $0.6 million for the nine months ended September 30, 2002.

Income Taxes

Income tax expense for 2002 was $15.9 million for an effective tax rate of 32.8%, compared to $8.2 million, or 31.7%, for 2001. The lower effective tax rate in the 2001 period resulted primarily from lower net income before tax when compared to the 2002 period.

ANALYSIS OF FINANCIAL CONDITION

Loans and Leases

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

	September 30, 2002	December 31, 2001	September 30, 2001
	(in thousands)		
Commercial and commercial mortgages*	$ 1,056,201	$ 1,053,416	$ 1,052,224
Residential real estate mortgages	626,838	594,206	583,135
Consumer	615,207	613,631	634,995
Leases	63,609	72,048	76,811
Other loans	5,833	6,335	6,999
Total loans and leases	$ 2,367,688	$ 2,339,636	$ 2,354,164

* Includes agricultural loans

Total loans and leases were $2.4 billion, or 63.5% of assets, at September 30, 2002, compared to $2.3 billion, or 64.3%, at December 31, 2001, and $2.4 billion, or 64.2%, at September 30, 2001. Total loans and leases increased $28.1 million or 1.2% at September 30, 2002, when compared to December 31, 2001. The slight increase in total loans and leases during the year resulted mainly from sluggish economic conditions experienced during 2002 in the Company's markets which had limited loan growth opportunities. Furthermore, the Company's on going efforts to improve the credit administration functions at its recently acquired banks and its continued focus on resolving troubled loans placed limits on the Company's ability to increase loans. The increase in loans and leases in 2002 was driven primarily from residential real estate mortgages, which increased $32.6 million or 5.5%, due primarily to increased demand driven by historically low mortgage rates for the fixed rate residential real estate mortgage product lines in 2002.

Securities
- ----------

Average total securities were $5.6 million less for the first nine months of 2002 than for the same period of 2001. Decreases in securities held to maturity and trading securities from maturities and sales were reinvested into the securities available for sale portfolio. During the first nine months of 2002, the securities portfolio represented 30.5% of average earning assets compared to 30.8% for the same period in 2001. At September 30, 2002, the securities portfolio was comprised of 92% available for sale and 8% held to maturity securities.

At December 31, 2001, nonperforming securities were comprised of a private issue collateralized mortgage obligation (CMO) valued at $2.7 million and an asset backed security valued at $1.8 million compared to a $1.3 million private issue CMO at September 30, 2002. The decrease in nonperforming securities during the first nine months of 2002 resulted mainly from the sale of the asset-backed security at approximately its carrying value and a $0.7 million write-down of the CMO during the first quarter of 2002 due to other-than-temporary impairment. The Company received $0.7 million in payments from the impaired CMO during 2002, resulting in a reduction in the carrying amount of the CMO to $1.3 million.

Included in the securities available for sale portfolio at September 30, 2002, are certain securities (private issue CMO, asset-backed securities, and private issue mortgaged-backed securities) previously held by CNB. These securities contain a higher level of credit risk when compared to other securities held in the Company's investment portfolio because they are not guaranteed by a governmental agency or a government sponsored enterprise (GSE). The Company's general practice is to purchase CMO and mortgage-backed securities that are guaranteed by a governmental agency or a GSE coupled with a strong credit rating, typically AAA, issued by Moody's or Standard and Poors.

At September 30, 2002, the amortized cost and fair value of these securities amounted to $13.5 million and $13.5 million, respectively, down from $38.7 million and $38.5 million, respectively, at December 31, 2001. The decrease at September 30, 2002, when compared to December 31, 2001, resulted primarily from sales and principal paydowns. During 2002, the Company sold $11.5 million of asset backed securities containing a higher level of credit risk due to a rapid deterioration in the financial condition of the underlying collateral related to the asset backed securities, resulting in a $7.1 million loss. Offsetting these losses were gains of $7.2 million, resulting from the sale of approximately $181.6 million in securities available for sale during 2002. Management cannot predict the extent to which economic conditions may worsen or other factors may impact these securities. Accordingly, there can be no assurance that these remaining securities totaling $13.5 million will not become other-than-temporarily impaired in the future.

At December 31, 2001, the Company had certain embedded derivative instruments from the CNB Bank investment portfolio related to two debt securities that have returns linked to the performance of the NASDAQ 100 index. As of December 31, 2001, the embedded derivatives related to the debt securities linked to the NASDAQ 100 index had no fair value. The two debt securities were classified as available for sale. At December 31, 2001, the total amortized cost and estimated fair value of these two debt securities was $6.2 million. The two debt securities were sold in 2002 at amounts approximating their carrying values at December 31, 2001 as these two securities did not meet the risk profile of the Company's security portfolio.

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

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

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

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

After a thorough consideration and validation of the factors discussed above, required additions to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses. These charges are necessary to maintain the allowance at a level which management believes is reasonably reflective of overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans and leases, additions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above. The allowance for loan and lease losses to outstanding loans and leases at September 30, 2002, was 1.83% compared to 1.62% at September 30, 2001. Management considers the allowance for loan losses to be adequate based on evaluation and analysis of the loan portfolio.

Table 4 reflects changes to the allowance for loan losses for the periods presented. The allowance is increased by provisions for losses charged to operations and is reduced by net chargeoffs. Chargeoffs are made when the collectability 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.

TABLE 4
ALLOWANCE FOR LOAN AND LEASE LOSSES

(dollars in thousands)	Three months ended September 30, 2002		Three months ended September 30, 2001		Nine months ended September 30, 2002		Nine months ended September 30, 2001	
Balance, beginning of period	$43,719		$34,126		$ 44,746		$ 32,494	
Recoveries	1,014		913		3,314		1,753	
Chargeoffs	(3,827)		(6,193)		(11,257)		(13,989)	
Net chargeoffs	(2,813)		(5,280)		(7,943)		(12,236)	
Allowance related to purchase acquisition	-		-		-		505	
Provision for loan losses	2,424		9,188		6,527		17,271	
Balance, end of period	$43,330		$38,034		$ 43,330		$ 38,034	
COMPOSITION OF NET CHARGEOFFS								
Commercial and agricultural	$(1,895)	67%	$(4,276)	81%	$ (4,212)	53%	$ (9,491)	78%
Real estate mortgage	(204)	7%	(217)	4%	(575)	7%	(425)	3%
Consumer	(714)	26%	(787)	15%	(3,156)	40%	(2,320)	19%
Net chargeoffs	$(2,813)	100%	$(5,280)	100%	$ (7,943)	100%	$(12,236)	100%
Annualized net chargeoffs to average loans and leases		0.48%		0.89%		0.46%		0.71%
Net chargeoffs to average loans and leases for the year ended December 31, 2001								0.87%

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

Total nonperforming assets were $35.1 million at September 30, 2002, compared to $49.9 million at December 31, 2001, and $37.1 million at September 30, 2001. The increase from September 30, 2001, to December 31, 2001, can be primarily attributed to a $8.5 million increase in nonperforming loans. This increase was primarily the result of integrating newly acquired banks into the Company's more conservative credit culture as well as adverse economic conditions. Nonperforming loans totaled $30.7 million at September 30, 2002, down from the

$43.8 million outstanding at December 31, 2001. The $13.1 million decrease in nonperforming loans from December 31, 2001 to September 30, 2002, was due primarily to the Company's successful efforts in resolving certain large problematic commercial loans. Nonaccrual commercial and agricultural loans decreased $11.9 million, from $31.4 million at December 31, 2001, to $19.5 million at September 30, 2002. Based on the improved trends in loan quality noted above and the decrease in net charge-offs in 2002 when compared to 2001 highlighted in Table 4 above, the Company recorded a provision for loan and lease losses of $2.4 million and $6.5 million, respectively, for the three and nine months ended September 30, 2002, down from the $9.2 million and $17.3 million provided in the same periods in 2001.

As anticipated, net charge-offs exceeded the provision for loan and lease losses for the three and nine months ended September 30, 2002 when compared to the same periods in 2001 as a result of the Company fully reserving for charge-offs of large problematic loans in prior periods. As the Company continues to resolve problematic loans previously identified, and if the level of problematic loans continues to decline, the Company expects that net charge-offs may exceed the provision for loan and lease losses in the next few quarters.

TABLE 5
NONPERFORMING ASSETS

(dollars in thousands)	SEPTEMBER 30, 2002	December 31, 2001	September 30, 2001
Commercial and agricultural	$ 19,457	$ 31,372	$ 24,472
Real estate mortgage	8,024	5,119	4,717
Consumer	2,000	3,719	2,566
Total nonaccrual loans	29,481	40,210	31,755
Loans 90 days or more past due and still accruing:			
Commercial and agricultural	88	198	169
Real estate mortgage	625	1,844	1,489
Consumer	125	933	902
Total loans 90 days or more past due and still accruing	838	2,975	2,560
Restructured loans in compliance with modified terms:	412	603	606
Total nonperforming loans	30,731	43,788	34,921
Other real estate owned (OREO)	3,092	1,577	1,643
Total nonperforming loans and OREO	33,823	45,365	36,564
Nonperforming securities	1,312	4,500	557
Total nonperforming assets	$ 35,135	$ 49,865	$ 37,121
Total nonperforming loans to loans and leases	1.30%	1.87%	1.48%
Total nonperforming assets to assets	0.94%	1.37%	1.01%
Total allowance for loan and lease losses to nonperforming loans	141.00%	102.19%	108.91%

One of the standard practices of the Company's credit administration function is to rate loans on a periodic basis based on the loans level of risk. Under the Company's current loan ratings system, "substandard" rated loans that are not classified as nonperforming are considered to be potential problem loans. Potential problem loans are loans that are currently performing, but where known information about possible credit problems of the related borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as non-performing at some time in the future. At September 30, 2002, the Company identified $46.0 million in potential problem loans, down from the $48.6

million in potential problem loans at December 31, 2001. At September 30, 2002, potential problem loans primarily consisted of commercial real estate and commercial and agricultural loans. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on non-accrual, become restructured, or require increased allowance coverage and provision for loan losses.

Deposits

Total deposits were $2.9 billion at September 30, 2002, and 2001, and year-end 2001. Total average deposits increased $5.8 million, or 0.2%, from September 30, 2001 to September 30, 2002. The Company's acquisition of FNB in September 2001 added approximately $108.0 million in deposits offset by the sale of a branch in February 2002 which resulted in the decrease of approximately $34.3 million in deposits. The Company has focused on maintaining and growing its base of lower cost checking, savings and money market accounts while allowing runoff of some of its higher cost time deposits, particularly jumbo and municipal time deposits. At September 30, 2002, total checking, savings and money market accounts represented 55.0% of total deposits compared to 51.0% at September 30, 2001.

Borrowings

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $113.2 million at September 30, 2002, compared to $122.0 million and $101.2 million at December 31, and September 30, 2001, respectively. Long-term debt was $350.6 million at September 30, 2002, compared to $272.3 million and $274.6 million at December 31, and September 30, 2001, respectively, as the Company took advantage of lower interest rates and locked in longer term advances.

CAPITAL RESOURCES

Stockholders' equity of $286.4 million represents 7.7% of total assets at September 30, 2002, compared with $292.5 million, or 8.0% in the comparable period of the prior year, and $266.4 million, or 7.3% at December 31, 2001. The Company does not have a target dividend payout ratio, rather the Board of Directors considers the Company's earnings position and earnings potential when making dividend decisions.

REGULATORY CAPITAL

The following table presents the actual capital amounts and ratios for the periods presented. Capital measurements are significantly in excess of regulatory minimum guidelines and meet the requirements to be considered well capitalized for all periods presented. Tier 1 leverage, Tier 1 capital and Risk-based capital ratios have regulatory minimum guidelines of 3%, 4% and 8% respectively, with requirements to be considered well capitalized of 5%, 6% and 10%, respectively.

TABLE 6
CAPITAL MEASUREMENTS

	AS OF AND FOR THE QUARTER ENDED MARCH 31,	JUNE 30,	SEPTEMBER 30,
2002			
Tier 1 leverage ratio	6.71%	6.87%	6.61%
Tier 1 capital ratio	9.94%	9.99%	9.75%
Total risk-based capital ratio	11.20%	11.24%	11.01%
Cash dividends as a percentage of net income	52.71%	52.38%	51.17%
Per common share:			
Book Value	$ 8.07	$ 8.50	$ 8.75
Tangible book value	$ 6.62	$ 7.07	$ 7.32
2001			
Tier 1 leverage ratio	7.18%	7.07%	6.82%
Tier 1 capital ratio	10.70%	10.00%	10.09%
Total risk-based capital ratio	11.95%	11.23%	11.34%
Cash dividends as a percentage of net income	48.89%	59.36%	329.88%
Per common share:			
Book Value	$ 8.60	$ 8.74	$ 8.84
Tangible book value	$ 7.22	$ 7.21	$ 7.30

Table 7 presents the high, low and closing sales price for the common stock as reported on the NASDAQ Stock Market, and cash dividends declared per share of common stock. The Company's price to book value ratio was 1.97 at September 30, 2002, and 1.62 a year ago. The per share market price was 13.28 times annualized diluted earnings at September 30, 2002, and 20.14 times annualized diluted earnings at September 30, 2001.

TABLE 7
QUARTERLY COMMON STOCK AND DIVIDEND INFORMATION

Quarter Ending	High	Low	Close	Cash Dividends Declared
2001				
September 30	17.30	13.50	14.30	0.170
December 31	15.99	12.55	14.49	0.170
2002				
MARCH 31	$15.15	$13.15	$14.74	$ 0.170
JUNE 30	$19.32	$14.00	$18.07	$ 0.170
SEPTEMBER 30	$18.50	$16.36	$17.27	$ 0.170

STOCK REPURCHASE PLAN

On July 22, 2002, the Company announced that it intended to repurchase up to one million shares (approximately 3%) of its outstanding common stock from time to time over the next 12 months in open market and privately negotiated transactions. Since the announcement of the Stock Repurchase Plan, the Company repurchased a total of 437,954 shares in the three months ended September 30, 2002, at an average price of $17.43 per share. Since the announcement on July 22, 2002, the Company's stock price has ranged between $16.36 and $18.50. The total trading volume of the Company's common stock for this same period was approximately 2.7 million shares, the Company's repurchase activity during this period was 16% of the total trading volume. Total cash allocated for these repurchases during the three months ended September 30, 2002 was $7.6 million.

LIQUIDITY AND INTEREST RATE SENSITIVITY MANAGEMENT

MARKET RISK

Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities.

Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on the Company's net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets. When interest-bearing liabilities mature or reprice more quickly than earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

In an attempt to manage the Company's exposure to changes in interest rates, management monitors the Company's interest rate risk. Management's asset/liability committee (ALCO) meets monthly to review the Company's interest rate risk position and profitability, and to recommend strategies for consideration by the Board of Directors. Management also reviews loan and deposit pricing, and the Company's securities portfolio, formulates investment and funding strategies, and oversees the timing and implementation of transactions to assure attainment of the Board's objectives in the most effective manner. Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

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

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

The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Three additional models are run in which a gradual increase of 200 bp, a gradual increase of 200 bp where the long end of the yield curve remains flat (the long end of the yield curve is defined as 5 years and longer) and a gradual decrease of 150 bp takes place over a 12 month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded into them are handled accordingly based on the interest rate scenario. The resultant changes in net interest income are then measured against the flat rate scenario.

In the declining rate scenarios, net interest income is projected to increase slightly when compared to the flat rate scenario through the simulation period. The level of net interest income increasing is a result of interest-bearing liabilities repricing downward at a faster rate than earning assets. The inability to effectively lower deposit rates on deposits might reduce or eliminate the benefit of lower rates. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. Net interest income is projected to remain at lower levels than in a flat rate scenario through the simulation period primarily due to a lag in assets repricing while funding costs increase. The potential impact on earnings is dependent on the ability to lag deposit repricing.

Net interest income for the next twelve months in a + 200/+ 200 flat/- 150 bp scenario is within the internal policy risk limits of a not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12 month period from the forecasted net interest income in the flat rate scenario using the September 30, 2002 balance sheet position:

TABLE 10
INTEREST RATE SENSITIVITY ANALYSIS

Change in interest rates (in basis points)	Percent change in net interest income
+ 200 Flat	(1.10%)
+ 200	(0.34%)
- 150	0.06%

Under the flat rate scenario with a static balance sheet, net interest income is anticipated to decrease approximately 2.2% from annualized total net interest income for the three months ended September 30, 2002. The Company anticipates under current conditions, earning assets will continue to reprice at a faster rate than interest bearing liabilities. In order to protect net interest income from anticipated net interest margin compression, the Company will continue to focus on increasing low cost core funding and grow earning assets through loan growth and leverage opportunities. However, if the Company cannot increase low cost core funding and earning assets, the Company expects net interest income to decline in 2003.

Currently, the Company is holding fixed rate residential real estate mortgages in its loan portfolio. One of the major factors the Company considers in holding residential real estate mortgages is its level of core deposits. Current core deposit levels have enabled the Company to hold fixed rate residential real estate mortgages without having a negative impact on interest rate risk, as the Company is well matched at September 30, 2002. The Company's net interest income is projected to decrease by only 0.34% if interest rates rise 200 basis points. The Company closely monitors its matching of earning assets to funding sources. If core deposit levels decrease or the rate of growth in core deposit levels does not equal or exceed the rate in growth of fixed rate residential real estate mortgages, the Company will reevaluate its strategy and may sell new originations of fixed rate mortgages in the secondary market in order to limit the Company's exposure to long-term earning assets.

LIQUIDITY RISK

Liquidity involves the ability to meet the cash flow requirements of customers who may be depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. The Asset Liability Committee (ALCO) is responsible for liquidity management and has developed guidelines which cover all assets and liabilities, as well as off balance sheet items that are potential sources or uses of liquidity. Liquidity policies must also provide the flexibility to implement appropriate strategies and tactical actions. Requirements change as loans and leases grow, deposits and securities mature, and payments on borrowings are made. Liquidity management includes a focus on interest rate sensitivity management with a goal of avoiding widely fluctuating net interest margins through periods of changing economic conditions.

The primary liquidity measurement the Company utilizes is called the Basic Surplus which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short- and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. At September 30, 2002, the Company's Basic Surplus measurement was 13.91% of total assets, which was above the Company's minimum of 5% set forth in its liquidity policies. The Company's liquidity position at September 30, 2002, is considered adequate to meet liquidity needs. However, if the Company's liquidity position tightens and its Basic Surplus measurement decreases, the Company has the ability to manage its liquidity through brokered time deposits, established borrowing facilities, primarily with the Federal Home Loan Bank, and entering into repurchase agreements with investment companies.

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

At September 30, 2002, a large percentage of the Company's loans and securities are pledged as collateral on borrowings. Therefore, future growth of earning assets will depend upon the Company's ability to obtain additional funding, through growth of core deposits and collateral management, and may require further use of brokered time deposits, or other higher cost borrowing arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934, as amended) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective in timely alerting them to any material information relating to the Company and its subsidiaries required to be included in the Company's periodic SEC filings.

There were no significant changes made in the Company's internal controls or in other factors that that could significantly affect these internal controls subsequent to the date of the evaluation performed by the Company's Chief Executive Officer and Chief Financial Officer.

PART II. OTHER INFORMATION

Item 1 -- Legal Proceedings

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

Item 2 -- Changes in Securities

None.

Item 3 -- Defaults Upon Senior Securities

None

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

None

Item 5 -- Other Information

On October 28, 2002, NBT Bancorp Inc. announced the declaration of a regular quarterly cash dividend of $0.17 per share. The cash dividend will be paid on December 15, 2002, to stockholders of record as of December 1, 2002.

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

(a) Exhibits

99.1 Written Statement of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Written Statement of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) During the quarter ended September 30, 2002, the Company filed the following Current Reports on Form 8-K:

None filed.

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 13th day of November 2002.

NBT BANCORP INC.

By: /s/ MICHAEL J. CHEWENS

Michael J. Chewens, CPA
Senior Executive Vice President
Chief Financial Officer and Corporate Secretary

CERTIFICATIONS

I, Daryl R. Forsythe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NBT Bancorp Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operations of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ Daryl R. Forsythe

Chairman and Chief Executive
Officer

I, Michael J. Chewens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NBT Bancorp Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operations of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ Michael J. Chewens

Senior Executive Vice President,
Chief Financial Officer and
Corporate Secretary

Index to Exhibits

99.1	Written Statement of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Written Statement of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 99.1

Written Statement of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of NBT Bancorp Inc. (the "Company"), hereby certifies that to his knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended September 30, 2002, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daryl R. Forsythe

Daryl R. Forsythe
Chairman and Chief Executive Officer
November 13, 2002

Exhibit 99.2

Written Statement of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of NBT Bancorp Inc. (the "Company"), hereby certifies that to his knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended September 30, 2002, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Chewens

Michael J. Chewens
Senior Executive Vice President
Chief Financial Officer and
Corporate Secretary
November 13, 2002