

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011  
COMMISSION FILE NUMBER: 0-14703

**NBT BANCORP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**16-1268674**

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

**52 SOUTH BROAD STREET  
NORWICH, NEW YORK 13815**

(Address of principal executive office) (Zip Code)

**(607) 337-2265**

(Registrant's telephone number, including area code)

***Securities registered pursuant to section 12(b) of the Act:***

Title of each class:	Name of each exchange on which registered:
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC
Securities registered pursuant to section 12(g) of the Act: None	
Stock Purchase Rights Pursuant to Stockholders Rights Plan	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Based on the closing price of the registrant's common stock as of June 30, 2011, the aggregate market value of the voting stock, common stock, par value, \$0.01 per share, held by non-affiliates of the registrant is \$704,029,832.

The number of shares of Common Stock outstanding as of February 15, 2012, was 33,243,778.

**Documents Incorporated by Reference**

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 1, 2012 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

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# PART I

## ITEM 1.

## Business

NBT Bancorp Inc. (the “Registrant” or the “Company”) is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Company, on a consolidated basis, at December 31, 2011 had assets of \$5.6 billion and stockholders’ equity of \$538.1 million. Return on average assets and return on average equity were 1.06% and 10.73%, respectively, for the year ending December 31, 2011. The Company had net income of \$57.9 million or \$1.71 per diluted share for 2011 and fully taxable equivalent (“FTE”) net interest margin was 4.09% for the same period.

The principal assets of the Registrant consist of all of the outstanding shares of common stock of its subsidiaries, including: NBT Bank, N.A. (the “Bank”), NBT Financial Services, Inc. (“NBT Financial”), NBT Holdings, Inc. (“NBT Holdings”) and CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (the “Trusts”). The Company’s principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial, and NBT Holdings.

The Company’s business, primarily conducted through the Bank but also through its other subsidiaries, consists of providing commercial banking and financial services to customers in its market area, which includes central and upstate New York, northeastern Pennsylvania, western Massachusetts and the greater Burlington, Vermont area. The Company has been,

and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company’s business philosophy is to operate as a community bank with local decision-making, principally in non-metropolitan markets, providing a broad array of banking and financial services to retail, commercial, and municipal customers. The financial condition and operating results of the Company are dependent on its net interest income which is the difference between the interest and dividend income earned on its earning assets, primarily loans and investments, and the interest expense paid on its interest bearing liabilities, primarily consisting of deposits and borrowings. Among other factors, net income is also affected by provisions for loan and lease losses and noninterest income, such as service charges on deposit accounts, insurance and other financial services fees, trust revenue, and gains/losses on securities sales, bank owned life insurance income, ATM and debit card fees, and retirement plan administration fees as well as noninterest expense, such as salaries and employee benefits, occupancy, equipment, data processing and communications, professional fees and outside services, office supplies and postage, amortization, loan collection and other real estate owned expenses, advertising, FDIC expenses, and other expenses.

Substantially all of the Company’s business activities are with customers located in the United States and are summarized by state below:

	Interest and Fee Income	Noninterest Income	Total Revenue
New York	59%	26%	85%
Pennsylvania	8%	5%	13%
Vermont	2%	0%	2%
	69%	31%	100%

	Commercial	Consumer	Residential Real Estate	Total Loan Portfolio
New York	37%	32%	11%	80%
Pennsylvania	6%	6%	4%	16%
Vermont	2%	1%	0%	3%
Massachusetts	0%	1%	0%	1%
	45%	40%	15%	100%

As of December 31, 2011, approximately 56% of the New York-based loan portfolio was secured by real estate in central and upstate New York, approximately 70% of the Pennsylvania-based loan portfolio was secured by real estate in northeastern Pennsylvania,

approximately 59% of the Vermont-based loan portfolio was secured by real estate in the Burlington, Vermont area, and approximately 89% of the Massachusetts-based loan portfolio was secured by real estate in western Massachusetts.

Like the rest of the nation, the market areas that the Company serves are still experiencing economic challenges. A variety of factors (e.g., any substantial rise in inflation or rise in unemployment rates, decrease in consumer confidence, international economic conditions, natural disasters, war, or political instability) may affect both the Company's markets and the national market. The Company will continue to emphasize managing its funding costs and lending and investment rates to effectively maintain profitability. In addition, the Company will continue to seek and maintain relationships that can generate fee income that is not directly tied to lending relationships. We anticipate that this approach should help mitigate profit fluctuations that are caused by movements in interest rates, business and consumer loan cycles, and local economic factors.

On November 16, 2011, the Company entered into a definitive agreement with Hampshire First Bank ("Hampshire First") pursuant to which Hampshire First will merge with and into NBT's banking subsidiary, NBT Bank, N.A. Expected to close in the second quarter of 2012 and subject to customary closing conditions, including receipt of regulatory approvals (which has already been obtained) and approval by the stockholders of Hampshire First, the acquisition will broaden our geographic markets into southern New Hampshire. Hampshire First operates five branches and had assets of approximately \$274 million as of December 31, 2011.

#### **NBT Bank, N.A.**

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

Through its network of branch locations, the Bank offers a wide range of products and services tailored to individuals, businesses, and municipalities. Deposit products offered by the Bank include demand deposit accounts, savings accounts, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts ("MMDA"), and certificate of deposit ("CD") accounts. The Bank offers various types of each deposit account to accommodate the needs of its customers with varying rates, terms, and features. Loan products offered by the Bank include consumer loans, home equity loans, mortgages, small business loans and commercial loans, with varying rates, terms and features to accommodate the needs of its customers. The Bank also offers various other products and services through its branch network such as trust and investment services and financial planning and life insurance services. In addition to its branch network, the Bank

also offers access to certain products and services online enabling customers to check balances, transfer funds, pay bills, view statements, apply for loans and access various other product and service information. The Bank provides 24-hour access to an automated telephone line whereby customers can check balances, obtain interest information, transfer funds, request statements, and perform various other activities.

The Bank conducts business through two geographically distinct operating divisions, NBT Bank and Pennstar Bank. At year end 2011, the NBT Bank division had 93 divisional offices and 118 automated teller machines (ATMs), located primarily in central and upstate New York, the Burlington, Vermont area, and Berkshire County, Massachusetts. At December 31, 2011, the NBT Bank division had total loans and leases of approximately \$3.2 billion, or 85% of total loans and leases, and total deposits of \$3.5 billion, or 79% of total deposits. Revenue for the NBT Bank division totaled \$204 million for the year ended December 31, 2011. At year end 2011, the Pennstar Bank division had 35 divisional offices and 47 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2011, the Pennstar Bank division had total loans and leases of \$574 million, or 15% of total loans and leases, and total deposits of \$921 million, or 21% of total deposits. Revenue for the Pennstar Bank division totaled \$33 million for the year ended December 31, 2011.

#### **NBT Financial Services, Inc.**

Through NBT Financial Services, the Company operates EPIC Advisors, Inc. ("EPIC"), a retirement plan administrator. Through EPIC, the Company offers services including retirement plan consulting and recordkeeping services. EPIC's headquarters are located in Rochester, New York.

#### **NBT Holdings, Inc.**

Through NBT Holdings, the Company operates Mang Insurance Agency, LLC ("Mang"), a full-service insurance agency acquired by the Company on September 1, 2008. Prior to its acquisition by the Company, Mang was one of the largest independent insurance agencies in upstate New York and was headquartered in Binghamton, New York. Mang's headquarters are now in Norwich, New York and many Mang office locations that were in the same communities as NBT Bank branches have moved into those branches since the acquisition. Through Mang, the Company offers a full array of insurance products, including personal property and casualty, business liability and commercial insurance, tailored to serve the specific insurance needs of individuals as well as businesses in a range of industries operating in the markets served by the Company.

## The Trusts

The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. CNBF Capital Trust I (“Trust I”) and NBT Statutory Trust I are Delaware statutory business trusts formed in 1999 and 2005, respectively, for the purpose of issuing trust preferred securities and lending the proceeds to the Company. In connection with the acquisition of CNB Bancorp, Inc., the Company formed NBT Statutory Trust II (“Trust II”) in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. The Company raised \$51.5 million through Trust II in February 2006. The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities (VIEs) for which the Company is not the primary beneficiary, as defined by Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”). In accordance with FASB ASC, the accounts of the Trusts are not included in the Company’s consolidated financial statements.

## Operating Subsidiaries of the Bank

The Bank has five operating subsidiaries, NBT Capital Corp., Pennstar Bank Services Company, Broad Street Property Associates, Inc., NBT Services, Inc., and CNB Realty Trust. NBT Capital Corp., formed in 1998, is a venture capital corporation formed to assist young businesses to develop and grow primarily in the markets they serve. Pennstar Bank Services Company, formed in 2002, provides administrative and support services to the Pennstar Bank division of the Bank. Broad Street Property Associates, Inc., formed in 2004, is a property management company. NBT Services, Inc., formed in 2004, has a 44% ownership interest in Land Record Services, LLC. Land Record Services, LLC, a title insurance agency, offers mortgagee and owner’s title insurance coverage to both retail and commercial customers. CNB Realty Trust, formed in 1998, is a real estate investment trust.

## Competition

The financial services industry, including commercial banking, is highly competitive, and we encounter strong competition for deposits, loans and other financial services in our market area. The increasingly competitive environment is the result of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers. The Company

competes for loans, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Some of the Company’s competitors have fewer regulatory constraints and may have lower cost structures. In addition, some of the Company’s competitors have assets, capital and lending limits greater than that of the Company, have greater access to capital markets and offer a broader range of products and services than the Company. These institutions may have the ability to finance wide-ranging advertising campaigns and may also be able to offer lower rates on loans and higher rates on deposits than the Company can offer. Some of these institutions offer services, such as credit cards and international banking, which the Company does not directly offer.

Various in-state market competitors and out-of-state banks continue to enter or have announced plans to enter or expand their presence in the market areas in which the Company currently operates. Most notably, First Niagara Bank (“First Niagara”), based in Buffalo, NY, entered an agreement to acquire 195 branches, primarily in upstate NY, from London based HSBC Bank USA, National Association (“HSBC”) on July 30, 2011 for approximately \$1 billion. As of January 20, 2012, First Niagara had divested 64 branches through agreements with three other banks, two of which are, or will be, operating within our market areas. With the addition of new banking presences within our market, the Company expects increased competition for loans, deposits, and other products and services.

In order to compete with other financial services providers, the Company stresses the community nature of its banking operations and principally relies upon local promotional activities, personal relationships established by officers, directors, and employees with their customers, and specialized services tailored to meet the needs of the communities served.



We also offer certain customer services, such as agricultural lending, that many of our larger competitors do not offer. While the Company's position varies by market, the Company's management believes that it can compete effectively as a result of local market knowledge, local decision making, and awareness of customer needs.

The table below summarizes the Bank's deposits and market share by the twenty-eight counties of New York, Pennsylvania, Vermont, and Massachusetts in which it has customer facilities as of June 30, 2011. Market share is based on deposits of all commercial banks, credit unions, savings and loans associations, and savings banks.

County	State	Deposits (in thousands)	Market Share	Market Rank	Number of Branches*	Number of ATMs*
Chenango	NY	\$ 466,890	80.19%	1	11	15
Fulton	NY	360,613	56.68%	1	7	11
Hamilton	NY	32,338	47.50%	2	1	1
Schoharie	NY	173,906	45.01%	1	4	3
Delaware	NY	307,417	35.29%	1	5	5
Montgomery	NY	205,961	30.46%	2	6	5
Otsego	NY	287,487	28.26%	2	9	12
Essex	NY	126,299	24.39%	2	3	6
Susquehanna	PA	135,500	19.98%	3	6	7
Wayne	PA	152,793	12.52%	4	3	4
Broome	NY	244,529	11.12%	3	9	11
Saint Lawrence	NY	120,852	10.62%	3	5	6
Pike	PA	57,733	9.91%	5	2	3
Oneida	NY	260,872	8.63%	4	6	14
Lackawanna	PA	361,709	7.63%	7	15	20
Tioga	NY	30,615	7.43%	5	1	1
Herkimer	NY	37,797	6.71%	6	2	1
Clinton	NY	81,652	6.40%	6	3	2
Franklin	NY	25,545	5.61%	5	1	1
Berkshire	MA	163,918	5.53%	6	4	5
Schenectady	NY	89,333	3.81%	8	2	2
Warren	NY	51,936	3.78%	7	2	3
Saratoga	NY	124,362	3.69%	11	4	4
Monroe	PA	84,645	3.62%	8	5	7
Luzerne	PA	111,859	1.97%	15	4	6
Rensselaer	NY	23,496	1.27%	13	1	1
Albany	NY	150,830	1.14%	11	4	6
Chittenden	VT	24,496	0.72%	7	3	3
		<u>\$4,295,383</u>			<u>128</u>	<u>165</u>

Deposit market share data is based on the most recent data available (as of June 30, 2011). Source: SNL Financial LLC.

\*Branch and ATM data is as of December 31, 2011.

## Supervision and Regulation

As a bank holding company, the Company is subject to extensive regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "FRB") as its primary federal regulator. The Company also has qualified for and elected to be registered with the FRB as a financial holding company. The Bank, as a nationally chartered bank, is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency ("OCC") as its primary federal regulator and, as to certain matters, by the FRB, the Bureau of Consumer Financial Protection

("CFPB"), and the Federal Deposit Insurance Corporation ("FDIC").

The Company is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. A summary of material information regarding the laws and regulations applicable to the Company are below. This summary is not complete and the reader should refer to these laws and regulations for more information. Failure to comply with applicable laws and regulations could result in

a range of sanctions and enforcement actions, including the imposition of civil money penalties, formal agreements and cease and desist orders. Applicable laws and regulations may change in the future and any such change could have a material adverse impact on the Company.

### **Federal Bank Holding Company Regulation**

Transactions between the Bank and any of its affiliates, including the Company, are governed by sections 23A and 23B of the Federal Reserve Act (“FRA”) and the FRB’s implementing Regulation W. An “affiliate” of a bank includes any company or entity that controls, is controlled by, or is under common control with the bank. A subsidiary of a bank that is not also a depository institution is not treated as an affiliate of the bank for purposes of sections 23A and 23B, unless the subsidiary is also controlled through a non-bank chain of ownership by affiliates or controlling shareholders of the bank, the subsidiary is a financial subsidiary that operates under the expanded authority granted to national banks under the Financial Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act (“GLB Act”), or the subsidiary engages in other activities that are not permissible for a bank to engage in directly (except insurance agency subsidiaries). Generally, sections 23A and 23B are intended to protect insured depository institutions from suffering losses arising from transactions with non-insured affiliates, by placing quantitative and qualitative limitations on covered transactions between a bank and with any one affiliate as well as all affiliates of the bank in the aggregate, and requiring that such transactions be on terms that are consistent with safe and sound banking practices.

Under the GLB Act, a financial holding company may engage in certain financial activities that a bank holding company may not otherwise engage in under the Bank Holding Company Act (“BHC Act”). In addition to engaging in banking and activities closely related to banking as determined by the FRB by regulation or order prior to November 11, 1999, a financial holding company may engage in activities that are financial in nature or incidental to financial activities, or activities that are complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The GLB Act and the rules promulgated thereunder requires all financial institutions, including the Company and the Bank, to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer’s request, and establish procedures and practices to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act (“FCRA”), as amended by the

Fair and Accurate Credit Transactions Act of 2003 (“FACT Act”), includes many provisions affecting the Company, Bank, and/or their affiliates, including provisions concerning obtaining consumer reports, furnishing information to consumer reporting agencies, maintaining a program to prevent identity theft, sharing of certain information among affiliated companies, and other provisions. The FACT Act requires persons subject to FCRA to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The CFPB and the Federal Trade Commission (“FTC”) have extensive rulemaking authority under the FACT Act, and the Company and the Bank are subject to the rules that have been promulgated under the FACT Act, including rules regarding limitations on affiliate marketing and implementation of programs to identify, detect and mitigate certain identity theft red flags. The Company has developed policies and procedures for itself and its subsidiaries, including the Bank, and believes it is in compliance with all privacy, information sharing, and notification provisions of the GLB Act and the FACT Act. The Bank is also subject to data security standards and data breach notice requirements, chiefly those issued by the OCC.

### **Federal Reserve System Regulation**

The Company is subject to capital adequacy guidelines of the FRB. The guidelines apply on a consolidated basis and require bank holding companies to maintain a minimum ratio of Tier 1 capital to total average assets (or “leverage ratio”) of 4%. For the most highly rated bank holding companies, the minimum ratio is 3%. The FRB capital adequacy guidelines also require bank holding companies to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 4% and a minimum ratio of qualifying total capital to risk-weighted assets of 8%. As of December 31, 2011, the Company’s leverage ratio was 8.74%, its ratio of Tier 1 capital to risk-weighted assets was 11.56%, and its ratio of qualifying total capital to risk-weighted assets was 12.81%. The FRB may set higher minimum capital requirements for bank holding companies whose circumstances warrant it, such as companies anticipating significant growth or facing unusual risks. The FRB has not advised the Company of any special capital requirement applicable to it.

Any holding company whose capital does not meet the minimum capital adequacy guidelines is considered to be undercapitalized and is required to submit an acceptable plan to the FRB for achieving capital adequacy. Such a company’s ability to pay dividends to its shareholders and expand its lines of business through the acquisition of new banking or nonbanking subsidiaries also could be restricted.



Pursuant to Federal Reserve Board regulations and supervisory policies that were largely codified in the Dodd-Frank Act, bank holding companies also are expected to serve as a source of financial and managerial strength to their subsidiary depository institutions. Therefore, to the extent the Bank is in need of capital, the Company could be expected to provide additional capital to the Bank, including, potentially, raising new capital for that purpose.

### **Office of Comptroller of the Currency Regulation**

The Bank is supervised and regularly examined by the OCC. The various laws and regulations administered by the OCC affect corporate practices such as payment of dividends, incurring debt, and acquisition of financial institutions and other companies. It also affects business practices, such as payment of interest on deposits, the charging of interest on loans, types of business conducted and location of offices. The OCC generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan to the OCC. If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is "significantly undercapitalized." Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The Bank is subject to leverage and risk-based capital requirements and minimum capital guidelines of the OCC that are similar to those applicable to the Company. As of December 31, 2011, the Bank was in compliance with all minimum capital requirements and met the requirements to be considered well-capitalized. As of that date, the Bank's leverage ratio was 8.35%, its ratio of Tier 1 capital to risk-weighted assets was 11.03%, and its ratio of qualifying total capital to risk-weighted assets was 12.28%.

### **Insurance of Deposit Accounts**

The Bank is a member of the Deposit Insurance Fund ("DIF") and deposit accounts at the Bank are insured by the FDIC, generally up to the maximum amount permitted by law. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor per insured institution, retroactive to January 1, 2008, and qualifying

non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The deposits of the Bank are insured up to regulatory limits by the FDIC. The Federal Deposit Insurance Reform Act of 2005 gave the FDIC increased flexibility in assessing premiums on banks and savings associations, including the Bank, to pay for deposit insurance and in managing its deposit insurance reserves. The FDIC currently maintains a risk-based assessment system under which assessment rates vary based on the level of risk posed by institutions to the DIF. On February 8, 2011, the FDIC issued new rules that took effect April 1, 2011 to change the way the FDIC differentiates risk and sets appropriate assessment rates.

Like all FDIC insured financial institutions, the Company was subject to substantial increases in FDIC recurring premiums during 2008 through 2010, as well as a special assessment levied by the FDIC in the second quarter of 2009. On November 12, 2009, the FDIC adopted a final rule amending the assessment regulations to require insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 31, 2009. The Company paid approximately \$22.2 million in 2009 for prepaid assessment fees for the fourth quarter of 2009, and for the years 2010, 2011, and 2012. On February 9, 2011, the FDIC adopted a final rule as required by the Dodd-Frank Act which redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity, which led to a decrease in FDIC assessment expenses from approximately \$5.5 million in 2010 to \$3.9 million in 2011.

In addition to the FDIC deposit insurance, the Federal Deposit Insurance Act provides for additional assessments to be imposed on insured depository institutions to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments are adjusted quarterly to reflect changes in the assessment base of the Depositors Insurance Fund ("DIF") and do not vary depending upon a depository institution's capitalization or supervisory evaluation. The Company incurred approximately \$0.4 million in FICO expenses in 2011 and \$0.6 million in 2010.

In total, the Company incurred \$4.3 million of FDIC assessment and FICO expenses in 2011, down from \$6.1 million in 2010.

Under FDIC regulations, no FDIC-insured bank can accept brokered deposits unless it is well capitalized, or is adequately capitalized and receives a waiver from the FDIC. In addition, these regulations prohibit any bank that is not well capitalized from paying an interest rate on brokered deposits in excess of three-quarters of one percentage point over certain prevailing market rates. As of December 31, 2011, the Bank's total brokered deposits were \$42.4 million.

### **Federal Home Loan Bank**

The Bank is also a member of the Federal Home Loan Bank (“FHLB”) of New York, which provides a central credit facility primarily for member institutions for home mortgage and neighborhood lending. The Bank is subject to the rules and requirements of the FHLB, including the requirement to acquire and hold shares of capital stock in the FHLB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year. The Bank was in compliance with the rules and requirements of the FHLB at December 31, 2011.

### **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010**

On July 21, 2010, the President signed into law the Dodd-Frank Act. This law significantly changed the bank regulatory landscape and impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.

The so-called Collins Amendment to the Dodd-Frank Act requires bank holding companies with assets greater than \$500 million to be subject to the same capital requirements as insured depository institutions, meaning, for instance, that such bank holding companies will not be able to count trust preferred securities issued after May 19, 2010 as Tier 1 capital. The Company has not issued any trust preferred securities after May 19, 2010. The Collins Amendment also directs the appropriate federal banking supervisors, subject to recommendations by the Financial Stability Oversight Council, to develop capital requirements for all insured depository institutions, depository institution holding companies and systemically important non-bank financial companies to address systemically risky activities.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using the company’s proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules requiring the reporting of incentive-based compensation and prohibiting excessive incentive-based compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion, regardless of whether the company is publicly traded or not. In April 2011, the FRB,

along with other federal banking supervisors, issued a joint notice of proposed rulemaking implementing those requirements.

The Dodd-Frank Act created the new CFPB with wide-ranging powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. The Dodd-Frank Act also weakened the federal preemption rules that have been applicable to national banks and federal savings associations, and gave state attorneys general certain powers to enforce rules issued by the CFPB. Further, pursuant to Federal Reserve regulations mandated by the Dodd-Frank Act, effective October 1, 2011, interchange fees on debit card are limited to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. A debit card issuer may recover an additional one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements prescribed by the Federal Reserve. Issuers that, together with their affiliates, have less than \$10 billion in assets, such as the Company, are exempt from the debit card interchange fee standards.

The scope and impact of many of the Dodd-Frank Act’s provisions will be determined over time as regulations are issued and become effective. As a result, we cannot predict the ultimate impact of the Act on the Company or the Bank at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. Nor can we predict the impact or substance of other future legislation or regulation. However, it is expected that they at a minimum will increase our operating and compliance costs. As continued rules and regulations are issued, the Company may need to dedicate additional resources to ensure compliance, which may increase its costs of operations and adversely impact its earnings.

### **Basel III Amendments to Capital Adequacy Requirements**

In December 2010, the Basel Committee, a group of bank regulatory supervisors from around the world, released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as “Basel III.” Basel III, when implemented by the U.S. bank regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain

substantially more capital, with a greater emphasis on common equity. The Basel III final capital framework, among other things:

- Introduces as a new capital measure “Common Equity Tier 1”, or “CET1”, specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;
- When fully phased in on January 1, 2019, requires banks to maintain:
  - As a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5 percent, plus a 2.5 percent “capital conservation buffer” (which is added to the 4.5 percent CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7 percent);
  - A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the capital conservation buffer (which is added to the 6.0 percent Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5 percent upon full implementation);
  - A minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0 percent, plus the capital conservation buffer (which is added to the 8.0 percent total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5 percent upon full implementation);
  - As a newly adopted international standard, a minimum leverage ratio of 3.0 percent, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and
- Provides for a “countercyclical capital buffer”, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0 percent to 2.5 percent when fully implemented (potentially resulting in total buffers of between 2.5 percent and 5 percent).

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

- 3.5 percent CET1 to risk-weighted assets;
- 4.5 percent Tier 1 capital to risk-weighted assets; and
- 8.0 percent Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20 percent per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625 percent and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5 percent on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in early 2012.

The Dodd-Frank Act requires the Federal Reserve to adopt regulations imposing a continuing “floor” of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In June 2011, the Federal Reserve finalized regulations implementing this requirement.

Given that the Basel III rules are subject to implementation and change and the scope and content of capital regulations that U.S. federal banking agencies may adopt under the Dodd-Frank Act is uncertain, we cannot be certain of the impact new capital regulations will have on our capital ratios.



## **Consumer Protection Laws**

Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines (“ATM”) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. The adoption of this regulation by the Bank had a negative impact on the Company’s service charge income of approximately \$1.9 million in 2011.

Home mortgage lenders, including banks, are required under the Home Mortgage Disclosure Act to make available to the public expanded information regarding the pricing of home mortgage loans, including the “rate spread” between the annual percentage rate and the average prime offer rate for mortgage loans of a comparable type. The availability of this information has led to increased scrutiny of higher-priced loans at all financial institutions to detect illegal discriminatory practices and to the initiation of a limited number of investigations by federal banking agencies and the U.S. Department of Justice. The Company has no information that it or its affiliates is the subject of any HMDA investigation.

In addition, the Company is also subject to federal consumer protection statutes and regulations promulgated under these laws, including, but not limited to:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Fair Credit Reporting Act, governing the provision of consumer information to credit reporting agencies and the use of consumer information; and
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies.

## **USA PATRIOT Act**

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”) imposes obligations on U.S. financial institutions, including banks and broker-dealer subsidiaries, to implement policies, procedures and controls which are reasonably designed to detect and report instances of money laundering and the financing of terrorism. Under Title III of the USA PATRIOT Act all financial institutions, including the Company and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain

transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. The USA PATRIOT Act also encourages information-sharing among financial institutions, regulators, and law enforcement authorities by providing an exemption from the privacy provisions of the GLB Act for financial institutions that comply with this provision. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank, or the BHC Act, which applies to the Company. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, financial and reputational consequences for the institution. As of December 31, 2011, the Company and the Bank believe they are in compliance with the USA PATRIOT Act and regulations thereunder.

## **Community Reinvestment Act of 1977**

The Bank has a responsibility under the Community Reinvestment Act of 1977 (“CRA”) to help meet the credit needs of its communities, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Regulators assess the Bank’s record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. The Bank’s failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of the Company. The Bank’s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions against it by its regulators as well as other federal regulatory agencies and the Department of Justice. The Bank’s latest CRA rating was “Outstanding.”

## **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 (“SOX”) implemented a broad range of measures to increase corporate responsibility, enhance penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to

federal securities laws. SOX applies generally to companies that have securities registered under the Exchange Act, including publicly-held bank holding companies such as the Company. Among other things, SOX and/or its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, expanded the disclosure requirements for our corporate insiders, required our management to evaluate our disclosure controls and procedures and our internal control over financial reporting, and required our auditors to issue a report on our internal control over financial reporting. In addition, the federal banking regulators have adopted generally similar requirements concerning the certification of financial statements by bank officials.

## Employees

At December 31, 2011, the Company had 1,565 full-time equivalent employees. The Company's employees are not presently represented by any collective bargaining group. The Company considers its employee relations to be good.

## Available Information

The Company's website is <http://www.nbtbankcorp.com>. The Company makes available free of charge through its website its annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. We also make available through our website other reports filed with or furnished to the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act, as well as our Code of Business Conduct and Ethics and other codes/committee charters. The references to our website do not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

Any materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A.

### Risk Factors

There are risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Any of the following risks could affect the Company's financial condition and results of operations and could be material and/or adverse in nature.

#### **Deterioration in Local Economic Conditions May Negatively Impact Our Financial Performance**

The Company's success depends primarily on the general economic conditions of upstate New York, northeastern Pennsylvania, western Massachusetts and Burlington, Vermont and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in the upstate New York areas of Norwich, Oneonta, Amsterdam-Gloversville, Albany, Binghamton, Utica-Rome, Plattsburgh, Glens Falls, and Ogdensburg-Massena, the northeastern Pennsylvania areas of

Scranton, Wilkes-Barre and East Stroudsburg, Berkshire County, Massachusetts, and the greater Burlington, Vermont area. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources.

As a lender with the majority of our loans secured by real estate or made to businesses in New York, Pennsylvania, Massachusetts, and Vermont, a downturn in these local economies could cause significant increases in nonperforming loans, which could negatively impact our earnings. Declines in real estate values in our market areas could cause any of our loans to become inadequately collateralized, which would expose us to greater risk of loss. Additionally, a decline in real estate values could adversely impact our portfolio of residential and commercial real estate loans and could result in the decline of originations of such loans, as most of our loans, and the collateral securing our loans, are located in those areas.



Following completion of the Hampshire First merger, we will also have operations in southern New Hampshire and be subject to similar risks with respect to economic conditions in that area.

### **Variations in Interest Rates May Negatively Affect Our Financial Performance**

The Company's earnings and financial condition are largely dependent upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect the Company's earnings and financial condition. The Company cannot predict with certainty or control changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. High interest rates could also affect the amount of loans that the Company can originate because higher rates could cause customers to apply for fewer mortgages or cause depositors to shift funds from accounts that have a comparatively lower cost to accounts with a higher cost. The Company may also experience customer attrition due to competitor pricing. With short-term interest rates at historic lows and the current Federal Funds target rate at 25 bp, the Company's interest-bearing deposit accounts, particularly core deposits, are repricing at historic lows as well. With the current outlook of the FRB to maintain the Fed Funds target rate at 25 bp for another 24 to 28 months, the Company's challenge will be managing the magnitude and scope of the repricing. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, net interest income will be negatively affected. Changes in the asset and liability mix may also affect net interest income. Similarly, lower interest rates cause higher yielding assets to prepay and floating or adjustable rate assets to reset to lower rates. If the Company is not able to reduce its funding costs sufficiently, due to either competitive factors or the maturity schedule of existing liabilities, then the Company's net interest margin will decline.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial or unexpected change in, or prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Net Interest Income" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and

Qualitative Disclosure About Market Risk located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

### **Changes in the Equity Markets Could Materially Affect the Level of Assets Under Management and the Demand for Other Fee-Based Services**

Economic downturns could affect the volume of income from and demand for fee-based services. Revenues from the trust and benefit plan administration businesses depend in large part on the level of assets under management and administration. Market volatility that leads customers to liquidate investments, as well as lower asset values, can reduce our level of assets under management and administration and thereby decrease our investment management and administration revenues.

### **Our Lending, and Particularly Our Emphasis on Commercial Lending, Exposes Us to the Risk of Losses Upon Borrower Default**

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those across the States of New York, Pennsylvania, Massachusetts, and Vermont, and the entire United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company.

As of December 31, 2011, approximately 45% of the Company's loan and lease portfolio consisted of commercial and industrial, agricultural, commercial construction and commercial real estate loans. These types of loans generally expose a lender to greater risk of non-payment and loss than residential real estate loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Because the Company's loan portfolio contains a significant number of commercial and

industrial, agricultural, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and/or an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Loans and Leases" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to commercial and industrial, agricultural, construction and commercial real estate loans.

### **If Our Allowance for Loan and Lease Losses is Not Sufficient to Cover Actual Loan and Lease Losses, Our Earnings Will Decrease**

The Company maintains an allowance for loan and lease losses, which is an allowance established through a provision for loan and lease losses charged to expense, that represents management's best estimate of probable losses that could be incurred within the existing portfolio of loans and leases. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan and lease portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan and lease portfolio quality; present economic, political, environmental, and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan and lease losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses, the Company will need additional provisions to increase the allowance for loan and lease losses. These potential increases in the allowance for loan and lease losses would result in a

decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Allowance for Loan and Lease Losses, Provision for Loan and Lease Losses, and Nonperforming Assets" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan and lease losses.

### **Strong Competition Within Our Industry and Market Area Could Hurt Our Performance and Slow Our Growth**

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets in which the Company operates. Additionally, various banks continue to enter or have announced plans to enter the market areas in which the Company currently operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company can.

The Company's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;

- The ability to expand the Company's market position;
- The scope, relevance and pricing of products and services offered to meet customer needs and demands;
- The rate at which the Company introduces new products and services relative to its competitors;
- Customer satisfaction with the Company's level of service;
- Industry and general economic trends; and
- The ability to attract and retain talented employees.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

### **We Operate in a Highly Regulated Environment and We May be Adversely Affected by Changes in Laws and Regulations**

The Company, primarily through the Bank and certain non-bank subsidiaries, is subject to extensive federal regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned "Supervision and Regulation" which is located in Item 1. Business in the Company's Annual Report on Form 10-K.

### **Compliance With the Dodd-Frank Act May Increase Our Costs of Operations and Adversely Impact Our Earnings and Capital Ratios**

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act represented a significant overhaul of many aspects of the regulation of the financial services industry, and has significantly changed the bank regulatory landscape and impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Among other things, the Dodd-Frank Act creates a new federal financial consumer protection agency, tightens capital standards, imposes clearing and margining requirements on many derivatives activities, and generally increases oversight and regulation of financial institutions and financial activities. It requires bank holding companies with assets greater than \$500 million to be subject to minimum leverage and risk-based capital requirements and phases out the ability for bank holding companies to count trust preferred securities issued after May 19, 2010 as Tier 1 capital. The Company has not issued any trust preferred securities after May 19, 2010.

In addition, the Dodd-Frank Act significantly rolls back the federal preemption of state consumer protection laws that is currently enjoyed by federal savings associations and national banks by requiring that a state consumer financial law prevent or significantly interfere with the exercise of a federal savings association's or national bank's powers before it can be preempted, mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and ending the applicability of preemption to subsidiaries and affiliates of national banks and federal savings associations. As a result, we may now be subject to state consumer protection laws in each state where we do business, and those laws may be interpreted and enforced differently in different states.

The scope and impact of many of the Dodd-Frank Act's provisions will be determined over time as regulations are issued and become effective. As a result, we cannot predict the ultimate impact of the Dodd-Frank Act on us at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. However, it is expected that at a minimum they will increase our operating and compliance costs. The financial reform legislation and any rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and our business. We will apply resources to ensure that we are in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may

increase our costs of operations and adversely impact our earnings.

### **The Provisions of The Dodd-Frank Act Restricting Bank Interchange Fees, and Any Rules Promulgated Thereunder, May Negatively Impact Our Revenues and Earnings**

Pursuant to the Dodd-Frank Act, the Federal Reserve adopted a rule addressing interchange fees for debit card transactions that is expected to lower fee income generated from this source. Effective October 1, 2011, interchange fees on debit card transactions are limited to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. A debit card issuer may recover an additional one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements prescribed by the Federal Reserve. Although technically the fee caps rule only applies to institutions with assets in excess of \$10 billion, it is expected that smaller institutions, such as the Company, may also be impacted due to market reaction. The Company contracts with large debit card processors with which management of the Company could have weaker bargaining power. It is possible these processors, as a result of the Act, will earn lower revenues, leaving less revenue per transaction for the Company.

### **The Company is Subject to Liquidity Risk Which Could Adversely Affect Net Interest Income and Earnings**

The purpose of the Company's liquidity management is to meet the cash flow obligations of its customers for both deposits and loans. The primary liquidity measurement the Company utilizes is called Basic Surplus which captures the adequacy of the Company's 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. However, competitive pressure on deposit pricing could result in a decrease in the Company's deposit base or an increase in funding costs. In addition, liquidity will come under additional pressure if loan growth exceeds deposit growth. These scenarios could lead to a decrease in the Company's basic surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. Depending on the level of interest rates, the

Company's net interest income, and therefore earnings, could be adversely affected. See the section captioned "Liquidity Risk" in Item 7.

### **Our Ability to Service Our Debt, Pay Dividends and Otherwise Pay Our Obligations as They Come Due is Substantially Dependent on Capital Distributions From Our Subsidiaries**

The Company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's common stock and interest and principal on the Company's debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Company. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to the Company, the Company may not be able to service debt, pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, financial condition and results of operations.

### **A Breach of Information Security, Including as a Result of Cyber Attacks, Could Disrupt Our Business and Impact Our Earnings**

We depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite existing safeguards, we cannot be certain that all of our systems are free from vulnerability to attack or other technological difficulties or failures. If information security is breached or difficulties or failures occur, despite the controls we and our third party vendors have instituted, information can be lost or misappropriated, resulting in financial loss or costs to us or damages to others. Such costs or losses could exceed the amount of insurance coverage, if any, which would adversely affect our earnings.

### **We Continually Encounter Technological Change and the Failure to Understand and Adapt to These Changes Could Hurt Our Business**

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and



services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

**Provisions of Our Certificate of Incorporation, Bylaws and Stockholder Rights Plan, as Well as Delaware Law and Certain Banking Laws, Could Delay or Prevent a Takeover of Us by a Third Party**

Provisions of the Company's certificate of incorporation and bylaws, the Company's stock purchase rights plan, the corporate law of the State of Delaware and state and federal banking laws, including regulatory approval requirements, could delay, defer or prevent a third party from acquiring the Company, despite the possible benefit to the Company's stockholders, or otherwise adversely affect the market price of the Company's common stock. These provisions include: supermajority voting requirements for certain business combinations; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to the Company's board of directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, the Company is subject to Delaware law, which among other things prohibits the Company from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discouraging bids for the Company's common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of the Company's common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors other than candidates nominated by the Board.

**Negative Developments in the Housing Market, Financial Industry and the Domestic and International Credit Markets May Adversely Affect Our Operations and Results**

Dramatic declines in the housing market over the past few years, with falling home prices and increasing foreclosures, continued high unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions.

The economic pressure experienced by consumers during the recent fiscal recession and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. In particular, we have seen increases in foreclosures in our markets, increases in expenses such as loan collection and OREO expenses, and a low reinvestment rate environment. While it appears that the worst of the financial crisis has past, we do not expect that the challenging conditions in the financial and housing markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions. In particular, we may be affected in one or more of the following ways:

- We currently face increased regulation of our industry and compliance with such regulation may increase our costs and limit our ability to pursue business opportunities;
- Our ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets; or
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

**We are Subject to Other-Than-Temporary Impairment Risk Which Could Negatively Impact Our Financial Performance**

The Company recognizes an impairment charge when the decline in the fair value of equity, debt securities and cost-method investments below their cost basis are judged to be other-than-temporary. Significant judgment is used to identify events or circumstances that would likely have a significant adverse effect on the future use of the investment. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the



investee, and whether the Company has the intent to sell and whether it is more likely than not it will be forced to sell the security in question. Information about unrealized gains and losses is subject to changing conditions. The values of securities with unrealized gains and losses will fluctuate, as will the values of securities that we identify as potentially distressed. Our current evaluation of other-than-temporary impairments reflects our intent to hold securities for a reasonable period of time sufficient for a forecasted recovery of fair value. However, our intent to hold certain of these securities may change in future periods as a result of facts and circumstances impacting a specific security. If our intent to hold a security with an unrealized loss changes, and we do not expect the security to fully recover prior to the expected time of disposition, we will write down the security to its fair value in the period that our intent to hold the security changes.

The process of evaluating the potential impairment of goodwill and other intangibles is highly subjective and requires significant judgment. The Company estimates the expected future cash flows of its various businesses and determines the carrying value of these businesses. The Company exercises judgment in assigning and allocating certain assets and liabilities to these businesses. The Company then compares the carrying value, including goodwill and other intangibles, to the discounted future cash flows. If the total of future cash flows is less than the carrying amount of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. Estimates of the future cash flows associated with the assets are critical to these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges and therefore have a material adverse impact on the Company's financial condition and performance.

### **The Risks Presented by Acquisitions Could Adversely Affect Our Financial Condition and Result of Operations**

The business strategy of the Company has included and may continue to include growth through acquisition from time to time. Any future acquisitions, including our pending acquisition of Hampshire First, will be accompanied by the risks commonly encountered in acquisitions. These risks may include, among other things: our ability to realize anticipated cost savings, the difficulty of integrating operations and personnel, the potential disruption of our or the acquired company's ongoing business, the inability of our management to maximize our financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the

impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management.

### **Our Controls and Procedures May Fail or be Circumvented, Which May Result in a Material Adverse Effect on Our Business**

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

### **We Are Exposed to Risk of Environmental Liabilities With Respect to Properties to Which We Obtain Title**

A portion of our loan portfolio at December 31, 2011 was secured by real estate. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a government entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations and prospects.

### **We May be Adversely Affected by the Soundness of Other Financial Institutions Including the FHLB of New York**

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds,

and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

The Company owns common stock of FHLB of New York in order to qualify for membership in the FHLB system, which enables it to borrow funds under the FHLB of New York's advance program. The carrying value and fair market value of our FHLB of New York common stock was \$20.2 million as of December 31, 2011.

There are 12 branches of the FHLB, including New York. The 12 FHLB branches are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment. Any such adverse effects on the FHLB of New York could adversely affect the value of our investment in its common stock and negatively impact our results of operations.

### **Trading Activity in the Company's Common Stock Could Result in Material Price Fluctuations**

The market price of the Company's common stock may fluctuate significantly in response to a number of factors including, but not limited to:

- Changes in securities analysts' expectations of financial performance;
- Volatility of stock market prices and volumes;
- Incorrect information or speculation;
- Changes in industry valuations;
- Variations in operating results from general expectations;
- Actions taken against the Company by various regulatory agencies;
- Changes in authoritative accounting guidance by the Financial Accounting Standards Board or other regulatory agencies;
- Changes in general domestic economic conditions such as inflation rates, tax rates, unemployment rates, labor and healthcare cost trend rates, recessions, and changing government policies, laws and regulations; and
- Severe weather, natural disasters, acts of war or terrorism and other external events.

#### **ITEM 1B.**

#### **Unresolved Staff Comments**

None.

**ITEM 2.****Properties**

The Company's headquarters are located at 52 South Broad Street, Norwich, New York 13815. The Company operated the following community banking branches and ATMs as of December 31, 2011:

County	Branches	ATMs	County	Branches	ATMs
<b>NBT Bank Division</b>			<b>Pennstar Bank Division</b>		
<b>New York</b>			<b>Pennsylvania</b>		
Albany County	4	6	Lackawanna County	15	20
Broome County	9	11	Luzerne County	4	6
Chenango County	11	15	Monroe County	5	7
Clinton County	3	2	Pike County	2	3
Delaware County	5	5	Susquehanna County	6	7
Essex County	3	6	Wayne County	3	4
Franklin County	1	1			
Fulton County	7	11			
Hamilton County	1	1			
Herkimer County	2	1			
Montgomery County	6	5			
Oneida County	6	14			
Otsego County	9	12			
Rensselaer County	1	1			
Saratoga County	4	4			
Schenectady County	2	2			
Schoharie County	4	3			
St. Lawrence County	5	6			
Tioga County	1	1			
Warren County	2	3			
<b>Vermont</b>					
Chittenden County	3	3			
<b>Massachusetts</b>					
Berkshire County	4	5			

The Company leases 48 of the above listed branches from third parties. The Company owns all other banking premises. The Company believes that its offices are sufficient for its present operations. All of the above ATMs are owned by the Company.

**ITEM 3.****Legal Proceedings**

The Bank has been named as a defendant in a purported class action lawsuit. The complaint was filed in the Supreme Court of the State of New York, County of Delaware, on September 12, 2011 and alleges that the Bank engaged in certain unfair practices and failed to make adequate disclosure to customers concerning its overdraft fee assessment practices. The complaint seeks certification of a class of national checking account holders who have incurred overdraft fees and a subclass of such customers who reside in New York. In addition, the complaint seeks actual and punitive damages, disgorgement, interest and costs

including attorneys' fees. The Company filed a motion in September 2011 to dismiss the complaint in its entirety, the motion was argued in January 2012, and the judge reserved decision. The Company believes the claims to be without merit and intends to defend the action vigorously.

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

**ITEM 4.****Mine Safety Disclosures**

None.

**PART II****ITEM 5.****Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The common stock of NBT Bancorp Inc. ("Common Stock") is quoted on the Nasdaq Global Select Market under the symbol "NBTB." The following table sets forth the high and low sales prices and dividends declared for the Common Stock for the periods indicated:

	High	Low	Dividend
<b>2011</b>			
1st quarter	<b>\$24.98</b>	<b>\$21.55</b>	<b>\$0.20</b>
2nd quarter	<b>23.32</b>	<b>20.62</b>	<b>0.20</b>
3rd quarter	<b>23.25</b>	<b>17.05</b>	<b>0.20</b>
4th quarter	<b>22.63</b>	<b>17.47</b>	<b>0.20</b>
<b>2010</b>			
1st quarter	\$23.99	\$19.15	\$0.20
2nd quarter	25.96	20.21	0.20
3rd quarter	23.06	19.27	0.20
4th quarter	24.96	21.41	0.20

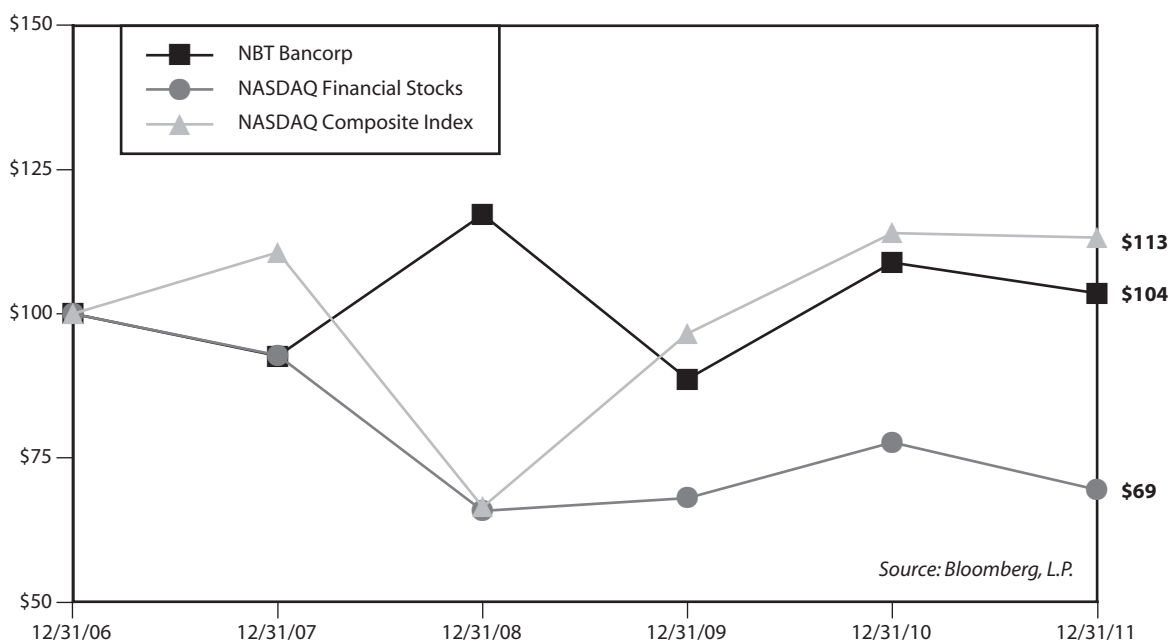
*The closing price of the Common Stock on February 15, 2012 was \$22.22.*

As of February 15, 2012, there were 6,569 shareholders of record of Company common stock.

The following graph compares the cumulative total stockholder return (i.e., price change, reinvestment of cash dividends and stock dividends received) on our common stock against the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index and the Index for NASDAQ Financial Stocks. The stock performance graph assumes that \$100 was invested on December 31, 2006. The graph further

assumes the reinvestment of dividends into additional shares of the same class of equity securities at the frequency with which dividends are paid on such securities during the relevant fiscal year. The yearly points marked on the horizontal axis correspond to December 31 of that year. We calculate each of the referenced indices in the same manner. All are market-capitalization-weighted indices, so companies judged by the market to be more important (i.e., more valuable) count for more in all indices.

### The Company's Long-Term Total Return Performance vs. Indices



Source: Bloomberg, L.P.

Index	Period Ending					
	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
NBT Bancorp	\$100.00	\$ 92.62	\$117.22	\$88.62	\$108.88	<b>\$103.58</b>
NASDAQ Financial Stocks	\$100.00	\$ 92.78	\$ 65.77	\$68.02	\$ 77.65	<b>\$ 69.41</b>
NASDAQ Composite Index	\$100.00	\$110.65	\$ 66.44	\$96.52	\$114.02	<b>\$113.14</b>

Source: Bloomberg, L.P.

We depend primarily upon dividends from our subsidiaries for a substantial part of our revenue. Accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Payment of dividends to the Company from the Bank is subject to certain regulatory and other restrictions. Under OCC regulations, the Bank may pay dividends to the Company without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of such dividends and its total dividends do not exceed its net income to date over the calendar year plus retained net income over the preceding two years. At December 31, 2011, the Bank was in compliance with all applicable minimum capital requirements and had the ability to pay dividends of \$95.9 million to the Company without the prior approval of the OCC.

If the capital of the Company is diminished by depreciation in the value of its property or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, no dividends may be paid out of net profits until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets has been repaired. See the section captioned "Supervision and Regulation" in Item 1. Business and Note 16—Stockholders' Equity in the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.



**ITEM 6.****Selected Financial Data**

The following summary of financial and other information about the Company is derived from the Company's audited consolidated financial statements for each of the last five fiscal years ended December 31 and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's consolidated financial statements and accompanying notes, included elsewhere in this report:

	Year ended December 31,				
<i>(Dollars in thousands, except share and per share data)</i>	2011	2010	2009	2008	2007
Interest, fee and dividend income	\$ 239,997	\$ 255,738	\$ 273,393	\$ 294,414	\$ 306,117
Interest expense	39,721	53,210	76,924	108,368	141,090
Net interest income	200,276	202,528	196,469	186,046	165,027
Provision for loan and lease losses	20,737	29,809	33,392	27,181	30,094
Noninterest income excluding securities gains	80,161	80,614	79,987	70,171	57,586
Securities gains, net	150	3,274	144	1,535	2,113
Noninterest expense	180,676	178,291	170,566	146,813	122,517
Income before income taxes	79,174	78,316	72,642	83,758	72,115
Net income	57,901	57,404	52,011	58,353	50,328
<b>Per common share</b>					
Basic earnings	\$ 1.72	\$ 1.67	\$ 1.54	\$ 1.81	\$ 1.52
Diluted earnings	1.71	1.66	1.53	1.80	1.51
Cash dividends paid	0.80	0.80	0.80	0.80	0.79
Book value at year-end	16.23	15.51	14.69	13.24	12.29
Tangible book value at year-end	11.70	11.67	10.75	9.01	8.78
Average diluted common shares outstanding	33,924	34,509	33,903	32,427	33,421
Securities available for sale, at fair value	\$1,244,619	\$1,129,368	\$1,116,758	\$1,119,665	\$1,140,114
Securities held to maturity, at amortized cost	70,811	97,310	159,946	140,209	149,111
Loans and leases	3,800,203	3,610,006	3,645,398	3,651,911	3,455,851
Allowance for loan and lease losses	71,334	71,234	66,550	58,564	54,183
Assets	5,598,406	5,338,856	5,464,026	5,336,088	5,201,776
Deposits	4,367,149	4,134,352	4,093,046	3,923,258	3,872,093
Borrowings	627,358	604,730	786,097	914,123	868,776
Stockholders' equity	538,110	533,572	505,123	431,845	397,300
<b>Key ratios</b>					
Return on average assets	1.06%	1.05%	0.96%	1.11%	0.98%
Return on average equity	10.73	10.92	10.90	14.16	12.60
Average equity to average assets	9.90	9.63	8.79	7.83	7.81
Net interest margin	4.09	4.15	4.04	3.95	3.61
Dividend payout ratio	46.78	48.19	52.29	44.44	52.32
Tier 1 leverage	8.74	9.16	8.35	7.17	7.14
Tier 1 risk-based capital	11.56	12.44	11.34	9.75	9.79
Total risk-based capital	12.81	13.70	12.59	11.00	11.05

## Selected Quarterly Financial Data

	2011				2010			
<i>(Dollars in thousands, except share and per share data)</i>	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest, fee and dividend income	\$59,898	\$59,784	\$60,258	\$60,057	\$62,349	\$63,312	\$64,606	\$65,471
Interest expense	9,399	9,423	10,094	10,805	11,850	12,685	14,005	14,670
Net interest income	50,499	50,361	50,164	49,252	50,499	50,627	50,601	50,801
Provision for loan and lease losses	5,576	5,175	6,021	3,965	6,687	7,529	6,350	9,243
Noninterest income excluding net securities gains	20,078	20,182	19,802	20,099	20,173	19,871	20,257	20,313
Net securities gains	52	12	59	27	2,063	1,120	63	28
Noninterest expense	47,412	45,046	43,157	45,061	47,250	44,684	44,197	42,160
Net income	13,722	15,217	14,655	14,307	14,434	14,570	14,424	13,976
Basic earnings per share	\$ 0.42	\$ 0.46	\$ 0.43	\$ 0.42	\$ 0.42	\$ 0.42	\$ 0.42	\$ 0.41
Diluted earnings per share	\$ 0.41	\$ 0.45	\$ 0.43	\$ 0.41	\$ 0.42	\$ 0.42	\$ 0.42	\$ 0.41
Annualized net interest margin	3.98%	4.14%	4.13%	4.11%	4.09%	4.15%	4.14%	4.21%
Annualized return on average assets	0.97%	1.12%	1.09%	1.08%	1.05%	1.07%	1.06%	1.03%
Annualized return on average equity	10.09%	11.21%	10.86%	10.78%	10.68%	10.89%	11.09%	11.05%
Average diluted common shares outstanding	33,239	33,567	34,320	34,650	34,590	34,513	34,565	34,425

### ITEM 7.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward Looking Statements

Certain statements in this filing and future filings by the Company with the SEC, 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," "will," "can," "would," "should," "could," "may," 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) local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact; (2) changes in the level of non-performing assets and charge-offs; (3) changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; (4) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board; (5) inflation, interest rate, securities market and monetary fluctuations; (6) political instability; (7) acts

of war or terrorism; (8) the timely development and acceptance of new products and services and perceived overall value of these products and services by users; (9) changes in consumer spending, borrowings and savings habits; (10) changes in the financial performance and/or condition of the Company's borrowers; (11) technological changes; (12) acquisitions and integration of acquired businesses; (13) the ability to increase market share and control expenses; (14) changes in the competitive environment among financial holding companies; (15) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply including those under the Dodd-Frank Act; (16) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; (17) changes in the Company's organization, compensation and benefit plans; (18) the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; (19) greater than expected costs or difficulties related to the integration of new products and lines of business; and (20) the Company's success at managing the risks involved in the foregoing items.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and advises readers that various factors including, but not limited to, 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.

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

## **General**

The financial review which follows focuses on the factors affecting the consolidated financial condition and results of operations of NBT Bancorp Inc. (the "Registrant") and its wholly owned subsidiaries, the Bank, NBT Financial Services and NBT Holdings during 2011 and, in summary form, the preceding two years. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company." Net interest margin is presented in this discussion on a fully taxable equivalent (FTE) basis. Average balances discussed are daily averages unless otherwise described. The audited consolidated financial statements and related notes as of December 31, 2011 and 2010 and for each of the years in the three-year period ended December 31, 2011 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2011 presentation.

## **Critical Accounting Policies**

The Company has identified policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan and lease losses, pension accounting, other-than-temporary impairment, provision for income taxes and intangible assets.

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance

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

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

Management of the Company considers the accounting policy relating to other-than-temporary impairment to be a critical accounting policy. Management systematically evaluates certain assets for other-than-temporary declines in fair value, primarily investment securities. Management considers historical values and current market conditions as a part of the assessment. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes.

The Company is subject to examinations from various taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgments used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the taxing authorities determine that management's assumptions were inappropriate, an adjustment may be required which could have a material effect on the Company's results of operations.

As a result of acquisitions, the Company has acquired goodwill and identifiable intangible assets. Goodwill represents the cost of acquired companies in excess of the fair value of net assets at the acquisition date. Goodwill is evaluated at least annually or when business conditions suggest that an impairment may have occurred. Goodwill will be reduced to its carrying value through a charge to earnings if impairment exists. Core deposits and other identifiable intangible assets are amortized to expense over their estimated useful lives. The determination of whether or not impairment exists is based upon discounted cash flow modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires them to select a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums and Company-specific risk indicators, all of which are susceptible to change based on changes in economic conditions and other factors. Future events or changes in the estimates used to determine the carrying value of goodwill and identifiable intangible assets could have a material impact on the Company's results of operations.

The Company's policies on the allowance for loan and lease losses, pension accounting, provision for income taxes and intangible assets are disclosed in Note 1 to the consolidated financial statements. A more detailed description of the allowance for loan and lease losses is included in the "Risk Management" section of this Form 10-K. All significant pension accounting assumptions, income tax assumptions, and intangible asset assumptions and detail are disclosed in Notes 18, 15 and 10, respectively, to the consolidated financial statements. All accounting policies are important, and as such, the Company encourages the reader to review each of the policies included in Note 1 to obtain a better understanding of how the Company's financial performance is reported.

## Overview

Significant factors management reviews to evaluate the Company's operating results and financial condition include, but are not limited to: net income and earnings per share, return on assets and equity, net interest margin, noninterest income, operating expenses, asset quality indicators, loan and deposit growth, capital management, liquidity and interest rate sensitivity, enhancements to customer products and services, technology advancements, market share and peer comparisons. The following information should be considered in connection with the Company's results for the fiscal year ended December 31, 2011:

- Diluted earnings per share of \$1.71 was the second highest in the history of the Company.
- Net interest margin declined to 4.09% from 4.15% as a result of the continued low rate environment.
- Service charges on deposit accounts decreased approximately \$2.6 million as a result of a decrease in overdraft activity due to the effects of a full year of new regulations regarding overdraft fees, as well as decreased activity due to the current state of the economy.
- Despite a challenging environment, the Company achieved 4.1% organic loan growth (5.3% total loan growth).
- Net charge-offs were 0.56% of average loans and leases for the year ended December 31, 2011, down 13 bps from the year ended December 31, 2010; provision for loan and lease losses was down \$9.1 million for the same period.
- Significant strategic expansion during 2011 and the first quarter of 2012:
  - Expanded presence in Vermont with two de-novo branch openings in Williston and Essex.
  - Expanded into Berkshire County, Massachusetts with the successful acquisition and conversion of four branches on October 21, 2011, including approximately \$144.8 million in deposits and \$39.9 million in loans.
  - Announced the acquisition of three branches in Greene County, New York, which closed on January 21, 2012.



- Announced the planned acquisition of Hampshire First Bank, expected to close in the second quarter of 2012.
- Purchased a building in Lenox, MA, which opened as a fifth Massachusetts branch on February 7, 2012.

The Company continued to experience pressure on net interest income in 2011 as low rates continued to have the effect of causing many assets to prepay or to be redeemed. As a result, reinvestment of cash flows in lower yielding assets has been the primary contributor to a decline in interest income in 2011. The yield on interest earning assets decreased from 5.21% in 2010 to 4.88% in 2011, with drops in the yields on loans and securities available for sale being the primary drivers. Rates paid on interest bearing liabilities also decreased in the low rate environment, which partially offset the decrease in earning asset yields. In particular, the decrease in rates paid on money market deposit accounts and time deposits contributed approximately \$5.0 million to the decrease in interest expense in 2011 as compared with 2010. Average interest bearing liabilities decreased approximately \$172.9 million from 2010 to 2011, with the primary driver being the decrease in long term debt as the Company strategically paid down long term debt in the second half of 2010. The decrease in long term debt resulted in an interest expense savings of approximately \$3.9 million in 2011 compared to 2010. In addition to the long term debt prepayment, the Company also took the following steps in 2011 in an effort to help offset the margin pressure created by the low interest rate environment:

- Continued to increase our focus on loan collection efforts which contributed to an improvement in the charge-off ratio in 2011 as compared with 2010.
- Continued the sale of conforming residential real estate mortgages in the third quarter of 2011 due to favorable interest rate conditions.
- Increased efforts to grow noninterest income with focus on organic growth of our trust, financial services and insurance businesses.
- Continued to originate loans using strict underwriting criteria.
- Continued strategic expansion into Massachusetts and expanded our presence in Vermont.

The Company reported net income of \$57.9 million or \$1.71 per diluted share for 2011, up 0.9% from net income of \$57.4 million or \$1.66 per diluted share for 2010. The provision for loan and lease losses totaled \$20.7 million for the year ended December 31, 2011, down \$9.1 million, or 30.4%, from \$29.8 million for the year ended December 31, 2010. The decrease in provision is attributable to a decrease in charge-offs as well as the ongoing modeling of the required levels of reserves which considers historical charge-offs, loan growth and economic trends. The decrease in the provision was partially offset by a decrease in noninterest income, which was down \$3.6 million or 4.3% from the year ended December 31, 2010 primarily due to a decrease in net securities gains of approximately \$3.1 million due to the sale of two equity positions and certain collateralized mortgage obligations (“CMO’s”) during 2010. Noninterest expense for the year ended December 31, 2011 was \$180.7 million, up from \$178.3 million, or 1.3%, for the year ended December 31, 2010.

## 2012 Outlook

The Company’s 2011 earnings reflected the Company’s continued ability to manage through the existing and near future economic conditions and challenges in the financial services industry, while investing in the Company’s future. The Company believes effects of the economic crisis still exist and, as a result, there will be certain challenges faced in 2012. In particular:

- The Company expects that it will experience additional margin compression from the 2011 fourth quarter net interest margin of 3.98%. Payments representing interest and principal on currently outstanding loans and investments will continue to be reinvested at rates that are lower than the rates currently outstanding on those loans and investments. In addition, deposit and borrowing rates are historically low and there are minimal opportunities for them to be lowered. Furthermore, with the sale of a significant number of upstate New York HSBC branches to certain banks in our markets, competitive pricing pressure is expected to be high as those banks will need to deploy liquidity in our markets in order to manage their own margins. Furthermore, the industry as a whole must focus on asset growth to increase interest income, thereby creating general pricing pressure in the entire industry.

- The Company experienced a significant decline in service charge revenue during 2010 from the implementation of changes to Regulation E in July 2010. A further decrease during 2011 was the result of the full year impact of these changes, as well as certain amendments to Regulation E affecting processing changes during the year. 2012 is expected to represent normalized levels of service charge income, approximately \$2.5 million lower than 2011, due to the aforementioned amendments to Regulation E as well as general economic conditions, which have resulted in lower volume in certain customer activities.
- Similar to other companies with defined benefit plans, the Company expects, and actuarial valuations have shown, that pension expenses will increase in 2012 due to the current interest rate and market environment which has resulted in lower discount rate and asset return assumptions than in 2011.
- The Company experienced benefits from two state tax audit settlements during the past two years, as well as a benefit in 2010 from a change in state tax law related to bad debt reserves. The Company expects the tax rate to be more normalized in 2012 without those benefits. The full impact of the absence of these items will be slightly offset by an increase in tax credits from tax strategies implemented by the Company in the recent years.
- The economy may have an adverse affect on asset quality indicators, particularly indicators related to loans secured by real estate, which could adversely affect charge-offs, the allowance for loan and lease losses, and the provision for loan and lease losses. However, if asset quality trends continue to show improvement, the Company would eventually expect the level of provisioning to decrease.
- Revenue from FHLB dividends could decrease significantly due to several factors including reduced borrowing levels from FHLB, which in turn would reduce the required FHLB stock holdings of the Company, thus reducing the dividends.
- The cost of compliance as a result of the Dodd-Frank legislation could continue to negatively impact certain fee generating products, which could negatively impact noninterest income and earnings.
- Competitive pressure on non-maturing deposits could result in an increase in interest expense if interest rates begin to rise.

The Company's 2012 outlook is subject to factors in addition to those identified above and those risks and uncertainties that could impact the Company's future results are explained in ITEM 1A. RISK FACTORS.

## Asset/Liability Management

The Company attempts to maximize net interest income, and net income, while actively managing its liquidity and interest rate sensitivity through the mix of various core deposit products and other sources of funds, which in turn fund an appropriate mix of earning assets. The changes in the Company's asset mix and sources of funds, and the resulting impact on net

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

**Table 1. Average Balances and Net Interest Income**

	2011			2010			2009		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
<i>(Dollars in thousands)</i>									
<b>Assets</b>									
Short-term interest bearing accounts	\$ 101,224	\$ 269	0.27%	\$ 137,818	\$ 354	0.26%	\$ 88,012	\$ 238	0.27%
Securities available for sale <sup>(1)</sup>	1,123,215	33,319	2.97%	1,088,376	38,759	3.56%	1,095,609	48,951	4.47%
Securities held to maturity <sup>(1)</sup>	81,558	4,350	5.33%	128,727	6,104	4.74%	151,078	7,385	4.89%
Investment in FRB and FHLB Banks	27,089	1,389	5.13%	31,850	1,821	5.72%	37,878	1,966	5.19%
Loans and leases <sup>(2)</sup>	3,677,931	205,318	5.58%	3,629,047	214,258	5.90%	3,641,852	221,128	6.07%
Total interest earning assets	\$5,011,017	\$244,645	4.88%	\$5,015,818	\$261,296	5.21%	\$5,014,429	\$279,668	5.58%
Other assets	434,924			438,516			414,580		
Total assets	\$5,445,941			\$5,454,334			\$5,429,009		
<b>Liabilities and stockholders' equity</b>									
Money market deposit accounts	\$1,070,003	\$ 3,592	0.34%	\$1,092,789	\$ 6,273	0.57%	\$1,013,514	\$ 12,165	1.20%
NOW deposit accounts	685,542	2,313	0.34%	709,920	2,938	0.41%	600,943	3,159	0.53%
Savings deposits	602,918	635	0.11%	552,660	797	0.14%	499,079	826	0.17%
Time deposits	913,330	16,480	1.80%	985,504	20,346	2.06%	1,227,199	32,346	2.64%
Total interest bearing deposits	\$3,271,793	\$ 23,020	0.70%	\$3,340,873	\$ 30,354	0.91%	\$3,340,735	\$ 48,496	1.45%
Short-term borrowings	153,965	205	0.13%	158,280	402	0.25%	140,066	552	0.39%
Trust preferred debentures	75,422	2,092	2.77%	75,422	4,140	5.49%	75,422	4,247	5.63%
Long-term debt	370,035	14,404	3.89%	469,509	18,314	3.90%	601,039	23,629	3.93%
Total interest bearing liabilities	\$3,871,215	\$ 39,721	1.03%	\$4,044,084	\$ 53,210	1.32%	\$4,157,262	\$ 76,924	1.85%
Demand deposits	966,282			805,594			718,580		
Other liabilities	69,063			79,182			75,868		
Stockholders' equity	539,381			525,474			477,299		
Total liabilities and stockholders' equity	\$5,445,941			\$5,454,334			\$5,429,009		
Net interest income (FTE)		204,924			208,086			202,744	
Interest rate spread			3.85%			3.89%			3.73%
Net interest margin			4.09%			4.15%			4.04%
Taxable equivalent adjustment		4,648			5,558			6,275	
Net interest income		\$200,276			\$202,528			\$196,469	

<sup>(1)</sup>Securities are shown at average amortized cost.

<sup>(2)</sup>For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding. The interest collected thereon is included in interest income based upon the characteristics of the related loans.

## 2011 OPERATING RESULTS AS COMPARED TO 2010 OPERATING RESULTS

### Net Interest Income

On a tax equivalent basis, the Company's net interest income for 2011 was \$204.9 million, down from \$208.1 million for 2010. The Company's net interest margin decreased to 4.09% for 2011 from 4.15% for 2010. The decrease in the net interest margin resulted primarily from the decrease in the yields on interest-earning assets as cash flows from maturing assets were redeployed at lower rates in the current interest rate environment. The yield on earning assets decreased 33 basis points (bp), from 5.21% for 2010 to 4.88% for 2011, driven primarily by a decrease in the yield earned on loans, which declined from 5.90% in 2010 to 5.58% in 2011. In addition, the yield earned on securities available for sale decreased from 3.56% in 2010 to 2.97% in 2011, which also drove the decrease in the yield on earning assets in 2011. Average earning assets decreased marginally from 2010 to 2011 and had little impact on the net interest margin. Meanwhile, the

rate paid on interest bearing liabilities decreased 29 bp, from 1.32% for 2010 to 1.03% for 2011, and was the primary driver of the decrease in interest expense. The rate paid on time deposits decreased from 2.06% in 2010 to 1.80% in 2011. In addition, the rate paid on money market deposit accounts decreased from 0.57% in 2010 to 0.34% in 2011. Average interest-bearing liabilities decreased \$172.9 million from 2010 to 2011 which also contributed to the decrease in interest expense. In 2010, the Company paid down certain long term borrowings, which was the primary driver of the decrease in interest-bearing liabilities in 2011. The following table presents changes in interest income, on a FTE basis, and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

**Table 2. Analysis of Changes in Taxable Equivalent Net Interest Income**

<i>(In thousands)</i>	Increase (Decrease) 2011 over 2010			Increase (Decrease) 2010 over 2009		
	Volume	Rate	Total	Volume	Rate	Total
Short-term interest-bearing accounts	\$ (97)	\$ 12	\$ (85)	\$ 128	\$ (12)	\$ 116
Securities available for sale	1,207	(6,647)	(5,440)	(321)	(9,871)	(10,192)
Securities held to maturity	(2,445)	691	(1,754)	(1,066)	(215)	(1,281)
Investment in FRB and FHLB Banks	(256)	(176)	(432)	(333)	188	(145)
Loans and leases	2,855	(11,795)	(8,940)	(774)	(6,096)	(6,870)
<b>Total interest income</b>	<b>1,264</b>	<b>(17,915)</b>	<b>(16,651)</b>	<b>(2,366)</b>	<b>(16,006)</b>	<b>(18,372)</b>
Money market deposit accounts	(128)	(2,553)	(2,681)	887	(6,779)	(5,892)
NOW deposit accounts	(98)	(527)	(625)	517	(738)	(221)
Savings deposits	68	(230)	(162)	83	(112)	(29)
Time deposits	(1,421)	(2,445)	(3,866)	(5,714)	(6,286)	(12,000)
Short-term borrowings	(11)	(186)	(197)	65	(215)	(150)
Trust preferred debentures	—	(2,048)	(2,048)	—	(107)	(107)
Long-term debt	(3,872)	(38)	(3,910)	(5,132)	(183)	(5,315)
<b>Total interest expense</b>	<b>(5,462)</b>	<b>(8,027)</b>	<b>(13,489)</b>	<b>(9,294)</b>	<b>(14,420)</b>	<b>(23,714)</b>
<b>Change in FTE net interest income</b>	<b>\$ 6,726</b>	<b>\$ (9,888)</b>	<b>\$ (3,162)</b>	<b>\$ 6,928</b>	<b>\$ (1,586)</b>	<b>\$ 5,342</b>

### Loans and Leases and Corresponding Interest and Fees on Loans

The average balance of loans and leases increased by approximately \$48.9 million, or 1.3%, from 2010 to 2011. The yield on average loans and leases decreased from 5.90% in 2010 to 5.58% in 2011, as loan rates declined due to the historically low rate environment in 2011. Interest income from loans and leases on a FTE basis decreased 4.2%, from \$214.3 million in 2010 to \$205.3 million in 2011. This decrease was due to the

decrease in yield as noted above, and was partially offset by the increase in average loan balances.

Total loans and leases increased \$190.2 million, or 5.3% (4.1% organic growth) from December 31, 2010 to December 31, 2011. In October 2011, the Company acquired four branches in Berkshire County, Massachusetts, including approximately \$39.9 million in loans, which contributed to this loan growth. Commercial loans increased \$33.6 million, or 5.8%, from \$577.7 million at December 31, 2010 to \$611.3



million at December 31, 2011, due to strong originations in 2011, particularly in our upstate New York markets and Vermont, as well as approximately \$3.8 million acquired from the aforementioned acquisition. Commercial real estate loans increased \$44.4 million, or 5.3%, from \$844.5 million at December 31, 2010 to \$888.9 million at December 31, 2011, in large part due to strong originations in our upstate New York markets as well as originations from new markets. The Company also acquired approximately \$14.5 million in commercial real estate loans from the aforementioned acquisition. Real estate construction and development loans increased \$48.6 million from \$45.4 million at December 31, 2010 to \$94.0 million at December 31, 2011 due to the addition of a few large, commercial development loans during 2011 primarily from existing customers within our footprint. Residential real estate loans increased \$33.1 million, or 6.0%, from \$548.4 million at December 31, 2010 to

\$581.5 million at December 31, 2011. The Company sold more fixed rate mortgages during 2010 than 2011 as market conditions in 2011 were not as favorable for such sales. Consumer loans increased \$40.9 million or 4.5% from \$905.6 million at December 31, 2010 to \$946.5 million at December 31, 2011 in large part due to strong originations in our upstate New York markets as well as originations from new markets. Despite the acquisition of approximately \$20.8 million in home equity loans as part of the aforementioned acquisition, home equity loans decreased by \$6.0 million, or 1.0%, from December 31, 2010 to December 31, 2011. While originations were up in 2011 over 2010, the low rate environment contributed to consumers paying off or refinancing their home equity loans with lower rate products such as traditional mortgages.

The following table reflects the loan and lease portfolio by major categories as of December 31 for the years indicated:

**Table 3. Composition of Loan and Lease Portfolio**

	As of December 31,				
<i>(In thousands)</i>	2011	2010	2009	2008	2007
Residential real estate mortgages	\$ 581,511	\$ 548,394	\$ 618,334	\$ 722,723	\$ 719,182
Commercial	611,298	577,731	571,107	572,059	593,077
Commercial real estate	888,879	844,458	739,395	669,720	621,820
Real estate construction and development	93,977	45,444	67,168	67,859	81,350
Agricultural and agricultural real estate	108,423	112,738	122,466	113,566	116,190
Consumer	946,470	905,563	923,343	878,381	741,501
Home equity	569,645	575,678	603,585	627,603	582,731
Total loans and leases	\$3,800,203	\$3,610,006	\$3,645,398	\$3,651,911	\$3,455,851

Residential real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residences. Loans in the commercial and agricultural categories, including commercial and agricultural real estate mortgages, consist primarily of short-term and/or floating rate loans made to small and medium-sized entities. Consumer loans consist primarily of indirect installment credit to individuals, of which approximately 85% is secured by automobiles and other personal property including marine, recreational vehicles and manufactured housing. Consumer loans also consist of direct installment loans to individuals secured by similar collateral. Indirect installment loans represent \$833.7 million of total consumer loans at December 31, 2011, or 88.1%. Installment credit for automobiles accounts for approximately 67% of total consumer loans. Although automobile

loans have generally been originated through dealers, all applications submitted through dealers are subject to the Company's normal underwriting and loan approval procedures. Real estate construction and development loans include commercial construction and development and residential construction loans. Commercial construction loans are for small and medium sized office buildings and other commercial properties and residential construction loans are primarily for projects located in upstate New York and northeastern Pennsylvania.

Risks associated with the commercial real estate portfolio include the ability of borrowers to pay interest and principal during the loan's term, as well as the ability of the borrowers to refinance at the end of the loan term.

The following table, Maturities and Sensitivities of Certain Loans to Changes in Interest Rates, summarizes the maturities of the commercial and agricultural and real estate construction and development

loan portfolios and the sensitivity of those loans to interest rate fluctuations at December 31, 2011. Scheduled repayments are reported in the maturity category in which the contractual payment is due.

**Table 4. Maturities and Sensitivities of Certain Loans to Changes in Interest Rates**

Remaining Maturity at December 31, 2011				
<i>(In thousands)</i>	Within One Year	After One Year But Within Five Years	After Five Years	Total
<b>Floating/adjustable rate</b>				
Commercial, commercial real estate, agricultural, and agricultural real estate	\$340,496	\$256,384	\$435,809	\$1,032,689
Real estate construction and development	21,832	7,152	29,674	58,658
Total floating rate loans	362,328	263,536	465,483	1,091,347
<b>Fixed rate</b>				
Commercial, commercial real estate, agricultural, and agricultural real estate	64,876	263,531	247,504	575,911
Real estate construction and development	24,383	1,358	9,578	35,319
Total fixed rate loans	89,259	264,889	257,082	611,230
Total	\$451,587	\$528,425	\$722,565	\$1,702,577

**Securities and Corresponding Interest and Dividend Income**

The average balance of the amortized cost for securities available for sale increased \$34.8 million, or 3.2%, from 2010 to 2011. The yield on average securities available for sale was 2.97% for 2011 compared to 3.56% in 2010.

The average balance of securities held to maturity decreased from \$128.7 million in 2010 to \$81.6 million

in 2011. At December 31, 2011, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity increased from 4.74% in 2010 to 5.33% in 2011.

The average balance of FRB and FHLB stock decreased to \$27.1 million in 2011 from \$31.9 million in 2010 due to the decrease in FHLB borrowings. The yield from investments in FRB and FHLB Banks decreased from 5.72% in 2010 to 5.13% in 2011.

**Table 5. Securities Portfolio**

As of December 31,						
<i>(In thousands)</i>	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Securities available for sale</b>						
U.S. Treasury	\$ 81,006	\$ 82,234	\$ 91,338	\$ 91,280	\$ 20,102	\$ 20,086
Federal agency	254,983	255,846	350,641	349,750	310,012	313,157
State & municipal	99,176	104,789	113,821	114,937	135,181	137,613
Mortgage-backed	310,767	325,396	233,861	244,808	269,255	280,861
Collateralized mortgage obligations	459,067	465,474	293,565	297,888	321,890	330,711
Corporate	—	—	20,005	20,489	20,011	20,674
Other securities	8,935	10,880	8,059	10,216	12,295	13,656
Total securities available for sale	\$1,213,934	\$1,244,619	\$1,111,290	\$1,129,368	\$1,088,746	\$1,116,758
<b>Securities held to maturity</b>						
Mortgage-backed	\$ 1,447	\$ 1,660	\$ 1,719	\$ 1,919	\$ 2,041	\$ 2,213
State & municipal	69,364	70,538	95,591	96,840	157,905	159,638
Total securities held to maturity	\$ 70,811	\$ 72,198	\$ 97,310	\$ 98,759	\$ 159,946	\$ 161,851

The balance of CMOs increased by approximately 56% from 2010 to 2011 as the company reinvested cash flows into CMOs. The balance of corporate bonds decreased to zero due to maturities of FDIC-backed bank securities, of which the proceeds were reinvested in CMOs and collateralized mortgage obligations.

In the available for sale category at December 31, 2011, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of \$290.2 million and a fair value of \$303.0 million and U.S. Government Agency securities with an amortized cost of \$20.5 million and a fair value of \$22.4 million; CMOs were comprised of GSEs with an amortized cost of \$398.3 million and a fair value of \$402.4 million and U.S. Government Agency securities with an amortized

cost of \$60.8 million and a fair value of \$63.1 million. At December 31, 2011, all of the mortgaged-backed securities held to maturity were comprised of U.S. Government Agency securities.

Our mortgage backed securities, U.S. agency notes, and CMOs are all “prime/conforming” and are guaranteed by Fannie Mae, Freddie Mac, FHLB, Federal Farm Credit Banks, or Ginnie Mae (“GNMA”). GNMA securities are considered equivalent to U.S. Treasury securities, as they are backed by the full faith and credit of the U.S. government. Currently, there are no securities backed by subprime mortgages in our investment portfolio.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2011:

<i>(In thousands)</i>	Amortized Cost	Estimated Fair Value	Weighted Average Yield
<b>Debt securities classified as available for sale</b>			
Within one year	\$ 23,867	\$ 23,941	1.34%
From one to five years	302,772	305,366	1.61%
From five to ten years	245,058	254,864	3.74%
After ten years	633,302	649,568	2.73%
	<b>\$1,204,999</b>	<b>\$1,233,739</b>	
<b>Debt securities classified as held to maturity</b>			
Within one year	\$ 26,315	\$ 26,383	2.85%
From one to five years	34,032	35,058	3.74%
From five to ten years	7,073	7,153	4.47%
After ten years	3,391	3,604	5.02%
	<b>\$ 70,811</b>	<b>\$ 72,198</b>	

### Funding Sources and Corresponding Interest Expense

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as neces-

sary to support the Company’s growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities decreased \$172.9 million from 2010, totaling \$3.9 billion in 2011. The rate paid on interest-bearing liabilities decreased from 1.32% in 2010 to 1.03% in 2011. These decreases caused a decrease in interest expense of \$13.5 million, or 25.4%, from \$53.2 million in 2010 to \$39.7 million in 2011.

## Deposits

Average interest bearing deposits decreased \$69.1 million, or 2.1%, from 2010 to 2011. Average time deposits decreased \$72.2 million or 7.3% during 2011 as compared to 2010. The decrease in average time deposits resulted primarily from decreases in brokered and retail CD's due to lower interest rates. Average money market deposits decreased \$22.8 million or 2.1% during 2011 when compared to 2010. Average NOW accounts decreased \$24.4 million or 3.4% during 2011 as compared to 2010. This decrease was due primarily to a decrease in municipal NOW accounts. The average balance of savings accounts increased \$50.3 million or 9.1% during 2011 when compared to 2010. The average balance of demand deposits increased \$160.7 million, or 19.9%, from \$805.6 million in 2010 to \$966.3 million in 2011. This growth in demand deposits was driven principally by increases in accounts from retail, municipal, and commercial customers spurred by strategic expansion into new markets.

The rate paid on average interest-bearing deposits decreased from 0.91% during 2010 to 0.70% in 2011. The decrease in the rate on interest-bearing deposits was driven primarily by pricing decreases from money market accounts and time deposits, which are sensitive to interest rate changes. The pricing decreases for these products resulted from decreases in short-term rates driven by the cuts made to the Federal Funds Target rate by the FRB during 2009 as well as an overall decrease in all interest rates. The rate paid for money market deposit accounts decreased from 0.57% during 2010 to 0.34% during 2011. The rate paid for NOW accounts decreased from 0.41% during 2010 to 0.34% during 2011. The rate paid for savings deposits decreased from 0.14% in 2010 to 0.11% in 2011 and the rate paid on time deposits decreased from 2.06% during 2010 to 1.80% during 2011.

The following table presents the maturity distribution of time deposits of \$100,000 or more at December 31:

**Table 6. Maturity Distribution of Time Deposits of \$100,000 or More**

	As of December 31,	
<i>(In thousands)</i>	2011	2010
Within three months	\$ 45,242	\$ 41,404
After three but within twelve months	85,465	85,026
After one but within three years	148,653	66,409
Over three years	26,338	71,610
Total	\$305,698	\$264,449

## Borrowings

Average short-term borrowings decreased slightly to \$154.0 million in 2011 from \$158.3 million in 2010. The average rate paid on short-term borrowings decreased from 0.25% in 2010 to 0.13% in 2011, which was primarily driven by the FRB maintaining a historic low Fed Funds target rate of 0.25% (which directly impacts short-term borrowing rates). Average long-term debt decreased from \$469.5 million in 2010 to \$370.0 million in 2011, which resulted from the strategic pay-down of long-term debt in 2010 to lower interest expense in 2011 and future years.

The average balance of trust preferred debentures remained at \$75.4 million in 2011 compared to 2010. The average rate paid for trust preferred debentures in 2011 was 2.77%, down from 5.49% in 2010. The decrease in rate on the trust preferred debentures is due primarily to the reset of interest rate terms in two trust preferred debentures to variable rate from fixed rate. The third trust preferred debenture reset to a

variable rate in a prior year and therefore, all associated interest expense on trust preferred debentures is now at a variable rate.

Short-term borrowings consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily FHLB advances, with original maturities of one year or less. The Company has unused lines of credit and access to brokered deposits available for short-term financing of approximately \$1.1 billion and \$1.0 billion at December 31, 2011 and 2010, respectively. Securities collateralizing repurchase agreements are held in safekeeping by non-affiliated financial institutions and are under the Company's control. Long-term debt, which is comprised primarily of FHLB advances, are collateralized by the FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans.



## Noninterest Income

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

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
Service charges on deposit accounts	<b>\$21,464</b>	\$24,041	\$27,165
Insurance and other financial services revenue	<b>20,843</b>	18,867	17,725
Trust	<b>8,864</b>	7,722	6,719
Bank owned life insurance income	<b>3,085</b>	3,316	3,135
ATM and debit card fees	<b>11,642</b>	10,035	9,339
Retirement plan administration fees	<b>8,918</b>	10,356	9,086
Other	<b>5,345</b>	6,277	6,818
Total before net securities gains	<b>80,161</b>	80,614	79,987
Net securities gains	<b>150</b>	3,274	144
Total	<b>\$80,311</b>	\$83,888	\$80,131

Noninterest income for the year ended December 31, 2011 was \$80.3 million, down \$3.6 million or 4.3% from \$83.9 million for the year ended December 31, 2010. The decrease in noninterest income was due primarily to a decrease in net securities gains of approximately \$3.1 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010 due to the sale of two equity positions and certain CMO's during 2010. In addition, the Company experienced a decrease in service charges on deposit accounts of approximately \$2.6 million as a result of a decrease in overdraft activity due to the effects of a full year of new regulations regarding overdraft fees, as well as decreased activity due to the current state of the economy. Retirement plan administration fees decreased by \$1.4 million, or 13.9%, for the year ended December 31, 2011 as compared to the year ended December 31, 2010, driven by the loss of one large client in the fourth quarter of 2010. These

decreases were partially offset by an increase in insurance and other financial services revenue of \$2.0 million, or 10.5%, for the year ended December 31, 2011 as compared to the same period in 2010. This increase was due primarily to the acquisition of an insurance agency during the second quarter of 2011 and an increase in brokerage commission revenue from new business. ATM and debit card fees increased approximately \$1.6 million, or 16.0%, for the year ended December 31, 2011 as compared to the same period in 2010 due to an increase in card usage as well as a change in the fee structure on foreign ATM transactions. In addition, trust revenue increased approximately \$1.1 million, or 14.8%, for the year ended December 31, 2011 as compared to the year ended December 31, 2010, due primarily to the addition of new business, including from markets where we have recently expanded, as well as an increase in the fair market value of trust assets under administration.

## 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 years indicated:

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
Salaries and employee benefits	\$ 99,212	\$ 93,718	\$ 85,565
Occupancy	16,363	15,350	14,864
Equipment	8,864	8,317	8,139
Data processing and communications	12,271	12,347	13,238
Professional fees and outside services	8,921	9,032	10,508
Office supplies and postage	6,073	6,102	5,857
Amortization of intangible assets	3,046	3,072	3,246
Loan collection and other real estate owned	2,631	3,036	2,766
Advertising	3,460	3,487	3,455
FDIC Expenses	4,267	6,081	8,408
Prepayment penalty on long-term debt	—	4,526	810
Other	15,568	13,223	13,710
<b>Total noninterest expense</b>	<b>\$180,676</b>	<b>\$178,291</b>	<b>\$170,566</b>

Noninterest expense for the year ended December 31, 2011 was \$180.7 million, up from \$178.3 million, or 1.3%, for the year ended December 31, 2010. Salaries and employee benefits increased \$5.5 million, or 5.9%, for the year ended December 31, 2011 compared with the year ended December 31, 2010. This increase was due primarily to increases in full-time-equivalent employees driven primarily by strategic expansion efforts, merit increases, and other employee benefits. In addition, occupancy expenses increased approximately \$1.0 million, or 6.6%, for the year ended December 31, 2011 as compared to the year ended December 31, 2010, primarily due to continued expansion and expenses related to the harsh winter in early 2011. Other operating expenses also increased approximately \$2.3 million, or 17.7%, for the year ended December 31, 2011 compared with the year ended December 31, 2010 primarily as a result of flood related expenses totaling approximately \$0.4 million and merger related expenses totaling approximately \$0.8 million in 2011, with no other significant drivers. During the year ended December 31, 2010, the Company incurred debt prepayment penalties totaling \$4.5 million to pay off long-term debt, which partially offset the aforementioned increases in noninterest expense. The increases in noninterest expense were also partially offset by a decrease in Federal Deposit Insurance Corporation (FDIC) premium expenses of approximately \$1.8 million during the year ended December 31, 2011, as compared with the year ended December 31, 2010, due to the FDIC redefining the deposit insurance assessment base.

## Income Taxes

Income tax expense for the year ended December 31, 2011 was \$21.3 million, up slightly from \$20.9 million for the year ended December 31, 2010. The effective tax rate was 26.9% for the year ended December 31, 2011, as compared to 26.7% for the year ended December 31, 2010. In the fourth quarter of 2011, the Company experienced a reduction in tax expense as a result of the settlement of a New York State tax audit for tax years 2003–2007. Similarly, the Company experienced a reduction in tax expense as a result of the settlement of a New York State tax audit during the fourth quarter of 2010 for tax years 2000–2002.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified, which is generally in the third quarter of the subsequent year for U.S. federal and state provisions.

The amount of income taxes the Company pays is subject at times to ongoing audits by federal and state tax authorities, which often result in proposed assessments. The Company's estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to the estimated tax liabilities in the period the assessments are proposed or resolved or when statutes of limitation on potential assessments expire. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly or annual basis.

## Risk Management—Credit Risk

Credit risk is managed through a network of loan officers, credit committees, loan policies, and oversight from the senior credit officers and Board of Directors. Management follows a policy of continually identifying, analyzing, and grading credit risk inherent in each loan portfolio. An ongoing independent review,

subsequent to management's review, of individual credits in the commercial loan portfolio is performed by the independent loan review function. These components of the Company's underwriting and monitoring functions are critical to the timely identification, classification, and resolution of problem credits.

**Table 7. Nonperforming Assets**

<i>(Dollars in thousands)</i>	As of December 31,									
	2011	%	2010	%	2009	%	2008	%	2007	%
<b>Nonaccrual loans</b>										
Commercial and agricultural loans and real estate	<b>\$17,506</b>	<b>46%</b>	\$24,402	57%	\$25,521	66%	\$15,891	66%	\$20,491	69%
Real estate mortgages	<b>8,090</b>	<b>21%</b>	8,338	20%	6,140	16%	3,803	16%	1,372	5%
Consumer	<b>8,724</b>	<b>23%</b>	8,765	21%	6,249	16%	3,468	14%	2,934	10%
Troubled debt restructured loans	<b>3,970</b>	<b>10%</b>	962	2%	836	2%	1,029	4%	4,900	16%
<b>Total nonaccrual loans</b>	<b>38,290</b>	<b>100%</b>	42,467	100%	38,746	100%	24,191	100%	29,697	100%
<b>Loans 90 days or more past due and still accruing</b>										
Commercial and agricultural loans and real estate	<b>50</b>	<b>2%</b>	94	4%	59	2%	12	1%	51	6%
Real estate mortgages	<b>763</b>	<b>24%</b>	919	40%	602	24%	770	33%	295	33%
Consumer	<b>2,377</b>	<b>74%</b>	1,312	56%	1,865	74%	1,523	66%	536	61%
<b>Total loans 90 days or more past due and still accruing</b>	<b>3,190</b>	<b>100%</b>	2,325	100%	2,526	100%	2,305	100%	882	100%
<b>Total nonperforming loans</b>	<b>41,480</b>		44,792		41,272		26,496		30,579	
Other real estate owned	<b>2,160</b>		901		2,358		665		560	
<b>Total nonperforming assets</b>	<b>\$43,640</b>		\$45,693		\$43,630		\$27,161		\$31,139	
Total nonperforming loans to loans and leases	<b>1.09%</b>		1.24%		1.13%		0.73%		0.88%	
Total nonperforming assets to total assets	<b>0.78%</b>		0.86%		0.80%		0.51%		0.60%	
Total allowance for loan and lease losses to nonperforming loans	<b>171.97%</b>		159.03%		161.25%		221.03%		177.19%	

Total nonperforming assets were \$43.6 million at December 31, 2011, compared to \$45.7 million at December 31, 2010. Nonperforming loans at December 31, 2011 were \$41.5 million or 1.09% of total loans and leases compared with \$44.8 million or 1.24% at December 31, 2010. The decrease in commercial nonaccrual loans primarily reflects the charge-off of one large credit and the payoff of two additional large credits totaling approximately \$4.3 million. The Company recorded a provision for loan and lease losses of \$20.7 million for the year ended December 31, 2011 compared with \$29.8 million for the year ended December

31, 2010. The decrease in provision is attributable to the ongoing modeling of the required levels of reserves which considers historical charge-offs, loan growth and economic trends; during 2010 the results of such modeling required higher levels of provision than during 2011. Net charge-offs to average loans and leases for the year ended December 31, 2011 were 0.56%, compared with 0.69% for the year ended December 31, 2010. The allowance for loan and lease losses was 171.97% of non-performing loans at December 31, 2011 as compared to 159.03% at December 31, 2010, due to the decrease in nonperforming loans.

Impaired loans, which primarily consist of nonaccruing commercial, commercial real estate, agricultural, agricultural real estate loans and business banking loans, as well as certain consumer and residential real estate mortgage loans that have been modified in a troubled debt restructuring (“TDR”), decreased to \$22.4 million at December 31, 2011 as compared to \$25.4 million at December 31, 2010. At December 31, 2011, \$0.5 million of the total impaired loans had a specific reserve allocation of \$0.2 million compared to \$6.1 million of impaired loans at December 31, 2010 which had a specific reserve allocation of \$2.2 million.

TDRs increased from approximately \$1.0 million at December 31, 2010 to approximately \$4.0 million at December 31, 2011. Due to financial hardships caused primarily by the economic downturn of the last few years, the Company worked with several of its residential mortgage, home equity, and agricultural loan customers in 2011 to modify the terms of their loans. These restructurings did not require any incremental loan loss provision.

Loans over 60 days past due but not over 90 days past due were .14%, .15%, .15%, .12%, and .12% of total loans as of December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

The allowance for loan and lease losses is maintained at a level estimated by management to provide adequately for risk of probable losses inherent in the current loan and lease portfolio. The adequacy of the allowance for loan and lease losses is continuously monitored. It is assessed for adequacy using a methodology designed to ensure the level of the allowance reasonably reflects the loan and lease 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 judgments can have on the consolidated results of operations.

For purposes of evaluating the adequacy of the allowance, the Company considers a number of significant factors that affect the collectibility of the portfolio. For individually analyzed loans, these 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 current assessment of a number of factors, which could affect collectibility. These factors include: past loss experience; size, trend, composition, and nature of loans; changes in lending policies and procedures, including underwriting standards and collection, charge-offs and recoveries; trends experienced in nonperforming and delinquent loans; 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 examinations.

After a thorough consideration of the factors discussed above, any 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.



Total net charge-offs for 2011 were \$20.6 million as compared with \$25.1 million for 2010. Net charge-offs to average loans and leases was 0.56% for 2011 as compared with 0.69% for 2010. Excluding approximately \$8.7 million of average acquired loans in 2011, this

ratio remained unchanged at 0.56% for 2011. Gross charge-offs decreased to \$24.5 million for 2011 from \$29.8 million for 2010. Recoveries decreased from \$4.7 million for the year ended December 31, 2010 to \$3.9 million for the year ended December 31, 2011.

**Table 8. Allowance for Loan and Lease Losses**

<i>(Dollars in thousands)</i>	2011	2010	2009	2008	2007
Balance at January 1	<b>\$71,234</b>	\$66,550	\$58,564	\$54,183	\$50,587
<b>Loans and leases charged-off</b>					
Commercial and agricultural	<b>8,971</b>	12,969	11,500	14,464	20,349
Residential real estate mortgages	<b>1,310</b>	1,176	705	543	1,032
Consumer*	<b>14,207</b>	15,692	17,609	11,985	9,862
Total loans and leases charged-off	<b>24,488</b>	29,837	29,814	26,992	31,243
<b>Recoveries</b>					
Commercial and agricultural	<b>1,438</b>	1,922	1,508	1,411	1,816
Residential real estate mortgages	<b>6</b>	43	133	68	125
Consumer*	<b>2,407</b>	2,747	2,767	2,713	2,804
Total recoveries	<b>3,851</b>	4,712	4,408	4,192	4,745
Net loans and leases charged-off	<b>20,637</b>	25,125	25,406	22,800	26,498
Provision for loan and lease losses	<b>20,737</b>	29,809	33,392	27,181	30,094
Balance at December 31	<b>\$71,334</b>	\$71,234	\$66,550	\$58,564	\$54,183
Allowance for loan and lease losses to loans and leases outstanding at end of year	<b>1.88%</b>	1.97%	1.83%	1.60%	1.57%
Net charge-offs to average loans and leases outstanding	<b>0.56%</b>	0.69%	0.70%	0.64%	0.77%

\*Consumer charge-off and recoveries include indirect, direct, and home equity.

The following table sets forth the allocation of the allowance for loan losses by category, as well as the percentage of loans and leases in each category to total loans and leases, as prepared by the Company. This allocation is based on management's assessment of the risk characteristics of each of the component parts of the total loan portfolio as of a given point in time and is subject to changes as and when the risk

factors of each such component part change. The allocation is not indicative of either the specific amounts of the loan categories in which future charge-offs may be taken, nor should it be taken as an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

**Table 9. Allocation of the Allowance for Loan and Lease Losses**

As of December 31,										
	2011		2010		2009		2008		2007	
<i>(Dollars in thousands)</i>	Allowance	Category Percent of Loans	Allowance	Category Percent of Loans	Allowance	Category Percent of Loans	Allowance	Category Percent of Loans	Allowance	Category Percent of Loans
Commercial and agricultural	<b>\$38,831</b>	<b>45%</b>	\$40,101	44%	\$36,599	41%	\$33,231	39%	\$32,811	41%
Real estate mortgages	<b>6,249</b>	<b>15%</b>	4,627	15%	3,002	17%	3,143	20%	3,277	21%
Consumer	<b>26,049</b>	<b>40%</b>	26,126	41%	26,664	42%	21,908	41%	17,362	38%
Unallocated	<b>205</b>	<b>0%</b>	380	0%	285	0%	282	0%	733	0%
Total	<b>\$71,334</b>	<b>100%</b>	\$71,234	100%	\$66,550	100%	\$58,564	100%	\$54,183	100%

The Company's accounting policy relating to the allowance for loan and lease losses requires a review of each significant loan type within the loan portfolio, considering asset quality trends for each type, including, but not limited to, delinquencies, nonaccruals, historical charge-off experience, and specific economic factors (e.g. milk prices are considered when reviewing agricultural loans). Based on this review, management believes the reserve allocations are adequate to address any trends in asset quality indicators. As a result of the general improvement and stabilization of asset quality indicators in 2011, as well as the aforementioned review of the loan portfolio, the allowance to loan and lease losses remained flat and the allowance for loan and lease losses as a percentage of total loans decreased from 1.97% as of December 31, 2010 to 1.88% as of December 31, 2011. Excluding approximately \$39.9 million of acquired loans as of December 31, 2011, the allowance for loan and lease losses as a percentage of total loans and leases was 1.90% at December 31, 2011. These acquired loans were recorded at fair value on the date of acquisition, with no carryover of the related allowance for loan losses. The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretible discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretible discount. The nonaccretible discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require us to evaluate the need for an allowance for credit losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretible discount which we then reclassify as accretible discount that is recognized into interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect is performed in a similar manner as that used to determine our allowance for credit losses. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretible discount portion of the fair value adjustment.

At December 31, 2011, approximately 58% of the Company's loans were secured by real estate located in central and northern New York, northeastern Pennsylvania, western Massachusetts and the Burlington, Vermont area. Accordingly, the ultimate collectibility of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

Subprime mortgage lending, which has been the riskiest sector of the residential housing market, is not a market that the Company has ever actively pursued. The market does not apply a uniform definition of what constitutes "subprime" lending. Our reference to subprime lending relies upon the "Statement on Subprime Mortgage Lending" issued by the OTS and the other federal bank regulatory agencies, or the Agencies, on June 29, 2007, which further referenced the "Expanded Guidance for Subprime Lending Programs," or the Expanded Guidance, issued by the Agencies by press release dated January 31, 2001. In the Expanded Guidance, the Agencies indicated that subprime lending does not refer to individual subprime loans originated and managed, in the ordinary course of business, as exceptions to prime risk selection standards. The Agencies recognize that many prime loan portfolios will contain such accounts. The Agencies also excluded prime loans that develop credit problems after acquisition and community development loans from the subprime arena. According to the Expanded Guidance, subprime loans are other loans to borrowers which display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions' specific subprime definitions, are set forth, including having a FICO score of 660 or below. Based upon the definition and exclusions described above, the Company is a prime lender. Within the loan portfolio, there are loans that, at the time of origination, had FICO scores of 660 or below. However, since the Company is a portfolio lender, it reviews all data contained in borrower credit reports and does not base underwriting decisions solely on FICO scores. We believe the aforementioned loans, when made, were amply collateralized and otherwise conformed to our prime lending standards.

### **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. 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 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 December 31, 2011, the Company's Basic Surplus measurement was 11.7% of total assets or \$654 million, which was above the Company's minimum of 5% (calculated at \$280 million of period end total assets at December 31, 2011) set forth in its liquidity policies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the Company is able to operate with a more fully invested and, therefore, higher interest income generating securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position. At December 31, 2011, the Company considered its Basic Surplus position to be strong. However, certain events may adversely impact the Company's liquidity position in 2012. Improvement in the economy may increase demand for equity related products or increase competitive pressure on deposit pricing, which, in turn, could result in a decrease in the Company's deposit base or increase funding costs. Additionally, liquidity will come under additional pressure if loan growth exceeds deposit growth in 2012. These scenarios could lead to a decrease in the Company's Basic Surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. The additional liquidity that could be provided by these measures was \$990 million at December 31, 2011. In addition, the Bank has enhanced its Borrower-in-Custody program with the Federal Reserve Bank with the addition of the ability to pledge automobile loans. At December 31, 2011, the

Bank had the capacity to borrow \$483 million from the BIC program.

At December 31, 2011 and 2010, FHLB advances outstanding totaled \$339.4 million and \$341.4 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately \$323 million at December 31, 2011 and \$284 million at December 31, 2010. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional \$395 million at December 31, 2011 or used to collateralize other borrowings, such as repurchase agreements.

At December 31, 2011, a portion of the Company's loans and securities were 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.

Net cash flows provided by operating activities totaled \$83.8 million in 2011 and \$89.4 million in 2010. The critical elements of net operating cash flows include net income, adjusted for non-cash income and expense items such as the provision for loan and lease losses, deferred income tax expense, depreciation and amortization, and cash flows generated through changes in other assets and liabilities.

Net cash flows used by investing activities totaled \$175.5 million in 2011 as compared to net cash flows provided by investing activities totaling \$58.5 million in 2010. Critical elements of investing activities are loan and investment securities transactions. The change in cash flows from investing activities was due primarily to the net increase in loans of approximately \$172.9 million during 2011.

Net cash flows provided by financing activities totaled \$52.3 million in 2011 and net cash flows used in financing activities totaled \$166.3 million in 2010. The critical elements of financing activities are proceeds from deposits, borrowings, and stock issuances. In addition, financing activities are impacted by dividends and treasury stock transactions. In 2010, the Company had long-term debt prepayments and repayments totaling \$184.8 million as compared with \$2.1 million in 2011. In addition, the Company repurchased approximately \$30.5 million in treasury stock in 2011.

In connection with its financing and operating activities, the Company has entered into certain contractual obligations. The Company's future minimum cash payments, excluding interest, associated with its

contractual obligations pursuant to its borrowing agreements, operating leases, and other obligations at December 31, 2011 are as follows:

## Contractual Obligations

<i>(In thousands)</i>	Payments Due by Period						Total
	2012	2013	2014	2015	2016	Thereafter	
Long-term debt obligations	\$ —	\$119,400	\$ 2,604	\$ —	\$70,000	\$178,340	<b>\$370,344</b>
Trust preferred debentures	—	—	—	—	—	75,422	<b>75,422</b>
Operating lease obligations	5,337	5,200	4,786	4,365	4,121	25,081	<b>48,890</b>
Retirement plan obligations	5,214	5,454	5,593	7,278	5,844	31,103	<b>60,486</b>
Capital lease obligations	97	206	206	206	168	335	<b>1,218</b>
Data processing commitments	7,272	6,116	4,803	4,590	625	—	<b>23,406</b>
<b>Total contractual obligations</b>	<b>\$17,920</b>	<b>\$136,376</b>	<b>\$17,992</b>	<b>\$16,439</b>	<b>\$80,758</b>	<b>\$310,281</b>	<b>\$579,766</b>

## Commitments to Extend Credit

The Company makes contractual commitments to extend credit, which include unused lines of credit, which are subject to the Company's credit approval and monitoring procedures. At December 31, 2011 and 2010, commitments to extend credit in the form of loans, including unused lines of credit, amounted to \$764.9 million and \$643.6 million, respectively. In the opinion of management, there are no material commitments to extend credit, including unused lines of credit, that represent unusual risks. All commitments to extend credit in the form of loans, including unused lines of credit, expire within one year.

## Standby Letters of Credit

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit. The Company guarantees the obligations or performance of customers by issuing standby letters of credit to third parties. These standby letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements.

At December 31, 2011 and 2010, outstanding standby letters of credit were approximately \$26.8 million and \$26.2 million, respectively. The fair value of the Company's standby letters of credit at December 31, 2011 and 2010 was not significant. The following table sets forth the commitment expiration period for standby letters of credit at December 31, 2011:

## Commitment Expiration of Standby Letters of Credit

Within one year	\$18,190
After one but within three years	2,336
After three but within five years	5,763
After five years	494
<b>Total</b>	<b>\$26,783</b>

## Loans Serviced for Others and Loans Sold with Recourse

The total amount of loans serviced by the Company for unrelated third parties was approximately \$301.9 million and \$323.2 million at December 31, 2011 and 2010, respectively. At December 31, 2011, the Company had approximately \$1.2 million of mortgage servicing rights, as compared to \$1.5 million at December 31, 2010. At December 31, 2011 and 2010, the Company serviced \$16.2 million and \$14.0 million, respectively, of loans sold with recourse. Due to sufficient collateral on these loans, no reserve is considered necessary at December 31, 2011 and 2010.



## Capital Resources

Consistent with its goal to operate a sound and profitable financial institution, the Company actively seeks to maintain a “well-capitalized” institution in accordance with regulatory standards. The principal source of capital to the Company is earnings retention. The Company’s capital measurements are in excess of both regulatory minimum guidelines and meet the requirements to be considered well-capitalized.

The Company’s principal source of funds to pay interest on trust preferred debentures and pay cash dividends to its shareholders are dividends from its subsidiaries. Various laws and regulations restrict the ability of banks to pay dividends to their shareholders. Generally, the payment of dividends by the Company in the future as well as the payment of interest on the capital securities will require the generation of sufficient future earnings by its subsidiaries.

The Bank also is subject to substantial regulatory restrictions on its ability to pay dividends to the Company. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. At December 31, 2011, approximately \$95.9 million of the total stockholders’ equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank’s ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements.

In the second quarter of 2009, the Company raised approximately \$33.4 million in capital through an additional public offering of our common stock.

## Stock Repurchase Plan

Under previously disclosed stock repurchase plans, the Company purchased 1,458,609 shares of its common stock during the year ended December 31, 2011, for a total of \$30.5 million at an average price of \$20.91 per share. On July 25, 2011, the NBT Board of Directors authorized a new repurchase program for NBT to repurchase up to 1,000,000 shares (approximately 3%) of its outstanding common stock, effective July 25, 2011, as market conditions warrant in open market and privately negotiated transactions. At December 31, 2011, there were 517,581 shares available for repurchase under this plan, which expires on December 31, 2013.

On October 24, 2011, the NBT Board of Directors authorized a new repurchase program for NBT to repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, effective October 24, 2011, as market conditions warrant in open market and privately negotiated transactions. At December 31, 2011, there were 1,000,000 shares available for repurchase under this plan, which expires on December 31, 2013.

## 2010 OPERATING RESULTS AS COMPARED TO 2009 OPERATING RESULTS

### Net Interest Income

On a tax equivalent basis, the Company’s net interest income for 2010 was \$208.1 million, up from \$202.7 million for 2009. The Company’s net interest margin increased to 4.15% for 2010 from 4.04% for 2009. The increase in the net interest margin resulted primarily from interest-bearing liabilities repricing down faster than earning assets. Earning assets, particularly those tied to a fixed rate, reprice at a slower rate than interest-bearing liabilities, and have not fully realized the effect of the lower interest rate environment. The yield on earning assets decreased 37 basis points (bp), from 5.58% for 2009 to 5.21% for 2010. Meanwhile, the rate paid on interest bearing liabilities decreased 53 bp, from 1.85% for 2009 to 1.32% for 2010. Average earning assets increased marginally from 2009 to 2010. Average short-term interest bearing accounts increased approximately \$49.8 million from 2009 to 2010, while average securities held to maturity decreased approximately \$22.4 million. In addition, average loans and leases decreased approximately \$12.8 million from 2009 to 2010 due primarily to residential mortgage sales and strategic runoff of the lease portfolio.

### Loans and Leases and Corresponding Interest and Fees on Loans

The average balance of loans and leases decreased slightly, totaling \$3.6 billion in 2010 and 2009. The yield on average loans and leases decreased from 6.07% in 2009 to 5.90% in 2010, as loan rates declined due to the declining rate environment in 2010. Interest income from loans and leases on a FTE basis decreased 3.1%, from \$221.1 million in 2009 to \$214.3 million in 2010. The decrease in interest income from loans and leases was due to the decrease in yield on loans and leases in 2010 compared to 2009 noted above as well as the slight decrease in the average balance of loans and leases from 2009 to 2010.



Total loans and leases decreased \$35.4 million, or 1.0%, from December 31, 2009 to December 31, 2010. The Company experienced increases in commercial and commercial real estate loans and consumer loans, which were offset by decreases in residential real estate loans, home equity loans, and leases. Commercial real estate loans increased \$105.1 million, or 14.2%, from \$739.4 million at December 31, 2009 to \$844.5 million at December 31, 2010, in large part due to increases in new business and expansion into new markets. Residential real estate loans decreased \$69.9 million, or 11.3%, from \$618.3 million at December 31, 2009 to \$548.4 million at December 31, 2010. This decrease was due primarily to the sales of fixed rate mortgages during 2010. Home equity loans decreased \$27.9 million or 4.6% from \$603.6 million at December 31, 2009 to \$575.7 million at December 31, 2010 due to current market conditions decreasing consumer demand. Leases decreased \$32.1 million, or 51.1%, from \$62.7 million at December 31, 2009 to \$30.6 million at December 31, 2010 as the Company discontinued lease originations beginning in 2009.

### **Securities and Corresponding Interest and Dividend Income**

The average balance of the amortized cost for securities available for sale decreased \$7.2 million, or 0.7%, from December 31, 2009 to December 31, 2010. The yield on average securities available for sale was 3.56% for 2010 compared to 4.47% in 2009.

The average balance of securities held to maturity decreased from \$151.1 million in 2009 to \$128.7 million in 2010. At December 31, 2010, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity decreased from 4.89% in 2009 to 4.74% in 2010.

### **Deposits**

Average interest bearing deposits remained at \$3.3 billion for 2010 as compared with 2009. Average money market deposits increased \$79.3 million or 7.8% during 2010 when compared to 2009. The increase in average money market deposits resulted primarily from an increase in non-personal money market deposits and municipal money market deposits as customers chose the term flexibility of money market deposit accounts in the low rate environment as opposed to longer term options such as CD's. Average NOW accounts increased \$109.0 million or 18.1% during 2010 as compared to 2009. This increase was due primarily to

increases in municipal NOW accounts as the Company acquired new accounts in 2010. The average balance of savings accounts increased \$53.6 million or 10.7% during 2010 when compared to 2009. Average time deposits decreased \$241.7 million or 19.7% during 2010 as compared to 2009. The decrease in average time deposits resulted primarily from decreases in municipal and brokered CD's due to lower interest rates. The average balance of demand deposits increased \$87.0 million, or 12.1%, from \$718.6 million in 2009 to \$805.6 million in 2010. This growth in demand deposits was driven principally by increases in accounts from retail customers and commercial customers.

The rate paid on average interest-bearing deposits decreased from 1.45% during 2009 to 0.91% in 2010. The decrease in the rate on interest-bearing deposits was driven primarily by pricing decreases from money market accounts and time deposits, which are sensitive to interest rate changes. The pricing decreases for these products resulted from decreases in short-term rates driven by the cuts made to the Federal Funds Target rate by the FRB during 2009 as well as an overall decrease in all interest rates. The rate paid for money market deposit accounts decreased from 1.20% during 2009 to 0.57% during 2010. The rate paid for NOW accounts decreased from 0.53% during 2009 to 0.41% during 2010. The rate paid for savings deposits decreased from 0.17% in 2009 to 0.14% in 2010 and the rate paid on time deposits decreased from 2.64% during 2009 to 2.06% during 2010.

### **Borrowings**

Average short-term borrowings increased \$18.2 million to \$158.3 million in 2010. The average rate paid on short-term borrowings decreased from 0.39% in 2009 to 0.25% in 2010, which was primarily driven by the FRB decreasing the Fed Funds target rate (which directly impacts short-term borrowing rates). Average long-term debt decreased from \$601.0 million in 2009 to \$469.5 million in 2010, which resulted from the strategic pay-down of long-term debt in 2010 to benefit interest expense in 2010 and future years.

The average balance of trust preferred debentures remained at \$75.4 million in 2010 compared to 2009. The average rate paid for trust preferred debentures in 2010 was 5.49%, down from 5.63% in 2009. The decrease in rate on the trust preferred debentures is due primarily to the change in interest rate terms in one trust preferred debenture to variable rate from fixed rate.

## Noninterest Income

Noninterest income for the year ended December 31, 2010 was \$83.9 million, up \$3.8 million or 4.7% from \$80.1 million for the year ended December 31, 2009. The increase in noninterest income was due primarily to an increase in net securities gains of approximately \$3.1 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to the sale of two equity positions and certain CMO's during 2010. In addition, the Company experienced an increase in retirement plan administration fees of approximately \$1.3 million for the year ended December 31, 2010 as compared with the year ended December 31, 2009 as a result of organic growth and increased asset values from improved market conditions. Insurance and other financial services revenue increased approximately \$1.1 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to new business and expansion into new markets within our footprint. Trust revenue increased approximately \$1.0 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due primarily to an increase in fair market value of trust assets under administration as well as new business generated in 2010. These increases were partially offset by a decrease in service charges on deposit accounts of approximately \$3.1 million as a result of a decrease in overdraft activity due to changes in consumer behavior caused by economic conditions as well as the effects of implementing new regulations regarding overdraft fees.

## Noninterest Expense

Noninterest expense for the year ended December 31, 2010 was \$178.3 million, up from \$170.6 million, or 4.5%, for the year ended December 31, 2009. Salaries and employee benefits increased \$8.2 million, or 9.5%, for the year ended December 31, 2010 compared with the year ended December 31, 2009. This increase was due primarily to increases in full-time-equivalent employees (primarily driven by market expansions), merit increases, employee benefits, and incentive compensation. In addition, the Company incurred debt prepayment penalties totaling \$4.5 million to pay off long-term debt during the year ended December 31, 2010, as compared with prepayment penalties totaling \$0.8 million for the year ended December 31, 2009. The debt prepayments in 2010 benefited interest expense by approximately \$1.0 million in 2010, with future benefits expected in 2011 and 2012. These increases were partially offset by a decrease in FDIC expenses of approximately \$2.3 million for the year

ended December 31, 2010, as compared with the year ended December 31, 2009. This decrease resulted from the special assessment levied by the FDIC in the second quarter of 2009. In addition, professional fees and outside services decreased by \$1.5 million, or 14.0%, for the year ended December 31, 2010 as compared with the year ended December 31, 2009. This decrease was due primarily to nonrecurring legal fees incurred during 2009 related to de novo branch activity as well as non-recurring systems consulting services incurred in 2009.

## Recent Accounting Pronouncements

In September 2011, the FASB issued ASU No. 2011-08 "Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment." ASU 2011-08 is intended to reduce complexity and costs of performing goodwill impairment tests by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments in ASU 2011-08 also improve previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Also, the amendments improve the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company believes that the adoption of the standard will not have a significant impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04 "Fair Value Measurement (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common fair value measurement and disclosure requirements in GAAP and IFRSs (International Financial Reporting Standards). ASU 2011-04 is effective prospectively during interim and annual periods beginning on or after December 15, 2011. The Company believes that the adoption of the standard will not have a significant impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-03 “Transfers and Servicing (Topic 860)—Reconsideration of Effective Control for Repurchase Agreement.” ASU 2011-03 removes from the assessment of effective control the criterion relating to the transferor’s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. ASU 2011-03 is effective for the

first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Company believes that the adoption of the standard will not have a significant impact on the Company’s consolidated financial statements.

## ITEM 7A.

### Quantitative and Qualitative Disclosure About 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 or are immaterial to the results of operations.

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

The primary tool utilized by ALCO to manage interest rate risk is a balance sheet/income statement simulation model (interest rate sensitivity analysis). Information such as principal balance, interest rate, maturity date, cash flows, next repricing date (if needed), and current rates is uploaded into the model to create an ending balance sheet. In addition, ALCO makes certain assumptions regarding prepayment speeds for loans and leases and mortgage related investment securities along with any optionality within the deposits and borrowings. The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Two additional models are run in which a gradual increase of 200 bp and a gradual decrease of 100 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 scenario, net interest income is projected to decrease slightly when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The decrease in net interest income is a result of earning assets repricing downward, given potential higher prepayments and lower reinvestment rates, slightly faster than the interest bearing liabilities that are at or near their floors. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario; however, the potential impact on earnings is dependent on the ability to lag deposit repricing on NOW, savings, MMDA, and CD accounts. Net interest income for the next twelve months in the +200/-100 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the December 31, 2011 balance sheet position:

The Company anticipates that under the current low rate environment, on a monthly basis, interest income is expected to decrease at a faster rate than interest expense given the potential higher prepayments and reinvestment into lower rates as deposit rates are at or near their respective floors. In order to protect net interest income from anticipated net interest margin compression in 2012, the Company will continue to focus on increasing earning assets through loan growth, asset mix of loans and investments, and leverage opportunities.

**Table 10. Interest Rate Sensitivity Analysis**

Change in interest rates ( <i>In basis points</i> )	Percent change in net interest income
+200	(2.10)%
-100	(1.14)%

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
NBT Bancorp Inc.:

We have audited the accompanying consolidated balance sheets of NBT Bancorp Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, cash flows and comprehensive income for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NBT Bancorp Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Albany, New York  
February 28, 2012



## Consolidated Balance Sheets

	As of December 31,	
<i>(In thousands, except share and per share data)</i>	<b>2011</b>	2010
<b>Assets</b>		
Cash and due from banks	\$ 128,517	\$ 99,673
Short-term interest bearing accounts	864	69,119
Securities available for sale, at fair value	1,244,619	1,129,368
Securities held to maturity (fair value \$72,198 and \$98,759)	70,811	97,310
Trading securities	3,062	2,808
Federal Reserve and Federal Home Loan Bank stock	27,020	27,246
Loans and leases	3,800,203	3,610,006
Less allowance for loan and lease losses	71,334	71,234
Net loans and leases	3,728,869	3,538,772
Premises and equipment, net	74,541	67,404
Goodwill	132,029	114,841
Intangible assets, net	18,194	17,543
Bank owned life insurance	77,626	75,301
Other assets	92,254	99,471
<b>Total assets</b>	<b>\$5,598,406</b>	<b>\$5,338,856</b>
<b>Liabilities</b>		
Demand (noninterest bearing)	\$1,052,906	\$ 911,741
Savings, NOW, and money market	2,381,116	2,291,833
Time	933,127	930,778
Total deposits	4,367,149	4,134,352
Short-term borrowings	181,592	159,434
Long-term debt	370,344	369,874
Trust preferred debentures	75,422	75,422
Other liabilities	65,789	66,202
<b>Total liabilities</b>	<b>5,060,296</b>	<b>4,805,284</b>
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value; authorized 2,500,000 shares at December 31, 2011 and 2010	—	—
Common stock, \$0.01 par value; authorized 50,000,000 shares at December 31, 2011 and 2010; issued 38,035,539 at December 31, 2011 and 2010	380	380
Additional paid-in-capital	317,329	314,023
Retained earnings	329,981	299,797
Accumulated other comprehensive loss	(6,104)	(5,335)
Common stock in treasury, at cost, 4,878,829 and 3,532,732 shares at December 31, 2011 and 2010, respectively	(103,476)	(75,293)
<b>Total stockholders' equity</b>	<b>538,110</b>	<b>533,572</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$5,598,406</b>	<b>\$5,338,856</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

	Years ended December 31,		
<i>(In thousands, except per share data)</i>	2011	2010	2009
<b>Interest, fee, and dividend income</b>			
Interest and fees on loans and leases	<b>\$204,370</b>	\$213,429	\$220,324
Securities available for sale	<b>31,083</b>	36,167	45,972
Securities held to maturity	<b>2,886</b>	3,968	4,894
Other	<b>1,658</b>	2,174	2,203
Total interest, fee, and dividend income	<b>239,997</b>	255,738	273,393
<b>Interest expense</b>			
Deposits	<b>23,020</b>	30,354	48,496
Short-term borrowings	<b>205</b>	402	552
Long-term debt	<b>14,404</b>	18,314	23,629
Trust preferred debentures	<b>2,092</b>	4,140	4,247
Total interest expense	<b>39,721</b>	53,210	76,924
Net interest income	<b>200,276</b>	202,528	196,469
Provision for loan and lease losses	<b>20,737</b>	29,809	33,392
Net interest income after provision for loan and lease losses	<b>179,539</b>	172,719	163,077
<b>Noninterest income</b>			
Service charges on deposit accounts	<b>21,464</b>	24,041	27,165
Insurance and other financial services revenue	<b>20,843</b>	18,867	17,725
Trust	<b>8,864</b>	7,722	6,719
Net securities gains	<b>150</b>	3,274	144
Bank owned life insurance income	<b>3,085</b>	3,316	3,135
ATM and debit card fees	<b>11,642</b>	10,035	9,339
Retirement plan administration fees	<b>8,918</b>	10,356	9,086
Other	<b>5,345</b>	6,277	6,818
Total noninterest income	<b>80,311</b>	83,888	80,131
<b>Noninterest expense</b>			
Salaries and employee benefits	<b>99,212</b>	93,718	85,565
Occupancy	<b>16,363</b>	15,350	14,864
Equipment	<b>8,864</b>	8,317	8,139
Data processing and communications	<b>12,271</b>	12,347	13,238
Professional fees and outside services	<b>8,921</b>	9,032	10,508
Office supplies and postage	<b>6,073</b>	6,102	5,857
Amortization of intangible assets	<b>3,046</b>	3,072	3,246
Loan collection and other real estate owned	<b>2,631</b>	3,036	2,766
Advertising	<b>3,460</b>	3,487	3,455
FDIC expenses	<b>4,267</b>	6,081	8,408
Prepayment penalty on long-term debt	<b>—</b>	4,526	810
Other	<b>15,568</b>	13,223	13,710
Total noninterest expense	<b>180,676</b>	178,291	170,566
Income before income tax expense	<b>79,174</b>	78,316	72,642
Income tax expense	<b>21,273</b>	20,912	20,631
Net income	<b>\$ 57,901</b>	\$ 57,404	\$ 52,011
<b>Earnings per share</b>			
Basic	<b>\$ 1.72</b>	\$ 1.67	\$ 1.54
Diluted	<b>1.71</b>	1.66	1.53

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
Net income	<b>\$57,901</b>	\$57,404	\$52,011
<b>Other comprehensive (loss) income, net of tax</b>			
Unrealized net holding gains (losses) arising during the year (pre-tax amounts of \$12,757, \$(6,660), and \$7,438)	<b>7,703</b>	(4,021)	4,490
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of \$150, \$3,274, and \$144)	<b>(90)</b>	(1,977)	(86)
Amortization of prior service cost and actuarial gains (pre-tax amounts of \$1,665, \$1,767, and \$2,581)	<b>999</b>	1,060	1,548
(Decrease) increase in unrecognized actuarial loss (pre-tax amounts of \$(15,546), \$(2,595), and \$5,637)	<b>(9,381)</b>	(1,560)	3,415
Total other comprehensive (loss) income	<b>(769)</b>	(6,498)	9,367
Comprehensive income	<b>\$57,132</b>	\$50,906	\$61,378

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2011, 2010, and 2009 <i>(In thousands, except share and per share data)</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock in Treasury	Total
<b>Balance at December 31, 2008</b>	\$365	\$276,418	\$245,340	\$(8,204)	\$ (82,074)	\$431,845
Net income	—	—	52,011	—	—	52,011
Cash dividends—\$0.80 per share	—	—	(27,119)	—	—	(27,119)
Net issuance of 1,576,230 common shares	15	33,386	—	—	—	33,401
Net issuance of 203,480 shares to employee stock plans, including tax benefit	—	(1,773)	—	—	4,258	2,485
Stock-based compensation	—	3,133	—	—	—	3,133
Other comprehensive income	—	—	—	9,367	—	9,367
<b>Balance at December 31, 2009</b>	\$380	\$311,164	\$270,232	\$ 1,163	\$ (77,816)	\$505,123
Net income	—	—	57,404	—	—	57,404
Cash dividends—\$0.80 per share	—	—	(27,577)	—	—	(27,577)
Purchase of 23,810 treasury shares	—	—	—	—	(477)	(477)
Net issuance of 141,146 shares to employee stock plans, including tax benefit	—	(923)	(262)	—	3,000	1,815
Stock-based compensation	—	3,782	—	—	—	3,782
Other comprehensive loss	—	—	—	(6,498)	—	(6,498)
<b>Balance at December 31, 2010</b>	\$380	\$314,023	\$299,797	\$(5,335)	\$ (75,293)	\$533,572
Net income	—	—	<b>57,901</b>	—	—	<b>57,901</b>
Cash dividends—\$0.80 per share	—	—	<b>(27,063)</b>	—	—	<b>(27,063)</b>
Purchase of 1,458,609 treasury shares	—	—	—	—	<b>(30,502)</b>	<b>(30,502)</b>
Net issuance of 112,512 shares to employee stock plans, including tax benefit	—	<b>62</b>	<b>(654)</b>	—	<b>2,319</b>	<b>1,727</b>
Stock-based compensation	—	<b>3,244</b>	—	—	—	<b>3,244</b>
Other comprehensive loss	—	—	—	<b>(769)</b>	—	<b>(769)</b>
<b>Balance at December 31, 2011</b>	<b>\$380</b>	<b>\$317,329</b>	<b>\$329,981</b>	<b>\$(6,104)</b>	<b>\$(103,476)</b>	<b>\$538,110</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Years ended December 31,

<i>(In thousands)</i>	2011	2010	2009
<b>Operating activities</b>			
Net income	\$ 57,901	\$ 57,404	\$ 52,011
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Provision for loan and lease losses	20,737	29,809	33,392
Depreciation and amortization of premises and equipment	5,463	5,327	5,398
Net accretion on securities	1,597	1,468	535
Amortization of intangible assets	3,046	3,072	3,246
Stock based compensation	3,244	3,782	3,133
Bank owned life insurance income	(3,085)	(3,316)	(3,135)
Trading security purchases	(447)	(184)	(460)
Unrealized losses (gains) in trading securities	193	(214)	(543)
Deferred income tax benefit	(9,478)	(14,955)	(1,501)
Proceeds from sale of loans held for sale	13,545	83,143	135,519
Originations and purchases of loans held for sale	(14,167)	(80,469)	(138,583)
Net gains on sales of loans held for sale	(329)	(911)	(953)
Net security gains	(150)	(3,274)	(144)
Net gains on sales of other real estate owned	(2,531)	(517)	(306)
Net (increase) decrease in other assets	(3,579)	6,627	(39,324)
Net increase in other liabilities	11,805	2,645	6,399
Net cash provided by operating activities	83,765	89,437	54,684
<b>Investing activities</b>			
Net cash provided by acquisitions	81,467	—	—
<b>Securities available for sale:</b>			
Proceeds from maturities, calls, and principal paydowns	541,555	511,394	434,127
Proceeds from sales	2,437	103,253	2,753
Purchases	(648,048)	(635,319)	(426,979)
<b>Securities held to maturity:</b>			
Proceeds from maturities, calls, and principal paydowns	47,186	112,399	90,668
Purchases	(20,736)	(48,701)	(110,496)
Net (increase) decrease in loans	(172,920)	7,292	(18,775)
Net decrease in Federal Reserve and FHLB stock	226	8,733	3,066
Proceeds from bank owned life insurance	758	2,767	1,054
Purchases of premises and equipment, net	(9,954)	(6,510)	(6,378)
Proceeds from sales of other real estate owned	2,531	3,186	2,512
Net cash (used in) provided by investing activities	(175,498)	58,494	(28,448)
<b>Financing activities</b>			
Net increase in deposits	87,992	41,306	169,788
Net increase (decrease) in short-term borrowings	22,158	3,457	(50,515)
Proceeds from issuance of long-term debt	156	—	—
Repayments of long-term debt	(2,146)	(184,824)	(77,511)
Excess tax benefit from exercise of stock options	341	140	(243)
Proceeds from the issuance of shares to employee benefit plans and other stock plans	1,386	1,675	2,728
Issuance of common stock	—	—	33,401
Purchase of treasury stock	(30,502)	(477)	—
Cash dividends and payments for fractional shares	(27,063)	(27,577)	(27,119)
Net cash provided by (used in) financing activities	52,322	(166,300)	50,529
Net (decrease) increase in cash and cash equivalents	(39,411)	(18,369)	76,765
Cash and cash equivalents at beginning of year	168,792	187,161	110,396
Cash and cash equivalents at end of year	\$ 129,381	\$ 168,792	\$ 187,161
<b>Supplemental disclosure of cash flow information</b>			
<b>Cash paid during the year for:</b>			
Interest	\$ 40,135	\$ 54,668	\$ 79,819
Income taxes, net of refund	31,258	37,033	13,952
<b>Noncash investing activities:</b>			
Loans transferred to other real estate owned	\$ 2,927	\$ 1,212	\$ 3,899
<b>Acquisitions of non-cash assets and liabilities:</b>			
Fair value of assets acquired	\$ 67,020	\$ —	\$ —
Fair value of liabilities assumed	\$ 148,487	\$ —	\$ —

See accompanying notes to consolidated financial statements.



## ***NBT Bancorp Inc. and Subsidiaries:***

### **Notes to Consolidated Financial Statements December 31, 2011 and 2010**

#### **(1) Summary of Significant Accounting Policies**

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The accounting and reporting policies of NBT Bancorp Inc. (NBT Bancorp) and its subsidiaries, NBT Bank, NA (NBT Bank), NBT Holdings, Inc., and NBT Financial Services, Inc., conform, in all material respects, to accounting principles generally accepted in the United States of America (GAAP) and to general practices within the banking industry. Collectively, NBT Bancorp and its subsidiaries are referred to herein as “the Company.”

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates associated with the allowance for loan and lease losses, other real estate owned (OREO), income taxes, pension expense, fair values of financial instruments and status of contingencies and other-than-temporary impairment on investments are particularly susceptible to material change in the near term.

The following is a description of significant policies and practices:

#### **Consolidation**

The accompanying consolidated financial statements include the accounts of NBT Bancorp and its wholly owned subsidiaries mentioned above. All material intercompany transactions have been eliminated in consolidation. Amounts previously reported in the consolidated financial statements are reclassified whenever necessary to conform to the current year’s presentation. In the “Parent Company Financial Information,” the investment in subsidiaries is recorded using the equity method of accounting.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or

at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company’s wholly owned subsidiaries CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company’s consolidated financial statements.

#### **Segment Report**

The Company’s operations are primarily in the community banking industry and include the provision of traditional banking services. The Company also provides other services through its subsidiaries such as insurance, retirement plan administration, and trust administration. The Company operates solely in the geographical regions of central and northern New York, northeastern Pennsylvania, western Massachusetts and Burlington, Vermont. The Company has identified separate operating segments; however, these segments did not meet the quantitative thresholds for separate disclosure.

#### **Cash Equivalents**

The Company considers amounts due from correspondent banks, cash items in process of collection, and institutional money market mutual funds to be cash equivalents for purposes of the consolidated statements of cash flows.

#### **Securities**

The Company classifies its securities at date of purchase as either available for sale, held to maturity or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net

of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity as a component of accumulated other comprehensive income or loss. Held to maturity securities are recorded at amortized cost. Trading securities are recorded at fair value, with net unrealized gains and losses recognized in income. Transfers of securities between categories are recorded at fair value at the date of transfer. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses or in other comprehensive income, depending on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the historical and implied volatility of the fair value of the security.

Non-marketable equity securities are carried at cost, with the exception of small business investment company (SBIC) investments, which are carried at fair value in accordance with SBIC rules.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on securities sold are derived using the specific identification method for determining the cost of securities sold.

Investments in Federal Reserve and FHLB stock are required for membership in those organizations and are carried at cost since there is no market value available.

## Loans and Leases

Loans are recorded at their current unpaid principal balance, net of unearned income and unamortized loan fees and expenses, which are amortized under the effective interest method over the estimated lives of the loans. Interest income on loans is accrued based on the principal amount outstanding.

Lease receivables primarily represent automobile financing to customers through direct financing leases and are carried at the aggregate of the lease payments receivable and the estimated residual values, net of unearned income and net deferred lease origination fees and costs. Net deferred lease origination fees and costs are amortized under the effective interest method over the estimated lives of the leases. The estimated residual value related to the total lease portfolio is reviewed and if there has been a decline in the estimated fair value of the total residual value that is judged by management to be other-than-temporary a loss is recognized. Adjustments related to such other-than-temporary declines in estimated fair value are recorded in noninterest expense in the consolidated statements of income.

For all loan classes within the Company's loan portfolio, loans and leases are placed on nonaccrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. Loans and leases are transferred to nonaccrual status generally when principal or interest payments become ninety days delinquent, unless the loan is well secured and in the process of collection, or sooner when management concludes circumstances indicate that borrowers may be unable to meet contractual principal or interest payments. When a loan or lease is transferred to a nonaccrual status, all interest previously accrued in the current period but not collected is reversed against interest income in that period. Interest accrued in a prior period and not collected is charged-off against the allowance for loan and lease losses.

If ultimate repayment of a nonaccrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayment of principal is not expected, any payment received on a nonaccrual loan is applied to principal until ultimate repayment becomes expected. For all loan classes within the Company's loan portfolio, nonaccrual loans are returned to accrual status when they become current as to principal and interest and demonstrate a period of performance under the contractual terms and, in the opinion of management, are fully collectible as to principal and interest. For loans in all portfolios, the principal amount is charged off in full or in part as soon as management determines, based on available facts, that the collection of principal in full is improbable. For commercial loans, management considers specific facts and circumstances relative to individual

credits in making such a determination. For consumer and residential loan classes, management uses specific guidance and thresholds from the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy.

Commercial type loans are considered impaired when it is probable that the borrower will not repay the loan according to the original contractual terms of the loan agreement, and all loan types are considered impaired if the loan is restructured in a troubled debt restructuring ("TDR"). In determining that we will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreements, we consider factors such as payment history and changes in the financial condition of individual borrowers, local economic conditions, historical loss experience and the conditions of the various markets in which the collateral may be liquidated.

A loan is considered to be a TDR when the Company grants a concession to the borrower because of the borrower's financial condition that the Company would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of all or a portion of principal or interest, or other modifications at interest rates that are less than the current market rate for new obligations with similar risk. TDR loans are nonaccrual loans; however, they can be returned to accrual status after a period of performance, generally evidenced by six months of compliance with their modified terms.

### **Allowance for Loan and Lease Losses**

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

The allowance for loan and lease losses related to impaired loans is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the

loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Company's impaired loans are generally collateral dependent. The Company considers the estimated cost to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

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

### **Premises and Equipment**

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation of premises and equipment is determined using the straight-line method over the estimated useful lives of the respective assets. Expenditures for maintenance, repairs, and minor replacements are charged to expense as incurred.

### **Other Real Estate Owned**

Other real estate owned (OREO) consists of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are recorded at the lower of fair value of the asset acquired less estimated costs to sell or "cost" (defined as the fair value at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any, of the loan over the fair market value of the assets received, less estimated selling costs, is charged to the allowance for loan and lease losses and any subsequent valuation write-downs are charged to other expense. In connection with the determination of the allowance for loan and lease losses and the valuation of other real estate owned, management obtains appraisals for properties. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the minimum down payment requirements prescribed by GAAP. The balance of OREO at December 31, 2011 and 2010 was approximately \$2.2 million and \$0.9 million, respectively.

## Acquired Loans

Loans that we acquire in acquisitions subsequent to January 1, 2009 are recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require us to evaluate the need for an allowance for credit losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable discount which we then reclassify as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect is performed in a similar manner as that used to determine our allowance for credit losses. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if we expect to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. We have determined that we can reasonably estimate future cash flows on any such acquired loans that are past due 90 days or more and on which we are accruing interest and we expect to fully collect the carrying value of the loans.

## Goodwill and Other Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets that have finite useful lives are amortized over their useful lives. Core deposit intangibles at the Company are amortized using the sum-of-the-years'-digits method.

Covenants not to compete are amortized on a straight-line basis. Customer lists are amortized using an accelerated method.

When facts and circumstances indicate potential impairment of amortizable intangible assets, the Company evaluates the recoverability of the asset carrying value, using estimates of undiscounted future cash flows over the remaining asset life. Any impairment loss is measured by the excess of carrying value over fair value. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. In these tests, the fair values of each reporting unit, or segment, is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated. If so, the implied fair value of the reporting unit's goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value.

## Treasury Stock

Treasury stock acquisitions are recorded at cost. Subsequent sales of treasury stock are recorded on an average cost basis. Gains on the sale of treasury stock are credited to additional paid-in-capital. Losses on the sale of treasury stock are charged to additional paid-in-capital to the extent of previous gains, otherwise charged to retained earnings.

## Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense.

## Stock-Based Compensation

We maintain various long-term incentive stock benefit plans under which we grant stock options, restricted stock awards, and restricted stock units to certain directors and key employees. We recognize compensation expense in our income statement over the requisite service period, based on the grant-date fair value of the award. The fair values of options are estimated using the Black-Scholes option pricing model.



For restricted stock awards and units, we recognize compensation expense ratably over the vesting period for the fair value of the award, measured at the grant date.

The Company's stock-based employee compensation plan is described in Note 18 "Employee Benefit Plans," of this Report.

### **Other Financial Instruments**

The Company is a party to certain other financial instruments with off-balance-sheet risk such as commitments to extend credit, unused lines of credit, as well as certain mortgage loans sold to investors with recourse. The Company's policy is to record such instruments when funded.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit typically have one year expirations with an option to renew upon annual review. The Company typically receives a fee for these transactions. The fair value of standby letters of credit is recorded upon inception.

### **Loan Sales and Loan Servicing**

The Company originates and services residential mortgage loans for consumers and sells 15-year, 20-year and 30-year residential real estate mortgages in the secondary market when the interest rate environment is determined to be favorable by management, while retaining servicing rights on the sold loans. Loan sales are recorded when the sales are funded. Mortgage servicing rights are recorded at fair value upon sale of the loan.

### **Repurchase Agreements**

Repurchase agreements are accounted for as secured financing transactions since the Company maintains effective control over the transferred securities and the transfer meets the other criteria for such accounting. Obligations to repurchase securities sold are reflected as a liability in the Consolidated Balance Sheets. The securities underlying the agreements are delivered to a custodial account for the benefit of the dealer or bank with whom each transaction is executed. The dealers or banks, who may sell, loan or otherwise dispose of such securities to other parties in

the normal course of their operations, agree to resell to the Company the same securities at the maturities of the agreements.

### **Earnings Per Share**

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS 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).

### **Subsequent Events**

The Company has evaluated subsequent events for potential recognition and/or disclosure and there were none identified.

### **Comprehensive Income**

At the Company, comprehensive income represents net income plus other comprehensive income (loss), which consists primarily of the net change in unrealized gains or losses on securities available for sale for the period and changes in the funded status of employee benefit plans. Accumulated other comprehensive (loss) income represents the net unrealized gains or losses on securities available for sale and the previously unrecognized portion of the funded status of employee benefit plans, net of income taxes, as of the consolidated balance sheet dates.

### **Pension Costs**

The Company maintains a noncontributory, defined benefit pension plan covering substantially all employees, as well as supplemental employee retirement plans covering certain executives and a defined benefit postretirement healthcare plan that covers certain employees. Costs associated with these plans, based on actuarial computations of current and future benefits for employees, are charged to current operating expenses.

### **Trust Operations**

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Company. Trust income is recognized on the accrual method based on contractual rates applied to the balances of trust accounts.



## Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are not adjusted for transaction costs. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

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

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

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

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage

products, active listed equities and most money market securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. The Company does not adjust the quoted price for such instruments.

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

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

## (2) Merger and Acquisition Activity

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On May 2, 2011, the Company completed the acquisition of Latremore's Insurance Agency, Inc., then headquartered in Chazy, New York. As part of the acquisition, the Company acquired approximately \$2.1 million of intangible assets, \$1.3 million of goodwill, and \$0.1 million of fixed assets for a purchase price of \$3.5 million, which has been allocated to NBT Holdings for reporting purposes. The results of operations are included in the consolidated financial statements from the date of acquisition.

Pursuant to a purchase assumption agreement dated July 21, 2011 between the Company, Berkshire Hills Bancorp, Inc., and Legacy Banks, on October 21, 2011, the Company completed the conversion of four Legacy Banks branches to NBT Bank. The branches are located in Berkshire County, Massachusetts in the towns of Great Barrington, Lee, Pittsfield, and North Adams. As part of the acquisition, the Company

acquired approximately \$39.9 million in loans, \$144.8 million in deposits, \$12.5 million of goodwill, \$1.3 million of intangible assets, and \$2.8 million of other assets for a purchase price of \$8.9 million, which has been allocated to the Bank for reporting purposes. The results of operations are included in the consolidated financial statements from the date of acquisition.

On October 24, 2011, the Company entered into a definitive agreement with Berkshire Hills Bancorp, Inc. and Legacy Banks to acquire three former Legacy Banks branches in Greene County, NY and deposits and loans of one Legacy Banks branch in Schoharie County, NY. This acquisition closed on January 21, 2012.

On November 16, 2011, the Company entered into a definitive agreement with Hampshire First pursuant to which Hampshire First will merge with and into NBT's banking subsidiary, NBT Bank, N.A. This merger is expected to close in the second quarter of 2012.

### (3) Earnings Per Share

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

	Years ended December 31,								
	2011			2010			2009		
<i>(In thousands, except share and per share data)</i>	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	\$57,901	33,662	\$1.72	\$57,404	34,275	\$1.67	\$52,011	33,723	\$1.54
<i>Effect of dilutive securities:</i>									
Stock based compensation		262			234			180	
Diluted earnings per share	\$57,901	33,924	\$1.71	\$57,404	34,509	\$1.66	\$52,011	33,903	\$1.53

There were approximately 1,258,000, 1,309,000, and 1,245,000 weighted average stock options for the years ended December 31, 2011, 2010, and 2009, respectively, that were not considered in the calculation of diluted earnings per share since the stock options' exercise prices were greater than the average market price during these periods.

### (4) Federal Reserve Bank Requirement

The Company is required to maintain reserve balances with the Federal Reserve Bank. The required average total reserve for NBT Bank for the 14-day maintenance period ending December 31, 2011 was \$33.4 million.

### (5) Securities

The amortized cost, estimated fair value, and unrealized gains and losses of securities available for sale are as follows:

<i>(In thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>December 31, 2011</b>				
U.S. Treasury	\$ 81,006	\$ 1,228	\$ —	\$ 82,234
Federal agency	254,983	879	16	255,846
State & municipal	99,176	5,624	11	104,789
Mortgage-backed	310,767	14,629	—	325,396
Collateralized mortgage obligations	459,067	6,458	51	465,474
Corporate	—	—	—	—
Other securities	8,935	2,021	76	10,880
Total securities available for sale	\$1,213,934	\$30,839	\$154	\$1,244,619
<b>December 31, 2010</b>				
U.S. Treasury	\$ 91,338	\$ 424	\$ 482	\$ 91,280
Federal agency	350,641	1,905	2,796	349,750
State & municipal	113,821	1,771	655	114,937
Mortgage-backed	233,861	11,666	719	244,808
Collateralized mortgage obligations	293,565	6,574	2,251	297,888
Corporate	20,005	484	—	20,489
Other securities	8,059	2,162	5	10,216
Total securities available for sale	\$1,111,290	\$24,986	\$6,908	\$1,129,368

In the available for sale category at December 31, 2011, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of \$290.2 million and a fair value of \$303.0 million and U.S. Government Agency securities with an amortized cost of \$20.5 million and a fair value of \$22.4 million; CMOs were comprised of GSEs with an amortized cost of \$398.3 million and a fair value of \$402.4 million and U.S. Government Agency securities with an amortized cost of \$60.8 million and a fair value of \$63.1 million. At December 31, 2011, all of the mortgaged-backed securities held to maturity were comprised of U.S. Government Agency securities.

In the available for sale category at December 31, 2010, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; mortgaged-backed securities were comprised of GSEs with an amortized cost of \$208.9 million and a fair value of \$217.9 million and U.S. Government Agency securities with an amortized cost of \$25.0 million and a fair value of \$26.9 million; CMOs were comprised of GSEs with an amortized cost of \$206.0 million and a fair value of \$207.0 million and U.S. Government Agency securities with an amortized cost of \$87.6 million and a fair value of \$90.8 million.

The following table sets forth information with regard to sales transactions of securities available for sale:

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
Proceeds from sales	<b>\$2,437</b>	\$103,253	\$2,753
Gross realized gains	<b>\$ 7</b>	\$ 3,170	\$ 154
Gross realized losses	<b>(165)</b>	(25)	(49)
Net securities (losses) gains	<b>\$ (158)</b>	\$ 3,145	\$ 105

In addition to (losses) gains from sales transactions, the Company also recorded gains from calls on securities available for sale of approximately \$0.3 million for the year ended December 31, 2011, \$0.1 for the year ended December 31, 2010, and a nominal gain for the year ended December 31, 2009.

At December 31, 2011 and 2010, securities available for sale with amortized costs totaling \$1.2 billion and \$0.9 billion, respectively, were pledged to

secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2011, securities available for sale with an amortized cost of \$141.7 million were pledged as collateral for securities sold under the repurchase agreements.

The amortized cost, estimated fair value, and unrealized gains and losses of securities held to maturity are as follows:

<i>(In thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>December 31, 2011</b>				
Mortgage-backed	<b>\$ 1,447</b>	<b>\$ 213</b>	<b>\$ —</b>	<b>\$ 1,660</b>
State & municipal	<b>69,364</b>	<b>1,174</b>	<b>—</b>	<b>70,538</b>
Total securities held to maturity	<b>\$70,811</b>	<b>\$1,387</b>	<b>\$ —</b>	<b>\$72,198</b>
<b>December 31, 2010</b>				
Mortgage-backed	\$ 1,719	\$ 200	\$ —	\$ 1,919
State & municipal	95,591	1,249	—	96,840
Total securities held to maturity	\$97,310	\$1,449	\$ —	\$98,759

At December 31, 2011 and 2010, all of the mortgaged-backed securities held to maturity were comprised of U.S. Government Agency securities.

The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2011 and 2010, segregated according to the length of time the securities had been in a continuous unrealized loss position:

Security Type	Less Than 12 Months			12 Months or Longer			Total		
	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses	Number of Positions
<b>December 31, 2011</b>									
U.S. Treasury	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —	—
Federal agency	34,996	(16)	3	—	—	—	34,996	(16)	3
State & municipal	957	(10)	3	377	(1)	2	1,334	(11)	5
Mortgage-backed	—	—	—	—	—	—	—	—	—
Collateralized mortgage obligations	27,368	(51)	3	—	—	—	27,368	(51)	3
Other securities	645	(76)	2	—	—	—	645	(76)	2
Total securities with unrealized losses	\$63,966	\$(153)	11	\$377	\$ (1)	2	\$64,343	\$(154)	13
<b>December 31, 2010</b>									
U.S. Treasury	\$ 40,741	\$ (482)	4	\$ —	\$ —	—	\$ 40,741	\$ (482)	4
Federal agency	147,012	(2,796)	12	—	—	—	147,012	(2,796)	12
State & municipal	22,273	(317)	31	7,533	(338)	19	29,806	(655)	50
Mortgage-backed	44,340	(719)	3	—	—	—	44,340	(719)	3
Collateralized mortgage obligations	72,595	(2,251)	3	—	—	—	72,595	(2,251)	3
Other securities	95	(5)	1	—	—	—	95	(5)	1
Total securities with unrealized losses	\$327,056	\$(6,570)	54	\$7,533	\$(338)	19	\$334,589	\$(6,908)	73

Management has the intent to hold the securities classified as held to maturity until they mature, at which time it is believed the Company will receive full value for the securities. Furthermore, as of December 31, 2011, management also had intent to hold, and will not be required to sell, the securities classified as available for sale for a period of time sufficient for a recovery of cost, which may be until maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased.

When necessary, the Company has performed a discounted cash flow analysis to determine whether or not it will receive the contractual principal and interest on certain securities. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. As of December 31, 2011, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment losses have been realized in the Company's consolidated statements of income.

The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2011:

<i>(In thousands)</i>	Amortized Cost	Estimated Fair Value
<b>Debt securities classified as available for sale</b>		
Within one year	\$ 23,867	\$ 23,941
From one to five years	302,772	305,366
From five to ten years	245,058	254,864
After ten years	633,302	649,568
	<b>\$1,204,999</b>	<b>\$1,233,739</b>
<b>Debt securities classified as held to maturity</b>		
Within one year	\$ 26,315	\$ 26,383
From one to five years	34,032	35,058
From five to ten years	7,073	7,153
After ten years	3,391	3,604
	<b>\$ 70,811</b>	<b>\$ 72,198</b>

Maturities of mortgage-backed, CMOs and asset-backed securities are stated based on their estimated average lives. Actual maturities may differ from estimated average lives or contractual maturities because, in certain cases, borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Except for U.S. Government securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of consolidated stockholders' equity at December 31, 2011 and 2010.

## (6) Loans and Leases

A summary of loans and leases, net of deferred fees and origination costs, by category is as follows:

<i>(In thousands)</i>	At December 31,	
	2011	2010
Residential real estate mortgages	<b>\$ 581,511</b>	\$ 548,394
Commercial	<b>611,298</b>	577,731
Commercial real estate	<b>888,879</b>	844,458
Real estate construction and development	<b>93,977</b>	45,444
Agricultural and agricultural real estate mortgages	<b>108,423</b>	112,738
Consumer	<b>946,470</b>	905,563
Home equity	<b>569,645</b>	575,678
Total loans and leases	<b>\$3,800,203</b>	\$3,610,006

Included in the above loans and leases are net deferred loan origination costs totaling \$1.6 million and \$2.9 million at December 31, 2011 and 2010, respectively. Also included is unearned income of \$0.3 million and \$1.4 million at December 31, 2011 and 2010, respectively. The decrease in unearned income is

due to the run-off of the lease portfolio as the Company ceased lease originations in 2009. The Company had residential loans held for sale totaling \$2.7 million as of December 31, 2011 and none as of December 31, 2010.

FHLB advances are collateralized by a blanket lien on the Company's residential real estate mortgages.



## (7) Allowance for Loan and Lease Losses and Credit Quality of Loans and Leases

### Allowance 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 the level of the allowance reasonably reflects the loan and lease 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.

To develop and document a systematic methodology for determining the allowance for loan and lease losses, the Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. Each portfolio segment is broken down into class segments where appropriate. Class segments contain unique measurement attributes, risk characteristics and methods for monitoring and assessing risk that are necessary to develop the allowance for loan and lease losses. Unique characteristics such as borrower type, loan type, collateral type, and risk characteristics define each class segment. The following table illustrates the portfolio and class segments for the Company's loan portfolio:

Portfolio	Class
<b>Commercial Loans</b>	Commercial
	Commercial Real Estate
	Agricultural
	Agricultural Real Estate
<b>Consumer Loans</b>	Business Banking
	Indirect
	Home Equity
<b>Residential Real Estate Mortgages</b>	Direct

### Commercial Loans

*Commercial*—The Company offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital such as inventory and receivables, business expansion and equipment purchases.

Generally, a collateral lien is placed on equipment or other assets owned by the borrower. These loans carry a higher risk than commercial real estate loans by the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable and is generally less liquid than real estate. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers.

*Commercial Real Estate*—The Company offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real property which generally consists of real estate with completed structures. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and other non owner-occupied facilities. These loans are typically less risky than commercial loans, since they are secured by real estate and buildings. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 80% of the appraised value of the property.

*Agricultural*—The Company offers a variety of agricultural loans to meet the needs of our agricultural customers including term loans, time notes, and lines of credit. These loans are made to purchase livestock, purchase and modernize equipment, and finance seasonal crop expenses. Generally, a collateral lien is placed on the livestock, equipment, produce inventories, and/or receivables owned by the borrower. These loans may carry a higher risk than commercial and agricultural real estate loans due to the industry price volatility and the perishable nature of the underlying collateral. To reduce these risks, management may attempt to secure these loans with additional real estate collateral, obtain personal guarantees of the borrowers, or obtain government loan guarantees to provide further support.

*Agricultural Real Estate*—The Company offers real estate loans to our agricultural customers to finance farm related real estate purchases, refinancings, expansions, and improvements to agricultural properties. Agricultural real estate loans are made to finance the purchases and improvements of farm

properties that generally consist of barns, production facilities, and land. The agricultural real estate loans are secured by first liens on the farm real estate. Because they are secured by land and buildings, these loans may be less risky than agricultural loans. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 75% of the appraised value of the property. Government loan guarantees may be obtained to provide further support.

**Business Banking**—The Company offers a variety of loan options to meet the specific needs of our small business customers including term loans, small business mortgages and lines of credit. Such loans are generally less than \$350 thousand and are made available to businesses for working capital such as inventory and receivables, business expansion, equipment purchases, and agricultural needs. Generally, a collateral lien is placed on equipment or other assets owned by the borrower such as inventory and/or receivables. These loans carry a higher risk than commercial loans due to the smaller size of the borrower and lower levels of capital. To reduce the risk, the Company obtains personal guarantees of the owners for a majority of the loans.

### Consumer Loans

**Indirect**—The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the company finances the purchases of automobiles and recreational vehicles (such as campers, boats, etc.) indirectly through dealer relationships. Approximately 73% of the indirect relationships represent automobile financing. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to six years, based upon the nature of the collateral and the size of the loan. The majority of indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

**Home Equity**—The Company offers fixed home equity loans as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Consumers are able to borrow up to 85% of the equity in their homes. The Company originates home equity lines of credit and second mortgage loans (loans secured by a second lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are in a second

position with respect to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

**Direct**—The Company offers a variety of consumer installment loans to finance vehicle purchases, mobile home purchases and personal expenditures. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to ten years, based upon the nature of the collateral and the size of the loan. The majority of consumer loans are underwritten on a secured basis using the underlying collateral being financed or a customer's deposit account. In addition to installment loans, the Company also offers personal lines of credit and overdraft protection. A minimal amount of loans are unsecured, which carry a higher risk of loss.

### Residential Real Estate Loans

Residential real estate loans consist primarily of loans secured by first or second deeds of trust on primary residences. We originate adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. When market conditions are favorable, for longer term, fixed-rate residential mortgages without escrow, the Company retains the servicing, but sells the right to receive principal and interest to Freddie Mac when market conditions are favorable. This practice allows the Company to manage interest rate risk, liquidity risk, and credit risk. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower), or have private mortgage insurance. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period.

### Allowance for Loan and Lease Loss Calculation

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 judgments can have on the consolidated results of operations.

For purposes of evaluating the adequacy of the allowance, the Company considers a number of significant factors that affect the collectibility of the portfolio. For individually analyzed loans, these 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 current assessment of a number of factors, which could affect collectibility. These factors include: past loss experience; size, trend, composition, and nature of loans; changes in lending policies and procedures, including underwriting standards and collection, charge-offs and recoveries; trends experienced in nonperforming and delinquent loans; 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 make loan grade changes as well as recognize additions to the allowance based on their examinations.

After a thorough consideration of the factors discussed above, any 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 following table illustrates the changes in the allowance for loan and lease losses by portfolio segment for the years ended December 31, 2011 and 2010:

#### Allowance for Loan and Lease Losses

<i>(In thousands)</i>	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
Balance as of December 31, 2010	\$ 40,101	\$ 26,126	\$ 4,627	\$ 380	\$ 71,234
Charge-offs	<b>(8,969)</b>	<b>(14,209)</b>	<b>(1,310)</b>	—	<b>(24,488)</b>
Recoveries	<b>1,438</b>	<b>2,406</b>	<b>7</b>	—	<b>3,851</b>
Provision	<b>6,261</b>	<b>11,726</b>	<b>2,925</b>	<b>(175)</b>	<b>20,737</b>
Ending Balance as of December 31, 2011	<b>\$38,831</b>	<b>\$ 26,049</b>	<b>\$ 6,249</b>	<b>\$ 205</b>	<b>\$ 71,334</b>
Balance as of December 31, 2009	\$ 36,599	\$ 26,664	\$ 3,002	\$ 285	\$ 66,550
Charge-offs	(12,969)	(15,692)	(1,176)	—	(29,837)
Recoveries	1,922	2,747	43	—	4,712
Provision	14,549	12,407	2,758	95	29,809
Ending Balance as of December 31, 2010	\$ 40,101	\$ 26,126	\$ 4,627	\$ 380	\$ 71,234

The following table illustrates the allowance for loan and lease losses and the recorded investment by portfolio segment as of December 31, 2011 and 2010:

### Allowance for Loan and Lease Losses and Recorded Investment in Loans and Leases

<i>(In thousands)</i>	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
<b>As of December 31, 2011</b>					
Allowance for loan and lease losses	\$ 38,831	\$ 26,049	\$ 6,249	\$ 205	\$ 71,334
Allowance for loans and leases individually evaluated for impairment	\$ 175	\$ —	\$ —	\$ —	\$ 175
Allowance for loans and leases collectively evaluated for impairment	\$ 38,656	\$ 26,049	\$ 6,249	\$ 205	\$ 71,159
Ending balance of loans and leases	\$1,702,577	\$1,516,115	\$581,511		\$3,800,203
Ending balance of loans and leases individually evaluated for impairment	\$ 6,219	\$ —	\$ —		\$ 6,219
Ending balance of loans and leases collectively evaluated for impairment	\$1,696,358	\$1,516,115	\$581,511		\$3,793,984
<b>As of December 31, 2010</b>					
Allowance for loan and lease losses	\$ 40,101	\$ 26,126	\$ 4,627	\$ 380	\$ 71,234
Allowance for loans and leases individually evaluated for impairment	\$ 2,211	\$ —	\$ —	\$ —	\$ 2,211
Allowance for loans and leases collectively evaluated for impairment	\$ 37,890	\$ 26,126	\$ 4,627	\$ 380	\$ 69,023
Ending balance of loans and leases	\$ 1,580,371	\$ 1,481,241	\$ 548,394		\$ 3,610,006
Ending balance of loans and leases individually evaluated for impairment	\$ 11,419	\$ —	\$ —		\$ 11,419
Ending balance of loans and leases collectively evaluated for impairment	\$ 1,568,952	\$ 1,481,241	\$ 548,394		\$ 3,598,587

### Credit Quality of Loans and Leases

For all loan classes within the Company's loan portfolio, loans and leases are placed on nonaccrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. Loans and leases are transferred to nonaccrual status generally when principal or interest payments become ninety days delinquent, unless the loan is well secured and in the process of collection, or sooner when management concludes or circumstances indicate that borrowers may be unable to meet contractual principal or interest payments. When a loan or lease is transferred to a nonaccrual status, all interest previously accrued in the current period but not collected is reversed against interest income in that period. Interest accrued in a prior period and not collected is charged-off against the allowance for loan and lease losses.

If ultimate repayment of a nonaccrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayment

of principal is not expected, any payment received on a nonaccrual loan is applied to principal until ultimate repayment becomes expected. For all loan classes within the Company's loan portfolio, nonaccrual loans are returned to accrual status when they become current as to principal and interest and demonstrate a period of performance under the contractual terms and, in the opinion of management, are fully collectible as to principal and interest. For loans in all portfolios, the principal amount is charged off in full or in part as soon as management determines, based on available facts, that the collection of principal in full is improbable. For commercial loans, management considers specific facts and circumstances relative to individual credits in making such a determination. For consumer and residential loan classes, management uses specific guidance and thresholds from the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy.

The following table illustrates the Company's nonaccrual loans by loan class as of December 31, 2011 and 2010:

### Loans on Nonaccrual Status

	As of December 31,	
<i>(In thousands)</i>	2011	2010
<b>Commercial Loans</b>		
Commercial	\$ 1,699	\$ 5,837
Commercial Real Estate	4,868	5,687
Agricultural	3,307	4,065
Agricultural Real Estate	2,067	2,429
Business Banking	7,446	7,033
	<b>19,387</b>	25,051
<b>Consumer Loans</b>		
Indirect	1,550	1,971
Home Equity	7,931	6,395
Direct	378	399
	<b>9,859</b>	8,765
<b>Residential Real Estate Mortgages</b>	<b>9,044</b>	8,651
Total Nonaccrual	<b>\$38,290</b>	\$42,467

The decrease in commercial nonaccrual loans primarily reflects the charge-off of one large credit and the pay-off of two additional large credits in 2011.

The following table sets forth information with regard to past due and nonperforming loans by loan class:

### Age Analysis of Past Due Financing Receivables

	As of December 31, 2011						
<i>(In thousands)</i>	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 91 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans and Leases
<b>Commercial Loans</b>							
Commercial	\$ 663	\$ 50	\$ —	\$ 713	\$ 1,699	\$ 508,662	\$ 511,074
Commercial Real Estate	1,942	—	—	1,942	4,868	828,089	834,899
Agricultural	77	13	—	90	3,307	63,140	66,537
Agricultural Real Estate	—	—	50	50	2,067	31,809	33,926
Business Banking	1,871	1,024	—	2,895	7,446	245,800	256,141
	4,553	1,087	50	5,690	19,387	1,677,500	1,702,577
<b>Consumer Loans</b>							
Indirect	12,141	2,584	1,283	16,008	1,550	855,545	873,103
Home Equity	5,823	1,277	954	8,054	7,931	553,660	569,645
Direct	831	191	140	1,162	378	71,827	73,367
	18,795	4,052	2,377	25,224	9,859	1,481,032	1,516,115
<b>Residential Real Estate Mortgages</b>							
	2,003	139	763	2,905	9,044	569,562	581,511
	<b>\$25,351</b>	<b>\$5,278</b>	<b>\$3,190</b>	<b>\$33,819</b>	<b>\$38,290</b>	<b>\$3,728,094</b>	<b>\$3,800,203</b>



## Age Analysis of Past Due Loans and Leases

As of December 31, 2010

<i>(In thousands)</i>	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 91 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans and Leases
<b>Commercial</b>							
Commercial	\$ 136	\$ 55	\$ 94	\$ 285	\$ 5,837	\$ 461,633	\$ 467,755
Commercial Real Estate	1,263	—	—	1,263	5,687	730,285	737,235
Agricultural	63	92	—	155	4,065	63,336	67,556
Agricultural Real Estate	108	—	—	108	2,429	33,400	35,937
Business Banking	2,570	1,183	—	3,753	7,033	261,102	271,888
	4,140	1,330	94	5,564	25,051	1,549,756	1,580,371
<b>Consumer</b>							
Indirect	9,307	2,193	862	12,362	1,971	814,594	828,927
Home Equity	5,740	1,756	396	7,892	6,395	561,391	575,678
Direct	927	158	54	1,139	399	75,098	76,636
	15,974	4,107	1,312	21,393	8,765	1,451,083	1,481,241
<b>Residential Real Estate Mortgages</b>							
	3,002	126	919	4,047	8,651	535,696	548,394
	\$23,116	\$5,563	\$2,325	\$31,004	\$42,467	\$3,536,535	\$3,610,006

There were no material commitments to extend further credit to borrowers with nonperforming loans. Within nonaccrual loans, there were approximately \$4.0 million and \$1.0 million of TDR loans at December 31, 2011 and 2010, respectively.

Impaired loans, which primarily consist of nonaccruing commercial, commercial real estate, agricultural, agricultural real estate and business banking loans, as well as certain consumer and residential real estate loans that have been modified in a TDR were \$22.4 million at December 31, 2011 and \$25.4 million at December 31, 2010.

The methodology used to establish the allowance for loan and lease losses on impaired loans incorporates specific allocations on loans analyzed individually. Classified loans, including all TDRs and commercial loans that are graded substandard or below, with outstanding balances of \$500 thousand or more are evaluated for impairment through the Company's quarterly status review process. In determining that we will be unable to collect all principal and interest payments due in accordance with the

contractual terms of the loan agreements, we consider factors such as payment history and changes in the financial condition of individual borrowers, local economic conditions, historical loss experience and the conditions of the various markets in which the collateral may be liquidated. For loans that are evaluated for impairment, impairment is measured by one of three methods: 1) the fair value of collateral less cost to sell, 2) present value of expected future cash flows or 3) the loan's observable market price. These impaired loans are reviewed on a quarterly basis for changes in the measurement of impairment. For impaired loans measured using the present value of expected cash flow method, any change to the previously recognized impairment loss is recognized as a change to the allowance account and recorded in the consolidated statement of income as a component of the provision for credit losses. At December 31, 2011, \$0.5 million of the total impaired loans had a specific reserve allocation of \$0.2 million compared to \$6.1 million of impaired loans at December 31, 2010 which had a specific reserve allocation of \$2.2 million.

The following provides additional information on impaired loans for the years ended December 31, 2011 and 2010:

## Impaired Loans

	December 31, 2011			December 31, 2010		
	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance
<i>(In thousands)</i>						
<b>With no related allowance recorded:</b>						
<b>Commercial Loans</b>						
Commercial	\$ 1,243	\$ 2,723		\$ 2,112	\$ 2,459	
Commercial Real Estate	4,868	7,165		5,687	6,654	
Agricultural	3,307	4,166		2,394	2,865	
Agricultural Real Estate	2,067	2,288		1,701	1,883	
Business Banking	7,446	9,976		7,033	9,395	
Total Commercial Loans	18,931	26,318		18,927	23,256	
<b>Consumer Loans</b>						
Home Equity	2,000	2,103		—	—	
<b>Residential Real Estate Mortgages</b>	1,040	1,125		313	339	
	21,971	29,546		19,240	23,595	
<b>With an allowance recorded:</b>						
<b>Commercial Loans</b>						
Commercial	\$ 456	\$ 808	\$ 175	\$ 3,725	\$ 4,762	\$ 1,907
Commercial Real Estate	—	—	—	—	—	—
Agricultural	—	—	—	1,671	1,918	281
Agricultural Real Estate	—	—	—	728	784	23
	456	808	175	6,124	7,464	2,211
Total	\$22,427	\$30,354	\$175	\$25,364	\$31,059	\$2,211

The following table summarizes the average recorded investments on impaired loans and the interest income recognized for the years ended December 31, 2011, 2010 and 2009:

	December 31, 2011			December 31, 2010			December 31, 2009		
	Average Recorded Investment	Interest Income Recognized Accrual	Cash	Average Recorded Investment	Interest Income Recognized Accrual	Cash	Average Recorded Investment	Interest Income Recognized Accrual	Cash
<i>(In thousands)</i>									
<b>With no related allowance recorded:</b>									
<b>Commercial Loans</b>									
Commercial	\$ 2,322	\$ 94	\$ 94	\$ 1,898	\$ 113	\$ 113	\$ 1,118	\$1,429	\$1,429
Commercial Real Estate	4,794	163	163	4,219	317	317	5,702	2,744	2,744
Agricultural	3,013	133	133	2,990	82	82	1,606	531	531
Agricultural Real Estate	1,719	109	109	1,929	150	150	1,853	589	589
Business Banking	6,121	266	266	4,959	234	234	6,231	917	917
<b>Consumer Loans</b>									
Home Equity	1,904	91	91	—	—	—	—	—	—
<b>Residential Real Estate Mortgages</b>									
	926	58	58	132	6	6	—	—	—
	<b>\$20,798</b>	<b>\$ 914</b>	<b>\$ 914</b>	<b>\$16,127</b>	<b>\$ 902</b>	<b>\$ 902</b>	<b>\$16,509</b>	<b>\$6,210</b>	<b>\$6,210</b>
<b>With an allowance recorded:</b>									
<b>Commercial Loans</b>									
Commercial	\$ 861	\$ 86	\$ 86	\$ 2,366	\$ 118	\$ 118	\$ 2,984	\$ 57	\$ 57
Commercial Real Estate	287	—	—	1,234	—	—	1,551	—	—
Agricultural	791	68	68	1,386	150	150	2,046	63	63
Agricultural Real Estate	357	18	18	816	67	67	560	5	5
	<b>\$ 2,295</b>	<b>\$ 172</b>	<b>\$ 172</b>	<b>\$ 5,802</b>	<b>\$ 335</b>	<b>\$ 335</b>	<b>\$ 7,141</b>	<b>\$ 125</b>	<b>\$ 125</b>
Total	<b>\$23,094</b>	<b>\$1,086</b>	<b>\$1,086</b>	<b>\$21,929</b>	<b>\$1,237</b>	<b>\$1,237</b>	<b>\$23,650</b>	<b>\$6,335</b>	<b>\$6,335</b>

There has been significant disruption and volatility in the financial and capital markets since the second half of 2008. Turmoil in the mortgage market adversely impacted both domestic and global markets and led to a significant credit and liquidity crisis in many domestic markets. These market conditions were attributable to a variety of factors, in particular the fall-out associated with subprime mortgage loans (a type of lending we have never actively pursued). The disruption was exacerbated by the decline of the real estate and housing market. However, in the markets in which the Company does business, the disruption has been less significant than in the national market. For example, our real estate market has not suffered the extreme declines seen nationally and our unemployment rate, while notably higher than in prior periods, is still below the national average.

While we continue to adhere to prudent underwriting standards, as a lender we may be adversely impacted by general economic weaknesses and, in particular, a sharp downturn in the housing market nationally. Decreases in real estate values could

adversely affect the value of property used as collateral for our loans. Adverse changes in the economy may have a negative effect on the ability of our borrowers to make timely loan payments, which would have an adverse impact on our earnings. A further increase in loan delinquencies would decrease our net interest income and adversely impact our loan loss experience, causing increases in our provision and allowance for loan and lease losses.

The Company has developed an internal loan grading system to evaluate and quantify the Bank's loan portfolio with respect to quality and risk. The system focuses on, among other things, financial strength of borrowers, experience and depth of management, primary and secondary sources of repayment, payment history, nature of the business, outlook on particular industries. The internal grading system enables the Company to monitor the quality of the entire loan portfolio on a continuous basis and provide management with an early warning system, enabling recognition and response to problem loans and potential problem loans.

## Commercial Grading System

For commercial and agricultural loans, the Company uses a grading system that relies on quantifiable and measurable characteristics when available. This would include comparison of financial strength to available industry averages, comparison of transaction factors (loan terms and conditions) to loan policy, and comparison of credit history to stated repayment terms and industry averages. Some grading factors are necessarily more subjective such as economic and industry factors, regulatory environment, and management. The grading system for commercial and agricultural loans is as follows:

- **4—Doubtful**

A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information. Because of high probability of loss, nonaccrual treatment is required for doubtful assets.

- **3—Substandard**

Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some substandard loans, the likelihood of full collection of interest and principal may be in doubt and should be placed on nonaccrual. Although substandard assets in the aggregate will have a distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be rated substandard.

- **2—Special Mention**

Special Mention loans have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the Company's position at some future date. These loans pose elevated risk, but their weakness does not yet justify a substandard classification. Borrowers may be experiencing adverse

operating trends (declining revenues or margins) or may be struggling with an ill-proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Although a Special Mention loan has a higher probability of default than a pass asset, its default is not imminent.

- **1—Pass**

Loans graded as Pass encompass all loans not graded as Doubtful, Substandard, or Special Mention. Pass loans are in compliance with loan covenants, and payments are generally made as agreed. Pass loans range from superior quality to fair quality.

## Business Banking Grading System

Business Banking loans are graded as either Classified or Non-classified:

- **Classified**

Classified loans are inadequately protected by the current worth and paying capacity of the obligor or, if applicable, the collateral pledged. These loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt, or in some cases make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Classified loans have a high probability of payment default, or a high probability of total or substantial loss. These loans require more intensive supervision by management and are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. When the likelihood of full collection of interest and principal may be in doubt; classified loans are considered to have a nonaccrual status. In some cases, classified loans are considered uncollectible and of such little value that their continuance as assets is not warranted.

- **Non-classified**

Loans graded as Non-classified encompass all loans not graded as Classified. Non-classified loans are in compliance with loan covenants, and payments are generally made as agreed.

## Consumer and Residential Mortgage Grading System

Consumer and Residential Mortgage loans are graded as either Performing or Nonperforming. Nonperforming loans are loans that are 1) over 90

days past due and interest is still accruing or 2) on nonaccrual status. All loans not meeting any of these three criteria are considered Performing.

The following tables illustrates the Company's credit quality by loan class for the years ended December 31, 2011 and 2010:

## Credit Quality Indicators

As of December 31, 2011

<i>(In thousands)</i>	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
<b>Commercial Credit Exposure</b>					
<b>By Internally Assigned Grade</b>					
1—Pass	\$ 470,332	\$ 758,673	\$ 58,481	\$ 28,927	\$ 1,316,413
2—Special Mention	10,346	24,478	42	10	34,876
3—Substandard	29,940	51,748	7,945	4,989	94,622
4—Doubtful	456	—	69	—	525
<b>Total</b>	<b>\$511,074</b>	<b>\$834,899</b>	<b>\$66,537</b>	<b>\$33,926</b>	<b>\$1,446,436</b>

	Business Banking	Total
<b>Business Banking Credit Exposure</b>		
<b>By Internally Assigned Grade</b>		
Non-classified	\$ 237,887	\$ 237,887
Classified	18,254	18,254
<b>Total</b>	<b>\$256,141</b>	<b>\$256,141</b>

	Indirect	Home Equity	Direct	Total
<b>Consumer Credit Exposure</b>				
<b>By Payment Activity</b>				
Performing	\$ 870,270	\$ 560,760	\$ 72,849	\$ 1,503,879
Nonperforming	2,833	8,885	518	12,236
<b>Total</b>	<b>\$873,103</b>	<b>\$569,645</b>	<b>\$73,367</b>	<b>\$1,516,115</b>

	Residential Mortgage	Total
<b>Residential Mortgage</b>		
<b>Credit Exposure</b>		
<b>By Payment Activity</b>		
Performing	\$ 571,704	\$ 571,704
Nonperforming	9,807	9,807
<b>Total</b>	<b>\$581,511</b>	<b>\$581,511</b>



## Credit Quality Indicators

As of December 31, 2010

<i>(In thousands)</i>	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
<b>Commercial Credit Exposure</b>					
<b>By Internally Assigned Grade</b>					
1—Pass	\$441,834	\$654,974	\$61,195	\$30,483	\$1,188,486
2—Special Mention	4,830	35,461	660	936	41,887
3—Substandard	21,091	46,800	5,606	4,518	78,015
4—Doubtful	—	—	95	—	95
Total	\$467,755	\$737,235	\$67,556	\$35,937	\$1,308,483

	Business Banking	Total
<b>Business Banking Credit Exposure</b>		
<b>By Internally Assigned Grade</b>		
Non-classified	\$253,120	\$253,120
Classified	18,768	18,768
Total	\$271,888	\$271,888

	Indirect	Home Equity	Direct	Total
<b>Consumer Credit Exposure</b>				
<b>By Payment Activity</b>				
Performing	\$826,956	\$569,283	\$76,237	\$1,472,476
Nonperforming	1,971	6,395	399	8,765
Total	\$828,927	\$575,678	\$76,636	\$1,481,241

	Residential Mortgage	Total
<b>Residential Mortgage</b>		
<b>Credit Exposure</b>		
<b>By Payment Activity</b>		
Performing	\$539,743	\$539,743
Nonperforming	8,651	8,651
Total	\$548,394	\$548,394

### Modifications

The Company's loan portfolio includes certain loans that have been modified in a TDR, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the

borrower's sustained repayment performance for a reasonable period, generally six months.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of the expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is

less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

Modifications made during the year ended December 31, 2011 consisted of three commercial loans totaling \$0.7 million, twenty-five home equity loans totaling \$2.4 million and four residential real estate mortgages totaling \$0.8 million. For all such modifications, the pre and post outstanding recorded investment amount remained unchanged. During the year ended December 31, 2011, there were two commercial loans classified as TDRs totaling \$0.7 million, seven home equity loans classified as TDRs totaling \$0.6 million and two residential real estate loans classified as TDRs totaling \$0.4 million that subsequently defaulted on their renegotiated terms.

Modifications made during the year ended December 31, 2010 consisted of one commercial loan totaling \$0.3 million. The pre and post outstanding recorded investment amount remained unchanged for this loan.

During the year ended December 31, 2010, there were no loans classified as TDRs that subsequently defaulted on their renegotiated terms.

As a result of adopting the amendments in Accounting Standards Update ("ASU") No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring (Topic 310)", the Company reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as TDRs. The Company identified as TDRs certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as TDRs, the Company identified them as impaired under the guidance in Section 310-10-35 and evaluated TDRs for impairment in accordance with the Company's methodology used to establish the allowance for loan and lease losses on impaired loans. The amendments in ASU No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. Adoption of this amendment had no material impact on the Company's measured of impairment on these loans.

## (8) Related Party Transactions

In the ordinary course of business, the Company has made loans at prevailing rates and terms to directors, officers, and other related parties. Such loans, in management's opinion, do not present more than the

normal risk of collectibility or incorporate other unfavorable features. The aggregate amount of loans outstanding to qualifying related parties and changes during the years are summarized as follows:

<i>(In thousands)</i>	2011	2010
Balance at January 1	<b>\$2,914</b>	\$1,843
New loans	<b>25</b>	1,174
Adjustment due to change in composition of related parties	<b>328</b>	216
Repayments	<b>(730)</b>	(319)
Balance at December 31	<b>\$2,537</b>	\$2,914

## (9) Premises and Equipment, Net

A summary of premises and equipment follows:

<i>(In thousands)</i>	December 31,	
	2011	2010
Land, buildings, and improvements	<b>\$103,399</b>	\$ 95,970
Equipment	<b>47,646</b>	72,326
Construction in progress	<b>75</b>	342
Premises and equipment before accumulated depreciation	<b>151,120</b>	168,638
Accumulated depreciation	<b>76,579</b>	101,234
Total premises and equipment	<b>\$ 74,541</b>	\$ 67,404

Land, buildings, and improvements with a carrying value of approximately \$2.9 million and \$3.0 million at December 31, 2011 and 2010, respectively, are pledged to secure long-term borrowings. Buildings and improvements are depreciated based on useful lives of 15 to 40 years. Equipment is depreciated based on useful lives of three to ten years. During 2011, a physical inventory was conducted resulting in an entry to remove certain fully depreciated assets determined to be no longer in use, with a gross amount totaling approximately \$27.1 million. The entry had no impact on the Company's net book value of fixed assets.

Rental expense included in occupancy expense amounted to \$5.9 million in 2011, \$5.5 million in 2010,

and \$5.3 million in 2009. The future minimum rental payments related to noncancelable operating leases with original terms of one year or more are as follows at December 31, 2011 (in thousands):

#### Future Minimum Rental Payments

2012	\$ 5,337
2013	5,200
2014	4,786
2015	4,365
2016	4,121
Thereafter	25,081
<b>Total</b>	<b>\$48,890</b>

#### (10) Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

*(In thousands)*

January 1, 2011	<b>\$114,841</b>
Goodwill resulting from acquisitions	<b>17,188</b>
December 31, 2011	<b>\$132,029</b>
January 1, 2010	\$114,938
Goodwill resulting from acquisitions	—
Goodwill reclassification	(97)
December 31, 2010	\$114,841

The Company has intangible assets with definite useful lives capitalized on its consolidated balance sheet in the form of core deposit and other identified intangible assets. These intangible assets are amortized

over their estimated useful lives, which range primarily from one to twelve years.

A summary of core deposit and other intangible assets follows:

<i>(In thousands)</i>	December 31,	
	2011	2010
<b>Core deposit intangibles</b>		
Gross carrying amount	<b>\$11,966</b>	\$10,762
Less: accumulated amortization	<b>6,401</b>	5,517
Net carrying amount	<b>5,565</b>	5,245
<b>Identified intangible assets</b>		
Gross carrying amount	<b>20,919</b>	18,556
Less: accumulated amortization	<b>8,290</b>	6,259
Net carrying amount	<b>12,629</b>	12,297
<b>Total intangibles</b>		
Gross carrying amount	<b>32,885</b>	29,318
Less: accumulated amortization	<b>14,691</b>	11,776
Net carrying amount	<b>\$18,194</b>	\$17,542

Amortization expense on intangible assets with definite useful lives totaled \$3.0 million for 2011, \$3.1 million for 2010 and \$3.2 million for 2009. Amortization expense on intangible assets with definite useful lives is expected to total \$3.2 million for 2012, \$3.0 million for 2013, \$2.8 million for 2014,

\$2.6 million for 2015, \$1.6 million for 2016 and \$3.0 million thereafter. Identified intangible assets include customer lists, non-competes, and trademark intangibles. The Company also has \$2.0 million in intangible assets that will not amortize.

## (11) Deposits

The following table sets forth the maturity distribution of time deposits at December 31, 2011 (in thousands):

### Time Deposits

Within one year	<b>\$444,870</b>
After one but within two years	<b>162,049</b>
After two but within three years	<b>240,228</b>
After three but within four years	<b>50,954</b>
After four but within five years	<b>28,528</b>
After five years	<b>6,498</b>
Total	<b>\$933,127</b>

Time deposits of \$100,000 or more aggregated \$305.7 million and \$264.4 million December 31, 2011 and 2010, respectively.

## (12) Short-Term Borrowings

Short-term borrowings totaled \$181.6 million and \$159.4 million at December 31, 2011 and 2010, respectively, and consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily Federal Home Loan Bank (FHLB) advances, with original maturities of one year or less.

The Company had unused lines of credit with the FHLB available for short-term financing of approximately \$323 million and \$284 million at December 31, 2011 and 2010, respectively. Borrowings on these lines are secured by FHLB stock, certain securities and one-to-four family first lien mortgage loans. Securities collateralizing repurchase agreements are held in safekeeping by nonaffiliated financial institutions and are under the Company's control.

Information related to short-term borrowings is summarized as follows:

<i>(In thousands)</i>	<b>2011</b>	2010	2009
<b>Federal funds purchased</b>			
Balance at year-end	\$ 27,000	\$ —	\$ —
Average during the year	3,017	—	5,957
Maximum month end balance	28,000	—	50,000
Weighted average rate during the year	0.11%	—	0.30%
Weighted average rate at December 31	0.13%	—	—
<b>Securities sold under repurchase agreements</b>			
Balance at year-end	\$154,592	\$159,184	\$155,727
Average during the year	150,663	157,964	133,859
Maximum month end balance	178,414	169,278	166,208
Weighted average rate during the year	0.13%	0.25%	0.40%
Weighted average rate at December 31	0.10%	0.15%	0.32%
<b>Other short-term borrowings</b>			
Balance at year-end	\$ —	\$ 250	\$ 250
Average during the year	249	250	250
Maximum month end balance	250	250	250
Weighted average rate during the year	—	—	0.03%
Weighted average rate at December 31	—	—	—

See Note 5 for additional information regarding securities pledged as collateral for securities sold under the repurchase agreements.

### (13) Long-Term Debt

Long-term debt consists of obligations having an original maturity at issuance of more than one year. A majority of the Company's long-term debt is comprised of FHLB advances collateralized by the FHLB

stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans. A summary as of December 31, 2011 and 2010 is as follows:

<i>(In thousands)</i>	As of December 31, 2011				As of December 31, 2010			
	Amount	Weighted Average Rate	Callable Amount	Weighted Average Rate	Amount	Weighted Average Rate	Callable Amount	Weighted Average Rate
Maturity								
2011	\$ —	—	\$ —	—	\$ 1,994	4.73%	\$ 1,994	4.73%
2013	119,400	3.87%	100,000	3.71%	119,400	3.87%	100,000	3.71%
2014	2,604	2.00%	—	—	—	—	—	—
2016	70,000	4.21%	70,000	4.21%	70,000	4.21%	70,000	4.21%
2017	100,000	3.89%	100,000	3.89%	100,000	3.89%	100,000	3.89%
2018	75,000	3.61%	75,000	3.61%	75,000	3.61%	75,000	3.61%
2025	3,340	2.75%	—	—	3,480	2.75%	—	—
	<b>\$370,344</b>		<b>\$345,000</b>		<b>\$369,874</b>		<b>\$346,994</b>	



## **(14) Trust Preferred Debentures**

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The Company has issued a total of \$75.4 million of junior subordinated deferrable interest debentures to three wholly owned Delaware statutory business trusts, CNBF Capital Trust I (“CNBF Trust I”), NBT Statutory Trust I (“NBT Trust I”) and NBT Statutory Trust II (“NBT Trust II”, and, together with CNBF Trust I and NBT Trust I, the “Trusts”). The Trusts are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, the accounts of the Trusts are not included in the Company’s consolidated financial statements. See Note 1—Summary of Significant Accounting Policies for additional information about the Company’s consolidation policy. Details of the Company’s transactions with these trusts are presented below.

### **CNBF Trust I**

In June 1999, CNBF Trust I issued \$18.0 million of floating rate (three-month LIBOR plus 275 basis points) trust preferred securities, which represent beneficial interests in the assets of CNBF Trust I. The trust preferred securities will mature on August 31, 2029 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Company at any time after September 1, 2009 and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. CNBF Trust I also issued \$0.7 million of common equity securities to the Company. The proceeds of the offering of the trust preferred securities and common equity securities were used to purchase \$18.7 million of floating rate (three-month LIBOR plus 275 basis points) junior subordinated deferrable interest debentures issued by the Company, which have terms substantially similar to the trust preferred securities.

### **NBT Trust I**

In November 2005, NBT Trust I issued \$5.0 million of fixed rate (at 6.30%) trust preferred securities, which represent beneficial interests in the assets of the trust. The rate converted to a floating rate (three-month LIBOR plus 140 basis points) in November 2010. The trust preferred securities will mature on December 1, 2035 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Corporation at any time after December 1, 2010 and in whole at any time upon the

occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. NBT Trust I also issued \$0.2 million of common equity securities to the Company. The proceeds of the offering of the trust preferred securities and common equity securities were used to purchase \$5.2 million of fixed rate (at 6.30%) junior subordinated deferrable interest debentures issued by the Corporation, which have terms substantially similar to the trust preferred securities.

### **NBT Trust II**

In connection with acquisition of CNB, the Company formed NBT Trust II in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. NBT Trust II issued \$50.0 million of fixed rate (at 6.195%) trust preferred securities, which represent beneficial interests in the assets of NBT Trust II. In February 2011, the rate converted to a floating rate (three-month LIBOR plus 140 basis points). The trust preferred securities will mature on March 15, 2036 and are redeemable with the approval of the Federal Reserve Board in whole or in part at the option of the Company at any time after March 15, 2011 and in whole at any time upon the occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. NBT Trust II also issued \$1.5 million of common equity securities to the Company. The proceeds of the offering of the trust preferred securities and common equity securities were used to purchase \$51.5 million of fixed rate (at 6.195%) junior subordinated deferrable interest debentures issued by the Corporation, which have terms substantially similar to the trust preferred securities.

With respect to the Trusts, the Company has the right to defer payments of interest on the debentures issued to the Trusts at any time or from time to time for a period of up to ten consecutive semi-annual periods with respect to each deferral period. Under the terms of the debentures, if in certain circumstances there is an event of default under the debentures or the Company elects to defer interest on the debentures, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock.

Payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities are guaranteed by the Company on a limited basis. The Company also entered into an agreement as to expenses and liabilities with the Trusts pursuant to which it agreed, on a subordinated basis, to pay any costs, expenses or liabilities of each Trust other than those arising under the trust preferred securities. The obligations of the Company under the junior subordinated debentures, the related indentures, the trust agreements establishing the Trusts, the guarantees and the agreements as to expenses and liabilities, in the aggregate, constitute a full and unconditional guarantee by the Company of each Trust's obligations under the trust preferred securities.

Despite the fact that the accounts of CNBF Trust I, NBT Trust I, and NBT Trust II are not included in the Company's consolidated financial statements, \$74 million of the \$75 million in trust preferred securities issued by these subsidiary trusts is included in the Tier 1 capital of the Company for regulatory capital purposes as allowed by the Federal Reserve Board (NBT Bank, NA owns \$1.0 million of CNBF Trust I securities). The recently enacted Dodd-Frank Act requires bank holding companies with assets greater than \$500 million to be subject to the same capital requirements as insured depository institutions, meaning, for instance, that such bank holding companies will not be able to count trust preferred securities issued after May 19, 2010 as Tier 1 capital. The aforementioned Trusts are grandfathered with respect to this enactment based on their date of issuance.

## (15) Income Taxes

The significant components of income tax expense attributable to operations are:

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
<b>Current</b>			
Federal	<b>\$29,274</b>	\$ 34,124	\$21,046
State	<b>1,477</b>	1,743	1,086
	<b>30,751</b>	35,867	22,132
<b>Deferred</b>			
Federal	<b>(8,129)</b>	(12,121)	(1,669)
State	<b>(1,349)</b>	(2,834)	168
	<b>(9,478)</b>	(14,955)	(1,501)
Total income tax expense	<b>\$21,273</b>	\$ 20,912	\$20,631

Not included in the above table are items that were recorded to stockholders' equity of approximately (\$0.5 million), (\$4.3 million), and \$6.1 million for 2011, 2010, and 2009, respectively, relating to

deferred taxes on the unrealized (gain) loss on available for sale securities, tax benefits recognized with respect to stock options exercised, and deferred taxes related to pension plans.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

<i>(In thousands)</i>	As of December 31,	
	2011	2010
<b>Deferred tax assets</b>		
Allowance for loan and lease losses	\$27,487	\$ 27,463
Deferred compensation	4,911	4,653
Postretirement benefit obligation	1,036	1,024
Fair value adjustments from acquisitions	2,227	—
Accrued liabilities	1,482	1,649
Stock-based compensation expense	4,440	3,943
Other	1,214	1,012
Total deferred tax assets	42,797	39,744
<b>Deferred tax liabilities</b>		
Pension and executive retirement	6,916	11,922
Unrealized gains on securities available for sale	12,156	7,162
Premises and equipment, primarily due to accelerated depreciation	2,340	1,384
Equipment leasing	3,090	11,456
Deferred loan costs	767	1,395
Intangible amortization	11,081	10,270
Other	494	178
Total deferred tax liabilities	36,844	43,767
Net deferred tax asset (liability) at year-end	5,953	(4,023)
Net deferred tax liability at beginning of year	(4,023)	(23,245)
Decrease in net deferred tax liability	\$ (9,976)	\$(19,222)

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at December 31, 2011 and 2010.

A reconciliation of the beginning and ending balance of gross unrecognized tax benefits is as follows:

<i>(In thousands)</i>	2011	2010	2009
Balance at January 1	\$ 3,081	\$2,287	\$2,212
Additions for tax positions of prior years	—	1,714	132
Reduction for tax positions of prior years	(2,193)	(920)	(57)
Balance at December 31	\$ 888	\$3,081	\$2,287

The \$0.9 million, \$3.1 million, and \$2.3 million of unrecognized tax benefits at December 31, 2011, 2010, and 2009 respectively, would impact the annual effective tax rate, if recognized. During 2011, the Company reached settlement with New York State on franchise tax examinations for the years 2003 through 2007. Also during 2011, there was a reduction

of reserves for Federal tax benefits for years in which the statute of limitations has expired. As a result, unrecognized tax benefits were reduced by \$1.4 million and \$0.8 million related to the examination and the expiration of the statute of limitations, respectively, which resulted in a reduction of tax expense for 2011 of \$1.5 million.

The Company is no longer subject to U.S. Federal and New York State examination by tax authorities for years prior to 2008.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense. The total amount of accrued interest at December 31, 2011 and 2010 was approximately \$0.1 million and \$0.7 million, respectively.

Net interest impacting the Company's 2011, 2010 and 2009 tax expense was \$0.3 million, \$0.1 million and \$0.2 million, respectively.

The following is a reconciliation of the provision for income taxes to the amount computed by applying the applicable Federal statutory rate of 35% to income before taxes:

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
Federal income tax at statutory rate	\$27,711	\$27,410	\$25,424
Tax exempt income	(2,925)	(3,448)	(3,811)
Net increase in CSV of life insurance	(919)	(939)	(871)
Low income housing tax credits	(782)	(296)	(132)
State taxes, net of federal tax benefit	764	756	816
State audit settlements	(681)	(1,465)	—
Other, net	(1,895)	(1,106)	(795)
Income tax expense	\$21,273	\$20,912	\$20,631

## (16) Stockholders' Equity

In accordance with accounting standards, unrealized gains on available for sale securities and unrecognized actuarial gains or losses and prior service costs associated with the Company's pension and

postretirement benefit plans are included in accumulated other comprehensive loss. For the years ended December 31, components of accumulated other comprehensive loss are:

<i>(In thousands)</i>	2011	2010
Unrecognized prior service cost and net actuarial loss on pension plans	\$ (24,633)	\$ (16,251)
Unrealized net holding gains on available for sale securities	18,529	10,916
Accumulated other comprehensive income (loss)	\$ (6,104)	\$ (5,335)

Certain restrictions exist regarding the ability of the subsidiary bank to transfer funds to the Company in the form of cash dividends. The approval of the Office of Comptroller of the Currency (OCC) is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years as specified in applicable OCC regulations. At December 31, 2011, approximately \$95.9 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the State of Delaware Business Corporation

Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

In October 2004, the Company adopted a Stockholder Rights Plan (the "Plan") designed to ensure that any potential acquirer of the Company negotiate with the board of directors and that all Company stockholders are treated equitably in the event of a takeover attempt. At that time, the Company paid a dividend of one Preferred Share Purchase Right (a "Right") for each outstanding share of common stock of the Company. Similar rights are attached to each share of the Company's common stock issued after November 16, 2004. Under the Plan, the Rights will not be exercisable until a person or group acquires beneficial ownership of 15% or more of the Company's outstanding common stock or begins a tender or exchange offer for 15% or more of the Company's outstanding common stock.

Additionally, until the occurrence of such an event, the Rights are not severable from the Company's common stock and, therefore, the Rights will be transferred upon the transfer of shares of the Company's common stock. Upon the occurrence of such events, each Right entitles the holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company, no par value and \$0.01 stated value per share, at a price of \$70.

The Plan also provides that upon the occurrence of certain specified events, the holders of Rights will be entitled to acquire additional equity interests in the Company or in the acquiring entity and such interests will have a market value of two times the Right's exercise price of \$70. The Rights, which expire October 24, 2014, are redeemable in whole, but not in part, at the Company's option prior to the time they are exercisable, for a price of \$0.001 per Right.

## **(17) Regulatory Capital Requirements**

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The Company and NBT Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, NBT Bank must meet specific capital guidelines that involve quantitative measures of NBT Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and NBT Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital to risk-weighted assets and of Tier 1 capital to average assets. As of December 31, 2011 and 2010, the

Company and NBT Bank meet all capital adequacy requirements to which they were subject.

Under their prompt corrective action regulations, regulatory authorities are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution's financial statements. The regulations establish a framework for the classification of banks into five categories: well capitalized, adequately capitalized, under capitalized, significantly under capitalized, and critically under capitalized. As of December 31, 2011, the most recent notification from NBT Bank's regulators categorized NBT Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized NBT Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 capital to average asset ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed NBT Bank's category.



The Company and NBT Bank's actual capital amounts and ratios are presented as follows:

<i>(Dollars in thousands)</i>	Actual		Regulatory Ratio Requirements	
	Amount	Ratio	Minimum Capital Adequacy	For Classification as Well Capitalized
<b>AS OF DECEMBER 31, 2011</b>				
<b>Total Capital (to risk weighted assets):</b>				
Company	\$528,674	12.81%	8.00%	10.00%
NBT Bank	506,246	12.28%	8.00%	10.00%
<b>Tier I Capital (to risk weighted assets)</b>				
Company	476,837	11.56%	4.00%	6.00%
NBT Bank	454,476	11.03%	4.00%	6.00%
<b>Tier I Capital (to average assets)</b>				
Company	476,837	8.74%	4.00%	5.00%
NBT Bank	454,476	8.35%	4.00%	5.00%
<b>AS OF DECEMBER 31, 2010</b>				
<b>Total Capital (to risk weighted assets):</b>				
Company	\$537,305	13.70%	8.00%	10.00%
NBT Bank	510,196	13.03%	8.00%	10.00%
<b>Tier I Capital (to risk weighted assets)</b>				
Company	487,994	12.44%	4.00%	6.00%
NBT Bank	460,969	11.77%	4.00%	6.00%
<b>Tier I Capital (to average assets)</b>				
Company	487,994	9.16%	4.00%	5.00%
NBT Bank	460,969	8.67%	4.00%	5.00%

## (18) Employee Benefit Plans

### Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at December 31, 2011. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in publicly traded stocks and bonds. Prior to January 1, 2000, the Company's plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the plan was converted to a cash balance plan with grandfathering provisions for existing participants.

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

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees' active service period. Only employees that were employed by NBT Bank on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Employees become eligible for these benefits if they reach normal retirement age while working for the Company. For eligible employees described above, the Company funds the cost of postretirement health care as benefits are paid. The Company elected to recognize the transition obligation on a delayed basis over twenty years. These postretirement benefits are referred to herein as "Other Benefits."

Accounting standards require an employer to: (1) recognize the overfunded or underfunded status of defined benefit postretirement plans, which is measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its balance sheet; (2) recognize changes in that funded status in the year in which the changes occur through comprehensive income; and (3) measure the defined benefit plan assets and obligations as of the date of its year-end balance sheet.

The components of accumulated other comprehensive loss, which have not yet been recognized as components of net periodic benefit cost, related to pensions and other postretirement benefits at December 31, 2011 are summarized below. The Company expects that \$3.3 million in net actuarial loss and \$0.1 million in prior service cost will be recognized as components of net periodic benefit cost in 2012.

<i>(In thousands)</i>	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Net actuarial loss	<b>\$37,914</b>	\$23,161	<b>\$2,323</b>	\$ 3,089
Prior service cost	<b>1,430</b>	1,739	<b>(874)</b>	(1,076)
Total amounts recognized in accumulated other comprehensive loss (pre-tax)	<b>\$39,344</b>	\$24,900	<b>\$1,449</b>	\$ 2,013

A December 31 measurement date is used for the pension, supplemental pension and postretirement benefit plans. The following table sets forth changes in benefit obligations, changes in plan assets, and the funded status of the pension plans and other postretirement benefits:

<i>(In thousands)</i>	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	<b>\$70,229</b>	\$63,408	<b>\$ 4,554</b>	\$ 3,838
Service cost	<b>2,589</b>	2,254	<b>17</b>	17
Interest cost	<b>3,544</b>	3,613	<b>202</b>	228
Plan participants' contributions	<b>—</b>	—	<b>263</b>	277
Actuarial loss (gain)	<b>5,935</b>	4,940	<b>(562)</b>	955
Amendments	<b>—</b>	21	<b>—</b>	—
Benefits paid	<b>(4,273)</b>	(4,007)	<b>(489)</b>	(761)
Projected benefit obligation at end of year	<b>78,024</b>	70,229	<b>3,985</b>	4,554
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	<b>97,821</b>	90,891	<b>—</b>	—
Actual return (loss) on plan assets	<b>(2,452)</b>	10,487	<b>—</b>	—
Employer contributions	<b>479</b>	450	<b>226</b>	484
Plan participants' contributions	<b>—</b>	—	<b>263</b>	277
Benefits paid	<b>(4,273)</b>	(4,007)	<b>(489)</b>	(761)
Fair value of plan assets at end of year	<b>91,575</b>	97,821	<b>—</b>	—
Funded status at year end	<b>\$13,551</b>	\$27,592	<b>\$(3,985)</b>	\$(4,554)

The funded status of the pension and other postretirement benefit plans has been recognized as follows in the consolidated balance sheets at December 31, 2011 and 2010. An asset is recognized for an overfunded plan and a liability is recognized for an underfunded plan. The accumulated benefit obligation for

pension benefits was \$76.5 million and \$68.6 million at December 31, 2011 and 2010, respectively. The accumulated benefit obligation for other postretirement benefits was \$4.0 million and \$4.6 million at December 31, 2011 and 2010, respectively.

<i>(In thousands)</i>	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Other assets	\$ 23,973	\$35,895	\$ —	\$ —
Other liabilities	(10,422)	(8,303)	(3,985)	(4,554)
Funded status	\$ 13,551	\$27,592	\$ (3,985)	\$ (4,554)

The following assumptions were used to determine the benefit obligation and the net periodic pension cost for the years indicated:

<i>(In thousands)</i>	Years ended December 31,		
	2011	2010	2009
<b>Weighted average assumptions:</b>			
<i>The following assumptions were used to determine benefit obligations:</i>			
Discount rate	4.10%	5.15%	5.70%
Expected long-term return on plan assets	7.50%	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%	3.00%
<i>The following assumptions were used to determine net periodic pension cost:</i>			
Discount rate	5.15%	5.70%	6.30%
Expected long-term return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%	3.00%

Net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for the years ended December 31 included the following components:

<i>(In thousands)</i>	Pension Benefits			Other Benefits		
	2011	2010	2009	2011	2010	2009
<b>Components of net periodic benefit cost</b>						
Service cost	\$ 2,589	\$ 2,254	\$ 2,222	\$ 17	\$ 17	\$ 17
Interest cost	3,544	3,613	3,413	202	228	205
Expected return on plan assets	(7,720)	(7,166)	(5,591)	—	—	—
Amortization of initial unrecognized asset	—	—	(23)	—	—	—
Amortization of prior service cost	309	322	296	(202)	(202)	(202)
Amortization of unrecognized net loss	1,353	1,447	2,374	205	201	136
Net periodic pension cost	\$ 75	\$ 470	\$ 2,691	\$ 222	\$ 244	\$ 156
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)</b>						
Net loss (gain)	\$16,108	\$ 1,620	\$(6,053)	\$(562)	\$ 955	\$ 289
Prior service cost	—	21	127	—	—	—
Amortization of initial unrecognized asset	—	—	23	—	—	—
Amortization of prior service cost	(309)	(322)	(296)	202	202	202
Amortization of unrecognized net gain	(1,353)	(1,447)	(2,374)	(205)	(201)	(136)
Total recognized in other comprehensive loss (income)	14,446	(128)	(8,573)	(565)	956	355
Total recognized in net periodic benefit cost and other comprehensive income (loss)—pre-tax	\$14,521	\$ 342	\$(5,882)	\$(343)	\$1,200	\$ 511

The following table sets forth estimated future benefit payments for the pension plans and other postretirement benefit plans:

<i>(In thousands)</i>	Pension Benefits	Other Benefits
2012	\$ 5,010	\$ 204
2013	5,236	218
2014	5,361	232
2015	7,034	244
2016	5,590	254
Thereafter	29,745	1,358

The Company is not required to make contributions to the defined benefit plan in 2012.

For measurement purposes, the annual rates of increase in the per capita cost of covered medical and prescription drug benefits for fiscal year 2011 were assumed to be 8.0 to 9.75 percent. The rates were assumed to decrease gradually to 5.0 percent for fiscal year 2018 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on amounts reported for health care plans. A one-percentage point change in the health care trend rates would have the following effects as of and for the year ended December 31, 2011:

<i>(In thousands)</i>	One Percentage Point Increase	One Percentage Point Decrease
Increase (decrease) on total service and interest cost components	\$ 29	\$ (24)
Increase (decrease) on postretirement accumulated benefit obligation	482	(410)

## Plan Investment Policy

The Company's key investment objectives in managing its defined benefit plan assets are to ensure that present and future benefit obligations to all participants and beneficiaries are met as they become due; to provide a total return that, over the long-term, maximizes the ratio of the plan assets to liabilities, while minimizing the present value of required Company contributions, at the appropriate levels of risk;

to meet statutory requirements and regulatory agencies' requirements; and to satisfy applicable accounting standards. The Company periodically evaluates the asset allocations, funded status, rate of return assumption and contribution strategy for satisfaction of our investment objectives. The target and actual allocations expressed as a percentage of the defined benefit pension plan's assets are as follows:

	Target 2012	2011	2010
Cash and cash equivalents	0–20%	2%	2%
Fixed income securities	20–40%	34%	26%
Equities	40–80%	64%	72%
Total		100%	100%

Only high-quality bonds are to be included in the portfolio. All issues that are rated lower than A by Standard and Poor's are to be excluded. Equity securities at December 31, 2011 and 2010 do not include any

Company common stock. The following table presents the financial instruments recorded at fair value on a recurring basis by the Plan as of December 31, 2011 and 2010:

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011
Cash and Cash Equivalents	\$ 1,503	\$ —	\$ —	\$ 1,503
Foreign Equity Mutual Funds	6,577	—	—	6,577
Equity Mutual Funds	9,902	—	—	9,902
U.S. Government Bonds	—	15,683	—	15,683
Corporate Bonds	—	12,954	—	12,954
Common Stock	33,850	—	—	33,850
Municipal Bonds and Notes	—	1,799	—	1,799
Foreign Bonds and Notes	—	1,096	—	1,096
Foreign Equity	8,211	—	—	8,211
Totals	\$60,043	\$31,532	\$ —	\$91,575

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
Cash and Cash Equivalents	\$ 1,604	\$ —	\$ —	\$ 1,604
Foreign Equity Mutual Funds	6,577	—	—	6,577
Equity Mutual Funds	22,515	—	—	22,515
U.S. Government Bonds	—	16,219	—	16,219
Corporate Bonds	—	5,003	—	5,003
Common Stock	31,213	—	—	31,213
Municipal Bonds and Notes	—	2,294	—	2,294
Foreign Bonds and Notes	—	1,666	—	1,666
Foreign Equity	10,730	—	—	10,730
Totals	\$72,639	\$25,182	\$ —	\$97,821

The Plan had no financial instruments recorded at fair value on a nonrecurring basis as of December 31, 2011.



### Determination of Assumed Rate of Return

The expected long-term rate of return on assets is 7.5% at December 31, 2011. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the portfolio considering the asset distribution and related historical rates of return. The appropriateness of the assumption is reviewed annually.

### Employee 401(k) and Employee Stock Ownership Plans

The Company maintains a 401(k) and employee stock ownership plan (the "401(k) Plan"). The Company contributes to the 401(k) Plan based on employees' contributions out of their annual salaries. In addition, the Company may also make discretionary contributions to the 401(k) Plan based on profitability. Participation in the 401(k) Plan is contingent upon certain age and service requirements. The employer contributions associated with the 401(k) Plan were \$3.7 million in 2011, \$3.5 million in 2010, and \$3.4 million in 2009.

### Omnibus Incentive Plan

In April 2008, the Company adopted the NBT Bancorp Inc. 2008 Omnibus Incentive Plan (the "Plan"). Under the terms of the Plan, options and other equity-based awards are granted to directors

and employees to increase their direct proprietary interest in the operations and success of the Company. The Plan assumes all prior equity-based incentive plans and any new equity-based awards are granted under the terms of the Plan. Under terms of the Plan, stock options are granted to purchase shares of the Company's common stock at a price equal to the fair market value of the common stock on the date of the grant. Options granted have a vesting period of four years and terminate ten years from the date of the grant. Shares issued as a result of stock option exercises and vesting of restricted shares and stock unit awards are funded from the Company's treasury stock. Restricted shares granted under the Plan vest after five years for employees and three years for non-employee directors. Restricted stock units granted under the Plan may have different terms and conditions. Performance shares and units granted under the Plan for executives may have different terms and conditions.

The per share weighted average fair value of stock options granted during 2011, 2010, and 2009 was \$5.45, \$5.03, and \$5.71, respectively. The fair value of each award is estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31. Historical information was the primary basis for the selection of the expected volatility, expected dividend yield and the expected lives of the options. The risk-free interest rate was selected based upon yields of the U.S. Treasury issues with a term equal to the expected life of the option being valued:

	Years ended December 31,		
	2011	2010	2009
Dividend yield	3.31%–3.82%	3.27%–3.96%	2.86%–3.65%
Expected volatility	33.75%–34.36%	33.00%–33.86%	30.20%–32.91%
Risk-free interest rates	1.48%–2.81%	1.90%–3.17%	1.71%–3.20%
Expected life	7 years	7 years	7 years

The following table summarizes information concerning stock options outstanding at December 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in yrs)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	2,031,578	\$22.05		
Granted	50,700	22.21		
Exercised	(142,178)	16.11		
Forfeited	(26,085)	24.42		
Expired	(50,425)	24.64		
<b>Outstanding at December 31, 2011</b>	<b>1,863,590</b>	<b>\$22.41</b>	<b>5.37</b>	<b>\$3,869,134</b>
<b>Exercisable at December 31, 2011</b>	<b>1,457,710</b>	<b>\$22.50</b>	<b>4.71</b>	<b>\$2,872,729</b>
<b>Expected to Vest</b>	<b>399,034</b>	<b>\$22.08</b>	<b>7.73</b>	<b>\$ 979,661</b>

Total stock-based compensation expense for stock option awards totaled \$0.9 million for the year ended December 31, 2011, \$1.8 million for the year ended December 31, 2010, and \$1.6 million for the year ended December 31, 2009. There were no new stock

option awards issued in 2011 which caused the aforementioned decrease. Cash proceeds, tax benefits and intrinsic value related to total stock options exercised is as follows:

<i>(Dollars in thousands)</i>	Years ended December 31,		
	2011	2010	2009
Proceeds from stock options exercised	\$1,793	\$1,778	\$2,728
Tax benefits related to stock options exercised	341	140	(243)
Intrinsic value of stock options exercised	897	574	406
Fair value of shares vested during the year	1,597	1,800	1,700

The Company has outstanding restricted and deferred stock awards granted from various plans at December 31, 2011. The Company recognized \$2.3 million in stock-based compensation expense related to these stock awards for the year ended December 31, 2011, \$2.0 million for the year ended December 31, 2010, and \$1.5 million for the year ended December 31, 2009. Tax benefits recognized with respect to restricted and deferred stock-based compensation expense were

\$1.2 million, \$0.7 million and \$0.6 million for the years ended December 31, 2011, 2010 and 2009, respectively. Unrecognized compensation cost related to restricted stock awards and stock units totaled \$4.4 million at December 31, 2011 and will be recognized over 2.8 years on a weighted average basis. Shares issued are funded from the Company's treasury stock. The following table summarizes information for unvested restricted stock awards outstanding as of December 31, 2011:

	Number of Shares	Weighted-Average Grant Date Fair Value
<b>Unvested Restricted Stock Awards</b>		
Unvested at January 1, 2011	202,039	\$ 24.09
Forfeited	(14,000)	24.44
Vested	(58,110)	24.48
Granted	25,447	24.09
Unvested at December 31, 2011	<b>155,376</b>	<b>\$23.92</b>

The following table summarizes information for unvested restricted stock units outstanding as of December 31, 2011:

	Number of Shares	Weighted-Average Grant Date Fair Value
<b>Unvested Restricted Stock Units</b>		
Unvested at January 1, 2011	57,400	\$ 22.59
Forfeited	(3,520)	—
Vested	(625)	—
Granted	188,652	23.84
Unvested at December 31, 2011	<b>241,907</b>	<b>\$23.95</b>

The Company has 4.6 million securities remaining available to be granted as part of the Plan at December 31, 2011.

### (19) Commitments and Contingent Liabilities

The Company's concentrations of credit risk are reflected in the consolidated balance sheets. The concentrations of credit risk with standby letters of credit, unused lines of credit, commitments to originate new loans and loans sold with recourse generally follow the loan classifications.

At December 31, 2011, approximately 58% of the Company's loans were secured by real estate located in central and northern New York, northeastern Pennsylvania, western Massachusetts and the greater Burlington, Vermont area. Accordingly, the ultimate collectibility of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

The Company is a party to certain financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit, and certain mortgage loans sold to investors with recourse. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, unused lines of credit, standby letters of credit, and loans sold with recourse is represented by the contractual amount of those instruments. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

<i>(In thousands)</i>	At December 31,	
	2011	2010
Unused lines of credit	<b>\$161,551</b>	\$141,579
Commitments to extend credits, primarily variable rate	<b>603,322</b>	501,987
Standby letters of credit	<b>26,783</b>	26,193
Commercial letters of credit	<b>15,218</b>	16,255
Loans sold with recourse	<b>16,175</b>	13,970

Since many loan commitments, standby letters of credit, and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative

of future cash flows. The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.

The Company guarantees the obligations or performance of customers by issuing standby letters of credit to third parties. These standby letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and letters of credit are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. The fair value of the Company's standby letters of credit at December 31, 2011 and 2010 was not significant.

The total amount of loans serviced by the Company for unrelated third parties was approximately \$301.9 million and \$323.2 million at December 31, 2011 and 2010, respectively.

In the normal course of business there are various outstanding legal proceedings. If legal costs are deemed material by management, the Company accrues for the estimated loss from a loss contingency if the information available indicates that it is probable that a liability had been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated. In the opinion of management, the aggregate amount involved in such proceedings at December 31, 2011 is not material to the consolidated balance sheets or results of operations of the Company.

## (20) Parent Company Financial Information

### Condensed Balance Sheets

	As of December 31,	
<i>(In thousands)</i>	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 2,454	\$ 3,493
Securities available for sale, at estimated fair value	9,825	9,190
Trading securities	2,550	2,273
Investment in subsidiaries, on equity basis	622,885	609,260
Other assets	48,153	41,942
Total assets	<b>\$685,867</b>	\$666,158
<b>Liabilities and Stockholders' Equity</b>		
Total liabilities	\$147,757	\$132,586
Stockholders' equity	538,110	533,572
Total liabilities and stockholders' equity	<b>\$685,867</b>	\$666,158

### Condensed Income Statements

	Years ended December 31,		
<i>(In thousands)</i>	2011	2010	2009
Dividends from subsidiaries	\$ 54,400	\$12,000	\$ 9,000
Management fee from subsidiaries	69,430	68,228	65,596
Securities (losses) gains	(31)	1,814	141
Interest, dividend and other income	628	1,136	869
Total revenue	<b>124,427</b>	83,178	75,606
Operating expense	<b>75,254</b>	72,436	73,687
Income before income tax benefit and equity			
in undistributed income of subsidiaries	49,173	10,742	1,919
Income tax benefit	1,340	282	1,994
Equity in undistributed income of subsidiaries	7,388	46,380	48,098
Net income	<b>\$ 57,901</b>	\$57,404	\$52,011

## Statements of Cash Flow

Years ended December 31,

<i>(In thousands)</i>	<b>2011</b>	2010	2009
<b>Operating activities</b>			
Net income	<b>\$ 57,901</b>	\$ 57,404	\$ 52,011
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Stock-based compensation	<b>3,244</b>	3,782	3,133
Loss (Gain) on sales of available-for-sale securities	<b>31</b>	(1,814)	(141)
Equity in undistributed income of subsidiaries	<b>(7,388)</b>	(46,380)	(48,098)
Net change in other liabilities	<b>15,311</b>	2,155	(3,662)
Net change in other assets	<b>(11,607)</b>	(2,605)	3,632
Net cash provided by operating activities	<b>57,492</b>	12,542	6,875
<b>Investing activities</b>			
Purchases of available-for-sale securities	<b>(968)</b>	(1,745)	(2,173)
Sales and maturities of available-for-sale securities	<b>71</b>	7,807	494
Purchases of premises and equipment	<b>(1,656)</b>	(321)	(600)
Net cash provided by (used in) investing activities	<b>(2,553)</b>	5,741	(2,279)
<b>Financing activities</b>			
Proceeds from the issuance of shares to employee benefit plans and other stock plans	<b>1,386</b>	1,675	2,728
Payments on long-term debt	<b>(140)</b>	(135)	(12,625)
Proceeds from the issuance of common stock	<b>—</b>	—	33,401
Purchases of treasury shares	<b>(30,502)</b>	(477)	—
Cash dividends and payments for fractional shares	<b>(27,063)</b>	(27,577)	(27,119)
Excess tax benefit from exercise of stock options	<b>341</b>	140	(243)
Net cash used in financing activities	<b>(55,978)</b>	(26,374)	(3,858)
Net (decrease) increase in cash and cash equivalents	<b>(1,039)</b>	(8,091)	738
Cash and cash equivalents at beginning of year	<b>3,493</b>	11,584	10,846
Cash and cash equivalents at end of year	<b>\$ 2,454</b>	\$ 3,493	\$ 11,584

A statement of changes in stockholders' equity has not been presented since it is the same as the consolidated statement of changes in stockholders' equity previously presented.

### (21) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

#### Short-Term Instruments

For short-term instruments, such as cash and cash equivalents, accrued interest receivable, accrued interest payable, and short term borrowings, carrying value approximates fair value.

#### Securities

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



## Loans

For variable rate loans that reprice frequently and have no significant credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated through discounted cash flow analysis using interest rates currently being offered for loans with similar terms and credit quality. Nonperforming loans are valued based upon recent loss history for similar loans.

## Deposits

The fair values disclosed for savings, money market, and noninterest bearing accounts are, by definition, equal to their carrying values at the reporting date. The fair value of fixed maturity time deposits is estimated using a discounted cash flow analysis that applies interest rates currently offered to a schedule of aggregated expected monthly maturities on time deposits.

## Long-Term Debt

The fair value of long-term debt has been estimated using discounted cash flow analysis that applies interest rates currently offered for notes with similar terms.

## Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments to extend credit and standby letters of credit are estimated using fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. Carrying amounts, which are comprised of the unamortized fee income, are not significant.

## Trust Preferred Debentures

The fair value of trust preferred debentures has been estimated using a discounted cash flow analysis.

Estimated fair values of financial instruments at December 31 are as follows:

<i>(In thousands)</i>	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 129,381	\$ 129,381	\$ 168,792	\$ 168,792
Securities available for sale	1,244,619	1,244,619	1,129,368	1,129,368
Securities held to maturity	70,811	72,198	97,310	98,759
Trading securities	3,062	3,062	2,808	2,808
Net loans	3,728,869	3,821,640	3,538,772	3,626,603
Accrued interest receivable	17,800	17,800	19,130	19,130
<b>Financial liabilities</b>				
Savings, NOW, and money market	\$2,381,116	\$2,381,116	\$2,291,833	\$2,291,833
Time deposits	933,127	942,436	930,778	943,988
Noninterest bearing	1,052,906	1,052,906	911,741	911,741
Short-term borrowings	181,592	181,592	159,434	159,434
Long-term debt	370,344	427,107	369,874	423,350
Accrued interest payable	3,942	3,942	4,356	4,356
Trust preferred debentures	75,422	75,422	75,422	71,148

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments,

fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has a substantial trust and investment management operation that contributes net fee income annually. The trust and investment management operation is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities include the benefits resulting from the low-cost funding of deposit liabilities as compared to the

cost of borrowing funds in the market, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimate of fair value.

The following table sets forth the Company's financial assets and liabilities measured on a recurring basis that were accounted for at fair value as of December 31, 2011 and December 31, 2010. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011
<b>Assets</b>				
Securities Available for Sale:				
U.S. Treasury	\$82,233	\$ —	\$ —	\$ 82,233
Federal agency	—	255,846	—	255,846
State & municipal	—	104,789	—	104,789
Mortgage-backed	—	325,397	—	325,397
Collateralized mortgage obligations	—	465,475	—	465,475
Other securities	8,825	2,054	—	10,879
Total Securities Available for Sale	\$91,058	\$1,153,561	\$ —	\$1,244,619
Trading Securities	3,062	—	—	3,062
Total	\$94,120	\$1,153,561	\$ —	\$1,247,681

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
<b>Assets</b>				
Securities Available for Sale:				
U.S. Treasury	\$ 91,280	\$ —	\$ —	\$ 91,280
Federal agency	—	349,750	—	349,750
State & municipal	—	114,937	—	114,937
Mortgage-backed	—	244,808	—	244,808
Collateralized mortgage obligations	—	297,888	—	297,888
Corporate	—	20,489	—	20,489
Other securities	8,190	2,026	—	10,216
Total Securities Available for Sale	\$ 99,470	\$1,029,898	\$ —	\$1,129,368
Trading Securities	2,808	—	—	2,808
Total	\$102,278	\$1,029,898	\$ —	\$1,132,176

Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix

pricing from a third party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

FASB ASC Topic 820 requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis. In accordance with the provisions of FASB ASC Topic 310, the Company had collateral dependent impaired loans with a carrying value of approximately \$0.5 million which had specific reserves included in the allowance for loan and lease losses of \$0.2 million at December 31, 2011. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

FASB ASC Topic 825 gives entities the option to measure eligible financial assets, financial liabilities and Company commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes in fair value must be recorded in earnings. As of December 31, 2011, the Company has not elected the fair value option for any eligible items.

## **ITEM 9.**

### **Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

## **ITEM 9A.**

### **Controls and Procedures**

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out by the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. No changes were made to the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Management Report on Internal Controls Over Financial Reporting**

The management of NBT Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2011, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company's internal control over financial reporting as of December 31, 2011 was effective at the reasonable assurance level based on those criteria.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm" on the following page.

## **ITEM 9B.**

### **Other Information**

None.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
NBT Bancorp Inc.:

We have audited NBT Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of income, changes in stockholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2011, and our report dated February 28, 2012 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

Albany, New York  
February 28, 2012

## PART III

### ITEM 10.

### Directors, Executive Officers and Corporate Governance

The following table sets forth certain information for the executive officers other than directors who are officers of NBT Bancorp Inc.

Name	Age at December 31, 2011	Positions Held with the Company and NBT Bank
Michael J. Chewens	50	Senior Executive Vice President and Chief Financial Officer
David E. Raven	49	President of Retail Banking of NBT Bank, President and Chief Executive Officer of the Pennstar Bank Division
Jeffrey M. Levy	50	President of Commercial Banking and Capital Region President of NBT Bank
F. Sheldon Prentice	61	Corporate Senior Vice President, General Counsel and Corporate Secretary

Information concerning the principal occupation of these executive officers of NBT Bancorp Inc. and NBT Bank N.A. during at least the last five years is set forth below.

Michael J. Chewens has been Senior Executive Vice President and Chief Financial Officer of NBT and NBT Bank since January 2002. He was EVP and CFO of same from 1999 to 2001.

David E. Raven has been President of Retail Banking of NBT Bank since July 2006 and President and Chief Executive Officer of Pennstar Bank Division since August 2005. Prior to that, he was President and Chief Operating Officer of Pennstar Bank Division from August 2000 to 2005 and Sales and Administration from September 1999 through August 2000.

Jeffrey M. Levy has been Executive Vice President of NBT and Executive Vice President, Commercial Banking for NBT Bank since December 2006. He joined NBT in August 2005 as Capital Region President. Prior to joining NBT, Mr. Levy was Manager of New York State Government Banking at M&T Bank from January 2004 to August 2005 and President of the Capital District, Commercial Banking at M&T Bank from January 2001 to December 2003.

F. Sheldon Prentice has been Corporate Senior Vice President, General Counsel and Corporate Secretary of NBT and NBT Bank since April 2010. Prior to joining the Company, Mr. Prentice served as Senior Vice President and General Counsel for Merchants Bancshares, Inc. in South Burlington, Vermont from March 2008 until April 2010. Prior to joining Merchants Bancshares, Inc., Mr. Prentice served as Senior Vice President, General Counsel and Secretary of Chittenden Corporation in Burlington, Vermont from December 1985 until they were purchased in December 2007 by Peoples United Bank of Bridgeport, Connecticut. Mr. Prentice remained with Peoples United Bank until March 2008 when he joined Merchants Bancshares, Inc.

Additional information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 1, 2012 (the "Proxy Statement"), which will be filed with the SEC within 120 days after the Company's 2011 fiscal year end.

### ITEM 11.

### Executive Compensation

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2011 fiscal year end.



**ITEM 12.**
**Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table provides information with respect to shares of common stock that may be issued under the Company's existing equity compensation plans:

Plan Category	A. Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	B. Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by stockholders	1,863,590	\$22.41	4,595,199
Equity compensation plans not approved by stockholders	None	None	None

Under previously disclosed stock repurchase plans, the Company purchased 1,458,609 shares of its common stock during the year ended December 31, 2011, for a total of \$30.5 million at an average price of \$20.91 per share. On July 25, 2011, the NBT Board of Directors authorized a new repurchase program for NBT to repurchase up to 1,000,000 shares (approximately 3%) of its outstanding common stock, effective July 25, 2011, as market conditions warrant in open market and privately negotiated transactions. At December 31, 2011, there were 517,581 shares available

for repurchase under this plan, which expires on December 31, 2013.

On October 24, 2011, the NBT Board of Directors authorized a new repurchase program for NBT to repurchase up to an additional 1,000,000 shares (approximately 3%) of its outstanding common stock, effective October 24, 2011, as market conditions warrant in open market and privately negotiated transactions. At December 31, 2011, there were 1,000,000 shares available for repurchase under this plan, which expires on December 31, 2013.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
1/1/11-1/31/11	—	\$ —	—	976,190
2/1/11-2/28/11	—	—	—	976,190
3/1/11-3/31/11	107,871	21.96	107,871	868,319
4/1/11-4/30/11	21,050	22.29	21,050	847,269
5/1/11-5/31/11	306,756	21.90	306,756	540,513
6/1/11-6/30/11	540,513	21.48	540,513	—
7/1/11-7/31/11	86,288	21.74	86,288	913,712
8/1/11-8/31/11	36,046	21.97	36,046	877,666
9/1/11-9/30/11	360,085	18.53	360,085	517,581
10/1/11-10/31/11	—	—	—	1,517,581
11/1/11-11/30/11	—	—	—	1,517,581
12/1/11-12/31/11	—	—	—	1,517,581
<b>Total</b>	<b>1,458,609</b>	<b>\$20.91</b>	<b>1,458,609</b>	<b>1,517,581</b>

The other information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2011 fiscal year end.

**ITEM 13.****Certain Relationships, Related Transactions and Director Independence**

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The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2011 fiscal year end.

**ITEM 14.****Principal Accountant Fees and Services**

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The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2011 fiscal year end.

## PART IV

### ITEM 15. Exhibits and Financial Statement Schedules

- (a)(1) The following Consolidated Financial Statements are included in Part II, Item 8 hereof:
- Report of Independent Registered Public Accounting Firm.
  - Consolidated Balance Sheets as of December 31, 2011 and 2010.
  - Consolidated Statements of Income for each of the three years ended December 31, 2011, 2010 and 2009.
  - Consolidated Statements of Changes in Stockholders' Equity for each of the three years ended December 31, 2011, 2010 and 2009.
  - Consolidated Statements of Cash Flows for each of the three years ended December 31, 2011, 2010 and 2009.
  - Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2011, 2010 and 2009.
  - Notes to the Consolidated Financial Statements.
- (a)(2) There are no financial statement schedules that are required to be filed as part of this form since they are not applicable or the information is included in the consolidated financial statements.
- (a)(3) See below for all exhibits filed herewith and the Exhibit Index.
- 3.1 Certificate of Incorporation of NBT Bancorp Inc. as amended through July 23, 2001 (filed as Exhibit 3.1 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).
  - 3.2 Bylaws of NBT Bancorp Inc. as amended and restated through July 23, 2001 (filed as Exhibit 3.2 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).
  - 3.3 Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registrant's Form 8-K, file number 0-14703, filed on November 18, 2004, and incorporated herein by reference).
  - 4.1 Specimen common stock certificate for NBT's common stock (filed as Exhibit 4.1 to the Registrant's Amendment No. 1 to Registration Statement on Form S-4 filed on December 27, 2005 and incorporated herein by reference).
  - 4.2 Rights Agreement, dated as of November 15, 2004, between NBT Bancorp Inc. and Registrar and Transfer Company, as Rights Agent (filed as Exhibit 4.1 to Registrant's Form 8-K, file number 0-14703, filed on November 18, 2004, and incorporated by reference herein).
  - 10.1 NBT Bancorp Inc. 1993 Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-71830 filed on October 18, 2001 and incorporated by reference herein).\*
  - 10.2 NBT Bancorp Inc. Non-Employee Director, Divisional Director and Subsidiary Director Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-73038, filed on November 9, 2001 and incorporated by reference herein).\*
  - 10.3 NBT Bancorp Inc. Employee Stock Purchase Plan (filed as Exhibit 10.4 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).\*
  - 10.4 NBT Bancorp Inc. Non-employee Directors Restricted and Deferred Stock Plan (filed as Exhibit 10.5 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).\*
  - 10.5 NBT Bancorp Inc. Performance Share Plan (filed as Exhibit 10.6 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).\*
  - 10.6 NBT Bancorp Inc. 2012 Executive Incentive Compensation Plan.\*
  - 10.7 2006 Non-Executive Restricted Stock Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-139956, filed on January 12, 2007, and incorporated herein by reference).\*
  - 10.8 Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe as amended and restated Effective January 1, 2005 (filed as Exhibit 10.11 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).\*
  - 10.9 Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995 (filed as Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).\*
  - 10.10 Amendment dated January 28, 2002 to Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995 (filed as Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).\*

- 10.11 Employment Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated November 5, 2009 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.12 Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated January 20, 2010 (filed as Exhibit 10.14 to Registrant's Form 10-K for the year ended December 31, 2009, filed on March 1, 2010 and incorporated herein by reference).\*
- 10.13 Form of Change in Control Agreement, dated November 5, 2009, by and between NBT Bancorp Inc. and certain executive officers (filed as Exhibit 10.5 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.14 Employment Agreement between NBT Bancorp Inc. and Michael J. Chewens as amended and restated November 5, 2009 (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.15 Form of Amended and Restated NBT Bancorp Inc. Supplemental Retirement Agreement, dated as of November 5, 2009, between NBT Bancorp Inc. and certain executive officers (filed as Exhibit 10.7 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.16 Employment Agreement between NBT Bancorp Inc. and David E. Raven as amended and restated November 5, 2009 (filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.17 Employment Agreement between NBT Bancorp Inc. and Jeffrey M. Levy made as amended and restated November 5, 2009 (filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.18 Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Martin A. Dietrich made November 10, 2008 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2008, filed on November 10, 2008 and incorporated herein by reference).\*
- 10.19 First amendment dated November 5, 2009 to Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Martin A. Dietrich made November 10, 2008 (filed as Exhibit 10.6 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).\*
- 10.20 NBT Bancorp Inc. 2008 Omnibus Incentive Plan (filed as Appendix A of Registrant's Definitive Proxy Statement on Form 14A filed on March 31, 2008, and incorporated herein by reference).\*
- 10.21 Description of Arrangement for Directors Fees.\*
- 10.22 Employment Agreement, dated May 7, 2010, by and between F. Sheldon Prentice and NBT Bancorp Inc. (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2010, filed on May 10, 2010 and incorporated herein by reference).\*
- 10.23 Change in Control Agreement, dated May 7, 2010, by and between F. Sheldon Prentice and NBT Bancorp Inc. (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended March 31, 2010, filed on May 10, 2010 and incorporated herein by reference).\*
- 10.24 Long Term Incentive Compensation Plan for Named Executive Officers.\*
- 21 A list of the subsidiaries of the Registrant.
- 23 Consent of KPMG LLP.
- 31.1 Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
- 31.2 Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
- 32.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Exhibits to this Form 10-K are attached or incorporated herein by reference as noted above.
- (c) Not applicable.

*\*Management contract or compensatory plan or arrangement*

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, NBT Bancorp Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NBT BANCORP INC. (Registrant)  
February 28, 2012

/s/ Martin A. Dietrich

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Martin A. Dietrich  
*Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Daryl R. Forsythe

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Daryl R. Forsythe  
*Chairman and Director*  
Date: February 28, 2012

/s/ James H. Douglas

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James H. Douglas, *Director*  
Date: February 28, 2012

/s/ Martin A. Dietrich

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Martin A. Dietrich  
*NBT Bancorp Inc. President, CEO, and Director*  
*(Principal Executive Officer)*  
Date: February 28, 2012

/s/ John C. Mitchell

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John C. Mitchell, *Director*  
Date: February 28, 2012

/s/ Michael J. Chewens

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Michael J. Chewens  
*Chief Financial Officer*  
*(Principal Financial Officer*  
*and Principal Accounting Officer)*  
Date: February 28, 2012

/s/ Michael M. Murphy

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Michael M. Murphy, *Director*  
Date: February 28, 2012

/s/ Joseph G. Nasser

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Joseph G. Nasser, *Director*  
Date: February 28, 2012

/s/ Richard Chojnowski

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Richard Chojnowski, *Director*  
Date: February 28, 2012

/s/ Joseph A. Santangelo

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Joseph A. Santangelo, *Director*  
Date: February 28, 2012

/s/ Patricia T. Civil

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Patricia T. Civil, *Director*  
Date: February 28, 2012

/s/ Robert A. Wadsworth

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Robert A. Wadsworth, *Director*  
Date: February 28, 2012

/s/ Timothy E. Delaney

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Timothy E. Delaney, *Director*  
Date: February 28, 2012



[www.nbtbancorp.com](http://www.nbtbancorp.com)