NBT BANCORP INC
Form 10-Q
May 10, 2012

UNITED STATES

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

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012.

OR

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

COMMISSION FILE NUMBER 0-14703

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

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

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

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

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 x No o

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 (Section 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 x No o

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. (Check One):

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

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

As of April 30, 2012, there were 33,233,634 shares outstanding of the Registrant's common stock, $0.01 par value per share.

NBT BANCORP INC.

FORM 10-Q--Quarter Ended March 31, 2012

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Item 1 – FINANCIAL STATEMENTS

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

(In thousands, except share and per share data)	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$108,400	$128,517
Short-term interest bearing accounts	191,204	864
Securities available for sale, at fair value	1,243,122	1,244,619
Securities held to maturity (fair value $71,570 and $72,198, respectively)	70,280	70,811
Trading securities	3,736	3,062
Federal Reserve and Federal Home Loan Bank stock	27,020	27,020
Loans	3,818,666	3,800,203
Less allowance for loan losses	71,334	71,334
Net loans	3,747,332	3,728,869
Premises and equipment, net	75,232	74,541
Goodwill	133,614	132,029
Intangible assets, net	18,130	18,194
Bank owned life insurance	78,597	77,626
Other assets	88,306	92,254
Total assets	$5,784,973	$5,598,406
Liabilities		
Demand (noninterest bearing)	$1,111,563	$1,052,906
Savings, NOW, and money market	2,492,811	2,381,116
Time	963,030	933,127
Total deposits	4,567,404	4,367,149
Short-term borrowings	165,977	181,592
Long-term debt	370,490	370,344
Trust preferred debentures	75,422	75,422
Other liabilities	56,947	65,789
Total liabilities	5,236,240	5,060,296
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at March 31, 2012 and December 31, 2011	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at March 31, 2012 and December 31, 2011; issued 38,035,539 at March 31, 2012 and December 31, 2011	380	380
Additional paid-in-capital	318,775	317,329
Retained earnings	336,787	329,981
Accumulated other comprehensive loss	(5,475)	(6,104)
Common stock in treasury, at cost, 4,794,979 and 4,878,829 shares at March 31, 2012 and December 31, 2011, respectively	(101,734)	(103,476)
Total stockholders' equity	548,733	538,110
Total liabilities and stockholders' equity	$5,784,973	$5,598,406

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries Consolidated Statements of Income (unaudited) (In thousands, except per share data)	Three months ended March 31, 2012	2011
Interest, fee, and dividend income		
Loans	$50,208	$50,860
Securities available for sale	7,366	7,904
Securities held to maturity	640	800
Other	392	493
Total interest, fee, and dividend income	58,606	60,057
Interest expense		
Deposits	5,143	6,287
Short-term borrowings	41	58
Long-term debt	3,581	3,571
Trust preferred debentures	449	889
Total interest expense	9,214	10,805
Net interest income	49,392	49,252
Provision for loan losses	4,471	3,965
Net interest income after provision for loan losses	44,921	45,287
Noninterest income		
Insurance and other financial services revenue	6,154	5,773
Service charges on deposit accounts	4,341	5,072
ATM and debit card fees	2,962	2,668
Retirement plan administration fees	2,333	2,171
Trust	2,129	2,036
Bank owned life insurance	971	1,035
Net securities gains	455	27
Other	3,711	1,344
Total noninterest income	23,056	20,126
Noninterest expense		
Salaries and employee benefits	26,725	25,004
Occupancy	4,491	4,522
Data processing and communications	3,258	2,914
Professional fees and outside services	2,725	2,066
Equipment	2,380	2,190
Office supplies and postage	1,671	1,545
FDIC expenses	931	1,496
Advertising	802	568
Amortization of intangible assets	819	733
Loan collection and other real estate owned	638	719
Other	4,034	3,304
Total noninterest expense	48,474	45,061
Income before income tax expense	19,503	20,352
Income tax expense	5,853	6,045
Net income	$13,650	$14,307
Earnings per share		
Basic	$0.41	$0.42
Diluted	$0.41	$0.41

See accompanying notes to unaudited interim consolidated financial statements.

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Consolidated Statements of Comprehensive Income (unaudited) (In thousands)	Three months ended March 31, 2012	2011
Net income	$13,650	$14,307
Other comprehensive income (loss), net of tax		
Unrealized net holding gains (losses) arising during the period (pre-tax amounts of $644 and ($2,651))	386	(1,600)
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $455 and $27)	(273)	(17)
Pension and other benefits:		
Amortization of prior service cost and actuarial gains (pre-tax amounts of $857 and $415)	516	250
Total other comprehensive income (loss)	629	(1,367)
Comprehensive income	$14,279	$12,940

See accompanying notes to unaudited interim consolidated financial statements

NBT Bancorp Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity (unaudited)

(in thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock in Treasury	Total
Balance at December 31, 2010	$380	$314,023	$299,797	$ (5,335)	$(75,293)	$533,572
Net income	-	-	14,307	-	-	14,307
Cash dividends - $0.20 per share	-	-	(6,913)	-	-	(6,913)
Purchase of 107,871 treasury shares	-	-	-	-	(2,369)	(2,369)
Net issuance of 59,331 shares to employee benefit plans and other stock plans, including tax benefit	-	(381)	(135)	-	1,217	701
Stock-based compensation	-	1,145	-	-	-	1,145
Other comprehensive loss	-	-	-	(1,367)	-	(1,367)
Balance at March 31, 2011	$380	$314,787	$307,056	$ (6,702)	$(76,445)	$539,076
Balance at December 31, 2011	$380	$317,329	$329,981	$ (6,104)	$(103,476)	$538,110
Net income	-	-	13,650	-	-	13,650
Cash dividends - $0.20 per share	-	-	(6,648)	-	-	(6,648)
Net issuance of 83,850 shares to employee benefit plans and other stock plans, including tax benefit	-	(561)	(196)	-	1,742	985

Stock-based compensation	-	2,007	-	-	-	2,007
Other comprehensive income	-	-	-	629	-	629
Balance at March 31, 2012	$380	$318,775	$336,787	$ (5,475)	$(101,734)	$548,733

See accompanying notes to unaudited interim consolidated financial statements.

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NBT Bancorp Inc. and Subsidiaries Consolidated Statements of Cash Flows (unaudited) (In thousands, except per share data)	Three Months Ended March 31, 2012	 2011
Operating activities		
Net income	$13,650	$14,307
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	4,471	3,965
Depreciation and amortization of premises and equipment	1,489	1,324
Net accretion on securities	644	254
Amortization of intangible assets	819	733
Stock based compensation	2,007	1,145
Bank owned life insurance income	(971)	(1,035)
Purchases of trading securities	(496)	(208)
Unrealized gains on trading securities	(178)	(103)
Deferred income tax benefit	(1,706)	(2,876)
Proceeds from sales of loans held for sale	14,026	2,043
Originations and purchases of loans held for sale	(15,239)	(503)
Net gains on sales of loans held for sale	(441)	-
Net security gains	(455)	(27)
Net gain on sales of other real estate owned	(247)	(257)
Net decrease in other assets	5,032	2,084
Net (decrease) increase in other liabilities	(7,836)	3,230
Net cash provided by operating activities	14,569	24,076
Investing activities		
Net cash provided by acquisitions	48,340	-
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	100,340	145,683
Proceeds from sales	1,791	-
Purchases	(100,624)	(124,835)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	6,406	12,576
Purchases	(6,010)	(4,246)
Net increase in loans	(18,940)	(23,893)
Purchases of premises and equipment	(1,502)	(1,029)
Proceeds from sales of other real estate owned	637	628
Net cash provided by investing activities	30,438	4,884
Financing activities		
Net increase in deposits	146,348	124,590
Net (decrease) increase in short-term borrowings	(15,615)	8,027
Repayments of long-term debt	(4)	-
Issuance of long-term debt	150	158
Excess tax benefit from exercise of stock options	70	103
Proceeds from the issuance of shares to employee benefit plans and other stock plans	915	598
Purchase of treasury stock	-	(2,369)
Cash dividends and payment for fractional shares	(6,648)	(6,913)
Net cash provided byfinancing activities	125,216	124,194
Net increase in cash and cash equivalents	170,223	153,154
Cash and cash equivalents at beginning of period	129,381	168,792

Cash and cash equivalents at end of period	$299,604	$321,946

See accompanying notes to unaudited interim consolidated financial statements.

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Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$8,976	$10,731
Income taxes paid	1,970	1,275
Noncash investing activities:		
Loans transferred to OREO	$184	$100
Acquisitions:		
Fair value of assets acquired	$5,976	$-
Fair value of liabilities assumed	54,316	-
Fair value of debt issued in purchase combination	150	-

See accompanying notes to unaudited interim consolidated financial statements.

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NBT BANCORP INC. and Subsidiaries
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

Note 1. Description of Business

NBT Bancorp Inc. (the “Registrant”) is a registered financial holding company incorporated in the State of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Registrant is the parent holding company of NBT Bank, N.A. (the “Bank”), NBT Financial Services, Inc. (“NBT Financial”), NBT Holdings, Inc. (“NBT Holdings”), CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (the “Trusts”). Through the Bank, the Company is focused on community banking operations. Through NBT Financial, the Company operates EPIC Advisors, Inc. (“EPIC”), a retirement plan administrator. Through NBT Holdings, the Company operates Mang Insurance Agency, LLC (“Mang”), a full-service insurance agency. The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. The Registrant’s primary business consists of providing commercial banking and financial services to customers in its market area. The principal assets of the Registrant are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial, and NBT Holdings.

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 upstate New York, northeastern Pennsylvania, northwestern Vermont, and western Massachusetts market areas.

Note 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Registrant and its wholly owned subsidiaries, the Bank, NBT Financial and NBT Holdings. Collectively, the Registrant and its subsidiaries are referred to herein as “the Company.” All intercompany transactions have been eliminated in consolidation. Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation.

Note 3. Use of Estimates

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

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

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The allowance for loan 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 loans. 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 losses is adequate. While management uses available information to recognize loan losses, future additions or reductions to the allowance for loan 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 losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination which may not be currently available to management. 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.

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" (cost is defined as the fair value less costs to sell at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any, of the loan over the fair value of the assets received, less estimated selling costs, is charged to the allowance for loan losses and any subsequent valuation write-downs are charged to other expense. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the minimum down payment requirements prescribed by U.S. GAAP.

Income taxes are accounted for under the asset and liability method. The Company files consolidated tax returns on the accrual basis. Deferred income taxes are recognized for the future tax consequences and benefits attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available carrybacks and expected future income, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at March 31, 2012 or December 31, 2011. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. Uncertain tax positions are recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position would be sustained upon examination by taxing authorities. Tax positions that meet the more than likely than not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.

Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected long-term 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 assumptions used to compute pension expense. The Company also considers relevant indices and market interest rates in selecting an appropriate discount rate. A cash flow analysis for expected benefit payments from the plan is performed each year to assist in selecting the discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the expected rate of increase in future compensation levels.

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Management is required to make various assumptions in determining the fair values of financial instruments. 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.

Management is required to make various assumptions in determining the credit risk involved in issuing contingent obligations such as standby letters of credit, commercial letters of credit, and other lines of credit. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Based on historical experience and economic factors, the Company makes estimates of future cash commitments from these contingent obligations to determine their fair value and establish an allowance if necessary.

Note 4. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit origination guidelines, portfolio maintenance and management procedures as other credit and off-balance sheet products. Commitments to extend credit and unused lines of credit totaled $831.7 million at March 31, 2012 and $764.9 million at December 31, 2011. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

The Company guarantees the obligations or performance of customers by issuing 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 credit 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 guidelines, portfolio maintenance and management procedures as 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 commitments. Standby letters of credit totaled $26.3 million at March 31, 2012 and $26.8 million at December 31, 2011. As of March 31, 2012, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

The Company has also entered into commercial letter of credit agreements on behalf of its customers. Under these agreements, the Company, on the request of its customer, opens the letter of credit and makes a commitment to honor draws made under the agreement, whereby the beneficiary is normally the provider of goods and/or services and the Company essentially replaces the customer as the payee. The credit risk involved in issuing commercial 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 guidelines, portfolio maintenance and management procedures as other credit and off-balance sheet products. Typically, these agreements vary in terms and the total amounts do not necessarily represent future cash commitments. Commercial letters of credit totaled $9.7 million at March 31, 2012 and $15.2 million at December 31, 2011. As of March 31, 2012, the fair value of commercial letters of credit was not significant to the Company’s consolidated financial statements.

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Note 5. Allowance for Loan Losses and Credit Quality of Loans

Allowance for Loan Losses

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

To develop and document a systematic methodology for determining the allowance for loan 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 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
Commercial Loans	Commercial
	Commercial Real Estate
	Agricultural
	Agricultural Real Estate
	Business Banking
Consumer Loans	Indirect
	Home Equity
	Direct
Residential Real Estate Mortgages	

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 due to 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.

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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 in some cases, 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 such as 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.

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 71% 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 [junior] 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.

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Residential Real Estate – 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. 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 Loss Calculation

Management considers the accounting policy related to the allowance for loan 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, 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 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 or reductions to the allowance for loan losses are made periodically by charges or credits to the provision for loan losses. These charges or credits 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, additions and reductions of 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 losses by portfolio segment for the three months ended March 31, 2012 and March 31, 2011:

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Allowance for Loan Losses
(in thousands)

Three months ended March 31	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
Balance as of December 31, 2011	$ 38,831	$ 26,049	$ 6,249	$ 205	$ 71,334
Charge-offs	(1,130)	(4,052)	(358)	-	(5,540)
Recoveries	385	675	9	-	1,069
Provision	(299)	4,118	620	32	4,471
Ending Balance as of March 31, 2012	$ 37,787	$ 26,790	$ 6,520	$ 237	$ 71,334
Balance as of December 31, 2010	$ 40,101	$ 26,126	$ 4,627	$ 380	$ 71,234
Charge-offs	(2,870)	(3,294)	(99)	-	(6,263)
Recoveries	420	577	1	-	998
Provision	286	2,810	809	60	3,965
Ending Balance as of March 31, 2011	$ 37,937	$ 26,219	$ 5,338	$ 440	$ 69,934

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The following tables illustrate the allowance for loan losses and the recorded investment by portfolio segment as of March 31, 2012 and December 31, 2011:

Allowance for Loan Losses and Recorded Investment in Loans
(in thousands)

	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
As of March 31, 2012					
Allowance for loan losses	$ 37,787	$ 26,790	$ 6,520	$ 237	$ 71,334
Allowance for loans individually evaluated for impairment	$ 1,634	$ -	$ -		$ 1,634
Allowance for loans collectively evaluated for impairment	$ 36,153	$ 26,790	$ 6,520	$ 237	$ 69,700
Ending balance of loans	$ 1,722,274	$ 1,514,683	$ 581,709		$ 3,818,666
Ending balance of loans individually evaluated for impairment	$ 12,289	$ -	$ -		$ 12,289
Ending balance of loans collectively evaluated for impairment	$ 1,709,985	$ 1,514,683	$ 581,709		$ 3,806,377
As of December 31, 2011					
Allowance for loan losses	$ 38,831	$ 26,049	$ 6,249	$ 205	$ 71,334
Allowance for loans individually evaluated for impairment	$ 175	$ -	$ -		$ 175
Allowance for loans collectively evaluated for impairment	$ 38,656	$ 26,049	$ 6,249	$ 205	$ 71,159
Ending balance of loans	$ 1,702,577	$ 1,516,115	$ 581,511		$ 3,800,203
Ending balance of loans individually evaluated for impairment	$ 6,219	$ -	$ -		$ 6,219
Ending balance of loans collectively evaluated for impairment	$ 1,696,358	$ 1,516,115	$ 581,511		$ 3,793,984

Credit Quality of Loans

Loans are placed on nonaccrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. Loans 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 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 losses. The Company’s nonaccrual policies are the same for all classes of financing receivable.

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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. 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. When in the opinion of management the collection of principal appears unlikely, the loan balance is charged-off in total or in part. 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 March 31, 2012 and December 31, 2011:

Loans on Nonaccrual Status

(In thousands)	March 31, 2012	December 31, 2011
Commercial Loans		
Commercial	$ 5,674	$ 1,699
Commercial Real Estate	6,793	4,868
Agricultural	2,927	3,307
Agricultural Real Estate	1,838	2,067
Business Banking	7,258	7,446
	24,490	19,387
Consumer Loans		
Indirect	1,638	1,550
Home Equity	8,518	7,931
Direct	371	378
	10,527	9,859
Residential Real Estate Mortgages	9,464	9,044
Total Nonaccrual	$ 44,481	$ 38,290

The increase in nonaccrual commercial and commercial real estate loans from December 31, 2011 to March 31, 2012 was due primarily to one commercial relationship which moved to nonaccrual status during the quarter. This relationship has been reviewed and was specifically reserved for by the Company during the three months ended March 31, 2012.

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The following tables set forth information with regard to past due and nonperforming loans by loan class as of March 31, 2012 and December 31, 2011:

Age Analysis of Past Due Financing Receivables
As of March 31, 2012
(in thousands)

	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 90 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans
Commercial Loans							
Commercial	$124	$-	$44	$168	$ 5,674	$528,273	$534,115
Commercial Real Estate	1,316	149	93	1,558	6,793	831,013	839,364
Agricultural	20	-	-	20	2,927	59,816	62,763
Agricultural Real Estate	158	-	-	158	1,838	32,307	34,303
Business Banking	2,072	676	-	2,748	7,258	241,723	251,729
	3,690	825	137	4,652	24,490	1,693,132	1,722,274
Consumer Loans							
Indirect	7,137	1,338	464	8,939	1,638	874,404	884,981
Home Equity	4,545	804	557	5,906	8,518	545,349	559,773
Direct	517	79	60	656	371	68,902	69,929
	12,199	2,221	1,081	15,501	10,527	1,488,655	1,514,683
Residential Real Estate Mortgages	1,435	228	219	1,882	9,464	570,363	581,709
	$17,324	$3,274	$1,437	$22,035	$ 44,481	$3,752,150	$3,818,666

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Age Analysis of Past Due Financing Receivables
As of December 31, 2011
(in thousands)

	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 90 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans
Commercial Loans							
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
Consumer Loans							
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
Residential Real Estate Mortgages	2,003	139	763	2,905	9,044	569,562	581,511
	$25,351	$5,278	$3,190	$33,819	$ 38,290	$3,728,094	$3,800,203

There were no material commitments to extend further credit to borrowers with nonperforming loans. Within nonaccrual loans, there were approximately $3.1 million and $4.0 million of troubled debt restructured ("TDR") loans at March 31, 2012 and December 31, 2011, 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 loans that have been modified in a TDR were $26.4 million at March 31, 2012 and $22.4 million at December 31, 2011.

The methodology used to establish the allowance for loan losses on impaired loans incorporates specific allocations on loans analyzed individually. Classified loans 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 March 31, 2012, $4.3 million of the total impaired loans had a specific reserve allocation of $1.6 million compared to $0.5 million of impaired loans at December 31, 2011 which had a specific reserve allocation of $0.2 million.

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The following table provides additional information on impaired loans and specific reserve allocations as of March 31, 2012 and December 31, 2011:

Impaired Loans

	March 31, 2012			December 31, 2011		
(in thousands)	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance
With no related allowance recorded:						
Commercial Loans						
Commercial	$1,378	$1,427		$1,243	$2,723	
Commercial Real Estate	6,793	8,785		4,868	7,165	
Agricultural	2,927	3,810		3,307	4,166	
Agricultural Real Estate	1,838	2,007		2,067	2,288	
Business Banking	7,258	9,839		7,446	9,976	
Total Commercial Loans	20,194	25,868		18,931	26,318	
Consumer Loans						
Home Equity	1,854	1,952		2,000	2,103	
Residential Real Estate Mortgages	1,028	1,125		1,040	1,125	
	23,076	28,945		21,971	29,546	
With an allowance recorded:						
Commercial Loans						
Commercial	$4,296	$4,296	$1,634	$456	$808	$175
Commercial Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	-	-	-
	4,296	4,296	1,634	456	808	175
Total:	$27,372	$33,241	$1,634	$22,427	$30,354	$175

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The following table summarizes the average recorded investments on impaired loans and the interest income recognized for the three months ended March 31, 2012 and March 31, 2011:

	For the three months ended					
	March 31, 2012			March 31, 2011		
	Average Recorded	Interest Income Recognized		Average Recorded	Interest Income Recognized	
(in thousands)	Investment	Accrual	Cash	Investment	Accrual	Cash
With no related allowance recorded:						
Commercial Loans						
Commercial	$1,974	$14	$14	$2,732	$47	$47
Commercial Real Estate	5,821	15	15	3,763	21	21
Agricultural	3,117	45	45	2,709	27	27
Agricultural Real Estate	1,977	17	17	1,271	17	17
Business Banking	7,730	60	60	1,400	13	13
Consumer Loans						
Home Equity	1,909	31	31	803	34	34
Residential Real Estate Mortgages	1,031	13	13	543	14	14
	$23,559	$195	$195	$11,875	$173	$173
With an allowance recorded:						
Commercial Loans						
Commercial	$1,432	$47	$47	$1,893	$30	$30
Commercial Real Estate	-	-	-	1,147	-	-
Agricultural	-	-	-	1,621	-	-
Agricultural Real Estate	-	-	-	72	5	5
	$1,432	$47	$47	$4,733	$35	$35
Total:	$24,991	$242	$242	$16,608	$208	$208

There has been significant disruption and volatility in the financial and capital markets since the second half of 2008. Turmoil in the mortgage industry adversely impacted both domestic and global economies and led to a significant credit and liquidity crisis in many domestic markets. These conditions were attributable to a variety of factors, in particular the fallout 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 somewhat delayed and 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. An adverse impact on loan delinquencies would decrease our net interest income and adversely impact our loan loss experience, causing increases in our provision and allowance for loan 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 borrower's management, primary and secondary sources of repayment, payment history, nature of the business, and outlook on particular industries. The internal grading system enables the Company to monitor the quality of the entire loan portfolio on a consistent basis and provide management with an early warning system, enabling recognition and response to problem loans and potential problem loans.

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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. Classified commercial loans consist of loans graded substandard and below. All classified loans with outstanding balances of $500 thousand or more are evaluated individually for impairment through the quarterly review process. The grading system for commercial and agricultural loans is as follows:

- 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 a 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. Nonaccrual treatment is required for doubtful assets because of the high probability of loss.

- 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.

- 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.

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- 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, 2) on nonaccrual status or 3) restructured. All loans not meeting any of these three criteria are considered Performing.

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The following tables illustrate the Company's credit quality by loan class as of March 31, 2012 and December 31, 2011:

Credit Quality Indicators
As of March 31, 2012

Commercial Credit Exposure By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
Pass	$ 494,237	$ 767,636	$ 55,180	$ 29,357	$ 1,346,410
Special Mention	11,155	18,992	33	10	30,190
Substandard	25,976	52,736	7,488	4,936	91,136
Doubtful	2,747	-	62	-	2,809
Total	534,115	839,364	62,763	34,303	1,470,545

Business Banking Credit Exposure By Internally Assigned Grade:	Small Business	Total
Non-classified	$ 233,346	$ 233,346
Classified	18,383	18,383
Total	$ 251,729	$ 251,729

Consumer Credit Exposure By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$ 882,879	$ 550,698	$ 69,498	$ 1,503,075
Nonperforming	2,102	9,075	431	11,608
Total	$ 884,981	$ 559,773	$ 69,929	$ 1,514,683

Residential Mortgage Credit Exposure By Payment Activity:	Residential Mortgage	Total
Performing	$ 572,026	$ 572,026
Nonperforming	9,683	9,683
Total	$ 581,709	$ 581,709

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Credit Quality Indicators
As of December 31, 2011

Commercial Credit Exposure By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
Pass	$ 470,332	$ 758,673	$ 58,481	$ 28,927	$ 1,316,413
Special Mention	10,346	24,478	42	10	34,876
Substandard	29,940	51,748	7,945	4,989	94,622
Doubtful	456	-	69	-	525
Total	$ 511,074	$ 834,899	$ 66,537	$ 33,926	$ 1,446,436

Business Banking Credit Exposure By Internally Assigned Grade:	Business Banking	Total
Non-classified	$ 237,887	$ 237,887
Classified	18,254	18,254
Total	$ 256,141	$ 256,141

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

Residential Mortgage Credit Exposure By Payment Activity:	Residential Mortgage	Total
Performing	$ 571,704	$ 571,704
Nonperforming	9,807	9,807
Total	$ 581,511	$ 581,511

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.

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There were no new modifications made during the three month period ending March 31, 2012. During the three month period ending March 31, 2012 there was one subsequent default on a home equity loan, which had been modified within the previous 12 months, with a recorded investment of approximately $35 thousand s on previously modified loans.

Modifications made during the three month period ending March 31, 2011 consisted of twenty-three home equity loans totaling $2.4 million and three residential real estate mortgages totaling $0.7 million. For all such modifications, the pre and post outstanding recorded investment amount remained unchanged. During the three month period ending March 31, 2011 there were no subsequent defaults on loans modified within the previous 12 months.

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 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.

Note 6. Earnings Per Share

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

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

Three months ended March 31,	2012	2011
(in thousands, except per share data)		
Basic EPS:		
Weighted average common shares outstanding	33,063	34,335
Net income available to common shareholders	13,650	14,307
Basic EPS	$ 0.41	$ 0.42
Diluted EPS:		
Weighted average common shares outstanding	33,063	34,335
Dilutive effect of common stock options and restricted stock	379	315
Weighted average common shares and common share equivalents	33,442	34,650
Net income available to common shareholders	13,650	14,307
Diluted EPS	$ 0.41	$ 0.41

There were 810,088 stock options for the quarter ended March 31, 2012 and 829,652 stock options for the quarter ended March 31, 2011 that were not considered in the calculation of diluted earnings per share since the stock options' exercise price was greater than the average market price during these periods.

Note 7. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at March 31, 2012. Benefits paid from the plan are based on age, years of service, compensation and social security benefits, and are determined in accordance with defined formulas. The Company's policy is to fund the pension plan in accordance with Employee Retirement Income Security Act ("ERISA") standards. Assets of the plan are invested in publicly traded stocks and bonds and mutual funds. 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 the Company on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Eligibility is contingent upon the direct transition from active employment status to retirement without any break in employment from the Company. Employees also must be participants in the Company's medical plan prior to their retirement. The Company funds the cost of postretirement health care as benefits are paid. The Company elected to recognize the transition obligation on a delayed basis over twenty years. These postretirement benefits are referred to herein as "Other Benefits."

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The components of expense for Pension Benefits and Other Benefits are set forth below (in thousands):

	Pension Benefits		Other Benefits	
	Three months ended March 31,		Three months ended March 31,	
Components of net periodic benefit cost:	2012	2011	2012	2011
Service cost	$ 756	$ 667	$ 5	$ 5
Interest cost	774	873	39	57
Expected return on plan assets	(1,675)	(1,914)	-	-
Net amortization	859	406	(2)	9
Total cost (benefit)	$ 714	$ 32	$ 42	$ 71

The Company is not required to make contributions to the plans in 2012, and did not do so during the three months ended March 31, 2012. The Company recorded approximately $0.5 million and $0.3 million, net of tax, as amortization of pension amounts previously recognized in Accumulated Other Comprehensive Income during the three months ended March 31, 2012 and March 31, 2011, respectively.

Market conditions can result in an unusually high degree of volatility and increase the risks and short term liquidity associated with certain investments held by the Company's defined benefit pension plan ("the Plan") which could impact the value of these investments.

Note 8.Trust Preferred Debentures

CNBF Capital Trust I is a Delaware statutory business trust formed in 1999, for the purpose of issuing $18 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust I is a Delaware statutory business trust formed in 2005, for the purpose of issuing $5 million in trust preferred securities and lending the proceeds to the Company. NBT Statutory Trust II is a Delaware statutory business trust formed in 2006, for the purpose of issuing $50 million in trust preferred securities and lending the proceeds to the Company to provide funding for the acquisition of CNB Bancorp, Inc. These three statutory business trusts are collectively referred herein to as "the Trusts." The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities ("VIEs") for which the Company is not the primary beneficiary, as defined by U.S. GAAP. In accordance with U.S. GAAP, the accounts of the Trusts are not included in the Company's consolidated financial statements. On January 1, 2010, the Company adopted ASU 2009-17, Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("Topic 810"), which had no impact on the Company's financial statements.

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As of March 31, 2012, the Trusts had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate	Trust Preferred Debt Owed To Trust	Final Maturity date
CNBF Capital Trust I	June 1999	18,000	3-month LIBOR plus 2.75%	$ 18,720	August 2029
NBT Statutory Trust I	November 2005	5,000	3-month LIBOR plus 1.40%	5,155	December 2035
NBT Statutory Trust II	February 2006	50,000	3-month LIBOR plus 1.40%	51,547	March 2036

The Company owns all of the common stock of the Trusts, which have issued trust preferred securities in conjunction with the Company issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities.

Note 9. Fair Value Measurements and Fair Value of Financial Instruments

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

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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.

During the three months ended March 31, 2012, the Company made no transfers of assets between Level 1 and Level 2, and has had no Level 3 activity.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2012
Assets:				
Securities Available for Sale:				
U.S. Treasury	$ 71,886	$ -	$ -	$ 71,886
Federal Agency	-	280,638	-	280,638
State & municipal	-	102,954	-	102,954
Mortgage-backed	-	304,026	-	304,026
Collateralized mortgage obligations	-	473,871	-	473,871
Other securities	7,682	2,065	-	9,747
Total Securities Available for Sale	$ 79,568	$ 1,163,554	$ -	$ 1,243,122
Trading Securities	3,736	-	-	3,736
Total	$ 83,304	$ 1,163,554	$ -	$ 1,246,858

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	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
Assets:				
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

Certain common equity securities are reported at fair value utilizing Level 1 inputs (exchange quoted prices). The majority of the other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom the Company has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Management reviews the methodologies used in pricing the securities by its third party providers.

U.S. GAAP requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis such as goodwill, loans held for sale, other real estate owned, collateral-dependent impaired loans, mortgage servicing rights, and held-to-maturity securities. The only nonrecurring fair value measurement recorded during the three month period ended March 31, 2012 was related to impaired loans. The Company uses the fair value of underlying collateral, less costs to sell, 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.

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The following table sets forth information with regard to the carrying amounts, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2012 and December 31, 2011. This table excludes financial instruments for which the carrying amount approximates fair value. Financial instruments for which the fair value approximates carrying value include cash and cash equivalents, securities available for sale, trading securities, accrued interest receivable, non-maturity deposits, short-term borrowings, accrued interest payable, and trust preferred debentures.

		March 31, 2012		December 31, 2011	
(In thousands)	Fair Value Hierarchy	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets					
Securities held to maturity	2	70,280	71,570	70,811	72,198
Net loans	3	3,747,332	3,830,314	3,728,869	3,821,640
Financial liabilities					
Time deposits	2	963,030	978,082	933,127	942,436
Long-term debt	2	370,490	424,558	370,344	427,107

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.

Securities Held to Maturity

The fair value of the Company's investment securities held to maturity is primarily measured using information from a third party pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Net Loans

The fair value of the Company's loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made for the same remaining maturities. Loans were first segregated by type, and then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

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Time Deposits

The fair value of time deposits was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments. The fair values of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Long-Term Debt

The fair value of long-term debt was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments.

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Note 10.Securities

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

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
March 31, 2012				
U.S. Treasury	$70,923	$963	$-	$71,886
Federal Agency	279,957	716	35	280,638
State & municipal	97,868	5,086	-	102,954
Mortgage-backed	289,515	14,510	-	304,025
Collateralized mortgage obligations	466,392	7,530	51	473,871
Other securities	7,594	2,195	41	9,748
Total securities available for sale	$1,212,249	$31,000	$127	$1,243,122
December 31, 2011				
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
Other securities	8,935	2,021	76	10,880
Total securities available for sale	$1,213,934	$30,839	$154	$1,244,619

In the available for sale category at March 31, 2012, federal agency securities were comprised of Government-Sponsored Enterprise (“GSE”) securities; mortgaged-backed securities were comprised of GSE securities with an amortized cost of $269.9 million and a fair value of $282.6 million and US Government Agency securities with an amortized cost of $19.6 million and a fair value of $21.5 million; collateralized mortgage obligations were comprised of GSE securities with an amortized cost of $412.1 million and a fair value of $417.5 million and US Government Agency securities with an amortized cost of $54.3 million and a fair value of $56.4 million. At March 31, 2012, all of the mortgaged-backed securities held to maturity were comprised of US Government Agency securities.

In the available for sale category at December 31, 2011, federal agency securities were comprised of 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 US 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 US 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 US Government Agency securities.

Others securities primarily represent marketable equity securities.

Proceeds from the sales of securities available for sale were $1.8 million during the three months ended March 31, 2012, and gains on the sales were $0.4 million.

Securities available for sale with amortized costs totaling $1.2 billion at March 31, 2012 and December 31, 2011, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at March 31, 2012 and December 31, 2011, securities available for sale with an amortized cost of $239.0 million and $141.7 million, respectively, were pledged as collateral for securities sold under repurchase agreements.

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

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
March 31, 2012				
Mortgage-backed	$ 1,390	$ 210	$ -	$ 1,600
State & municipal	68,890	1,080	-	69,970
Total securities held to maturity	$ 70,280	$ 1,290	$ -	$ 71,570
December 31, 2011				
Mortgage-backed	$ 1,447	$ 213	$ -	$ 1,660
State & municipal	69,364	1,174	-	70,538
Total securities held to maturity	$ 70,811	$ 1,387	$ -	$ 72,198

The following table sets forth information with regard to investment securities with unrealized losses at March 31, 2012 and December 31, 2011:

	Less than 12 months			12 months or longer			Total		
Security Type:	Fair Value	Unrealized losses	Number of Positions	Fair Value	Unrealized losses	Number of Positions	Fair Value	Unrealized losses	Number of Positions
March 31, 2012									
U.S. Treasury	$-	$ -	-	$-	$ -	-	$-	$ -	-
Federal agency	19,963	(35)	2	-	-	-	19,963	(35)	2
State & municipal	-	-	-	-	-	-	-	-	-
Mortgage-backed	-	-	-	-	-	-	-	-	-
Collateralized mortgage obligations	35,457	(51)	4	-	-	-	35,457	(51)	4
Other securities	207	(41)	1	-	-	-	207	(41)	1
Total securities with unrealized losses	$55,627	$ (127)	7	$-	$ -	-	$55,627	$ (127)	7
December 31, 2011									
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

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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.

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 March 31, 2012, management also had the 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 March 31, 2012, 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 March 31, 2012:

(In thousands)	Amortized cost	Estimated fair value
Debt securities classified as available for sale		
Within one year	$ 24,066	$ 24,250
From one to five years	297,962	300,186
From five to ten years	274,514	283,861
After ten years	608,113	625,077
	$ 1,204,655	$ 1,233,374
Debt securities classified as held to maturity		
Within one year	$ 28,471	$ 28,532
From one to five years	31,919	32,863
From five to ten years	6,745	6,820
After ten years	3,145	3,355
	$ 70,280	$ 71,570

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Maturities of mortgage-backed, collateralized mortgage obligations 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 related securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of consolidated stockholders' equity at March 31, 2012.

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

The purpose of this discussion and analysis is to provide a concise description of the financial condition and results of operations of NBT Bancorp Inc. and its wholly owned consolidated subsidiaries, NBT Bank, N.A. (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), and NBT Holdings, Inc. ("NBT Holdings") (collectively referred to herein as the "Company"). This discussion will focus on results of operations, financial condition, capital resources and asset/liability management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for an understanding of the following discussion and analysis. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results of the full year ending December 31, 2012 or any future period.

Forward-looking Statements

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

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

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

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Critical Accounting Policies

Management of the Company considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the judgment in evaluating the level of the allowance required to cover credit losses inherent in the loan 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 losses indicates that the allowance is adequate, under different conditions or assumptions, the allowance may need to be increased or decreased. For example, if historical loan loss experience significantly changed or if current economic conditions deteriorated or improved, particularly in the Company's primary market area, provisions for loan losses may be increased or decreased to adjust the allowance. In addition, the assumptions and estimates relating to loss experience, ability to collect and economic conditions used in the internal reviews of the Company's nonperforming loans and potential problem loans has a significant impact on the overall analysis of the adequacy of the allowance for loan losses. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral valuations were significantly changed, the Company's allowance for loan policy may require increases or decreases in the provision for loan losses.

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

Management of the Company considers the accounting policy relating to other-than-temporary impairment to be a critical accounting policy. Management systematically evaluates certain assets for other-than-temporary declines in 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.

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 first three months of 2012:

Net income for the three months ended March 31, 2012 was $13.7 million, down $0.6 million, or 4.6%, from the three months ended March 31, 2011. Net income per diluted share for the three months ended March 31, 2012 was $0.41 per share, equal to the three months ended March 31, 2011.

Net interest margin (on a fully taxable equivalent basis ("FTE")) was 3.90% for the three months ended March 31, 2012 as compared to 4.11% for the same period in 2011.

Capital ratios at March 31, 2012 improved slightly when compared to December 31, 2011:

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- o Tier 1 Leverage ratio increased from 8.74% to 8.80%
- o Tier 1 Capital ratio increased from 11.56% to 11.64%
- o Total Risk-Based Capital Ratio increased from 12.81% to 12.90%

Past due loans as a percentage of total loans showed significant improvement to 0.58% at March 31, 2012, as compared with 0.89% at December 31, 2011.

Net charge-offs improved to 0.47% of average loans for the first three months of 2012, down 9 bps from 0.56% for the year ended December 31, 2011.

The provision for loan losses was $4.5 million for the three months ended March 31, 2012, up slightly from $4.0 million for the same period in 2011.

Annualized return on average assets was 0.97% for the three months ended March 31, 2012, down from 1.08% for the three months ended March 31, 2011.

Annualized return on average equity was 10.12% for the three months ended March 31, 2012, down from 10.78% for the three months ended March 31, 2011.

Noninterest income increased 14.6% from $20.1 million for the three months ended March 31, 2011 to $23.1 million for the three months ended March 31, 2012:

- o Insurance and other financial services revenue was up $0.4 million during the first quarter of 2012 compared with the first quarter of 2011
- o Net securities gains totaled $0.5 million during the first quarter of 2012 as compared with nominal gains during the first quarter of 2011
- o Other noninterest income increased approximately $2.4 million for the three months ended March 31, 2012 as compared to March 31, 2011, due primarily to a $1.1 million payoff gain on a purchased commercial real estate loan as well as a prepayment penalty fee collected totaling $0.8 million during the first quarter of 2012, related to a previously disclosed loss of a retirement plan client.
- o These increases were offset by a decrease in service charges on deposit accounts of approximately $0.7 million, or 14.4%, for the three months ended March 31, 2012, as compared with the same period in 2011 primarily due to a decrease in overdraft fee income

Continued strategic expansion in the first quarter of 2012:

- o In New York: Closed on three branches in Greene County and customer balances of a branch in Schoharie County on January 21, 2012.
- o In Massachusetts: Opened a fifth Massachusetts branch in Lenox on February 7, 2012.
- o In New Hampshire: Acquisition of Hampshire First Bank is expected to close in the second quarter of 2012.

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

2012	First Quarter	
Return on average assets (ROAA)	0.97	%
Return on average equity (ROAE)	10.12	%
Net Interest Margin	3.90	%
2011		
Return on average assets (ROAA)	1.08	%
Return on average equity (ROAE)	10.78	%
Net Interest Margin	4.11	%

Net Interest Income

Net interest income is the difference between interest income on earning assets, primarily loans and securities, and interest expense on interest bearing liabilities, primarily deposits and borrowings. Net interest income is affected by the interest rate spread, the difference between the yield on earning assets and cost of interest bearing liabilities, as well as the volumes of such assets and liabilities. Net interest income is one of the key determining factors in a financial institution's performance as it is the principal source of earnings.

FTE net interest income decreased nominally during the three months ended March 31, 2012, compared to the same period of 2011. The Company experienced a decrease in the yield on interest earning assets of 38 bp to 4.61% for the three months ended March 31, 2012 from 4.99% for the same period in 2011. This decrease was partially offset by a decrease of 20 bp on the rate paid on interest bearing liabilities for the three months ended March 31, 2012 as compared to the same period in 2011. The interest rate spread decreased to 3.68% during the three months ended March 31, 2012 compared to 3.86% for the same period in 2011. The net interest margin decreased by 21 bp to 3.90% for the three months ended March 31, 2012, compared with 4.11% for the same period in 2011.

For the three months ended March 31, 2012, total interest income decreased $1.5 million, or 2.4%, from the same period in 2011 as a result of the decrease in the yield earned on earning assets. The yield on securities available for sale decreased 53 bp to 2.61% for the three months ended March 31, 2012 from 3.14% for the three months ended March 31, 2011. This decrease was due to the decreasing rate environment from March 31, 2011 to March 31, 2012 resulting in reinvestment of cash flows from maturing securities into lower yielding securities. In addition, the yield on loans decreased 40 bp to 5.33% for the three months ended March 31, 2012 from 5.73% for the three months ended March 31, 2011. Average interest earning assets increased approximately $223.0 million, or 4.5%, for the three months ended March 31, 2012 as compared to the same period in 2011, which partially offset the decrease in total interest income attributed to the decrease in the yields on earning assets. This increase in average earning assets was attributed to aforementioned acquisition activity, as well as strong organic loan growth.

For the three months ended March 31, 2012, total interest expense decreased $1.6 million, or 14.7%, from the three months ended March 31, 2011. This decrease was due primarily to a decrease in the rate paid on average interest bearing liabilities from 1.13% for the three months ended March 31, 2011 to 0.93% for the three months ended March 31, 2012. The rate paid on average interest bearing deposits decreased 17 bp from 0.78% for the three months ended March 31, 2011 to 0.61% for the same period in 2012. The rate paid on average time deposits decreased from 1.90%

for the three months ended March 31, 2011 to 1.63% for the three months ended March 31, 2012. The rate paid on average money market deposit accounts decreased from 0.42% for the three months ended March 31, 2011 to 0.23% for the three months ended March 31, 2012. Going forward, additional rate reductions on deposits could be more difficult as deposit rates are at or near their floors.

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Average interest bearing liabilities increased approximately $102.5 million, or 2.6%, for the three months ended March 31, 2012 as compared to the same period in 2011, which partially offset the decrease in total interest expense attributed to the decrease in the rates on interest bearing liabilities. The primary driver of this offset was an increase in average time deposits of approximately 2.7% for the three months ended March 31, 2012 as compared with the three months ended March 31, 2011.

Average Balances and Net Interest Income

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

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Three Months ended March 31,

	2012			2011		
(dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	$80,127	$35	0.18 %	$141,309	$69	0.20 %
Securities available for sale (1) (excluding unrealized gains or losses)	1,212,766	7,855	2.61 %	1,098,042	8,501	3.14 %
Securities held to maturity (1)	70,542	965	5.50 %	94,098	1,202	5.18 %
Investment in FRB and FHLB Banks	27,020	357	5.31 %	27,246	425	6.33 %
Loans (2)	3,809,461	50,445	5.33 %	3,616,191	51,092	5.73 %
Total interest earning assets	$5,199,916	$59,657	4.61 %	$4,976,886	$61,289	4.99 %
Other assets	459,542			420,171		
Total assets	$5,659,458			$5,397,057		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	$1,089,347	612	0.23 %	$1,085,882	$1,116	0.42 %
NOW deposit accounts	694,937	530	0.31 %	698,141	635	0.37 %
Savings deposits	641,969	114	0.07 %	574,370	165	0.12 %
Time deposits	956,350	3,887	1.63 %	931,532	4,371	1.90 %
Total interest bearing deposits	$3,382,603	$5,143	0.61 %	$3,289,925	$6,287	0.78 %
Short-term borrowings	162,806	41	0.10 %	153,374	58	0.15 %
Trust preferred debentures	75,422	449	2.40 %	75,422	889	4.78 %
Long-term debt	370,395	3,581	3.89 %	369,979	3,571	3.91 %
Total interest bearing liabilities	$3,991,226	$9,214	0.93 %	$3,888,700	$10,805	1.13 %
Demand deposits	1,062,557			904,748		
Other liabilities	63,047			65,398		
Stockholders' equity	542,628			538,211		
Total liabilities and stockholders' equity	$5,659,458			$5,397,057		
Net interest income (FTE)		50,443			50,484	
Interest rate spread			3.68 %			3.86 %
Net interest margin			3.90 %			4.11 %
Taxable equivalent adjustment		1,051			1,232	
Net interest income		$49,392			$49,252	

(1) Securities are shown at average amortized cost

(2) For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding

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The following table presents changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

Analysis of Changes in Taxable Equivalent Net Interest Income

Three months ended March 31,

	Increase (Decrease) 2012 over 2011		
(in thousands)	Volume	Rate	Total
Short-term interest bearing accounts	$ (27)	$ (7)	$ (34)
Securities available for sale	4,220	(4,866)	(646)
Securities held to maturity	(675)	438	(237)
Investment in FRB and FHLB Banks	(3)	(65)	(68)
Loans	12,320	(12,967)	(647)
Total interest income	15,835	(17,467)	(1,632)
Money market deposit accounts	25	(529)	(504)
NOW deposit accounts	(3)	(102)	(105)
Savings deposits	109	(160)	(51)
Time deposits	718	(1,202)	(484)
Short-term borrowings	22	(39)	(17)
Trust preferred debentures	-	(440)	(440)
Long-term debt	29	(19)	10
Total interest expense	900	(2,491)	(1,591)
Change in FTE net interest income	$ 14,935	$ (14,976)	$ (41)

Noninterest Income

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

	Three months ended March 31,	
	2012	2011
(in thousands)		
Insurance and other financial services revenue	6,154	5,773
Service charges on deposit accounts	4,341	5,072
ATM and debit card fees	2,962	2,668
Retirement plan administration fees	2,333	2,171
Trust	2,129	2,036
Bank owned life insurance	971	1,035
Net securities gains	455	27
Other	3,711	1,344

Total noninterest income	$ 23,056	$ 20,126

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Noninterest income for the three months ended March 31, 2012 was $23.1 million, up 14.6% or $3.0 million, compared with $20.1 million for the same period in 2011. Insurance and other financial services revenue increased approximately $0.4 million for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011. 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 $0.3 million for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, due primarily to an increase in card usage. Other noninterest income increased approximately $2.4 million for the three months ended March 31, 2012 as compared to March 31, 2011. This increase was due primarily to a $1.1 million payoff gain on a purchased commercial real estate loan as well as a prepayment penalty fee collected totaling $0.8 million during the first quarter of 2012, related to a previously disclosed loss of a retirement plan client. The Company also realized net securities gains of approximately $0.5 million during the first quarter of 2012. These increases were offset by a decrease in service charges on deposit accounts of approximately $0.7 million, or 14.4%, for the three months ended March 31, 2012, as compared with the same period in 2011 primarily due to a decrease in overdraft fee income.

Noninterest Expense

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

	Three months ended March 31,	
	2012	2011
(in thousands)		
Salaries and employee benefits	26,725	25,004
Occupancy	4,491	4,522
Data processing and communications	3,258	2,914
Professional fees and outside services	2,725	2,066
Equipment	2,380	2,190
Office supplies and postage	1,671	1,545
FDIC expenses	931	1,496
Advertising	802	568
Amortization of intangible assets	819	733
Loan collection and other real estate owned	638	719
Other	4,034	3,304
Total noninterest expense	$ 48,474	$ 45,061

Noninterest expense for the three months ended March 31, 2012 was $48.5 million, up $3.4 million or 7.6%, for the same period in 2011. Salaries and employee benefits increased $1.7 million, or 6.9%, for the three months ended March 31, 2012, compared with the same period in 2011. This increase was due primarily to increases in full-time-equivalent employees from branch acquisitions and merit increases. Professional fees and outside services increased $0.7 million, or 31.9%, for the three months ended March 31, 2012 as compared to the same period in 2011. This increase was due primarily to $0.3 million in legal expenses incurred related to a class action lawsuit. Data processing and communications expenses increased approximately $0.3 million, or 11.8%, for the three months ended March 31, 2012 as compared to the same period in 2011, due primarily to strategic expansion into new markets. Other operating expenses increased approximately $0.7 million for the three months ended March 31, 2012, as compared to the same period in 2011. This increase was due primarily to merger related expenses of $0.5 million incurred during the first quarter of 2012, with no other significant drivers. These increases were partially offset by a decrease in Federal Deposit Insurance Corporation ("FDIC") expenses of approximately $0.6 million for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. This decrease was due to the FDIC redefining the deposit insurance assessment base effective the second quarter of 2011.

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Income Taxes

Income tax expense for the three month period ended March 31, 2012 was $5.9 million, down from $6.0 million for the same period in 2011. The effective tax rate was 30.0% for the three months ended March 31, 2012, as compared to 29.7% for the same period in 2011.

ANALYSIS OF FINANCIAL CONDITION

Securities

The Company classifies its securities at date of purchase as available for sale, held to maturity or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Held to maturity securities are recorded at amortized cost. 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. For the securities that the Company does not have the intent to sell and will not be more likely than not required to sell, 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. Securities with an other-than-temporary impairment are generally placed on nonaccrual status. Trading securities are recorded at fair value, with net unrealized gains and losses recognized currently in income. Transfers of securities between categories are recorded at fair value at the date of transfer.

Average total earning securities increased $91.2 million, or 7.6%, for the three months ended March 31, 2012 when compared to the same period in 2011. The average balance of securities available for sale increased $114.7 million, or 10.4%, for the three months ended March 31, 2012 when compared to the same period in 2011. This increase was due primarily to the increase in liquidity provided by deposits acquired in the aforementioned acquisitions. The average balance of securities held to maturity decreased $23.6 million, or 25.0%, for the three months ended March 31, 2012, compared to the same period in 2011. This decrease was due primarily to the scheduled run-off of municipal securities in the held to maturity portfolio. The average total securities portfolio represents 24.7% of total average earning assets for the three months ended March 31, 2012, up from 24.0% for the same period in 2011.

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

	March 31, 2012		December 31, 2011	
Mortgage-backed securities:				
With maturities 15 years or less	21	%	21	%
With maturities greater than 15 years	2	%	3	%
Collateral mortgage obligations	35	%	35	%
Municipal securities	13	%	13	%
US agency notes	26	%	25	%
Other	3	%	3	%
Total	100	%	100	%

The Company's mortgage backed securities, U.S. agency notes, and collateralized mortgage obligations are all "prime/conforming" and are guaranteed by Fannie Mae, Freddie Mac, Federal Home Loan Bank, 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 subprime mortgages in our investment portfolio.

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Loans

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

(In thousands)	March 31, 2012	December 31, 2011
Residential real estate mortgages	$ 581,709	$ 581,511
Commercial	631,019	611,298
Commercial real estate mortgages	896,149	888,879
Real estate construction and development	88,316	93,977
Agricultural and agricultural real estate mortgages	106,790	108,423
Consumer	954,910	946,470
Home equity	559,773	569,645
Total loans	$ 3,818,666	$ 3,800,203

Total loans increased by $18.5 million, or 0.5%, at March 31, 2012 from December 31, 2011, and represent approximately 66.0% of assets, as compared to 67.9% of total assets at December 31, 2011. Commercial loans increased approximately $19.7 million, or 3.2%, from December 31, 2011 to March 31, 2012 primarily from strong originations in our upstate New York markets. Consumer loans increased approximately $8.4 million, or 0.9%, from December 31, 2011 to March 31, 2012. These increases were slightly offset by a decrease in home equity loans of approximately $9.9 million, or 1.7%, from December 31, 2011 to March 31, 2012.

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

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

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the degree of judgment exercised in evaluating the level 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 factors 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, estimates of the Company’s exposure to credit loss reflect a thorough current assessment of a number of factors, which could affect collectibility. These factors include: past loss experience; the size, trend, composition, and nature of the loans; changes in lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices; 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 losses. Such agencies may require the Company to recognize additions to the allowance based on their judgment about information available to them at the time of their examination, which may not be currently available to management.

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After a thorough consideration and validation of the factors discussed above, required additions or reductions to the allowance for loan losses are made periodically by charges or credits to the provision for loan losses. These charges are necessary to maintain the allowance at a level which management believes is reasonably reflective of the overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans, additions or reductions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above. The allowance for loan losses related to commercial loans decreased by approximately $1.0 million from December 31, 2011 to March 31, 2012, due primarily to net charge offs totaling $0.7 million during the first quarter of 2012. The allowance for loan losses related to residential real estate mortgages increased by $0.7 million from December 31, 2011 to March 31, 2012, due primarily to continued stressed economic conditions. The allowance for loan losses to outstanding loans decreased slightly to 1.87% as of March 31, 2012 as compared to 1.88% at December 31, 2011. Management considers the allowance for loan losses to be adequate based on evaluation and analysis of the loan portfolio.

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

Allowance For Loan Losses

(dollars in thousands)	Three months ended March 31, 2012		March 31, 2011	
Balance, beginning of period	$ 71,334		$ 71,234	
Recoveries	1,069		998	
Chargeoffs	(5,540)		(6,263)	
Net chargeoffs	(4,471)		(5,265)	
Provision for loan losses	4,471		3,965	
Balance, end of period	$ 71,334		$ 69,934	
Composition of Net Chargeoffs				
Commercial and agricultural	$ (745)	17 %	$ (2,450)	47 %
Real estate mortgage	(349)	8 %	(98)	2 %
Consumer	(3,377)	75 %	(2,717)	51 %
Net chargeoffs	$ (4,471)	100 %	$ (5,265)	100 %
Annualized net chargeoffs to average loans	0.47 %		0.59 %	

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

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Nonperforming Assets

(Dollars in thousands)	March 31, 2012			December 31, 2011		
Nonaccrual loans	Amount	%		Amount	%	
Commercial and agricultural loans and real estate	$23,322	53	%	$17,506	46	%
Real estate mortgages	8,520	19	%	8,090	21	%
Consumer	9,558	21	%	8,724	23	%
Troubled debt restructured loans	3,081	7	%	3,970	10	%
Total nonaccrual loans	44,481	100	%	38,290	100	%
Loans 90 days or more past due and still accruing						
Commercial and agricultural loans and real estate	137	10	%	50	2	%
Real estate mortgages	219	15	%	763	24	%
Consumer	1,081	75	%	2,377	74	%
Total loans 90 days or more past due and still accruing	1,437	100	%	3,190	100	%
Total nonperforming loans	45,918			41,480		
Other real estate owned (OREO)	1,954			2,160		
Total nonperforming assets	47,872			43,640		
Total nonperforming loans to total loans	1.20	%		1.09	%	
Total nonperforming assets to total assets	0.83	%		0.78	%	
Total allowance for loan losses to nonperforming loans	155.35	%		171.97	%	

Loans over 60 days past due but not over 90 days past due were 0.09% of total loans as of March 31, 2012, compared to 0.14% of total loans as of December 31, 2011. In addition to nonperforming loans, the Company has also identified approximately $88.9 million in potential problem loans at March 31, 2012, down from $96.9 million at December 31, 2011. Potential problem loans are loans that are currently performing, but known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in classification of such loans as nonperforming at some time in the future. Potential problem loans are typically defined as loans that are performing but are classified by the Company's loan rating system as "substandard." At March 31, 2012, potential problem loans primarily consisted of commercial real estate and commercial and agricultural loans. Potential problem loans were down $8.0 million from December 31, 2011, due primarily to the migration of a commercial relationship to nonaccrual status, which management believes have been adequately reserved for in the allowance for loan losses. Nonaccrual commercial loans increased approximately $5.8 million from December 31, 2011 to March 31, 2012, primarily due to the aforementioned relationship, which has been specifically reserved for by the Company during the three months ended March 31, 2012. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses.

The Company recorded a provision for loan losses of $4.5 million during the first quarter of 2012 compared with $4.0 million during the first quarter of 2011. Annualized net charge-offs to average loans for the three months ended March 31, 2012 were 0.47%, compared with 0.56% for the year ended December 31, 2011. The Company's allowance for loan losses decreased slightly to 1.87% of loans at March 31, 2012, compared with 1.88% at December 31, 2011. Specific reserves on impaired loans totaled $1.6 million at March 31, 2012 and $0.2 million at December 31, 2011. This increase was due to the migration of the aforementioned commercial relationship into nonaccrual status during the first quarter of 2012. General allocations decreased to $69.7 million at March 31, 2012 from $71.1 million at December 31, 2011.

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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 Office of Thrift Supervision 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, management believes that 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. The Company has not originated Alt A loans or no interest loans.

Deposits

Total deposits were $4.6 billion at March 31, 2012, up $200.3 million, or 4.6%, from December 31, 2011. This increase was due in large part to an increase in municipal deposits, as well as deposits acquired as part of the aforementioned acquisition. Savings, NOW and money market accounts increased $111.7 million as of March 31, 2012 as compared with December 31, 2011. Demand deposits increased by $58.7 million, or 5.6%, from December 31, 2011 to March 31, 2012. Time deposits decreased $29.9 million, or 3.2%, from December 31, 2011 to March 31, 2012.

Total average deposits for the three months ended March 31, 2012 increased $250.5 million, or 6.0%, from the same period in 2011, due primarily to the aforementioned acquisitions. Average savings accounts increased $67.6 million, or 11.8%, for the three month period ending March 31, 2012 as compared to the same period in 2011. This increase in average savings accounts was primarily due to the aforementioned acquisitions as well as a run-off of time deposit accounts into savings accounts, due to a decline in interest rates offered on time deposits. Average time deposits increased $24.8 million, or 2.7%, for the three months ended March 31, 2012 from the same period in 2011, due to the aforementioned acquisitions partially offset by a run-off to savings accounts. Average demand deposit accounts increased $157.8 million, or 17.4%, for the three months ended March 31, 2012 as compared to the same period in 2011. This was due primarily to an increasing customer base, as the Company continues to expand into new markets.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $166.0 million at March 31, 2012 compared to $181.6 million at December 31, 2011. Long-term debt was $370.5 million at March 31, 2012, as compared to $370.3 million at December 31, 2011. For more information about the Company's borrowing capacity and liquidity position, see "Liquidity Risk" below.

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Capital Resources

Stockholders' equity of $548.7 million represented 9.49% of total assets at March 31, 2012, compared with $538.1 million, or 9.61% as of December 31, 2011. The Company did not purchase any shares of its common stock during the three month period ended March 31, 2012. At March 31, 2012, there were 1,517,581 shares available for repurchase under two previously announced stock repurchase plans, which both expire on December 31, 2013.

The Board of Directors considers the Company's earnings position and earnings potential when making dividend decisions. The Company does not have a target dividend pay out ratio.

As the capital ratios in the following table indicate, the Company remained “well capitalized” at March 31, 2012 under applicable bank regulatory requirements. Capital measurements are well in excess of regulatory minimum guidelines and meet the requirements to be considered well capitalized for all periods presented. Tier 1 leverage, Tier 1 capital and Total risk-based capital ratios have regulatory minimum guidelines of 3%, 4% and 8% respectively, with requirements to be considered well capitalized of 5%, 6% and 10%, respectively.

Capital Measurements	March 31, 2012		December 31, 2011	
Tier 1 leverage ratio	8.80	%	8.74	%
Tier 1 capital ratio	11.64	%	11.56	%
Total risk-based capital ratio	12.90	%	12.81	%
Cash dividends as a percentage of net income	48.70	%	46.74	%
Per common share:				
Book value	$ 16.51		$ 16.23	
Tangible book value	$ 11.94		$ 11.70	

Liquidity and Interest Rate Sensitivity Management

Market Risk

Interest rate risk is the primary market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company’s business activities. Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on the Company’s net interest income. Net interest income is susceptible to interest rate risk to the degree that interest bearing liabilities mature or reprice on a different basis than earning assets. When interest bearing liabilities mature or reprice more quickly than earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest bearing liabilities, falling interest rates could result in a decrease in net interest income.

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

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In adjusting the Company's asset/liability position, the Board and management attempt to manage the Company's interest rate risk while minimizing 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. Assuming interest rates remain at or near current historical lows, net interest margin will continue to experience compression. Additional rate reductions on deposits are becoming more difficult as deposit rates are at or near their floors, and with asset yields continuing to reprice at lower rates, this could result in additional margin pressure as well as a decrease in net interest income.

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 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 with static balance sheets: (1) a gradual increase of 200 bp, and (2) a gradual decrease of 100 bp taking place over a 12-month period. 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 resulting 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 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 at a faster rate than interest bearing liabilities. The inability to effectively lower deposit rates will likely reduce or eliminate the benefit of lower interest rates. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. Net interest income is projected to remain at lower levels than in a flat rate scenario through the simulation period primarily due to a lag in assets repricing while funding costs increase. The potential impact on earnings is dependent on the ability to lag deposit repricing. If short-term rates continue to increase, the Company expects competitive pressures will likely lead to core deposit pricing increases, which will likely continue compression of the net interest margin.

Net interest income for the next 12 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 March 31, 2012 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates (in bp points)	Percent change in net interest income
+200	(1.40%)
-100	(1.47%)

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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 ALCO is responsible for liquidity management and has developed guidelines which cover all assets and liabilities, as well as off balance sheet items that are potential sources or uses of liquidity. Liquidity policies must also provide the flexibility to implement appropriate strategies and tactical actions. Requirements change as loans grow, deposits and securities mature, and payments on borrowings are made. Liquidity management includes a focus on interest rate sensitivity management with a goal of avoiding widely fluctuating net interest margins through periods of changing economic conditions.

The primary liquidity measurement the Company utilizes is called the Basic Surplus, which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. Basic Surplus is calculated by subtracting short-term liabilities from liquid assets. 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 March 31, 2012, the Company’s Basic Surplus measurement was 10.9% of total assets or $631 million as compared to the December 31, 2011 Basic Surplus of 11.7% or $654 million, and was above the Company’s minimum of 5% or $289 million 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.

The Company’s primary source of funds is the Bank. Certain restrictions exist regarding the ability of the 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 defined in the regulations). At March 31, 2012, approximately $54.2 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 is also subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the General Corporation Law of the State of Delaware, the Company may declare and pay dividends either out of its surplus or, in case there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

At March 31, 2012 and December 31, 2011, FHLB advances outstanding totaled $343 million and $339 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $361 million at March 31, 2012 and $323 million at December 31, 2011. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $361 million at March 31, 2012, or used to collateralize other borrowings, such as repurchase agreements. At March 31, 2012 the Bank also had additional borrowing capacity from unused collateral at the Federal Reserve of $482 million.

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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 adoption of the standard did 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 adoption of the standard did 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 adoption of the standard did not have a significant impact on the Company's consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information called for by Item 3 is contained in the Liquidity and Interest Rate Sensitivity Management section of the Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2012, the Company's disclosure controls and procedures were effective.

There were no changes made in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1 – LEGAL PROCEEDINGS

The Bank has been named as a defendant in a purported class action lawsuit arising from its assessment and collection of overdraft fees on its checking account customers. 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 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 1A – RISK FACTORS

Management of the Company does not believe there have been any material changes in the risk factors that were disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the Securities and Exchange Commission on February 29, 2012.

Item 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) The Company did not purchase any shares of its common stock during the three month period ended March 31, 2012. At March 31, 2012, there were 1,517,581 shares available for repurchase under two previously announced stock repurchase plans, which both expire on December 31, 2013.

Item 3 – DEFAULTS UPON SENIOR SECURITIES

None

Item 4 – MINE SAFETY DISCLOSURES

None

Item 5 – OTHER INFORMATION

As disclosed in the Company's 8-K filed on May 2, 2012, NBT's shareholders approved an amendment to its Restated Certificate of Incorporation to increase the total number of authorized shares of its common stock from 50,000,000 shares to 100,000,000 shares.

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Item 6 – EXHIBITS

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 By-laws 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 Registration'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 4.3 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 Split-Dollar Agreement dated May 9, 2011.

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets-March 31, 2012 and December 31, 2011; (ii) Unaudited Consolidated Statements of Income-Three months ended March 31, 2012 and 2011; (iii) Unaudited Consolidated Statements of Stockholder's Equity-Three months ended March 31, 2012 and 2011; (iv) Unaudited Consolidated Statements of Cash Flows-Three months ended March 31, 2012 and 2011; and (v) Notes to Unaudited Consolidated Financial Statements.**

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this 10th day of May 2012.

NBT BANCORP INC.

By: /s/ Michael J. Chewens
Michael J. Chewens, CPA
Senior Executive Vice President
Chief Financial Officer

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