NBT BANCORP INC
Form 10-Q
May 09, 2006

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, 2006.
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**

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 ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨

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

The number of shares outstanding of the Registrant’s common stock, without par value, was 34,376,927 at April 30, 2006.

NBT BANCORP INC.
FORM 10-Q--Quarter Ended March 31, 2006

TABLE OF CONTENTS

Table of Contents

NBT Bancorp Inc. and Subsidiaries **Consolidated Balance Sheets (unaudited)** (in thousands, except share and per share data)	**March 31, 2006**	December 31, 2005	March 31, 2005
ASSETS			
Cash and due from banks	**$ 123,593**	$ 134,501	$ 106,520
Short-term interest bearing accounts	**9,675**	7,987	5,783
Securities available for sale, at fair value	**1,112,118**	954,474	950,555
Securities held to maturity (fair value - $102,338, $93,701 and $87,407)	**102,754**	93,709	87,063
Federal Reserve and Federal Home Loan Bank stock	**37,962**	40,259	36,942
Loans and leases	**3,247,841**	3,022,657	2,898,187
Less allowance for loan and lease losses	**49,818**	47,455	45,389
Net loans	**3,198,023**	2,975,202	2,852,798
Premises and equipment, net	**67,889**	63,693	63,806
Goodwill	**102,692**	47,544	47,544
Other intangible assets, net	**13,632**	3,808	4,234
Bank owned life insurance	**40,535**	33,648	32,634
Other assets	**76,978**	71,948	67,560
TOTAL ASSETS	**$ 4,885,851**	$ 4,426,773	$ 4,255,439
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand (noninterest bearing)	**$ 618,531**	$ 593,422	$ 509,077
Savings, NOW, and money market	**1,546,840**	1,325,166	1,467,265
Time	**1,454,690**	1,241,608	1,192,585
Total deposits	**3,620,061**	3,160,196	3,168,927
Short-term borrowings	**329,702**	444,977	307,514
Trust preferred debentures	**75,422**	23,875	18,720
Long-term debt	**424,865**	414,330	394,500
Other liabilities	**50,047**	49,452	46,539
Total liabilities	**4,500,097**	4,092,830	3,936,200
Stockholders' equity:			
Common stock, $0.01 par value. Authorized 50,000,000 shares at March 31, 2006, December 31, 2005 and March 31, 2005; issued 36,459,560, 34,400,925 and 34,400,991 at March 31, 2006, December 31, 2005 and March 31, 2005, respectively	**365**	344	344
Additional paid-in-capital	**270,462**	219,157	218,167
Retained earnings	**170,330**	163,989	143,831
Unvested stock awards	**-**	(457)	(637)
Accumulated other comprehensive loss	**(12,210)**	(6,477)	(3,922)
Treasury stock at cost 2,126,450, 2,101,382 and 1,976,636 shares at March 31, 2006, December 31, 2005 and March 31, 2005, respectively	**(43,193)**	(42,613)	(38,544)
Total stockholders' equity	**385,754**	333,943	319,239
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 4,885,851**	$ 4,426,773	$ 4,255,439

See notes to unaudited interim consolidated financial statements.

Table of Contents

NBT Bancorp Inc. and Subsidiaries	Three months ended March 31,	
Consolidated Statements of Income (unaudited)	**2006**	2005
(in thousands, except per share data)		
Interest, fee and dividend income:		
Interest and fees on loans and leases	**$ 52,833**	$ 43,944
Securities available for sale	**11,877**	10,247
Securities held to maturity	**985**	803
Other	**611**	467
Total interest, fee and dividend income	**66,306**	55,461
Interest expense:		
Deposits	**17,225**	10,720
Short-term borrowings	**3,937**	1,861
Long-term debt	**4,142**	3,808
Trust preferred debentures	**883**	258
Total interest expense	**26,187**	16,647
Net interest income	**40,119**	38,814
Provision for loan and lease losses	**1,728**	1,796
Net interest income after provision for loan and lease losses	**38,391**	37,018
Noninterest income:		
Trust	**1,358**	1,252
Service charges on deposit accounts	**4,219**	3,929
ATM and debit card fees	**1,645**	1,400
Broker/dealer and insurance fees	**908**	1,352
Net securities losses	**(934)**	(4)
Bank owned life insurance income	**381**	333
Retirement plan administration fees	**1,231**	863
Other	**2,416**	1,586
Total noninterest income	**11,224**	10,711
Noninterest expenses:		
Salaries and employee benefits	**15,748**	15,451
Office supplies and postage	**1,181**	1,150
Occupancy	**2,988**	2,788
Equipment	**2,156**	2,096
Professional fees and outside services	**1,832**	1,675
Data processing and communications	**2,702**	2,658
Amortization of intangible assets	**323**	118
Loan collection and other real estate owned	**211**	401
Other operating	**3,331**	2,544
Total noninterest expenses	**30,472**	28,881
Income before income tax expense	**19,143**	18,848
Income tax expense	**5,555**	6,059
Net income	**$ 13,588**	$ 12,789
Earnings per share:		
Basic	**$ 0.41**	$ 0.39
Diluted	**$ 0.40**	$ 0.39

See notes to unaudited interim consolidated financial statements.

4

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Unaudited)

(in thousands, except per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Unvested Stock Awards	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at December 31, 2004	**$ 344**	**$ 218,012**	**$ 137,323**	**$ (296)**	**$ 4,989**	**$ (28,139)**	**$ 332,233**
Net income			12,789				12,789
Cash dividends - $0.19 per share			(6,210)				(6,210)
Purchase of 514,683 treasury shares						(11,897)	(11,897)
Issuance of 57,619 shares to employee benefit plans and other stock plans, including tax benefit		51	(71)			1,027	1,007
Grant of 24,675 shares of restricted stock awards		104		(569)		465	-
Amortization of restricted stock awards				228			228
Other comprehensive loss					(8,911)		(8,911)
Balance at March 31, 2005	**$ 344**	**$ 218,167**	**$ 143,831**	**$ (637)**	**$ (3,922)**	**$ (38,544)**	**$ 319,239**
Balance at December 31, 2005	**$ 344**	**$ 219,157**	**$ 163,989**	**$ (457)**	**$ (6,477)**	**$ (42,613)**	**$ 333,943**
Net income			13,588				13,588
Cash dividends - $0.19 per share			(6,550)				(6,550)
Purchase of 178,404 treasury shares						(4,055)	(4,055)
Issuance of 2,058,661 shares of common stock in connection with purchase business combination	21	48,604					48,625
Issuance of 237,278 incentive stock options in purchase transaction		1,955					1,955
2,500 shares of company stock in purchase transaction						(55)	(55)
		234	(697)			3,788	3,325

Issuance of 183,345 shares to employee benefit plans and other stock plans, including tax benefit							
Reclassification adjustment from the adoption of FAS123R, including 37,395 of restricted shares from issued common stock to treasury stock				457		(457)	-
Stock-based compensation		756					756
Issuance of 9,886 shares of vested restricted and deferred stock		(199)				199	-
Forfeit 2,625 shares of restricted stock		(45)					(45)
Other comprehensive loss					(5,733)		(5,733)
Balance at March 31, 2006	**$ 365**	**$ 270,462**	**$ 170,330**	**$ -**	**$ (12,210)**	**$ (43,193)**	**$ 385,754**

See notes to unaudited interim consolidated financial statements.

5

Table of Contents

NBT Bancorp Inc. and Subsidiaries	Three Months Ended March 31,	
Consolidated Statements of Cash Flows (unaudited)	**2006**	2005
(in thousands)		
Operating activities:		
Net income	**$ 13,588**	$ 12,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,728**	1,796
Depreciation of premises and equipment	**1,590**	1,573
Net amortization on securities	**135**	384
Amortization of intangible assets	**323**	118
Stock-based compensation	**711**	228
Tax benefit from the exercise of stock options	**-**	202
Bank owned life insurance income	**(381)**	(333)
Proceeds from sale of loans held for sale	**8,837**	1,185
Origination of loans held for sale	**(6,957)**	(730)
Net (gains) losses on sale of loans	**(60)**	5
Net gain on sale of other real estate owned	**(60)**	(43)
Net gain on sale of branch	**(470)**	-
Net security losses	**934**	4
Net decrease in other assets	**6,025**	4,816
Net increase in other liabilities	**(2,199)**	(7,675)
Net cash provided by operating activities	**23,744**	14,319
Investing activities:		
Securities available for sale:		
Proceeds from maturities	**45,451**	37,054
Proceeds from sales	**42,292**	27,868
Purchases	**(108,488)**	(78,128)
Securities held to maturity:		
Proceeds from maturities	**11,013**	8,882
Purchases	**(11,837)**	(14,180)
Net purchases (sales) of FRB and FHLB stock	**2,297**	(100)
Net cash paid in sale of branch	**(2,307)**	-
Net cash used in CNB Bancorp, Inc. merger	**(20,770)**	-
Cash paid for the acquisition of EPIC Advisor's, Inc.	**-**	(6,129)
Cash received for the sale of M. Griffith Inc.	**-**	1,016
Net increase in loans	**(38,054)**	(30,170)
Purchase of premises and equipment, net	**(599)**	(1,445)
Proceeds from sales of other real estate owned	**210**	138
Net cash used in investing activities	**(80,792)**	(55,194
Financing activities:		
Net increase in deposits	**130,856**	95,089
Net decrease in short-term borrowings	**(115,275)**	(31,309)
Repayments of long-term debt	**(12,020)**	(23)
Proceeds from the issuance of trust preferred debentures	**51,547**	-
Proceeds from issuance of treasury shares to employee benefit plans and other stock plans	**3,012**	805
Tax benefit from the exercise of stock options	**313**	-
Purchase of treasury stock	**(4,055)**	(11,897)

Cash dividends		**(6,550)**		(6,210)
Net cash provided by financing activities		**47,828**		46,455
Net (decrease) increase in cash and cash equivalents		**(9,220)**		5,580
Cash and cash equivalents at beginning of period		**142,488**		106,723
Cash and cash equivalents at end of period	**$**	**133,268**	$	112,303

Table of Contents

Consolidated Statements of Cash Flows, Continued	Three Months Ended March 31,			
Supplemental disclosure of cash flow information:		**2006**		2005
Cash paid during the period for:				
Interest	**$**	**24,820**	$	16,608
Income taxes		**-**		443
Cash received during the period for:				
Income taxes		**449**		-
Noncash investing activities:				
Loans transferred to OREO	**$**	**164**	$	105
Dispositions:				
Fair value of assets sold	**$**	**3,453**	$	1,405
Fair value of liabilities transferred		**5,760**		389
Acquisitions:				
Fair value of assets acquired	**$**	**431,943**	$	6,565
Fair value of liabilities assumed		**360,648**		435
Net cash and cash equivalents used in merger		**20,770**		-
Fair value of equity acquired		**50,525**		-

See notes to unaudited interim consolidated financial statements.

Table of Contents

Consolidated Statements of Comprehensive Income (unaudited) (in thousands)	Three months ended March 31, **2006**	2005
Net income	**$ 13,588**	$ 12,789
Other comprehensive income, net of tax		
Unrealized holding losses arising during period [pre-tax amounts of $10,089 and $14,827]	**(6,065)**	(8,913)
Minimum pension liability adjustment	**(229)**	-
Less: Reclassification adjustment for net losses included in net income [pre-tax amounts of $934 and $4]	**561**	2
Total other comprehensive loss	**(5,733)**	(8,911)
Comprehensive income	**$ 7,855**	$ 3,878

See notes to unaudited interim consolidated financial statements.

8

Table of Contents

NBT BANCORP INC. and Subsidiary
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006

Note 1. Description of Business

NBT Bancorp Inc. (the Company or 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 Company is the parent holding company of NBT Bank, N.A. (the Bank), NBT Financial Services, Inc. (NBT Financial), Hathaway Insurance Agency, Inc., CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II. Through these subsidiaries, the Company operates as one segment focused on community banking operations. The Company's primary business consists of providing commercial banking and financial services to its customers in its market area. The principal assets of the Company are all of the outstanding shares of common stock of its direct subsidiaries, and its principal sources of revenue are the management fees and dividends it receives from the Bank and NBT Financial.

The Bank is a full service commercial bank formed in 1856, which provides a broad range of financial products to individuals, corporations and municipalities throughout the central and upstate New York and northeastern Pennsylvania market area. The Bank conducts business through two operating divisions, NBT Bank and Pennstar Bank.

Note 2. Basis of Presentation

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

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 during the three months ended March 31, 2006. These three statutory business trusts are collectively referred here in as "the Trusts". The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities (VIEs) for which the Company is not the primary beneficiary, as defined in Financial Accounting Standards Board Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003 (FIN 46R))." In accordance with FIN 46R, which was implemented in the first quarter of 2004, the accounts of the Trusts are not included in the Company's consolidated financial statements.

Note 3. New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard 155 - Accounting for Certain Hybrid Financial Instruments ("SFAS 155"), which eliminates the exemption from applying SFAS 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS 155 also allows the election of fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event.

Adoption is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. Early adoption is permitted. The adoption of SFAS 155 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Table of Contents

In March 2006, the FASB issued Statement of Financial Accounting Standard 156 - Accounting for Servicing of Financial Assets ("SFAS 156"), which requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. Adoption is required as of the beginning of the first fiscal year that begins after September 15, 2006. Early adoption is permitted. The adoption of SFAS 156 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Note 4. Business Combination

On February 10, 2006, the Company completed the acquisition through merger of CNB Bancorp, Inc. ("CNB"). CNB was a bank holding company for City National Bank and Trust Company ("CNB Bank") and Hathaway Insurance Agency, Inc. ("Hathaway"), headquartered in Gloversville, NY. CNB Bank conducted business from nine community bank offices in four upstate New York counties—Fulton, Hamilton, Montgomery and Saratoga. The stockholders of CNB received approximately $39 million in cash and 2,058,661 shares of NBT common stock. The aggregate transaction value was approximately $89.0 million. The transaction was accounted for under the purchase method of accounting. CNB had total assets of $399.0 million, loans of $197.6 million, deposits of $335.0 million and shareholders equity of $40.1 million. CNB was merged with and into the Company, CNB Bank was merged with and into NBT Bank and Hathaway is a direct subsidiary of the Company. The results of operations are included in the consolidated financial statements from the date of acquisition, February 10, 2006.

Note 5. Use of Estimates

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

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

The allowance for loan and lease losses related to impaired loans is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Company's impaired loans are generally collateral dependent. The Company considers the estimated cost to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

Table of Contents

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

Other real estate owned (OREO) consists of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are recorded at the lower of fair value of the asset acquired less estimated costs to sell or “cost” (defined as the fair value at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any of the loan over the fair value of the assets received, less estimated selling costs, is charged to the allowance for loan and lease losses and any subsequent valuation write-downs are charged to other expense. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the requirements prescribed by GAAP.

Income taxes are accounted for under the asset and liability method. The Company files consolidated tax returns on the accrual basis. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at March 31, 2006 and 2005. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Note 6. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policy to make such commitments as it uses for on-balance-sheet items. At both March 31, 2006, and December 31, 2005, commitments to extend credit and unused lines of credit totaled $497.1 million. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management’s credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Standby letters of credit totaled $43.1 million at March 31, 2006 and $42.9 million at December 31, 2005. As of March 31, 2006, the fair value of standby letters of credit was not material to the Company’s consolidated financial statements.

Table of Contents

Note 7. 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).

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, (in thousands, except per share data)		**2006**		2005
Basic EPS:				
Weighted average common shares outstanding		**33,422**		32,674
Net income available to common shareholders	**$**	**13,588**	$	12,789
Basic EPS	**$**	**0.41**	$	0.39
Diluted EPS:				
Weighted average common shares outstanding		**33,422**		32,674
Dilutive potential common stock		**324**		303
Weighted average common shares and common Share equivalents		**33,746**		32,977
Net income available to common shareholders	**$**	**13,588**	$	12,789
Diluted EPS	**$**	**0.40**	$	0.39

There were 375,211 stock options for the quarter ended March 31, 2006 and 339,179 stock options for the quarter ended March 31, 2005 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 8. Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", ("FAS 123R") using the modified-prospective transition method. Under this transition method, compensation cost in 2006 includes costs for stock options granted prior to but not vested as of December 31, 2005, and options vested in 2006. Therefore results for prior periods have not been restated.

The adoption of FAS 123R lowered net income by approximately $0.4 million for the three months ended March 31, 2006, compared to if we had continued to account for share-based compensation under APB No. 25, Accounting for Stock Issued to Employees.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FAS 123 during the period presented. For the purpose of this pro forma disclosure, the value of options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options vesting periods.

12

Table of Contents

(in thousands, except per share data)		Three months ended March 31, 2005
Net income, as reported	$	12,789
Add: Stock-based compensation expense included in reported net income, net of related tax effects		137
Less: Stock-based compensation expense determined under fair value method for all awards, net of related tax effects		(315)
Pro forma net income	$	12,611
Net income per share:		
Basic - as reported	$	0.39
Basic - Pro forma	$	0.39
Diluted - as reported	$	0.39
Diluted - Pro forma	$	0.38

As of March 31, 2006, there was approximately $3.3 million of unrecognized compensation cost related to unvested share-based stock option awards granted. That cost is expected to be recognized over the next four years.

In November 2005, the FASB issued Staff Position No. FAS 123(R)-3 ("FSP 123R-3"), Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. FSP 123R-3 provides an elective alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R. Companies may take up to one year from the effective date of FSP 123R-3 to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is currently in the process of evaluating the alternative methods.

Options are granted to certain employees and directors at prices equal to the market value of the stock on the dates the options were granted. The options granted have a term of ten years from the grant date and granted options for employees vest in the following manner: 40% in the first year and 20% per year for the subsequent three years. Generally, the fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. Prior to the adoption of FAS 123(R), options granted to retirement eligible employees were expensed over the nominal vesting period on a pro forma basis. Beginning on January 1, 2006, options granted to retirement eligible employees are expensed in full on the date of grant. The impact of this change was not material. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes pricing valuation model. The application of this valuation model involves assumptions that are judgmental and sensitive in the determination of compensation expense. The weighted average for key assumptions used in determining the fair value of options granted during the three months ended March 31, 2006 follows:

	Three months ended March 31, 2006
Dividend Yield	3.28% - 3.52%
Expected Volatility	28.41% - 28.62%
Risk-free interest rate	4.36% - 4.58%
Expected life	7 years

13

Table of Contents

Historical information was the primary basis for the selection of the expected volatility, expected dividend yield and the expected lives of the options. The risk-free interest rate was selected based upon yields of the U.S. treasury issues with a term equal to the expected life of the option being valued.

Stock option activity during the three months ended March 31, 2006 is as follows:

	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (in yrs)**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2006	1,916,624	$ 18.79		
Granted	287,548	$ 22.36		
Issued in connection with the CNB transaction	237,278	$ 16.76		
Exercised	(183,345)	$ (16.32)		
Lapsed	(22,641)	$ 21.82		
Outstanding at March 31, 2006	2,235,464	$ 19.21	6.65	$ 9,049,756
Exercisable at March 31, 2006	1,556,578	$ 17.94	5.68	$ 8,272,917

The fair market value of stock options granted for the three months ended March 31, 2006, was $5.21. Total stock-based compensation expense for stock option awards totaled $0.7 million for the three months ended March 31, 2006. The amount of stock-based compensation expensed deferred under FAS 91 “Accounting for Nonrefundable Fee and Costs Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases” was less than $0.1 million for the three months ended March 31, 2006. Cash proceeds, tax benefits and intrinsic value related to total stock options exercised is as follows:

	Three months ended	
(dollars in thousands)	**March 31, 2006**	March 31, 2005
Proceeds from stock option exercised	$ 3,012	$ 805
Tax benefits related to stock options exercised	313	202
Intrinsic value of stock options exercised	1,191	506

The Company has outstanding restricted and deferred stock awards granted from various plans at March 31, 2006. The Company recognized $0.1 million in stock-based compensation expense related to these stock awards for the three months ended March 31, 2006 and $0.2 million for the three months ended March 31, 2005. Unrecognized compensation cost related to restricted stock awards totaled $0.8 million at March 31, 2006. The following table summarizes information for unvested restricted stock awards outstanding as of March 31, 2006:

Table of Contents

	Number of Shares		Weighted-Average Grant Date Fair Value
Unvested Restricted Stock Awards			
Unvested at start of quarter	37,935	$	21.46
Forefited	(2,625)	$	23.04
Vested	(9,886)	$	20.26
Granted	29,817	$	21.74
Unvested at end of quarter	55,241	$	21.75

As of March 31, 2006, the Company's Employee and Non-Employee Stock Option Plans had 1,128,799 options available for grant; the Company's Directors & Deferred Stock Plan had 147,777 shares available for grant; The Company's Performance Share Plan had 252,750 shares available for grant; the Employees Stock Purchase Plan had 403,279 shares available for issuance.

Note 9. Goodwill and Intangible Assets

A summary of goodwill by operating subsidiaries follows:

(in thousands)		January 1, 2005		Goodwill Acquired		Goodwill Disposed		March 31, 2005
NBT Bank, N.A.	$	44,520		-		-	$	44,520
NBT Financial Services, Inc.		1,050		3,024		1,050		3,024
Total	$	45,570	$	3,024	$	1,050	$	47,544

(in thousands)		January 1, 2006		Goodwill Acquired		Goodwill Disposed		March 31, 2006
NBT Bank, N.A.	$	44,520		54,934		-	$	99,454
NBT Financial Services, Inc		3,024		-		-		3,024
Hathaway Agency, Inc.		-		214		-		214
Total	$	47,544	$	55,148	$	-	$	102,692

In February 2006, the Company acquired CNB. The acquisition resulted in increases to goodwill of $55.1 million, core deposit intangibles of $9.6 million and other intangibles of $0.5 million. The core deposit intangibles will be amortized over ten years.

In January 2005, the Company acquired EPIC Advisors, Inc., a 401(k) record keeping firm located in Rochester, NY. In that transaction, the Company recorded customer relationship intangible assets of $2.1 million and non-compete provision intangible assets of $0.2 million, which have amortization periods of 13 years and 5 years, respectively. Also in connection with the acquisition, the Company recorded $3.0 million in goodwill.

In March 2005, the Company sold its broker/dealer subsidiary, M. Griffith Inc. In connection with the sale of M. Griffith Inc., goodwill was reduced by $1.1 million and was allocated against the sales price. In the fourth quarter of 2004, the Company recorded a $2.0 million goodwill impairment charge in connection with the above mentioned sale. A definitive agreement was signed by the Company and the acquirer in the fourth quarter of 2004. The negotiation and resolution of sale terms for M. Griffith Inc. during the fourth quarter of 2004 resulted in the goodwill impairment charge in that same quarter.

15

The Company has finite-lived intangible assets capitalized on its consolidated balance sheet in the form of core deposit and other intangible assets. These intangible assets continue to be amortized over their estimated useful lives, which range from one to twenty-five years.

A summary of core deposit and other intangible assets follows:

	March 31, 2006	2005
(in thousands)		
Core deposit intangibles:		
Gross carrying amount	**$ 11,806**	$ 2,186
Less: accumulated amortization	**1,924**	1,388
Net Carrying amount	**9,882**	798
Other intangibles:		
Gross carrying amount	**4,164**	3,197
Less: accumulated amortization	**779**	278
Net Carrying amount	**3,385**	2,919
Other intangibles not subject to amortization: Pension asset	**365**	517
Total intangibles with definite useful lives:		
Gross carrying amount	**16,335**	5,900
Less: accumulated amortization	**2,703**	1,666
Net Carrying amount	**$ 13,632**	$ 4,234

Amortization expense on finite-lived intangible assets is expected to total $1.3 million for the remainder of 2006, $1.7 million for 2007, $1.4 million for each of 2008, 2009 and 2010, and $6.5 million thereafter.

Note 10. Defined Benefit Pension Plan and Postretirement Health Plan

The Company maintains a qualified, noncontributory, defined benefit pension plan covering substantially all employees. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company’s policy is to fund the pension plan in accordance with ERISA standards. In addition, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees’ active service period. Only employees that were employed by NBT Bank, N.A. on or before January 1, 2000 are eligible to receive postretirement health care benefits. The Company funds the cost of the postretirement health plan as benefits are paid.

16

Table of Contents

The Components of pension expense and postretirement expense are set forth below (in thousands):

	Three months ended March 31,			
Pension plan:		2006		2005
Service cost	$	502	$	469
Interest cost		539		561
Expected return on plan assets		(905)		(947)
Net amortization		179		374
Total	$	315	$	457

Postretirement Health Plan:		2006		2005
Service cost	$	1	$	9
Interest cost		51		67
Net amortization		(24)		(15)
Total	$	28	$	61

Note 11. Trust Preferred Debentures

As of March 31, 2006, the CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (“the Trusts”), all wholly-owned unconsolidated subsidiaries of the Company, had the following Trust Preferred Securities outstanding and the Company had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

Description	Issuance Date	Trust Preferred Securities Outstanding		Interest Rate	Trust Preferred Debt Owed To Trust		Final Maturity date
CNBF Capital Trust I	August-99	$	18,000	3-month LIBOR plus 2.75%	$	18,720	August-29
NBT Statutory Trust I	November-05		5,000	6.30% Fixed		5,155	December-35
NBT Statutory Trust II	February-06		50,000	6.195% Fixed		51,547	March-36

The Company owns all of the common stock of the three business trusts, which have issued trust preferred securities in conjunction with the Company and issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities. In February 2005, the Federal Reserve Board issued a final rule that allows the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies. The Board’s final rule limits the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Large, internationally active bank holding companies (as defined) are subject to a 15% limitation. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier

2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits. The Corporation does not expect that the quantitative limits will preclude it from including the trust preferred securities in Tier 1 capital. However, the trust preferred securities could be redeemed without penalty if they were no longer permitted to be included in Tier 1 capital.

Table of Contents

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

The purpose of this discussion and analysis is to provide the reader with a concise description of the financial condition and results of operations of NBT Bancorp Inc. (Bancorp) and its wholly owned subsidiaries, NBT Bank, N.A. (NBT), Hathaway Insurance Agency, Inc. and NBT Financial Services, Inc. (collectively referred to herein as the Company). This discussion will focus on Results of Operations, Financial Position, Capital Resources and Asset/Liability Management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's 2005 Form 10-K for an understanding of the following discussion and analysis.

FORWARD LOOKING STATEMENTS

Certain statements in this filing and future filings by the Company with the Securities and Exchange Commission, in the Company’s press releases or other public or shareholder communications, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act. These statements may be identified by the use of phrases such as “anticipate,” “believe,” “expect,” “forecasts,” “projects,” or other similar terms. There are a number of factors, many of wh are beyond the Company’s control that could cause actual results to differ materially from those contemplated by the forward looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) revenues may be lower than expected; (3) changes in the interest rate environment may effect 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; (11) the Company may fail to realize projected cost savings, revenue enhancements and the accretive effect of the CNB acquisition on our earnings; and (12) the Company’s success in managing the risks involved in the foregoing.

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

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

Critical Accounting Policies

Management of the Company considers the accounting policy relating to the allowance for loan and lease losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan and lease portfolio and the material effect that such judgments can have on the results of operations. While management’s current evaluation of the allowance for loan and lease losses indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance would need to be increased.

For example, if historical loan and lease loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan and lease losses would be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Company’s non-performing loans and potential problem loans has a significant impact on the overall analysis of the adequacy of the allowance for loan and lease losses. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Company’s allowance for loan and lease policy would also require additional provisions for loan and lease losses.

Table of Contents

Management of the Company considers the accounting policy relating to pension accounting to be a critical accounting policy. Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected rate of return on plan assets, the discount rate, and the rate of increase in future compensation levels. Changes to these assumptions could impact earnings in future periods. The Company takes into account the plan asset mix, funding obligations, and expert opinions in determining the various rates used to estimate pension expense. The Company also considers the Moody’s AA and AAA corporate bond yields and other market interest rates in setting the appropriate discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the rate of increase in future compensation levels. While differences in these rate assumptions could alter pension expense, given not only past history, it is not expected that such estimates could adversely impact pension expense.

Overview

The Company earned net income of $13.6 million ($0.40 diluted earnings per share) for the three months ended March 31, 2006 compared to net income of $12.8 million ($0.39 diluted earnings per share) for the three months ended March 31, 2005. The quarter to quarter increase in net income from 2006 to 2005 was primarily the result of increases in net interest income of $1.3 million, noninterest income of $0.5 million and a decrease in income tax expense of $0.5 million partially offset by an increase in total noninterest expense of $1.6 million. The increase in net interest income resulted primarily from 9% growth in average loans during the three months ended March 31, 2006 compared to the same period in 2005 (driven by the CNB acquisition and organic loan growth). Included in noninterest income for the three months ended March 31, 2006 were $0.9 million in net losses from investment securities sales and a $0.5 million gain from a sale of branch in March 2006. Excluding the effect of these transactions for the three months ended March 31, 2006, noninterest income increased $1.0 million or 9% compared to the same period in 2005. The increase in noninterest income resulted from increases in service charges on deposit accounts, ATM and debit card fees, retirement plan administration fees and other income partially offset by a decline commission and advisory fees (from the sale of M. Griffith in March 2005). The decrease in income tax expense resulted from a $0.5 million settlement from a tax refund claim. The increase in total noninterest expense was due primarily to increases in salaries and employee benefits, occupancy expense, amortization of intangible assets and other operating expenses.

Table of Contents

Table 1 depicts several annualized measurements of performance using GAAP net income. Returns on average assets and equity measure how effectively an entity utilizes its total resources and capital, respectively. Net interest margin, which is the net federal taxable equivalent (FTE) interest income divided by average earning assets, is a measure of an entity's ability to utilize its earning assets in relation to the cost of funding. Interest income for tax-exempt securities and loans is adjusted to a taxable equivalent basis using the statutory Federal income tax rate of 35%.

Table 1 Performance Measurements	
2006	**First Quarter**
Return on average assets (ROAA)	**1.18%**
Return on average equity (ROE)	**15.11%**
Net interest margin (Federal taxable equivalent)	**3.86%**
2005	
Return on average assets (ROAA)	1.23%
Return on average equity (ROE)	15.74%
Net interest margin (Federal taxable equivalent)	4.09%

Net Interest Income

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

Federal taxable equivalent (FTE) net interest income increased $1.5 million during the three months ended March 31, 2006 compared to the same period of 2005. The increase in FTE net interest income resulted primarily from 10% growth in average earning assets. The Company’s interest rate spread declined 38 bp during the three months ended March 31, 2006 compared to the same period in 2005. The yield on earning assets for the period increased 51 bp to 6.31% for the three months ended March 31, 2006 from 5.80% for the same period in 2005. Meanwhile, the rate paid on interest-bearing liabilities increased 89 bp, to 2.91% for the three months ended March 31, 2006 from 2.02% for the same period in 2005.

Total FTE interest income for the three months ended March 31, 2006 increased $11.0 million compared to the same period in 2005, a result of the previously mentioned increase in average earning assets as well as the increase in yield on earning assets of 51 bp. The growth in earning assets during the period was driven primarily by the CNB acquisition and organic loan growth. Average securities available for sale increased $101.5 million or 11%, mainly from the CNB acquisition, which increased average securities available for sale by $81.2 million for the three months ended March 31, 2006. Average loans and leases increased $270.3 million or 9%, driven mainly by loans acquired from the CNB transaction of $103.2 million and organic loan growth of $167.1 million or 6%. The increase in the yield on earning assets can be primarily attributed to variable rate earning assets that are tied to the Prime lending rate, which increased 200 bp since March 31, 2005.

Table of Contents

During the same time period, total interest expense increased $9.5 million, primarily the result of the previously mentioned 200 bp increase in the Federal Funds rate since March 31, 2005, which impacts the Company's short-term borrowing, money market account and time deposit rates. Additionally, average interest-bearing liabilities increased $309.7 million for the three months ended March 31, 2006 when compared to the same period in 2005, principally from deposits assumed from the CNB transaction and increases in short-term borrowings and trust preferred debentures. Total average interest-bearing deposits increased $205.3 million for the three months ended March 31, 2006 when compared to the same period in 2005. The rate paid on average interest-bearing deposits increased 82 bp from 1.67% for the three months ended March 31, 2005 to 2.49% for the same period in 2006. The increase in interest-bearing deposits resulted primarily from the previously mentioned deposits assumed from the CNB transaction, which increased average interest bearing deposits $153.3 million for the three months ended March 31, 2006 as compared to the same period in 2005. Excluding the effects of the CNB transaction, the Company experienced a shift in its deposit mix from savings and NOW accounts to money market and time deposit accounts, as interest sensitive customers shifted funds into higher paying interest bearing accounts. Excluding the CNB transaction, savings and NOW accounts collectively decreased $98.8 million and money market and time deposit accounts collectively increased $150.7 million (time deposits was the primary driver of the increase). If short-term rates continue to rise, the Company anticipates that this trend will continue placing greater pressure on the net interest margin.

Total borrowings, including trust preferred debentures increased $104.4 million for the three months ended March 31, 2006 compared with the same period in 2005, primarily from loan growth exceeding deposit growth and funding the cash portion of the CNB transaction. Average short-term borrowings increased $41.9 million for the three months ended March 31, 2006, compared with the same period in 2005, principally from the previously mentioned loan growth that exceeded deposit growth during this same period. Interest expense from short-term borrowings increased $2.1 million, driven by the above mentioned increase in the average balance as well as an increase in rate from 2.29% for the three months ended March 31, 2005 to 4.30% for the same period in 2006 (due to increases in short-term rates). Trust preferred debentures increased $34.9 million for the three months ended March 31, 2006, compared with the same period in 2005, primarily from the issuance of $51.5 million in trust preferred debentures in February 2006 to fund the cash portion of the CNB transaction and to provide regulatory capital. The rate paid on trust preferred debentures increased to 6.68% for the three months ended March 31, 2006, compared with 5.60% for the same period in 2005, driven primarily by $51.5 million in trust preferred debentures issued in February 2006 with a fixed rate of 6.195% and $18.7 million in trust preferred debentures that reprice quarterly at 3-month LIBOR plus 275 bp (3-month LIBOR is up approximately 200 bp).

Another important performance measurement of net interest income is the net interest margin. Despite a 38 bp decrease in the Company's net interest spread, the net interest margin only declined by 23 bp to 3.86% for the three months ended March 31, 2006, compared with 4.09% for the same period in 2005. The Company thus far has mitigated some of the margin pressure by growing noninterest bearing demand deposit accounts. Average demand deposits are up $85.6 million or 17% for the three months ended March 31, 2006, compared to the same period in 2005. This increase was driven mainly by the CNB transaction, which accounted for $25.1 million of the increase and strong organic growth of $60.5 million (12% growth). Sustaining the growth rate for noninterest bearing demand deposits will be key factor in mitigating anticipated margin pressure from rising deposit costs.

Table of Contents

Table 2
Average Balances and Net Interest Income
The following table includes the condensed consolidated average balance sheet, an analysis of interest income/expense and average yield/rate for each major category of earning assets and interest bearing liabilities on a taxable equivalent basis. Interest income for tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory Federal income tax rate of 35%.

	Three months ended March 31,					
	2006			2005		
(dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	Average Balance	Interest	Yield/ Rates
ASSETS						
Short-term interest bearing accounts	**$ 7,742**	**$ 78**	**4.09%**	$ 6,578	$ 39	2.41%
Securities available for sale (2)	**1,054,370**	**12,437**	**4.79%**	952,848	10,774	4.59%
Securities held to maturity (2)	**97,347**	**1,464**	**6.11%**	84,783	1,175	5.63%
Investment in FRB and FHLB Banks	**40,549**	**533**	**5.34%**	36,535	429	4.77%
Loans (1)	**3,147,115**	**53,016**	**6.84%**	2,876,853	44,076	6.22%
Total earning assets	**4,347,123**	**67,528**	**6.31%**	3,957,597	56,493	5.80%
Other assets	**319,040**			280,030		
Total assets	**$ 4,666,163**			4,237,627		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Money market deposit accounts	**$ 451,822**	**$ 3,239**	**2.91%**	$ 416,774	$ 1,451	1.41%
NOW deposit accounts	**431,503**	**646**	**0.61%**	451,453	512	0.46%
Savings deposits	**545,754**	**1,076**	**0.80%**	572,475	976	0.69%
Time deposits	**1,380,617**	**12,264**	**3.61%**	1,163,739	7,781	2.71%
Total interest bearing deposits	**2,809,696**	**17,225**	**2.49%**	2,604,441	10,720	1.67%
Short-term borrowings	**371,632**	**3,937**	**4.30%**	329,726	1,861	2.29%
Trust preferred debentures	**53,658**	**883**	**6.68%**	18,720	258	5.60%
Long-term debt	**422,097**	**4,142**	**3.98%**	394,513	3,808	3.92%
Total interest bearing liabilities	**3,657,083**	**26,187**	**2.91%**	3,347,400	16,647	2.02%
Demand deposits	**591,087**			505,457		
Other liabilities	**52,978**			54,823		
Stockholders' equity	**365,015**			329,947		
Total liabilities and stockholders' equity	**4,666,163**			4,237,627		
Net interest income (FTE basis)		**41,341**			39,846	
Interest rate spread			**3.40%**			3.78%
Net interest margin			**3.86%**			4.09%

Taxable equivalent adjustment	**1,222**	1,032
Net interest income	**$ 40,119**	$ 38,814

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

(2) Securities are shown at average amortized cost.

22

Table of Contents

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.

Table 3
Analysis of Changes in Taxable Equivalent Net Interest Income
Three months ended March 31,

	Increase (Decrease) 2006 over 2005		
(in thousands)	**Volume**	**Rate**	**Total**
Short-term interest bearing accounts	**$ 8**	**$ 31**	**$ 39**
Securities available for sale	**1,183**	**480**	**1,663**
Securities held to maturity	**184**	**105**	**289**
Investment in FRB and FHLB Banks	**50**	**54**	**104**
Loans	**434**	**4,599**	**5,033**
Total FTE interest income	**5,819**	**5,216**	**11,035**
Money market deposit accounts	**132**	**1,656**	**1,788**
NOW deposit accounts	**(24)**	**158**	**134**
Savings deposits	**(47)**	**147**	**100**
Time deposits	**1,623**	**2,860**	**4,483**
Short-term borrowings	**263**	**1,813**	**2,076**
Trust preferred debentures	**566**	**59**	**625**
Long-term debt			