

NBT BANCORP INC  
Form 10-K  
March 01, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

COMMISSION FILE NUMBER: 0-14703

NBT BANCORP INC.

(Exact name of registrant as specified in its charter)

Delaware

16-1268674

(State or other jurisdiction of incorporation or  
organization)

(IRS Employer Identification No.)

52 SOUTH BROAD STREET  
NORWICH, NEW YORK 13815

(Address of principal executive office) (Zip Code)

(607) 337-2265 (Registrant's telephone number, including area code)

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

Title of each class:	Name of each exchange on which registered:
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC
Stock Purchase Rights Pursuant to Stockholders Rights Plan	

Securities registered pursuant to section 12(g) of the Act: None

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

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

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 (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive

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proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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.

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

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

Based on the closing price of the registrant’s common stock as of June 30, 2012, the aggregate market value of the voting stock, common stock, par value, \$0.01 per share, held by non-affiliates of the registrant is \$688,194,085.

The number of shares of common stock outstanding as of February 15, 2013, was 33,795,298.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 7, 2013 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

NBT BANCORP INC.  
FORM 10-K – Year Ended December 31, 2012

TABLE OF CONTENTS

PART I

ITEM 1	<u>BUSINESS</u>	5
ITEM 1A	<u>RISK FACTORS</u>	19
ITEM 1B	<u>UNRESOLVED STAFF COMMENTS</u>	27
ITEM 2	<u>PROPERTIES</u>	28
ITEM 3	<u>LEGAL PROCEEDINGS</u>	29
ITEM 4	<u>MINE SAFETY DISCLOSURES</u>	29

PART II

ITEM 5	<u>MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	29
ITEM 6	<u>SELECTED FINANCIAL DATA</u>	32
ITEM 7	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	34
ITEM 7A	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	60
ITEM 8	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	62
	<u>Report of Independent Registered Public Accounting Firm</u>	62
	<u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>	63
	<u>Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2012</u>	64
	<u>Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2012</u>	65
	<u>Consolidated Statements of Changes in Stockholders’ Equity for each of the years in the three-year period ended December 31, 2012</u>	66
	<u>Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2012</u>	67
	<u>Notes to Consolidated Financial Statements</u>	69
ITEM 9	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	124



Table of Contents

ITEM 9A	<u>CONTROLS AND PROCEDURES</u>	124
ITEM 9B	<u>OTHER INFORMATION</u>	126
PART III		
ITEM 10	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	126
ITEM 11	<u>EXECUTIVE COMPENSATION</u>	127
ITEM 12	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	127
ITEM 13	<u>CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	127
ITEM 14	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	127
PART IV		
ITEM 15	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	128
	<u>SIGNATURES</u>	131

Table of Contents

## PART I

## ITEM 1. Business

NBT Bancorp Inc. (the “Registrant” or the “Company”) is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Company, on a consolidated basis, at December 31, 2012 had assets of \$6.0 billion and stockholders’ equity of \$582.3 million. Return on average assets and return on average equity were 0.93% and 9.72%, respectively, for the year ending December 31, 2012. The Company had net income of \$54.6 million or \$1.62 per diluted share for 2012 and the fully taxable equivalent (“FTE”) net interest margin was 3.86% for the same year.

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

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

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

	Interest Income	%	Noninterest Income	%	Total Revenue	%
New York	55	%	27	%	82	%
Pennsylvania	7	%	4	%	11	%
New Hampshire	2	%	0	%	2	%
Vermont	3	%	0	%	3	%
Massachusetts	1	%	1	%	2	%
	68	%	32	%	100	%

Table of Contents

	Commercial		Consumer		Residential Real Estate		Total Loan Portfolio	
New York	35	%	30	%	10	%	75	%
Pennsylvania	5	%	6	%	3	%	14	%
New Hampshire	4	%	0	%	1	%	5	%
Vermont	3	%	1	%	1	%	5	%
Massachusetts	0	%	1	%	0	%	1	%
	47	%	38	%	15	%	100	%

	Secured By Real Estate		Not Secured By Real Estate	
New York	55	%(a)	45	%
Pennsylvania	69	%(b)	31	%
New Hampshire	86	%(c)	14	%
Vermont	55	%(d)	45	%
Massachusetts	80	%(e)	20	%

- (a) Loans secured by real estate primarily in central and upstate New York
- (b) Loans secured by real estate primarily in northeastern Pennsylvania
- (c) Loans secured by real estate primarily in southern New Hampshire
- (d) Loans secured by real estate primarily in the Burlington, Vermont area
- (e) Loans secured by real estate primarily in western Massachusetts

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

On June 8, 2012, the Company acquired all of the outstanding common shares of Hampshire First Bank ("Hampshire First"). The five banking centers operated by Hampshire First located in Manchester, Londonderry, Nashua, Keene and Portsmouth, New Hampshire continue to do business under the Hampshire First name as a division of the Bank. This business combination is a strategic extension of the Company's franchise.

On October 7, 2012, the Company and Alliance Financial Corporation ("Alliance") entered into a definitive agreement and plan of merger pursuant to which Alliance will merge with and into NBT Bancorp, with NBT Bancorp continuing as the surviving corporation. The agreement also provides for Alliance Bank, National Association, a wholly owned subsidiary of Alliance, to be merged with and into the Bank following completion of the merger. Alliance, with assets of approximately \$1.4 billion at December 31, 2012, is headquartered in Syracuse, New York. Its primary subsidiary, Alliance Bank, National Association, is a nationally chartered community bank with 26 banking locations in central New York. The transaction is valued at approximately \$233.4 million, to be paid in the form of shares of the Company's common stock. Subject to the required approvals of NBT Bancorp and Alliance shareholders, requisite regulatory approvals (which were received in the first quarter of 2013) and other customary closing conditions, the merger is expected to be completed in March 2013.





Table of Contents

NBT Bank, N.A.

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

Through its network of branch locations, the Bank offers a wide range of products and services tailored to individuals, businesses, and municipalities. Deposit products offered by the Bank include demand deposit accounts, savings accounts, negotiable order of withdrawal (“NOW”) accounts, money market deposit accounts (“MMDA”), and certificate of deposit (“CD”) accounts. The Bank offers various types of each deposit account to accommodate the needs of its customers with varying rates, terms, and features. Loan products offered by the Bank include consumer loans, home equity loans, mortgages, small business loans and commercial loans, with varying rates, terms and features to accommodate the needs of its customers. The Bank also offers various other products and services through its branch network such as trust and investment services and financial planning and life insurance services. In addition to its branch network, the Bank also offers access to certain products and services online enabling customers to check balances, transfer funds, pay bills, view statements, apply for loans and access various other product and service information. The Bank provides 24-hour access to an automated telephone line whereby customers can check balances, obtain interest information, transfer funds, request statements, and perform various other activities.

The Bank conducts business through three geographic divisions, NBT Bank, Pennstar Bank, and Hampshire First Bank. At year end 2012, the NBT Bank division had 95 divisional offices and 115 automated teller machines (ATMs), located primarily in central and upstate New York, the Burlington, Vermont area, and Berkshire County, Massachusetts. At December 31, 2012, the NBT Bank division had total loans of approximately \$3.5 billion, or 81% of total loans, and total deposits of \$3.7 billion, or 77% of total deposits. Revenue for the NBT Bank division totaled \$224 million for the year ended December 31, 2012. At year end 2012, the Pennstar Bank division had 35 divisional offices and 44 ATMs, located primarily in northeastern Pennsylvania. At December 31, 2012, the Pennstar Bank division had total loans of \$587 million, or 14% of total loans, and total deposits of \$949 million, or 20% of total deposits. Revenue for the Pennstar Bank division totaled \$34 million for the year ended December 31, 2012. At year end 2012, the Hampshire First Bank division had five divisional offices and four ATMs, located primarily in southern New Hampshire. At December 31, 2012, the Hampshire First Bank division had total loans of approximately \$217 million, or 5% of total loans, and total deposits of \$202 million, or 4% of total deposits. Revenue for the Hampshire First Bank division totaled \$7 million for the year ended December 31, 2012.

NBT Financial Services, Inc.

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

NBT Holdings, Inc.

Through NBT Holdings, the Company operates Mang Insurance Agency, LLC (“Mang”), a full-service insurance agency acquired by the Company on September 1, 2008. Mang’s headquarters are in Norwich, New York. Through Mang, the Company offers a full array of insurance products, including personal property and casualty, business liability and commercial insurance, tailored to serve the specific insurance needs of individuals as well as businesses in a range of industries operating in the markets served by the Company.



Table of Contents

The Trusts

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

Operating Subsidiaries of the Bank

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

Table of Contents

Competition

The financial services industry, including commercial banking, is highly competitive, and we encounter strong competition for deposits, loans and other financial products and services in our market area. The increasingly competitive environment is the result of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers. The Company competes for loans, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers.

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

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

Various in-state market competitors and out-of-state banks continue to enter or have announced plans to enter or expand their presence in the market areas in which the Company currently operates. With the addition of new banking presences within our market, the Company expects increased competition for loans, deposits, and other financial products and services.

In order to compete with other financial services providers, the Company stresses the community nature of its banking operations and principally relies upon local promotional activities, personal relationships established by officers, directors, and employees with their customers, and specialized services tailored to meet the needs of the communities served. We also offer certain customer services, such as agricultural lending, that many of our larger competitors do not offer. While the Company's position varies by market, the Company's management believes that it can compete effectively as a result of local market knowledge, local decision making, and awareness of customer needs.

Table of Contents

The table below summarizes the Bank's deposits and market share by the twenty-eight counties of New York, Pennsylvania, New Hampshire, Vermont, and Massachusetts in which it had customer facilities as of June 30, 2012. Market share is based on deposits of all commercial banks, credit unions, savings and loans associations, and savings banks.

County	State	Deposits (in thousands)	Market Share		Market Rank	Number of Branches*	Number of ATMs*
Chenango	NY	\$485,750	81.73	%	1	11	13
Fulton	NY	372,524	57.99	%	1	7	8
Schoharie	NY	188,604	48.54	%	1	4	4
Hamilton	NY	34,091	46.88	%	2	1	1
Delaware	NY	299,970	32.43	%	1	5	5
Montgomery	NY	211,783	32.00	%	2	5	5
Otsego	NY	302,772	30.64	%	2	9	12
Essex	NY	143,527	25.37	%	2	3	6
Susquehanna	PA	144,957	20.75	%	2	6	7
Wayne	PA	153,294	11.81	%	4	3	4
Broome	NY	258,967	11.45	%	3	8	11
Saint Lawrence	NY	125,478	11.19	%	3	5	6
Pike	PA	56,976	9.72	%	5	2	2
Oneida	NY	288,848	9.52	%	6	6	12
Lackawanna	PA	384,710	7.97	%	7	15	18
Tioga	NY	32,002	7.88	%	6	1	1
Clinton	NY	88,913	7.41	%	5	3	2
Herkimer	NY	37,182	6.34	%	6	2	1
Franklin	NY	27,082	5.96	%	5	1	1
Schenectady	NY	104,883	4.40	%	7	2	2
Berkshire	MA	130,493	4.24	%	7	5	5
Greene	NY	41,872	4.19	%	5	3	3
Saratoga	NY	127,962	3.65	%	10	3	4
Monroe	PA	86,385	3.63	%	8	5	7
Warren	NY	51,153	3.59	%	7	3	3
Cheshire	NH	27,177	2.15	%	7	1	0
Luzerne	PA	114,030	1.99	%	15	4	6
Hillsborough	NH	167,887	1.54	%	7	2	2
Albany	NY	141,956	1.12	%	10	4	6
Chittenden	VT	41,032	1.05	%	7	3	3
Rensselaer	NY	12,106	0.62	%	12	1	1
Rockingham	NH	25,864	0.49	%	15	2	2
		\$4,710,230				135	163

Deposit market share data is based on the most recent data available (as of June 30, 2012). Source: SNL Financial LLC

\* Branch and ATM data is as of December 31, 2012.

Supervision and Regulation

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

Table of Contents

The Company is also under the jurisdiction of the Securities and Exchange Commission (“SEC”) and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. A summary of material information regarding the laws and regulations applicable to the Company are below. This summary is not complete and the reader should refer to these laws and regulations for more information. Failure to comply with applicable laws and regulations could result in a range of sanctions and enforcement actions, including the imposition of civil money penalties, formal agreements and cease and desist orders. Applicable laws and regulations may change in the future and any such change could have a material adverse impact on the Company.

Federal Bank Holding Company Regulation

Transactions between the Bank and any of its affiliates, including the Company, are governed by sections 23A and 23B of the Federal Reserve Act (“FRA”) and the FRB’s implementing Regulation W. An “affiliate” of a bank includes any company or entity that controls, is controlled by, or is under common control with the bank. A subsidiary of a bank that is not also a depository institution is not treated as an affiliate of the bank for purposes of sections 23A and 23B, unless the subsidiary is also controlled through a non-bank chain of ownership by affiliates or controlling shareholders of the bank, the subsidiary is a financial subsidiary that operates under the expanded authority granted t