NBT BANCORP INC
Form 10-Q
May 10, 2010

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, 2010.
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 o 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, 2010, there were 34,460,268 shares outstanding of the Registrant's common stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q--Quarter Ended March 31, 2010

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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, 2010	December 31, 2009
Assets		
Cash and due from banks	$101,170	$107,980
Short-term interest bearing accounts	135,606	79,181
Securities available for sale, at fair value	1,151,746	1,116,758
Securities held to maturity (fair value $158,896 and $161,851, respectively)	157,108	159,946
Trading securities	2,593	2,410
Federal Reserve and Federal Home Loan Bank stock	33,728	35,979
Loans and leases	3,637,622	3,645,398
Less allowance for loan and lease losses	70,150	66,550
Net loans and leases	3,567,472	3,578,848
Premises and equipment, net	66,229	66,221
Goodwill	114,841	114,938
Intangible assets, net	19,809	20,590
Bank owned life insurance	75,732	74,751
Other assets	105,026	106,424
Total assets	$5,531,060	$5,464,026
Liabilities		
Demand (noninterest bearing)	$758,770	$789,989
Savings, NOW, and money market	2,408,924	2,269,779
Time	1,009,485	1,033,278
Total deposits	4,177,179	4,093,046
Short-term borrowings	166,942	155,977
Long-term debt	504,590	554,698
Trust preferred debentures	75,422	75,422
Other liabilities	91,451	79,760
Total liabilities	5,015,584	4,958,903
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at March 31, 2010 and December 31, 2009	-	-
Common stock, $0.01 par value. Authorized 50,000,000 shares at March 31, 2010 and December 31, 2009; issued 38,035,539 at March 31, 2010 and December 31, 2009	380	380
Additional paid-in-capital	312,120	311,164
Retained earnings	277,158	270,232
Accumulated other comprehensive income	2,596	1,163
Common stock in treasury, at cost, 3,601,082 and 3,650,068 shares at March 31, 2010 and December 31, 2009, respectively	(76,778)	(77,816)
Total stockholders' equity	515,476	505,123
Total liabilities and stockholders' equity	$5,531,060	$5,464,026

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, 2010	2009
Interest, fee, and dividend income		
Interest and fees on loans and leases	$53,692	$55,411
Securities available for sale	10,046	12,375
Securities held to maturity	1,137	1,234
Other	596	361
Total interest, fee, and dividend income	65,471	69,381
Interest expense		
Deposits	8,454	13,839
Short-term borrowings	124	147
Long-term debt	5,065	6,197
Trust preferred debentures	1,027	1,086
Total interest expense	14,670	21,269
Net interest income	50,801	48,112
Provision for loan and lease losses	9,243	6,451
Net interest income after provision for loan and lease losses	41,558	41,661
Noninterest income		
Service charges on deposit accounts	6,130	6,297
Insurance revenue	5,245	5,338
Trust	1,766	1,409
Net securities gains	28	-
Bank owned life insurance	981	872
ATM and debit card fees	2,367	2,182
Retirement plan administration fees	2,390	1,741
Other	1,434	1,751
Total noninterest income	20,341	19,590
Noninterest expense		
Salaries and employee benefits	22,204	21,427
Occupancy	4,152	4,165
Equipment	2,100	2,022
Data processing and communications	3,218	3,295
Professional fees and outside services	2,284	2,722
Office supplies and postage	1,542	1,530
Amortization of intangible assets	781	813
Loan collection and other real estate owned	1,059	748
FDIC expenses	1,553	1,529
Other	3,267	4,054
Total noninterest expense	42,160	42,305
Income before income tax expense	19,739	18,946
Income tax expense	5,763	5,874
Net income	$13,976	$13,072
Earnings per share		
Basic	$0.41	$0.40
Diluted	$0.41	$0.40

See accompanying notes to unaudited interim consolidated financial statements.

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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, 2008	$365	$276,418	$245,340	$ (8,204)	$(82,074)	$431,845
Net income	-	-	13,072	-	-	13,072
Cash dividends - $0.20 per share	-	-	(6,531)	-	-	(6,531)
Net issuance of 12,471 common shares to employee benefit plans and other stock plans, including tax benefit	-	2	-	-	200	202
Stock-based compensation	-	1,183	-	-	-	1,183
Issuance of 37,268 shares of restricted stock awards	-	(792)	-	-	792	-
Forfeiture of 2,850 shares of restricted stock	-	66	-	-	(66)	-
Other comprehensive income	-	-	-	2,827	-	2,827
Balance at March 31, 2009	$365	$276,877	$251,881	$ (5,377)	$(81,148)	$442,598
Balance at December 31, 2009	$380	$311,164	$270,232	$ 1,163	$(77,816)	$505,123
Net income	-	-	13,976	-	-	13,976
Cash dividends - $0.20 per share	-	-	(6,883)	-	-	(6,883)
Net issuance of 37,931 shares to employee benefit plans and other stock plans, including tax benefit	-	760	(167)	-	720	1,313
Stock-based compensation	-	514	-	-	-	514
Issuance of 13,055 shares of restricted stock awards	-	(364)	-	-	364	-
Forfeiture of 2,000 shares of restricted stock	-	46	-	-	(46)	-
Other comprehensive income	-	-	-	1,433	-	1,433
Balance at March 31, 2010	$380	$312,120	$277,158	$ 2,596	$(76,778)	$515,476

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, 2010	2009
Operating activities		
Net income	$13,976	$13,072
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	9,243	6,451
Depreciation and amortization of premises and equipment	1,324	1,335
Net accretion on securities	152	116
Amortization of intangible assets	781	813
Stock based compensation	514	1,183
Bank owned life insurance income	(981)	(872)
Trading security purchases	(80)	(436)
Unrealized (gains) losses in trading securities	(103)	102
Deferred income tax benefit	(3,588)	(643)
Proceeds from sales of loans held for sale	21,789	27,387
Originations and purchases of loans held for sale	(21,277)	(36,586)
Net gains on sales of loans held for sale	(263)	(166)
Net securities gains	(28)	-
Net gains on sales of other real estate owned	(118)	(12)
Net decrease (increase) in other assets	1,541	(15,617)
Net (decrease) increase in other liabilities	(3,979)	969
Net cash provided by (used in) operating activities	18,903	(2,904)
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	145,182	113,516
Proceeds from sales	702	-
Purchases	(160,683)	(101,283)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	15,400	14,783
Purchases	(12,578)	(13,799)
Net decrease in loans	1,539	6,524
Net decrease in Federal Reserve and FHLB stock	2,251	1,125
Cash received from death benefit	-	1,037
Purchases of premises and equipment, net	(1,332)	(1,045)
Proceeds from sales of other real estate owned	811	87
Net cash (used in) provided by investing activities	(8,708)	20,945
Financing activities		
Net increase in deposits	84,133	152,661
Net increase (decrease) in short-term borrowings	10,965	(79,305)
Proceeds from issuance of long-term debt	-	121
Repayments of long-term debt	(50,108)	(16,252)
Excess tax benefit from exercise of stock options	809	32
Proceeds from the issuance of shares to employee benefit plans and other stock plans	504	170
Cash dividends and payment for fractional shares	(6,883)	(6,531)
Net cash provided by financing activities	39,420	50,896
Net increase in cash and cash equivalents	49,615	68,937
Cash and cash equivalents at beginning of period	187,161	110,396

Cash and cash equivalents at end of period	$236,776	$179,333
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$14,530	$21,014
Income taxes paid	3,421	164
Noncash investing activities:		
Loans transferred to OREO	$324	$664
Increase in securities purchases in process	18,315	-

See accompanying notes to unaudited interim consolidated financial statements.

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	Three months ended March 31,	
Consolidated Statements of Comprehensive Income (unaudited)	2010	2009
(In thousands)		
Net income	$13,976	$13,072
Other comprehensive income, net of tax		
Unrealized net holding gains arising during the period (pre-tax amounts of $2,010 and $4,026)	1,213	2,432
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of ($28) and $0)	(17)	-
Pension and other benefits:		
Amortization of prior service cost and actuarial gains (pre-tax amounts of $393 and $658)	237	395
Total other comprehensive income	1,433	2,827
Comprehensive income	$15,409	$15,899

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, 2010

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 upstate New York, northeastern Pennsylvania, and Burlington, Vermont 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 and lease losses, other real estate owned ("OREO"), income taxes, pension expense, fair values of lease residual assets, 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 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 to the allowance for loan and lease losses are made periodically by charges to the provision for loan and lease losses.

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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 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 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.

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 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 evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at March 31, 2010 or December 31, 2009. 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 also 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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One of the most significant estimates associated with leasing operations is the estimated residual value of leased vehicles expected at the termination of the lease. A lease receivable asset, when established, includes the estimated residual value of the leased vehicle at the termination of the lease. Management is required to make various assumptions to estimate the fair value of the vehicle lease residual assets. If it is determined that there has been a decline in the estimated fair value of the residual that is judged by management to be other-than-temporary, an impairment charge would be recognized and recorded with other noninterest expenses in the consolidated statements of income.

Note 4. 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. Commitments to extend credit and unused lines of credit totaled $585.6 million at March 31, 2010 and $556.6 million at December 31, 2009. 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 credit 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 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 $36.6 million at March 31, 2010 and $34.6 million at December 31, 2009. As of March 31, 2010, the fair value of standby letters of credit was not significant to the Company’s consolidated financial statements.

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Note 5. 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).

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,		2010		2009
(in thousands, except per share data)				
Basic EPS:				
Weighted average common shares outstanding		34,230		32,478
Net income available to common shareholders		13,976		13,072
Basic EPS	$	0.41	$	0.40
Diluted EPS:				
Weighted average common shares outstanding		34,230		32,478
Dilutive effect of common stock options and restricted stock		195		167
Weighted average common shares and common share equivalents		34,425		32,645
Net income available to common shareholders		13,976		13,072
Diluted EPS	$	0.41	$	0.40

There were 1,464,626 stock options for the quarter ended March 31, 2010 and 1,216,128 stock options for the quarter ended March 31, 2009 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 6. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all of its employees at March 31, 2010. 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. 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 and other benefits are set forth below (in thousands):

	Pension Benefits Three months ended March 31,		Other Benefits Three months ended March 31,	
Components of net periodic (benefit) cost:	2010	2009	2010	2009
Service cost	$462	$587	$5	$6
Interest cost	871	862	53	56
Expected return on plan assets	(1,777)	(1,401)	-	-
Net amortization	401	671	(8)	(13)
Total (benefit) cost	$(43)	$719	$50	$49

The Company is not required to make contributions to the plans in 2010. The Company recorded approximately $0.2 million, net of tax, as amortization of pension amounts previously recognized in Accumulated Other Comprehensive Income during the three months ended March 31, 2010.

Recent market conditions have resulted in an unusually high degree of volatility and increased 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 7. 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 Accounting Standards Update ("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, 2010, 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	6.30% Fixed *	5,155	December 2035
NBT Statutory Trust II	February 2006	50,000	6.195% Fixed *	51,547	March 2036

* Fixed for 5 years, converts to floating at 3-month LIBOR plus 140 basis points

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 8. 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.

For the three months ended March 31, 2010, the Company has 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, 2010
Assets:				
Securities Available for Sale:				
U.S. Treasury	$20,141	$-	$ -	$20,141
Federal Agency	-	356,533	-	356,533
State & municipal	-	140,529	-	140,529
Mortgage-backed	-	261,068	-	261,068
Collateralized mortgage obligations	-	338,560	-	338,560
Corporate	-	20,673	-	20,673
Other securities	12,225	2,017	-	14,242
Total Securities Available for Sale	$32,366	$1,119,380	$ -	$1,151,746
Trading Securities	2,593	-	-	2,593
Total	$34,959	$1,119,380	$ -	$1,154,339

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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, 2009
Assets:				
Securities Available for Sale:				
U.S. Treasury	$20,086	$-	$ -	$20,086
Federal Agency	-	313,157	-	313,157
State & municipal	-	137,613	-	137,613
Mortgage-backed	-	280,861	-	280,861
Collateralized mortgage obligations	-	330,711	-	330,711
Corporate	-	20,674	-	20,674
Other securities	11,654	2,002	-	13,656
Total Securities Available for Sale	$31,740	$1,085,018	$ -	$1,116,758
Trading Securities	2,410	-	-	2,410
Total	$34,150	$1,085,018	$ -	$1,119,168

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 require 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, lease residuals, 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, 2010 was related to impaired loans. During the three month period ended March 31, 2010, the Company established specific reserves of approximately $0.2 million, which were included in the provision for loan and lease losses for the respective period. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

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The following table sets forth information with regard to estimated fair values of financial instruments at March 31, 2010 and December 31, 2009:

	March 31, 2010		December 31, 2009	
(In thousands)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents	$236,776	$236,776	$187,161	$187,161
Securities available for sale	1,151,746	1,151,746	1,116,758	1,116,758
Securities held to maturity	157,108	158,896	159,946	161,851
Trading securities	2,593	2,593	2,410	2,410
Loans (1)	3,637,622	3,624,431	3,645,398	3,627,198
Less allowance for loan losses	70,150	-	66,550	-
Net loans	3,567,472	3,624,431	3,578,848	3,627,198
Accrued interest receivable	21,053	21,053	22,104	22,104
Financial liabilities				
Savings, NOW, and money market	$2,408,924	$2,408,924	$2,269,779	$2,269,779
Time deposits	1,009,485	1,018,487	1,033,278	1,041,370
Noninterest bearing	758,770	758,770	789,989	789,989
Short-term borrowings	166,942	166,942	155,977	155,977
Long-term debt	504,590	504,338	554,698	596,588
Accrued interest payable	5,954	5,954	5,814	5,814
Trust preferred debentures	75,422	73,728	75,422	73,244

(1) Lease receivables are included in the estimated fair value amounts at their carrying amounts.

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.

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Note 9. 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, 2010				
U.S. Treasury	$20,092	$49	$-	$20,141
Federal Agency	353,878	3,033	377	356,534
State & municipal	138,424	2,455	350	140,529
Mortgage-backed	248,331	12,736	-	261,067
Collateralized mortgage obligations	329,405	9,155	-	338,560
Corporate	20,009	664	-	20,673
Other securities	11,613	2,657	28	14,242
Total securities available for sale	$1,121,752	$30,749	$755	$1,151,746
December 31, 2009				