NBT BANCORP INC
Form 10-Q
August 10, 2015

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

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015.
OR
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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 No

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 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 Exchange Act).
Yes No

As of July 31, 2015, there were 43,726,211 shares outstanding of the Registrant's common stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q--Quarter Ended June 30, 2015

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Item 1 – FINANCIAL STATEMENTS

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

	June 30 2015	December 31 2014
(In thousands, except share and per share data)		
Assets		
Cash and due from banks	$127,676	$139,635
Short-term interest bearing accounts	6,535	7,001
Securities available for sale, at fair value	1,129,249	1,013,171
Securities held to maturity (fair value $454,255 and $454,994, respectively)	454,312	454,361
Trading securities	8,468	7,793
Federal Reserve and Federal Home Loan Bank stock	38,659	32,626
Loans	5,770,888	5,595,271
Less allowance for loan losses	64,959	66,359
Net loans	5,705,929	5,528,912
Premises and equipment, net	87,652	89,258
Goodwill	263,634	263,634
Intangible assets, net	17,897	20,317
Bank owned life insurance	115,241	114,251
Other assets	117,233	126,967
Total assets	$8,072,485	$7,797,926
Liabilities		
Demand (noninterest bearing)	$1,840,012	$1,838,622
Savings, NOW, and money market	3,583,313	3,417,160
Time	948,154	1,043,823
Total deposits	6,371,479	6,299,605
Short-term borrowings	511,992	316,802
Long-term debt	130,705	130,945
Junior subordinated debt	101,196	101,196
Other liabilities	81,142	85,197
Total liabilities	7,196,514	6,933,745
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at June 30, 2015 and December 31, 2014	-	-
Common stock, $0.01 par value. Authorized 100,000,000 shares at June 30, 2015 and December 31, 2014; issued 49,651,494 at June 30, 2015 and December 31, 2014	497	497
Additional paid-in-capital	575,612	576,504
Retained earnings	442,446	423,956
Accumulated other comprehensive loss	(16,223)	(17,027)
Common stock in treasury, at cost, 5,966,065 and 5,755,040 shares at June 30, 2015 and December 31, 2014, respectively	(126,361)	(119,749)
Total stockholders' equity	875,971	864,181
Total liabilities and stockholders' equity	$8,072,485	$7,797,926

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 June 30, 2015	 2014	Six months ended June 30, 2015	 2014
Interest, fee, and dividend income				
Interest and fees on loans	$59,873	$60,559	$119,391	$120,574
Securities available for sale	5,144	6,612	10,089	13,369
Securities held to maturity	2,315	783	4,598	1,551
Other	395	502	875	1,039
Total interest, fee, and dividend income	67,727	68,456	134,953	136,533
Interest expense				
Deposits	3,517	3,000	7,090	6,284
Short-term borrowings	144	209	265	440
Long-term debt	836	2,135	1,662	4,642
Junior subordinated debt	545	538	1,085	1,076
Total interest expense	5,042	5,882	10,102	12,442
Net interest income	62,685	62,574	124,851	124,091
Provision for loan losses	3,898	4,166	7,540	7,762
Net interest income after provision for loan losses	58,787	58,408	117,311	116,329
Noninterest income				
Insurance and other financial services revenue	5,836	5,594	12,210	12,331
Service charges on deposit accounts	4,285	4,397	8,357	8,766
ATM and debit card fees	4,679	4,357	8,927	8,429
Retirement plan administration fees	3,566	2,977	6,762	5,895
Trust	5,196	4,953	9,646	9,399
Bank owned life insurance	928	978	2,487	2,360
Net securities gains	26	14	40	21
Gain on the sale of equity investment	-	19,401	-	19,401
Other	3,699	3,356	6,320	5,702
Total noninterest income	28,215	46,027	54,749	72,304
Noninterest expense				
Salaries and employee benefits	30,831	31,142	61,013	60,676
Occupancy	5,412	5,435	11,478	11,661
Data processing and communications	4,288	4,015	8,391	8,016
Professional fees and outside services	3,395	3,752	6,892	7,167
Equipment	3,316	3,132	6,565	6,248
Office supplies and postage	1,627	1,803	3,246	3,488
FDIC expenses	1,280	1,229	2,478	2,507
Advertising	734	726	1,453	1,465
Amortization of intangible assets	1,187	1,236	2,471	2,546
Loan collection and other real estate owned, net	22	801	894	1,841
Prepayment penalties on long-term debt	-	4,554	-	4,554
Other	5,872	4,911	10,785	10,084
Total noninterest expense	57,964	62,736	115,666	120,253
Income before income tax expense	29,038	41,699	56,394	68,380
Income tax expense	9,757	14,059	18,947	22,731
Net income	$19,281	$27,640	$37,447	$45,649
Earnings per share				
Basic	$0.44	$0.63	$0.85	$1.04
Diluted	$0.43	$0.62	$0.84	$1.03

See accompanying notes to unaudited interim consolidated financial statements

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NBT Bancorp Inc. and Subsidiaries Consolidated Statements of Comprehensive Income (unaudited) (In thousands)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income	$19,281	$27,640	$37,447	$45,649
Other comprehensive (loss) income, net of tax:				
Unrealized net holding (losses) gains arising during the period (pre-tax amounts of ($5,277), $8,267, $(434) and $16,892)	(3,223)	4,992	(266)	10,200
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $26, $14, $40 and $21)	(16)	(8)	(24)	(13)
Amortization of unrealized net gains and losses related to the reclassification of available for sale investment securities to held to maturity (pre-tax amounts of $307, $-, $614 and $-)	205	-	410	-
Pension and other benefits:				
Amortization of prior service cost and actuarial gains (pre-tax amounts of $561, $19, $1,122 and $38)	342	11	684	23
Total other comprehensive (loss) income	(2,692)	4,995	804	10,210
Comprehensive income	$16,589	$32,635	$38,251	$55,859

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 Income (Loss)	Common Stock in Treasury	Total
Balance at December 31, 2013	$ 497	$ 574,152	$ 385,787	$ (16,765)	$ (127,102)	$ 816,569
Net income	-	-	45,649	-	-	45,649
Cash dividends - $0.42 per share	-	-	(18,425)	-	-	(18,425)
Purchase of 3,288 treasury shares	-	-	-	-	(72)	(72)
Net issuance of 189,036 shares to employee benefit plans and other stock plans, including tax benefit	-	(2,232)	-	-	3,360	1,128
Stock-based compensation	-	2,082	-	-	-	2,082
Other comprehensive income	-	-	-	10,210	-	10,210
Balance at June 30, 2014	$ 497	$ 574,002	$ 413,011	$ (6,555)	$ (123,814)	$ 857,141
Balance at December 31, 2014	$ 497	$ 576,504	$ 423,956	$ (17,027)	$ (119,749)	$ 864,181
Net income	-	-	37,447	-	-	37,447
Cash dividends - $0.43 per share	-	-	(18,957)	-	-	(18,957)
Purchase of 433,351 treasury shares	-	-	-	-	(10,672)	(10,672)
Net issuance of 222,326 shares to employee benefit plans and other stock plans, including tax benefit	-	(3,568)	-	-	4,060	492
Stock-based compensation	-	2,676	-	-	-	2,676
Other comprehensive income	-	-	-	804	-	804
Balance at June 30, 2015	$ 497	$ 575,612	$ 442,446	$ (16,223)	$ (126,361)	$ 875,971

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)	Six months ended June 30, 2015	2014
Operating activities		
Net income	$37,447	$45,649
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	7,540	7,762
Depreciation and amortization of premises and equipment	4,277	4,105
Net accretion on securities	1,157	1,883
Amortization of intangible assets	2,471	2,546
Stock based compensation	2,676	2,082
Bank owned life insurance income	(2,487)	(2,360)
Purchases of trading securities	(649)	(1,485)
Gains on trading securities	(26)	(91)
Proceeds from sales of loans held for sale	24,743	1,922
Originations and purchases of loans held for sale	(26,051)	(3,701)
Net gains on sales of loans held for sale	(103)	(3)
Net security gains	(40)	(21)
Net gain on sales of other real estate owned	(1,079)	(212)
Gain on sale of equity investment	-	(19,401)
Prepayment penalties on long-term debt	-	4,554
Net decrease in other assets	11,647	7,607
Net (decrease) increase in other liabilities	(6,152)	(8,421)
Net cash provided by operating activities	55,371	42,415
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	125,278	119,680
Purchases	(242,304)	(116,594)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	42,950	14,835
Purchases	(41,448)	(17,363)
Other:		
Net increase in loans	(185,349)	(174,358)
Proceeds from FHLB stock redemption	19,085	37,179
Purchases of Federal Reserve and FHLB stock	(25,118)	(39,408)
Proceeds from settlement of bank owned life insurance	1,497	1,319
Purchases of premises and equipment	(2,671)	(3,498)
Proceeds from sale of equity investment	-	19,639
Proceeds from the sales of other real estate owned	2,597	1,919
Net cash used in investing activities	(305,483)	(156,650)
Financing activities		
Net increase in deposits	71,874	152,364
Net increase in short-term borrowings	195,190	78,436
Proceeds from issuance of long-term debt	-	120,000
Repayments of long-term debt	(240)	(194,785)
Proceeds from the issuance of shares to employee benefit plans and other stock plans	492	1,128
Purchase of treasury stock	(10,672)	(72)
Cash dividends	(18,957)	(18,425)

Net cash provided by financing activities	237,687	138,646
Net (decrease) increase in cash and cash equivalents	(12,425)	24,411
Cash and cash equivalents at beginning of period	146,636	158,926
Cash and cash equivalents at end of period	$134,211	$183,337

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Supplemental disclosure of cash flow information	Six months ended June 30,	
Cash paid during the period for:	2015	2014
Interest	$10,628	$13,405
Income taxes paid	9,027	19,496
Noncash investing activities:		
Loans transferred to other real estate owned	$2,203	$785

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
June 30, 2015

Note 1. Description of 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 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, NBT Statutory Trust II, Alliance Financial Capital Trust I, and Alliance Financial Capital 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, northwestern Vermont, western Massachusetts, southern New Hampshire, and southern Maine. 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.

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, NBT Holdings, and Hathaway Agency, Inc. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company." The interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods in accordance with generally accepted accounting principles ("GAAP"). These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2014 Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. 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. The Company has evaluated subsequent events for potential recognition and/or disclosure and there were none identified.

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Note 3. 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
June 30, 2015				
U.S. Treasury	$10,005	$ 9	$ -	$10,014
Federal Agency	397,197	759	(1,033)	396,923
State & municipal	29,881	505	(26)	30,360
Mortgage-backed:				
Government-sponsored enterprises	333,292	5,914	(439)	338,767
U.S. government agency securities	15,325	796	(59)	16,062
Collateralized mortgage obligations:				
Government-sponsored enterprises	285,733	1,966	(535)	287,164
U.S. government agency securities	33,965	428	(34)	34,359
Other securities	12,872	2,870	(142)	15,600
Total securities available for sale	$1,118,270	$ 13,247	$ (2,268)	$1,129,249
December 31, 2014				
U.S. Treasury	$23,041	$ 70	$ -	$23,111
Federal Agency	332,193	327	(2,606)	329,914
State & municipal	37,035	587	(52)	37,570
Mortgage-backed:				
Government-sponsored enterprises	339,190	7,597	(224)	346,563
U.S. government agency securities	17,367	863	(66)	18,164
Collateralized mortgage obligations:				
Government-sponsored enterprises	199,837	1,828	(234)	201,431
U.S. government agency securities	40,237	497	(36)	40,698
Other securities	12,818	3,054	(152)	15,720
Total securities available for sale	$1,001,718	$ 14,823	$ (3,370)	$1,013,171

Other securities primarily represent marketable equity securities.

Securities with amortized costs totaling $1.4 billion at June 30, 2015 and $1.4 billion at December 31, 2014 were pledged to secure public deposits and for other purposes required or permitted by law. At June 30, 2015 and December 31, 2014, securities with an amortized cost of $172.2 million and $208.8 million, respectively, were pledged as collateral for securities sold under repurchase agreements.

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

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
June 30, 2015				
Mortgage-backed:				
Government-sponsored enterprises	$ 10,049	$ -	$ (142)	$ 9,907
U.S. government agency securities	695	118	-	813
Collateralized mortgage obligations:				
Government-sponsored enterprises	295,510	1,769	(1,826)	295,453
State & municipal	148,058	466	(442)	148,082
Total securities held to maturity	$ 454,312	$ 2,353	$ (2,410)	$ 454,255
December 31, 2014				
Mortgage-backed:				
Government-sponsored enterprises	$ 755	$ 113	$ -	$ 868
Collateralized mortgage obligations:				
Government-sponsored enterprises	317,628	1,934	(1,965)	317,597
State & municipal	135,978	674	(123)	136,529
Total securities held to maturity	$ 454,361	$ 2,721	$ (2,088)	$ 454,994

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The following table sets forth information with regard to investment securities with unrealized losses for the periods presented:

	Less than 12 months			12 months or longer			Total		
Security Type:	Fair Value	Unrealized losses	Number of Positions	Fair Value	Unrealized losses	Number of Positions	Fair Value	Unrealized losses	Number of Positions
June 30, 2015									
Investment securities available for sale:									
Federal agency	$146,403	$(765)	13	$29,732	$(268)	3	$176,135	$(1,033)	16
State & municipal	6,184	(26)	14	-	-	-	6,184	(26)	14
Mortgage-backed	57,745	(439)	28	4,571	(59)	17	62,316	(498)	45
Collateralized mortgage obligations	87,849	(531)	9	5,452	(38)	4	93,301	(569)	13
Other securities	-	-	-	3,211	(142)	2	3,211	(142)	2
Total securities with unrealized losses	$298,181	$(1,761)	64	$42,966	$(507)	26	$341,147	$(2,268)	90
June 30, 2015									
Investment securities held to maturity:									
Mortgage-backed	$9,907	$(142)	1	$-	$ -	-	$9,907	$(142)	1
Collateralized mortgage obligations	76,008	(306)	8	44,136	(1,520)	4	120,144	(1,826)	12
State & municipal	43,095	(442)	89	-	-	-	43,095	(442)	89
Total securities with unrealized losses	$129,010	$(890)	98	$44,136	$(1,520)	4	$173,146	$(2,410)	102
December 31, 2014									
Investment securities available for sale:									
Federal agency	$66,528	$(226)	8	$198,151	$(2,380)	16	$264,679	$(2,606)	24
State & municipal	8,818	(42)	33	1,321	(10)	5	10,139	(52)	38
Mortgage-backed	10,400	(36)	10	35,565	(254)	31	45,965	(290)	41
Collateralized mortgage obligations	57,682	(196)	8	6,598	(74)	4	64,280	(270)	12
Other securities	-	-	-	3,201	(152)	2	3,201	(152)	2
Total securities with unrealized losses	$143,428	$(500)	59	$244,836	$(2,870)	58	$388,264	$(3,370)	117
December 31, 2014									
Investment securities held to maturity:									
Collateralized mortgage obligations	$26,052	$(49)	2	$46,415	$(1,916)	4	$72,467	$(1,965)	6
State & municipal	43,514	(116)	110	1,619	(7)	6	45,133	(123)	116
Total securities with unrealized losses	$69,566	$(165)	112	$48,034	$(1,923)	10	$117,600	$(2,088)	122

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Management has the intent to hold the securities classified as held to maturity until they mature, at which time it is believed the Company will receive full value for the securities. Furthermore, as of June 30, 2015, management also had the intent to hold, and will not be required to sell, the securities classified as available for sale for a period of time sufficient for a recovery of cost, which may be until maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. When necessary, the Company has performed a discounted cash flow analysis to determine whether or not it will receive the contractual principal and interest on certain securities. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. As of June 30, 2015, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment losses have been realized in the Company's consolidated statements of income.

The following tables set forth information with regard to contractual maturities of debt securities at June 30, 2015:

(In thousands)	Amortized cost	Estimated fair value
Debt securities classified as available for sale		
Within one year	$13,981	$14,032
From one to five years	412,442	413,423
From five to ten years	150,200	152,606
After ten years	528,775	533,588
	$1,105,398	$1,113,649
Debt securities classified as held to maturity		
Within one year	$24,317	$24,328
From one to five years	15,730	15,811
From five to ten years	99,778	99,818
After ten years	314,487	314,298
	$454,312	$454,255

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

Except for U.S. Government securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of consolidated stockholders' equity at June 30, 2015.

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Note 4. Allowance for Loan Losses and Credit Quality of Loans

Allowance for Loan Losses

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

To develop and document a systematic methodology for determining the allowance for loan losses, the Company has divided the loan portfolio into three segments, each with different risk characteristics and methodologies for assessing risk. Those segments are further segregated between our loans accounted for under the amortized cost method (referred to as "originated" loans) and loans acquired in a business combination (referred to as "acquired" loans). Each portfolio segment is broken down into class segments where appropriate. Class segments contain unique measurement attributes, risk characteristics and methods for monitoring and assessing risk that are necessary to develop the allowance for loan losses. Unique characteristics such as borrower type, loan type, collateral type, and risk characteristics define each class segment. The following table illustrates the portfolio and class segments for the Company's loan portfolio:

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

Commercial Loans

The Company offers a variety of commercial loan products including commercial (non-real estate), commercial real estate, agricultural, agricultural real estate, and business banking loans. The Company's underwriting analysis for commercial loans typically includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows.

Commercial (non-Real Estate) – The Company offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs such as inventory and receivables, business expansion and equipment purchases. Generally, a collateral lien is placed on equipment or other assets owned by the borrower. These loans carry a higher risk than commercial real estate loans due to the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers.

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Commercial Real Estate – The Company offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real estate, generally with completed structures. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and other non owner-occupied facilities. These loans are typically less risky than commercial loans, since they are secured by real estate and buildings, and are generally originated in amounts of no more than 80% of the appraised value of the property.

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

Agricultural Real Estate – The Company offers real estate loans to our agricultural customers to finance farm related real estate purchases, refinancings, expansions, and improvements to agricultural properties such as barns, production facilities, and land. The agricultural real estate loans are secured by first liens on the farm real estate. Because they are secured by land and buildings, these loans may be less risky than agricultural loans. These loans are typically originated in amounts of no more than 75% of the appraised value of the property. Government loan guarantees may be obtained to provide further support.

Business Banking - The Company offers a variety of loan options to meet the specific needs of our business banking customers including term loans, business banking mortgages and lines of credit. Such loans are generally less than $0.5 million and are made available to businesses for working capital such as inventory and receivables, business expansion, equipment purchases, and agricultural needs. Generally, a collateral lien is placed on equipment or other assets owned by the borrower such as inventory and/or receivables. These loans carry a higher risk than commercial loans due to the smaller size of the borrower and lower levels of capital. To reduce the risk, the Company obtains personal guarantees of the owners for a majority of the loans.

Consumer Loans

The Company offers a variety of consumer loan products including indirect, home equity, and direct loans.

Indirect – The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the Company primarily finances the purchases of automobiles and recreational vehicles (such as campers, boats, etc.) indirectly through dealer relationships. Approximately 75% of the indirect relationships represent automobile financing. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to six years, based upon the nature of the collateral and the size of the loan. The majority of indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

Home Equity – The Company offers home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Consumers are able to borrow up to 85% of the equity in their homes. The Company originates home equity lines of credit and second mortgage loans (loans secured by a second junior lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are typically in a second position with respect to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

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

Residential Real Estate Mortgages

Residential real estate loans consist primarily of loans secured by first or second deeds of trust on primary residences. We originate adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a residential mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower), or have private mortgage insurance. The Company's underwriting analysis for residential mortgage loans typically includes credit verification, independent appraisals, and a review of the borrower's financial condition. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period.

For purposes of evaluating the adequacy of the allowance, the Company considers a number of significant factors that affect the collectability of the portfolio. For individually analyzed loans, these include estimates of loss exposure, which reflect the facts and circumstances that affect the likelihood of repayment of such loans as of the evaluation date. For homogeneous pools of loans, estimates of the Company's exposure to credit loss reflect a current assessment of a number of factors, which could affect collectability. These factors include: past loss experience; size, trend, composition, and nature of loans; changes in lending policies and procedures, including underwriting standards and collection, charge-offs and recoveries; trends experienced in nonperforming and delinquent loans; current economic conditions in the Company's market; portfolio concentrations that may affect loss experienced across one or more components of the portfolio; the effect of external factors such as competition, legal and regulatory requirements; and the experience, ability, and depth of lending management and staff. In addition, various regulatory agencies, as an integral component of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make loan grade changes as well as recognize additions to the allowance based on their examinations.

After a thorough consideration of the factors discussed above, any required additions or reductions to the allowance for loan losses are made periodically by charges or credits to the provision for loan losses. These charges or credits are necessary to maintain the allowance at a level which management believes is reasonably reflective of overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans, additions and reductions of the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above.

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The following tables illustrate the changes in the allowance for loan losses by our portfolio segments for the three and six months ended June 30, 2015 and 2014:

Three months ended June 30,	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
Balance as of March 31, 2015	$ 31,278	$ 26,156	$ 7,698	$ 227	$ 65,359
Charge-offs	(584)	(4,275)	(509)	-	(5,368)
Recoveries	280	697	93	-	1,070
Provision	(2,648)	5,736	999	(189)	3,898
Ending Balance as of June 30, 2015	$ 28,326	$ 28,314	$ 8,281	$ 38	$ 64,959
Balance as of March 31, 2014	$ 34,437	$ 28,436	$ 6,225	$ 336	$ 69,434
Charge-offs	(1,427)	(3,648)	(165)	-	(5,240)
Recoveries	314	714	146	-	1,174
Provision	1,799	2,471	(1)	(103)	4,166
Ending Balance as of June 30, 2014	$ 35,123	$ 27,973	$ 6,205	$ 233	$ 69,534

Six months ended June 30,	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
Balance as of December 31, 2014	$ 32,433	$ 26,720	$ 7,130	$ 76	$ 66,359
Charge-offs	(1,382)	(8,653)	(1,013)	-	(11,048)
Recoveries	514	1,445	149	-	2,108
Provision	(3,239)	8,802	2,015	(38)	7,540
Ending Balance as of June 30, 2015	$ 28,326	$ 28,314	$ 8,281	$ 38	$ 64,959
Balance as of December 31, 2013	$ 35,090	$ 27,694	$ 6,520	$ 130	$ 69,434
Charge-offs	(1,906)	(7,680)	(484)	-	(10,070)
Recoveries	713	1,455	240	-	2,408
Provision	1,226	6,504	(71)	103	7,762
Ending Balance as of June 30, 2014	$ 35,123	$ 27,973	$ 6,205	$ 233	$ 69,534

As of June 30, 2015, included in the above tables, there was $1.9 million in the allowance for loan losses related to acquired commercial loans. There was $1.5 in the allowance for loan loasses as of June 30, 2014 related to acquired loans. Net charge-offs related to acquired loans totaled approximately $0.1 million and $0.1 million during the three months ended June 30, 2015 and 2014, respectively, and approximately $0.7 million and $0.2 million during the six months ended June 30, 2015 and 2014, respectively, and are included in the table above.

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The following tables illustrate the allowance for loan losses and the recorded investment by portfolio segments as of June 30, 2015 and December 31, 2014:

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

	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
As of June 30, 2015					
Allowance for loan losses	$28,326	$28,314	$8,281	$ 38	$64,959
Allowance for loans individually evaluated for impairment	2,885	-	-		2,885
Allowance for loans collectively evaluated for impairment	$25,441	$28,314	$8,281	$ 38	$62,074
Ending balance of loans	$2,565,590	$2,051,540	$1,153,758		$5,770,888
Ending balance of originated loans individually evaluated for impairment	12,506	6,967	5,021		24,494
Ending balance of acquired loans individually evaluated for impairment	9,719	-	-		9,719
Ending balance of acquired loans collectively evaluated for impairment	309,699	120,316	251,751		681,766
Ending balance of originated loans collectively evaluated for impairment	$2,233,666	$1,924,257	$896,986		$5,054,909
As of December 31, 2014					
Allowance for loan losses	$32,433	$26,720	$7,130	$ 76	$66,359
Allowance for loans individually evaluated for impairment	1,100	-	-		1,100
Allowance for loans collectively evaluated for impairment	$31,333	$26,720	$7,130	$ 76	$65,259
Ending balance of loans	$2,473,702	$2,005,980	$1,115,589		$5,595,271
Ending balance of originated loans individually evaluated for impairment	11,079	5,498	3,544		20,121
Ending balance of acquired loans individually evaluated for impairment	5,675	-	-		5,675
Ending balance of acquired loans collectively evaluated for impairment	327,656	147,256	266,747		741,659
Ending balance of originated loans collectively evaluated for impairment	$2,129,292	$1,853,226	$845,298		$4,827,816

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Credit Quality of Loans

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

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

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The following tables set forth information with regard to past due and nonperforming loans by loan class as of June 30, 2015 and December 31, 2014:

Age Analysis of Past Due Financing Receivables
As of June 30, 2015
(in thousands)

	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 90 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans
ORIGINATED							
Commercial Loans							
Commercial	$ 268	$ 7	$ -	$ 275	$ 22	$629,818	$630,115
Commercial Real Estate	1,274	28	-	1,302	6,825	1,148,828	1,156,955
Agricultural	3	67	-	70	1,041	31,704	32,815
Agricultural Real Estate	18	-	-	18	326	26,380	26,724
Business Banking	1,478	77	-	1,555	5,701	392,307	399,563
	3,041	179	-	3,220	13,915	2,229,037	2,246,172
Consumer Loans							
Indirect	14,212	3,035	1,250	18,497	1,553	1,378,754	1,398,804
Home Equity	4,941	1,172	328	6,441	5,226	466,301	477,968
Direct	348	111	106	565	59	53,828	54,452
	19,501	4,318	1,684	25,503	6,838	1,898,883	1,931,224
Residential Real Estate							
Mortgages	2,869	962	174	4,005	7,586	890,416	902,007
	$ 25,411	$ 5,459	$ 1,858	$ 32,728	$ 28,339	$5,018,336	$5,079,403
ACQUIRED							
Commercial Loans							
Commercial	$ -	$ -	$ -	$ -	$ 2,509	$75,153	$77,662
Commercial Real Estate	-	-	-	-	7,204	182,634	189,838
Business Banking	181	5	-	186	452	51,280	51,918
	181	5	-	186	10,165	309,067	319,418
Consumer Loans							
Indirect	242	32	-	274	125	43,418	43,817
Home Equity	130	61	67	258	555	71,457	72,270
Direct	21	34	8	63	36	4,130	4,229
	393	127	75	595	716	119,005	120,316
Residential Real Estate							
Mortgages	1,009	406	61	1,476	3,066	247,209	251,751
	$ 1,583	$ 538	$ 136	$ 2,257	$ 13,947	$675,281	$691,485
Total Loans	$ 26,994	$ 5,997	$ 1,994	$ 34,985	$ 42,286	$5,693,617	$5,770,888

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Age Analysis of Past Due Financing Receivables
As of December 31, 2014
(in thousands)

	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 90 Days Past Due Accruing	Total Past Due Accruing	Non-Accrual	Current	Recorded Total Loans
ORIGINATED							
Commercial Loans							
Commercial	$ -	$ 735	$ -	$ 735	$ 1,012	$613,400	$615,147
Commercial Real Estate	192	-	-	192	4,127	1,064,549	1,068,868
Agricultural	-	-	-	-	817	32,130	32,947
Agricultural Real Estate	19	-	-	19	565	24,390	24,974
Business Banking	799	235	84	1,118	6,910	390,407	398,435
	1,010	970	84	2,064	13,431	2,124,876	2,140,371
Consumer Loans							
Indirect	16,434	3,154	1,991	21,579	1,964	1,286,507	1,310,050
Home Equity	4,591	1,428	821	6,840	6,596	479,444	492,880
Direct	560	157	52	769	84	54,941	55,794
	21,585	4,739	2,864	29,188	8,644	1,820,892	1,858,724
Residential Real Estate							
Mortgages	2,901	96					