NBT BANCORP INC
Form 10-Q
November 09, 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 September 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 October 30, 2015, there were 43,290,202 shares outstanding of the Registrant's common stock, $0.01 par value per share.

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

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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)	September 30 2015	December 31 2014
Assets		
Cash and due from banks	$175,036	$139,635
Short-term interest bearing accounts	9,964	7,001
Securities available for sale, at fair value	1,058,397	1,013,171
Securities held to maturity (fair value $475,436 and $454,994, respectively)	470,758	454,361
Trading securities	7,900	7,793
Federal Reserve and Federal Home Loan Bank stock	34,001	32,626
Loans	5,870,988	5,595,271
Less allowance for loan losses	64,859	66,359
Net loans	5,806,129	5,528,912
Premises and equipment, net	87,763	89,258
Goodwill	263,634	263,634
Intangible assets, net	16,729	20,317
Bank owned life insurance	116,128	114,251
Other assets	115,123	126,967
Total assets	$8,161,562	$7,797,926
Liabilities		
Demand (noninterest bearing)	$1,915,482	$1,838,622
Savings, NOW, and money market	3,753,179	3,417,160
Time	931,966	1,043,823
Total deposits	6,600,627	6,299,605
Short-term borrowings	362,332	316,802
Long-term debt	130,635	130,945
Junior subordinated debt	101,196	101,196
Other liabilities	90,556	85,197
Total liabilities	7,285,346	6,933,745
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at September 30, 2015 and December 31, 2014	-	-
Common stock, $0.01 par value. Authorized 100,000,000 shares at September 30, 2015 and December 31, 2014; issued 49,651,494 at September 30, 2015 and December 31, 2014	497	497
Additional paid-in-capital	576,478	576,504
Retained earnings	452,701	423,956
Accumulated other comprehensive loss	(13,365)	(17,027)
Common stock in treasury, at cost, 6,465,233 and 5,755,040 shares at September 30, 2015 and December 31, 2014, respectively	(140,095)	(119,749)
Total stockholders' equity	876,216	864,181
Total liabilities and stockholders' equity	$8,161,562	$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 September 30, 2015	 2014	Nine months ended September 30, 2015	 2014
Interest, fee, and dividend income				
Interest and fees on loans	$61,656	$61,173	$181,047	$181,747
Securities available for sale	5,125	6,095	15,214	19,464
Securities held to maturity	2,318	1,353	6,916	2,904
Other	401	513	1,276	1,552
Total interest, fee, and dividend income	69,500	69,134	204,453	205,667
Interest expense				
Deposits	3,554	3,498	10,644	9,782
Short-term borrowings	296	262	561	702
Long-term debt	845	1,067	2,507	5,709
Junior subordinated debt	560	544	1,645	1,620
Total interest expense	5,255	5,371	15,357	17,813
Net interest income	64,245	63,763	189,096	187,854
Provision for loan losses	4,966	4,885	12,506	12,647
Net interest income after provision for loan losses	59,279	58,878	176,590	175,207
Noninterest income				
Insurance and other financial services revenue	5,862	6,179	18,072	18,510
Service charges on deposit accounts	4,349	4,519	12,706	13,285
ATM and debit card fees	4,780	4,440	13,707	12,869
Retirement plan administration fees	3,249	3,272	10,011	9,167
Trust	4,611	4,758	14,257	14,157
Bank owned life insurance	931	1,095	3,418	3,455
Net securities gains	3	38	43	59
Gain on the sale of equity investment	4,179	-	4,179	19,401
Other	3,297	2,376	9,617	8,078
Total noninterest income	31,261	26,677	86,010	98,981
Noninterest expense				
Salaries and employee benefits	30,227	28,933	91,240	89,609
Occupancy	5,326	5,211	16,804	16,872
Data processing and communications	4,207	4,029	12,598	12,045
Professional fees and outside services	3,137	3,695	10,029	10,862
Equipment	3,352	3,199	9,917	9,447
Office supplies and postage	1,576	1,733	4,822	5,221
FDIC expenses	1,355	1,134	3,833	3,641
Advertising	421	403	1,874	1,868
Amortization of intangible assets	1,165	1,275	3,636	3,821
Loan collection and other real estate owned, net	699	705	1,593	2,546
Prepayment penalties on long-term debt	-	13,349	-	17,903
Other	8,426	5,401	19,211	15,485
Total noninterest expense	59,891	69,067	175,557	189,320
Income before income tax expense	30,649	16,488	87,043	84,868
Income tax expense	10,798	5,576	29,745	28,307
Net income	$19,851	$10,912	$57,298	$56,561
Earnings per share				
Basic	$0.45	$0.25	$1.30	$1.29

Diluted	$0.45	$0.25	$1.29	$1.28

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 September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net income	$19,851	$10,912	$57,298	$56,561
Other comprehensive income (loss), net of tax:				
Unrealized net holding gains (losses) arising during the period (pre-tax amounts of $3,801, ($3,693), $3,367 and $13,199)	2,323	(2,124)	2,057	8,075
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $3, $38, $43 and $59)	(2)	(23)	(26)	(35)
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 $328, $(99), $999 and $(99))	200	(59)	610	(59)
Pension and other benefits:				
Amortization of prior service cost and actuarial gains (pre-tax amounts of $551, $19, $1,673 and $57)	337	11	1,021	34
Total other comprehensive income(loss)	2,858	(2,195)	3,662	8,015
Comprehensive income	$22,709	$8,717	$60,960	$64,576

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, 2013	$ 497	$ 574,152	$ 385,787	$ (16,765)	$ (127,102)	$ 816,569
Net income	-	-	56,561	-	-	56,561
Cash dividends - $0.63 per share	-	-	(27,653)	-	-	(27,653)
Purchase of 3,288 treasury shares	-	-	-	-	(72)	(72)
Net issuance of 197,036 shares to employee benefit plans and other stock plans, including tax benefit	-	(2,312)	-	-	3,515	1,203
Stock-based compensation	-	2,817	-	-	-	2,817
Other comprehensive income	-	-	-	8,015	-	8,015
Balance at September 30, 2014	$ 497	$ 574,657	$ 414,695	$ (8,750)	$ (123,659)	$ 857,440
Balance at December 31, 2014	$ 497	$ 576,504	$ 423,956	$ (17,027)	$ (119,749)	$ 864,181
Net income	-	-	57,298	-	-	57,298
Cash dividends - $0.65 per share	-	-	(28,553)	-	-	(28,553)
Purchase of 1,047,152 treasury shares	-	-	-	-	(26,797)	(26,797)
Net issuance of 336,959 shares to employee benefit plans and other stock plans, including tax benefit	-	(3,423)	-	-	6,451	3,028
Stock-based compensation	-	3,397	-	-	-	3,397
Other comprehensive income	-	-	-	3,662	-	3,662
Balance at September 30, 2015	$ 497	$ 576,478	$ 452,701	$ (13,365)	$ (140,095)	$ 876,216

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)	Nine months ended September 30, 2015	2014
Operating activities		
Net income	$57,298	$56,561
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	12,506	12,647
Depreciation and amortization of premises and equipment	6,494	6,172
Net accretion on securities	1,851	2,692
Amortization of intangible assets	3,636	3,821
Stock based compensation	3,397	2,817
Bank owned life insurance income	(3,418)	(3,455)
Purchases of trading securities	(767)	(1,618)
Losses (gains) on trading securities	660	(225)
Proceeds from sales of loans held for sale	50,998	4,024
Originations and purchases of loans held for sale	(49,125)	(6,872)
Net gains on sales of loans held for sale	(108)	(3)
Net security gains	(43)	(59)
Net gain on sales of other real estate owned	(1,241)	(351)
Gain on sale of equity investment	(4,179)	(19,401)
Prepayment penalties on long-term debt	-	17,903
Net decrease (increase) in other assets	8,846	(19,117)
Net increase in other liabilities	6,252	3,239
Net cash provided by operating activities	93,057	58,775
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	229,347	178,430
Purchases	(272,596)	(175,033)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	61,379	26,830
Purchases	(74,951)	(33,601)
Other:		
Net increase in loans	(294,187)	(191,327)
Proceeds from FHLB stock redemption	39,740	63,186
Purchases of Federal Reserve and FHLB stock	(41,115)	(50,974)
Proceeds from settlement of bank owned life insurance	1,541	1,319
Purchases of premises and equipment	(4,999)	(6,616)
Proceeds from sale of equity investment	4,179	19,639
Proceeds from the sales of other real estate owned	3,049	2,863
Net cash used in investing activities	(348,613)	(165,284)
Financing activities		
Net increase in deposits	301,022	424,715
Net increase (decrease) in short-term borrowings	45,530	(80,405)
Proceeds from issuance of long-term debt	-	120,051
Repayments of long-term debt	(310)	(315,721)
Proceeds from the issuance of shares to employee benefit plans and other stock plans	3,028	1,203
Purchase of treasury stock	(26,797)	(72)
Cash dividends	(28,553)	(27,653)

Net cash provided by financing activities	293,920	122,118
Net increase in cash and cash equivalents	38,364	15,609
Cash and cash equivalents at beginning of period	146,636	158,926
Cash and cash equivalents at end of period	$185,000	$174,535

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Supplemental disclosure of cash flow information	Nine months ended September 30,	
Cash paid during the period for:	2015	2014
Interest	$16,252	$18,714
Income taxes paid	19,027	36,978
Noncash investing activities:		
Loans transferred to other real estate owned	$2,699	$1,135
Preferred stock acquired from sale of equity investment	-	2,762
Transfer of available for sale securities to held to maturity portfolio	-	332,115

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
September 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
September 30, 2015				
Federal Agency	$342,140	$ 1,245	$ (122)	$343,263
State & municipal	33,140	510	(3)	33,647
Mortgage-backed:				
Government-sponsored enterprises	313,840	7,118	(105)	320,853
U.S. government agency securities	14,293	728	(64)	14,957
Collateralized mortgage obligations:				
Government-sponsored enterprises	296,005	2,638	(63)	298,580
U.S. government agency securities	31,302	485	(21)	31,766
Other securities	12,900	2,531	(100)	15,331
Total securities available for sale	$1,043,620	$ 15,255	$ (478)	$1,058,397
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 $1.1 billion at September 30, 2015 and $1.0 billion at December 31, 2014 were pledged to secure public deposits and for other purposes required or permitted by law. At September 30, 2015 and December 31, 2014, securities with an amortized cost of $174.8 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
September 30, 2015				
Mortgage-backed:				
Government-sponsored enterprises	$9,782	$ -	$ (25)	$9,757
U.S. government agency securities	665	107	-	772
Collateralized mortgage obligations:				
Government-sponsored enterprises	282,966	4,081	(951)	286,096
State & municipal	177,345	1,509	(43)	178,811
Total securities held to maturity	$470,758	$ 5,697	$ (1,019)	$475,436
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
September 30, 2015									
Investment securities available for sale:									
Federal agency	$19,962	$(30)	2	$29,908	$(92)	3	$49,870	$(122)	5
State & municipal	2,957	(3)	4	-	-	-	2,957	(3)	4
Mortgage-backed	11,656	(109)	14	4,319	(60)	16	15,975	(169)	30
Collateralized mortgage obligations	29,608	(62)	5	4,340	(22)	3	33,948	(84)	8
Other securities	-	-	-	3,931	(100)	3	3,931	(100)	3
Total securities with unrealized losses	$64,183	$(204)	25	$42,498	$(274)	25	$106,681	$(478)	50
September 30, 2015									
Investment securities held to maturity:									
Mortgage-backed	$9,757	$(25)	1	$-	$-	-	$9,757	$(25)	1
Collateralized mortgage obligations	-	-	-	43,127	(951)	4	43,127	(951)	4
State & municipal	6,313	(43)	11	-	-	-	6,313	(43)	11
Total securities with unrealized losses	$16,070	$(68)	12	$43,127	$(951)	4	$59,197	$(1,019)	16
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 September 30, 2015, management also has 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 September 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 September 30, 2015:

(In thousands)	Amortized cost	Estimated fair value
Debt securities classified as available for sale		
Within one year	$4,031	$4,058
From one to five years	369,188	371,294
From five to ten years	137,908	140,701
After ten years	519,593	527,013
	$1,030,720	$1,043,066
Debt securities classified as held to maturity		
Within one year	$42,420	$42,427
From one to five years	15,186	15,260
From five to ten years	107,816	109,043
After ten years	305,336	308,706
	$470,758	$475,436

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 September 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 nine months ended September 30, 2015 and 2014:

Three months ended September 30,	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
Balance as of June 30, 2015	$ 28,326	$ 28,314	$ 8,281	$ 38	$ 64,959
Charge-offs	(1,333)	(4,530)	(511)	-	(6,374)
Recoveries	258	889	161	-	1,308
Provision	(2,800)	7,333	51	382	4,966
Ending Balance as of September 30, 2015	$ 24,451	$ 32,006	$ 7,982	$ 420	$ 64,859
Balance as of June 30, 2014	$ 35,123	$ 27,973	$ 6,205	$ 233	$ 69,534
Charge-offs	(1,517)	(3,979)	(481)	-	(5,977)
Recoveries	253	632	7	-	892
Provision	1,779	2,826	212	68	4,885
Ending Balance as of September 30, 2014	$ 35,638	$ 27,452	$ 5,943	$ 301	$ 69,334

Nine months ended September 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	(2,715)	(13,183)	(1,524)	-	(17,422)
Recoveries	772	2,334	310	-	3,416
Provision	(6,039)	16,135	2,066	344	12,506
Ending Balance as of September 30, 2015	$ 24,451	$ 32,006	$ 7,982	$ 420	$ 64,859
Balance as of December 31, 2013	$ 35,090	$ 27,694	$ 6,520	$ 130	$ 69,434
Charge-offs	(3,423)	(11,659)	(965)	-	(16,047)
Recoveries	966	2,087	247	-	3,300
Provision	3,005	9,330	141	171	12,647
Ending Balance as of September 30, 2014	$ 35,638	$ 27,452	$ 5,943	$ 301	$ 69,334

As of September 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 $3.0 in the allowance for loan losses as of September 30, 2014 related to acquired loans. Net charge-offs related to acquired loans totaled approximately $0.5 million and $0.3 million during the three months ended September 30, 2015 and 2014, respectively, and approximately $1.2 million and $0.5 million during the nine months ended September 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 September 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 September 30, 2015					
Allowance for loan losses	$24,451	$32,006	$7,982	$ 420	$64,859
Allowance for loans individually evaluated for impairment	3,545	-	-		3,545
Allowance for loans collectively evaluated for impairment	$20,906	$32,006	$7,982	$ 420	$61,314
Ending balance of loans	$2,602,385	$2,091,408	$1,177,195		$5,870,988
Ending balance of originated loans individually evaluated for impairment	12,559	7,590	5,867		26,016
Ending balance of acquired loans individually evaluated for impairment	9,317	-	-		9,317
Ending balance of acquired loans collectively evaluated for impairment	295,890	106,968	241,646		644,504
Ending balance of originated loans collectively evaluated for impairment	$2,284,619	$1,976,850	$929,682		$5,191,151
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 September 30, 2015 and December 31, 2014:

Age Analysis of Past Due Financing Receivables
As of September 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	$ 2,050	$ 100	$ -	$ 2,150	$ 1,264	$ 647,577	$ 650,991
Commercial Real Estate	537	-	-	537	6,236	1,176,523	1,183,296
Agricultural	-	-	-	-	900	32,486	33,386
Agricultural Real Estate	557	-	-	557	500	25,758	26,815
Business Banking	1,930	145	-	2,075	4,947	395,668	402,690
	5,074	245	-	5,319	13,847	2,278,012	2,297,178
Consumer Loans							
Indirect	15,041	3,159	1,488	19,688	1,718	1,431,946	1,453,352
Home Equity	4,091	1,205	384	5,680	5,436	462,546	473,662
Direct	526	99	59	684	86	56,656	57,426
	19,658	4,463	1,931	26,052	7,240	1,951,148	1,984,440
Residential Real Estate Mortgages	2,312	80	1,253	3,645	8,462	923,442	935,549
	$ 27,044	$ 4,788	$ 3,184	$ 35,016	$ 29,549	$ 5,152,602	$ 5,217,167
ACQUIRED							
Commercial Loans							
Commercial	$ -	$ -					