NBT BANCORP INC
Form 10-Q
August 11, 2014

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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 June 30, 2014.

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 x 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 July 31, 2014, there were 43,704,282 shares outstanding of the Registrant's common stock, $0.01 par value per share.

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NBT BANCORP INC.
FORM 10-Q--Quarter Ended June 30, 2014

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PART I FINANCIAL INFORMATION

Item 1 – FINANCIAL STATEMENTS

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

| (In thousands, except share and per share data) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $178,539 | $157,625 |
| Short-term interest bearing accounts | 4,798 | 1,301 |
| Securities available for sale, at fair value | 1,378,799 | 1,364,881 |
| Securities held to maturity (fair value $123,376 and $113,276, respectively) | 125,965 | 117,283 |
| Trading securities | 7,355 | 5,779 |
| Federal Reserve and Federal Home Loan Bank stock | 49,093 | 46,864 |
| Loans | 5,574,488 | 5,406,795 |
| Less allowance for loan losses | 69,534 | 69,434 |
| Net loans | 5,504,954 | 5,337,361 |
| Premises and equipment, net | 87,972 | 88,327 |
| Goodwill | 263,634 | 264,997 |
| Intangible assets, net | 22,819 | 25,557 |
| Bank owned life insurance | 116,007 | 114,966 |
| Other assets | 129,577 | 127,234 |
| Total assets | $7,869,512 | $7,652,175 |
| Liabilities | | |
| Demand (noninterest bearing) | $1,676,246 | $1,645,641 |
| Savings, NOW, and money market | 3,363,911 | 3,223,441 |
| Time | 1,002,431 | 1,021,142 |
| Total deposits | 6,042,588 | 5,890,224 |
| Short-term borrowings | 534,478 | 456,042 |
| Long-term debt | 251,125 | 308,823 |
| Junior subordinated debt | 101,196 | 101,196 |
| Other liabilities | 82,984 | 79,321 |
| Total liabilities | 7,012,371 | 6,835,606 |
| Stockholders' equity | | |
| Preferred stock, $0.01 par value. Authorized 2,500,000 shares at June 30, 2014 and December 31, 2013 | - | - |
| Common stock, $0.01 par value. Authorized 100,000,000 shares at June 30, 2014 and December 31, 2013; issued 49,651,494 at June 30, 2014 and December 31, 2013 | 497 | 497 |
| Additional paid-in-capital | 574,002 | 574,152 |
| Retained earnings | 413,011 | 385,787 |
| Accumulated other comprehensive loss | (6,555) | (16,765) |
| Common stock in treasury, at cost, 5,952,696 and 6,138,444 shares at June 30, 2014 and December 31, 2013, respectively | (123,814) | (127,102) |
| Total stockholders' equity | 857,141 | 816,569 |
| Total liabilities and stockholders' equity | $7,869,512 | $7,652,175 |

See accompanying notes to unaudited interim consolidated financial statements.

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| NBT Bancorp Inc. and Subsidiaries<br>Consolidated Statements of Income (unaudited) | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| (In thousands, except per share data) | | | | |
| Interest, fee, and dividend income | | | | |
| Interest and fees on loans | $60,559 | $62,031 | $120,574 | $115,726 |
| Securities available for sale | 6,612 | 6,537 | 13,369 | 12,283 |
| Securities held to maturity | 783 | 548 | 1,551 | 1,073 |
| Other | 502 | 488 | 1,039 | 891 |
| Total interest, fee, and dividend income | 68,456 | 69,604 | 136,533 | 129,973 |
| Interest expense | | | | |
| Deposits | 3,000 | 4,296 | 6,284 | 8,446 |
| Short-term borrowings | 209 | 67 | 440 | 109 |
| Long-term debt | 2,135 | 3,026 | 4,642 | 6,635 |
| Junior subordinated debt | 538 | 560 | 1,076 | 988 |
| Total interest expense | 5,882 | 7,949 | 12,442 | 16,178 |
| Net interest income | 62,574 | 61,655 | 124,091 | 113,795 |
| Provision for loan losses | 4,166 | 6,402 | 7,762 | 12,060 |
| Net interest income after provision for loan losses | 58,408 | 55,253 | 116,329 | 101,735 |
| Noninterest income | | | | |
| Insurance and other financial services revenue | 5,594 | 5,755 | 12,331 | 12,648 |
| Service charges on deposit accounts | 4,397 | 4,933 | 8,766 | 9,256 |
| ATM and debit card fees | 4,357 | 4,044 | 8,429 | 7,286 |
| Retirement plan administration fees | 2,977 | 2,957 | 5,895 | 5,639 |
| Trust | 4,953 | 4,699 | 9,399 | 7,612 |
| Bank owned life insurance | 978 | 886 | 2,360 | 1,735 |
| Net securities gains (losses) | 14 | (61) | 21 | 1,084 |
| Gain on the sale of equity investment | 19,401 | - | 19,401 | - |
| Other | 3,356 | 2,324 | 5,702 | 5,506 |
| Total noninterest income | 46,027 | 25,537 | 72,304 | 50,766 |
| Noninterest expense | | | | |
| Salaries and employee benefits | 31,142 | 29,160 | 60,676 | 56,207 |
| Occupancy | 5,435 | 5,219 | 11,661 | 10,196 |
| Data processing and communications | 4,015 | 3,854 | 8,016 | 7,309 |
| Professional fees and outside services | 3,752 | 3,237 | 7,167 | 6,138 |
| Equipment | 3,132 | 2,910 | 6,248 | 5,492 |
| Office supplies and postage | 1,803 | 1,656 | 3,488 | 3,246 |
| FDIC expenses | 1,229 | 1,273 | 2,507 | 2,403 |
| Advertising | 726 | 1,000 | 1,465 | 1,723 |
| Amortization of intangible assets | 1,236 | 1,351 | 2,546 | 2,202 |
| Loan collection and other real estate owned | 801 | 421 | 1,841 | 1,139 |
| Merger expenses | - | 1,269 | - | 11,950 |
| Prepayment penalties on long-term debt | 4,554 | - | 4,554 | - |
| Other | 4,911 | 5,100 | 10,084 | 9,150 |
| Total noninterest expense | 62,736 | 56,450 | 120,253 | 117,155 |
| Income before income tax expense | 41,699 | 24,340 | 68,380 | 35,346 |
| Income tax expense | 14,059 | 7,424 | 22,731 | 10,781 |
| Net income | $27,640 | $16,916 | $45,649 | $24,565 |
| Earnings per share | | | | |
| Basic | $0.63 | $0.39 | $1.04 | $0.61 |

| | | | | |
|---|---|---|---|---|
| Diluted | $0.62 | $0.38 | $1.03 | $0.61 |

See accompanying notes to unaudited interim consolidated financial statements.

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| NBT Bancorp Inc. and Subsidiaries<br>Consolidated Statements of Comprehensive Income (unaudited)<br>(In thousands) | Three months ended June 30, 2014 | Three months ended June 30, 2013 | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|---|---|
| Net income | $27,640 | $16,916 | $45,649 | $24,565 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized net holding gains (losses) arising during the period (pre-tax amounts of $8,267, ($24,712), $16,892 and ($26,464)) | 4,992 | (14,923) | 10,200 | (15,978) |
| Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $14, ($61), $21 and $1,084) | (8) | 37 | (13) | (650) |
| Pension and other benefits: | | | | |
| Amortization of prior service cost and actuarial gains (pre-tax amounts of $19, $710, $38 and $1,536) | 11 | 426 | 23 | 922 |
| Total other comprehensive income (loss) | 4,995 | (14,460) | 10,210 | (15,706) |
| Comprehensive income | $32,635 | $2,456 | $55,859 | $8,859 |

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, 2012 | $ 393 | $ 346,692 | $ 357,558 | $ (5,880 ) | $ (116,490) | $ 582,273 |
| Net income | - | - | 24,565 | - | - | 24,565 |
| Cash dividends - $0.40 per share | - | - | (15,568 ) | - | - | (15,568 ) |
| Purchase of 267,425 treasury shares | - | - | - | - | (5,460 ) | (5,460 ) |
| Issuance of 10,346,363 shares, net of 408,957treasury shares, for acquisition | 104 | 225,447 | - | - | (5,779 ) | 219,772 |
| Net issuance of 89,338 shares to employee benefit plans and other stock plans, including tax benefit | - | (2,506 ) | - | - | 1,479 | (1,027 ) |
| Stock-based compensation | - | 2,726 | - | - | - | 2,726 |
| Other comprehensive loss | - | - | - | (15,706 ) | - | (15,706 ) |
| Balance at June 30, 2013 | $ 497 | $ 572,359 | $ 366,555 | $ (21,586 ) | $ (126,250) | $ 791,575 |
| | | | | | | |
| 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 |

See accompanying notes to unaudited interim consolidated financial statements.

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| NBT Bancorp Inc. and Subsidiaries<br>Consolidated Statements of Cash Flows (unaudited)<br>(In thousands, except per share data) | Six Months Ended June 30,<br>2014 | 2013 |
|---|---|---|
| Operating activities | | |
| Net income | $45,649 | $24,565 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Provision for loan losses | 7,762 | 12,060 |
| Depreciation and amortization of premises and equipment | 4,105 | 3,828 |
| Net accretion on securities | 1,883 | 2,811 |
| Amortization of intangible assets | 2,546 | 2,202 |
| Stock based compensation | 2,082 | 2,726 |
| Increase in surrender value of bank owned life insurance | (1,392) | (1,735) |
| Purchases of trading securities | (1,485) | (949) |
| Unrealized (gains) losses in trading securities | (91) | (225) |
| Deferred income tax benefit | (1,654) | (519) |
| Proceeds from sales of loans held for sale | 1,922 | 39,060 |
| Originations and purchases of loans held for sale | (3,701) | (40,233) |
| Net gains on sales of loans held for sale | (3) | (817) |
| Net security gains | (21) | (1,084) |
| Net gain on sales of other real estate owned | (212) | (571) |
| Gains on bank owned life insurance settlement | (414) | - |
| Gain on sale of equity investment | (19,401) | - |
| Prepayment penalties on long-term debt | 4,554 | - |
| Net decrease in other assets | 9,261 | 9,144 |
| Net decrease in other liabilities | (8,421) | (8,333) |
| Net cash provided by operating activities | 42,969 | 41,930 |
| Investing activities | | |
| Net cash used in acquisitions | - | 80,909 |
| Securities available for sale: | | |
| Proceeds from maturities, calls, and principal paydowns | 119,680 | 234,543 |
| Proceeds from sales | - | 26,236 |
| Purchases | (116,594) | (219,000) |
| Securities held to maturity: | | |
| Proceeds from maturities, calls, and principal paydowns | 14,835 | 16,822 |
| Purchases | (17,363) | (71,988) |
| Proceeds from FHLB stock redemption | 37,179 | - |
| Purchases of Federal Reserve and FHLB stock | (39,408) | (5,584) |
| Net increase in loans | (174,358) | (119,872) |
| Proceeds from settlement of bank owned life insurance | 765 | - |
| Purchases of premises and equipment | (3,498) | (2,272) |
| Proceeds from sales of other real estate owned | 1,919 | 2,122 |
| Proceeds from the sale of equity investment | 19,639 | - |
| Net cash used in investing activities | (157,204) | (58,084) |
| Financing activities | | |
| Net increase (decrease) in deposits | 152,364 | (19,593) |
| Net increase in short-term borrowings | 78,436 | 201,066 |
| Issuance of long-term debt | 120,000 | - |
| Repayments of long-term debt | (194,785) | (163,307) |
| Proceeds from the issuance of shares to employee benefit plans and other stock plans | 1,128 | (965) |

| | | |
|---|---|---|
| Purchase of treasury stock | (72 ) | (5,460 ) |
| Cash dividends and payment for fractional shares | (18,425 ) | (15,568 ) |
| Net cash provided by (used in) financing activities | 138,646 | (3,827 ) |
| Net increase (decrease) in cash and cash equivalents | 24,411 | (19,981 ) |
| Cash and cash equivalents at beginning of period | 158,926 | 163,668 |
| Cash and cash equivalents at end of period | $183,337 | $143,687 |

See accompanying notes to unaudited interim consolidated financial statements.

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| Supplemental disclosure of cash flow information | Six Months Ended June 30, | |
|---|---|---|
| Cash paid during the period for: | 2014 | 2013 |
| Interest | $13,405 | $16,853 |
| Income taxes paid | 19,496 | 4,525 |
| Noncash investing activities: | | |
| Loans transferred to other real estate owned | $785 | $3,031 |
| Acquisitions: | | |
| Fair value of assets acquired | $- | $1,503,810 |
| Fair value of liabilities assumed | - | 1,284,038 |

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, 2014

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 and NBT Statutory Trust II (collectively, the “Trusts”). The Company’s principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial and NBT Holdings.

The Company’s business, primarily conducted through the Bank but also through its other subsidiaries, consists of providing commercial banking and financial services to customers in its market area, which includes central and upstate New York, northeastern Pennsylvania, southern New Hampshire, western Massachusetts and the greater Burlington, Vermont area. The Company has been, and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company’s business philosophy is to operate as a community bank with local decision-making, principally in non-metropolitan markets, providing a broad array of banking and financial services to retail, commercial, and municipal customers.

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.” 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 2013 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, 2014 | | | | |
| U.S. Treasury | $33,129 | $ 195 | $ - | $33,324 |
| Federal Agency | 310,181 | 478 | 3,518 | 307,141 |
| State & municipal | 103,253 | 2,267 | 172 | 105,348 |
| Mortgage-backed: | | | | |
| Government-sponsored enterprises | 368,988 | 8,473 | 428 | 377,033 |
| U.S. government agency securities | 19,527 | 921 | 94 | 20,354 |
| Collateralized mortgage obligations: | | | | |
| Government-sponsored enterprises | 480,694 | 2,315 | 11,816 | 471,193 |
| U.S. government agency securities | 48,065 | 610 | 59 | 48,616 |
| Other securities | 12,962 | 3,025 | 197 | 15,790 |
| Total securities available for sale | $1,376,799 | $ 18,284 | $ 16,284 | $1,378,799 |
| December 31, 2013 | | | | |
| U.S. Treasury | $43,279 | $ 337 | $ - | $43,616 |
| Federal Agency | 285,880 | 343 | 7,308 | 278,915 |
| State & municipal | 113,435 | 1,842 | 1,612 | 113,665 |
| Mortgage-backed: | | | | |
| Government-sponsored enterprises | 337,666 | 5,788 | 2,131 | 341,323 |
| U.S. government agency securities | 21,924 | 1,002 | 85 | 22,841 |
| Collateralized mortgage obligations: | | | | |
| Government-sponsored enterprises | 521,257 | 1,777 | 18,141 | 504,893 |
| U.S. government agency securities | 43,943 | 794 | 102 | 44,635 |
| Other securities | 12,367 | 2,854 | 228 | 14,993 |
| Total securities available for sale | $1,379,751 | $ 14,737 | $ 29,607 | $1,364,881 |

Other securities primarily represent marketable equity securities.

There were no sales of securities available for sale during the six months ended June 30, 2014. Proceeds from the sales of securities available for sale were $26.2 million during the six months ended June 30, 2013, and gains on the sales were $1.1 million.

Securities with amortized costs totaling $1.4 billion at June 30, 2014 and $1.4 billion at December 31, 2013 were pledged to secure public deposits and for other purposes required or permitted by law. At June 30, 2014 and December 31, 2013, securities with an amortized cost of $225.9 million and $218.4 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, 2014 | | | | |
| Mortgage-backed | $ 853 | $ 125 | $ - | $ 978 |
| Collateralized mortgage obligations | 59,792 | - | 3,139 | 56,653 |
| State & municipal | 65,320 | 425 | - | 65,745 |
| Total securities held to maturity | $ 125,965 | $ 550 | $ 3,139 | $ 123,376 |
| December 31, 2013 | | | | |
| Mortgage-backed | $ 953 | $ 128 | $ - | $ 1,081 |
| Collateralized mortgage obligations | 62,025 | - | 4,569 | 57,456 |
| State & municipal | 54,305 | 442 | 8 | 54,739 |
| Total securities held to maturity | $ 117,283 | $ 570 | $ 4,577 | $ 113,276 |

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The following table sets forth information with regard to investment securities with unrealized losses at June 30, 2014 and December 31, 2013:

| | 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, 2014 Investment securities available for sale: | | | | | | | | | |
| Federal agency | $14,584 | (17) | 2 | $227,183 | $(3,501) | 19 | $241,767 | $(3,518) | 21 |
| State & municipal | 8,256 | (22) | 28 | 20,416 | (150) | 70 | 28,672 | (172) | 98 |
| Mortgage-backed | 1,523 | (6) | 12 | 49,695 | (516) | 36 | 51,218 | (522) | 48 |
| Collateralized mortgage obligations | 89,915 | (542) | 12 | 269,579 | (11,333) | 23 | 359,494 | (11,875) | 35 |
| Other securities | 2,553 | (34) | 1 | 3,191 | (163) | 2 | 5,744 | (197) | 3 |
| Total securities with unrealized losses | $116,831 | $(621) | 55 | $570,064 | $(15,663) | 150 | $686,895 | $(16,284) | 205 |
| June 30, 2014 Investment securities held to maturity: | | | | | | | | | |
| Collateralized mortgage obligations | 56,653 | (3,139) | 5 | - | - | - | $56,653 | (3,139) | 5 |
| December 31, 2013 Investment securities available for sale: | | | | | | | | | |
| Federal agency | $233,935 | $(6,927) | 20 | $9,619 | $(381) | 1 | $243,554 | $(7,308) | 21 |
| State & municipal | 50,328 | (1,612) | 177 | - | - | - | 50,328 | (1,612) | 177 |
| Mortgage-backed | 143,080 | (2,216) | 79 | - | - | - | 143,080 | (2,216) | 79 |
| Collateralized mortgage obligations | 379,273 | (18,243) | 36 | - | - | - | 379,273 | (18,243) | 36 |
| Other securities | 5,490 | (203) | 2 | 223 | (25) | 1 | 5,713 | (228) | 3 |
| Total securities with unrealized losses | $812,106 | $(29,201) | 314 | $9,842 | $(406) | 2 | $821,948 | $(29,607) | 316 |
| December 31, 2013 Investment securities held to maturity: | | | | | | | | | |
| Collateralized mortgage obligations | $57,456 | $(4,569) | 5 | $- | $- | - | $57,456 | $(4,569) | 5 |
| State & municipal | 1,012 | (8) | 1 | - | - | - | 1,012 | (8) | 1 |
| Total securities with unrealized losses | $58,468 | $(4,577) | 6 | $- | $- | - | $58,468 | $(4,577) | 6 |

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Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses or in other comprehensive income, depending on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the historical and implied volatility of the fair value of the security.

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, 2014, 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, 2014, 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, 2014:

| (In thousands) | Amortized cost | Estimated fair value |
|---|---|---|
| Debt securities classified as available for sale | | |
| Within one year | $29,964 | $30,109 |
| From one to five years | 359,226 | 358,895 |
| From five to ten years | 215,602 | 220,020 |
| After ten years | 759,045 | 753,985 |
| | $1,363,837 | $1,363,009 |
| Debt securities classified as held to maturity | | |
| Within one year | $30,983 | $31,083 |
| From one to five years | 17,462 | 17,651 |
| From five to ten years | 15,636 | 15,772 |
| After ten years | 61,884 | 58,870 |
| | $125,965 | $123,376 |

Maturities of mortgage-backed, collateralized mortgage obligations and asset-backed securities 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.

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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, 2014.

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 risk of probable 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 – 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 fixed home equity loans as well as 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 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 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, 2014 and 2013:

| Three months ended June 30 | Commercial Loans | Consumer Loans | Residential Real Estate Mortgages | Unallocated | Total |
|---|---|---|---|---|---|
| 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 |
| | | | | | |
| Balance as of March 31, 2013 | $ 35,358 | $ 26,285 | $ 6,708 | $ 383 | $ 68,734 |
| Charge-offs | (1,198) | (3,653) | (302) | - | (5,153) |
| Recoveries | 416 | 696 | 89 | - | 1,201 |
| Provision | 3,128 | 3,128 | 311 | (165) | 6,402 |
| Ending Balance as of June 30, 2013 | $ 37,704 | $ 26,456 | $ 6,806 | $ 218 | $ 71,184 |

| Six months ended June 30, | Commercial Loans | Consumer Loans | Residential Real Estate Mortgages | Unallocated | Total |
|---|---|---|---|---|---|
| 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 |
| | | | | | |
| Balance as of December 31, 2012 | $ 35,624 | $ 27,162 | $ 6,252 | $ 296 | $ 69,334 |
| Charge-offs | (4,520) | (7,376) | (973) | - | (12,869) |
| Recoveries | 883 | 1,673 | 103 | - | 2,659 |
| Provision | 5,717 | 4,997 | 1,424 | (78) | 12,060 |
| Ending Balance as of June 30, 2013 | $ 37,704 | $ 26,456 | $ 6,806 | $ 218 | $ 71,184 |

For acquired loans, to the extent that we experience deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.  As of June 30, 2014, included in the above tables, there was $1.5 million in the allowance for loan losses related to an acquired commercial loan.  There was no allowance as of June 30, 2013 related to acquired loans.  Net charge-offs related to acquired loans totaled approximately $0.1 million and $0.2 million during the three months ended June 30, 2014 and 2013, respectively, and are included in the table above.  Net charge-offs related to acquired loans totaled approximately $0.2 million and $0.4 million during the six months ended June 30, 2014 and 2013, 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, 2014 and December 31, 2013:

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, 2014 | | | | | |
| Allowance for loan losses | $35,123 | $27,973 | $6,205 | $ 233 | $69,534 |
| Allowance for loans individually evaluated for impairment | 2,100 | - | - | | 2,100 |
| Allowance for loans collectively evaluated for impairment | $33,023 | $27,973 | $6,205 | $ 233 | $67,434 |
| Ending balance of loans | $2,476,246 | $2,025,035 | $1,073,207 | | $5,574,488 |
| Ending balance of originated loans individually evaluated for impairment | 13,874 | 5,600 | 2,738 | | 22,212 |
| Ending balance of acquired loans individually evaluated for impairment | 9,672 | - | - | | 9,672 |
| Ending balance of acquired loans collectively evaluated for impairment | 367,818 | 179,253 | 289,405 | | 836,476 |
| Ending balance of originated loans collectively evaluated for impairment | $2,084,882 | $1,840,182 | $781,064 | | $4,706,128 |
| As of December 31, 2013 | | | | | |
| Allowance for loan losses | $35,090 | $27,694 | $6,520 | $ 130 | $69,434 |
| Allowance for loans individually evaluated for impairment | 715 | - | - | | 715 |
| Allowance for loans collectively evaluated for impairment | $34,375 | $27,694 | $6,520 | $ 130 | $68,719 |
| Ending balance of loans | $2,392,621 | $1,972,537 | $1,041,637 | | $5,406,795 |
| Ending balance of originated loans individually evaluated for impairment | 16,120 | 3,248 | 2,012 | | 21,380 |
| Ending balance of acquired loans individually evaluated for impairment | 10,060 | - | - | | 10,060 |
| Ending balance of acquired loans collectively evaluated for impairment | 392,329 | 219,587 | 308,416 | | 920,332 |
| Ending balance of originated loans collectively evaluated for impairment | $1,974,112 | $1,749,702 | $731,209 | | $4,455,023 |

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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. Loans are transferred to nonaccrual status generally 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. When in the opinion of management the collection of principal appears unlikely, the loan balance is charged-off in total or in part. 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 table illustrates the Company’s nonaccrual loans by loan class:

Loans on Nonaccrual Status as of:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| ORIGINATED | | |
| Commercial Loans | | |
| Commercial | $3,885 | $ 3,669 |
| Commercial Real Estate | 6,616 | 7,834 |
| Agricultural | 1,343 | 1,135 |
| Agricultural Real Estate | 1,590 | 961 |
| Business Banking | 6,008 | 5,701 |
| | 19,442 | 19,300 |
| Consumer Loans | | |
| Indirect | 1,359 | 1,461 |
| Home Equity | 7,772 | 5,931 |
| Direct | 67 | 86 |
| | 9,198 | 7,478 |
| Residential Real Estate Mortgages | 7,711 | 7,105 |
| | $36,351 | $ 33,883 |
| ACQUIRED | | |
| Commercial Loans | | |
| Commercial | $6,339 | $ 6,599 |
| Commercial Real Estate | 3,429 | 3,559 |
| Business Banking | 954 | 1,340 |
| | 10,722 | 11,498 |
| Consumer Loans | | |
| Indirect | 118 | 93 |
| Home Equity | 514 | 570 |
| Direct | 31 | 49 |
| | 663 | 712 |
| Residential Real Estate Mortgages | 3,498 | 3,872 |
| | $14,883 | $ 16,082 |
| TOTAL NONACCRUAL LOANS | $51,234 | $ 49,965 |

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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, 2014 and December 31, 2013:

Age Analysis of Past Due Financing Receivables
As of June 30, 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 | $ 53 | $ - | $ - | $ 53 | $ 3,885 | $ 653,268 | $ 657,206 |
| Commercial Real Estate | - | - | - | - | 6,616 | 994,773 | 1,001,389 |
| Agricultural | 170 | - | - | 170 | 1,343 | 55,572 | 57,085 |
| Agricultural Real Estate | 4 | - | - | 4 | 1,590 | 40,768 | 42,362 |
| Business Banking | 869 | 451 | - | 1,320 | 6,008 | 333,386 | 340,714 |
| | 1,096 | 451 | - | 1,547 | 19,442 | 2,077,767 | 2,098,756 |
| Consumer Loans | | | | | | | |
| Indirect | 12,444 | 2,015 | 1,100 | 15,559 | 1,359 | 1,265,140 | 1,282,058 |
| Home Equity | 4,470 | 995 | 839 | 6,304 | 7,772 | 494,123 | 508,199 |
| Direct | 529 | 138 | 27 | 694 | 67 | 54,764 | 55,525 |
| | 17,443 | 3,148 | 1,966 | 22,557 | 9,198 | 1,814,027 | 1,845,782 |
| Residential Real Estate Mortgages | 3,082 | 594 | 119 | 3,795 | 7,711 | 772,296 | 783,802 |
| | $ 21,621 | $ 4,193 | $ 2,085 | $ 27,899 | $ 36,351 | $ 4,664,090 | $ 4,728,340 |