AES CORP
Form 3
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FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â BODMAN SAMUEL W III
(Last) (First) (Middle)

4300 WILSON BOULEVARD
(Street)

ARLINGTON,Â VAÂ 22203
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
04/23/2009

3. Issuer Name **and** Ticker or Trading Symbol
AES CORP [AES]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	121,000	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)		3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)		4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of			

Shares	(I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BODMAN SAMUEL W III 4300 WILSON BOULEVARD ARLINGTON,Â VAÂ 22203	Â X	Â	Â	Â

Signatures

Samuel W. Bodman, III	04/27/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ompany are amortized using the sum-of-the-years'-digits method. Covenants not to compete are amortized on a straight-line basis. Customer lists are amortized using an accelerated method.

When facts and circumstances indicate potential impairment of amortizable intangible assets, the Company evaluates the recoverability of the asset carrying value, using estimates of undiscounted future cash flows over the remaining asset life. Any impairment loss is measured by the excess of carrying value over fair value. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. In these tests, the fair values of each reporting unit, or segment, is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated. If so, the implied fair value of the reporting unit's goodwill is compared to its carrying amount and the impairment loss is measured by the excess of the carrying value over fair value.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain employees, key executives and directors. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Treasury Stock

Treasury stock acquisitions are recorded at cost. Subsequent sales of treasury stock are recorded on an average cost basis. Gains on the sale of treasury stock are credited to additional paid-in-capital. Losses on the sale of treasury stock are charged to additional paid-in-capital to the extent of previous gains, otherwise charged to retained earnings.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense.

Tax positions are recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Stock-Based Compensation

We maintain various long-term incentive stock benefit plans under which we grant stock options, restricted stock awards, and restricted stock units to certain directors and key employees. We recognize compensation expense in our income statement over the requisite service period, based on the grant-date fair value of the award. For restricted stock awards and units, we recognize compensation expense ratably over the vesting period for the fair value of the award, measured at the grant date. The fair values of options are estimated using the Black-Scholes option pricing model.

The Company's stock-based employee compensation plan is described in Note 14 "Stock-Based Compensation," of this Report.

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Interest Rate Swaps

The Bank offers interest rate swap agreements to its customers. These agreements allow the Bank's customers to effectively fix the interest rate on a variable rate loan by entering into a separate agreement. Simultaneous with the execution of such an agreement with a customer, the Bank enters into a matching interest rate swap agreement with an unrelated third party provider, which allows the Bank to continue to receive the historical variable rate under the loan agreement with the customer. The agreement with the third party is not a hedge contract therefore changes in fair value are recorded through earnings. Assets and liabilities associated with the agreements are recorded in other assets and other liabilities on the balance sheet. Gains and losses are recorded as other noninterest income. The Bank is not subject to any fee or penalty should the customer elect to terminate the interest rate swap agreement prior to maturity. The Bank is exposed to credit loss equal to the fair value of the derivatives (not the notional amount of the derivatives) in the event of nonperformance by the counterparty to the interest rate swap agreements. Additionally, the Bank receives a fee from the customer that is recognized when the Bank has fulfilled its obligations under each agreement, which is generally upon execution of the agreement with the Bank's customer. Since the terms of the forty one interest rate swap agreements with the customers are identical to the related swaps with the third party, the income statement impact to the Bank is generally limited to the fees it receives from the customer.

Other Financial Instruments

The Company is a party to certain other financial instruments with off-balance-sheet risk such as commitments to extend credit, unused lines of credit, as well as certain mortgage loans sold to investors with recourse. The Company's policy is to record such instruments when funded.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit typically have one year expirations with an option to renew upon annual review. The Company typically receives a fee for these transactions. The fair value of stand-by letters of credit is recorded upon inception.

Loan Sales and Loan Servicing

Loan sales are recorded when the sales are funded. Mortgage servicing rights are recorded at fair value upon sale of the loan. Loans held for sale are recorded at the lower of cost or market.

Repurchase Agreements

Repurchase agreements are accounted for as secured financing transactions since the Company maintains effective control over the transferred securities and the transfer meets the other criteria for such accounting. Obligations to repurchase securities sold are reflected as a liability in the Consolidated Balance Sheets. The securities underlying the agreements are delivered to a custodial account for the benefit of the dealer or bank with whom each transaction is executed. The dealers or banks, who may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations, agree to resell to the Company the same securities at the maturities of the agreements.

Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as the Company's dilutive stock options and restricted stock).

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure and there were none identified.

Comprehensive Income

At the Company, comprehensive income represents net income plus other comprehensive income (loss), which consists primarily of the net change in unrealized gains or losses on securities available for sale for the period and changes in the funded status of employee benefit plans. Accumulated other comprehensive (loss) income represents the net unrealized gains or losses on securities available for sale and the previously unrecognized portion of the funded status of employee benefit plans, net of income taxes, as of the consolidated balance sheet dates.

Pension Costs

The Company maintains a noncontributory, defined benefit pension plan covering substantially all employees, as well as supplemental employee retirement plans covering certain executives and a defined benefit postretirement healthcare plan that covers certain employees. Costs associated with these plans, based on actuarial computations of current and future benefits for employees, are charged to current operating expenses.

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Trust Operations

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Company. Trust income is recognized on the accrual method based on contractual rates applied to the balances of trust accounts.

Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are not adjusted for transaction costs. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. The Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid agency securities, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate will be used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

(2) Acquisitions

Acquisition of Alliance Financial Corporation

On March 8, 2013, the Company acquired Alliance Financial Corporation ("Alliance"), the parent company of Alliance Bank, N.A., for total consideration of $226 million. As part of the acquisition, Alliance was merged with and into the Company and Alliance Bank, with 26 branch locations in the central New York counties of Onondaga, Cortland, Madison, Oneida and Oswego, was merged with and into the Bank. The merger with Alliance enabled the Company to expand its footprint into demographically attractive and contiguous markets located in the aforementioned New York counties. Alliance operations were integrated into the Company and were included in the Consolidated Statements of Income from the date of acquisition.

In 2015, the Company acquired Third Party Administrators, Inc. ("TPA"), a retirement plan administration company for total consideration of $4.1 million. As part of the acquisition, the Company recorded goodwill of approximately $2.3 million.

Other Goodwill Adjustments

During the twelve months ended December 31, 2014, the Company recorded deferred tax adjustments totaling approximately ($1.0) million and valuation adjustments totaling ($0.4) related to the 2013 acquisition of Alliance resulting in a decrease in goodwill of approximately ($1.4) million in 2014.

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(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
December 31, 2015				
Federal agency	$312,580	$ 203	$ 1,511	$311,272
State & municipal	31,208	446	17	31,637
Mortgage-backed:				
Government-sponsored enterprises	398,086	4,141	1,068	401,159
U.S. government agency securities	8,191	560	14	8,737
Collateralized mortgage obligations:				
Government-sponsored enterprises	364,936	931	1,828	364,039
U.S. government agency securities	40,699	348	115	40,932
Other securities	13,637	3,249	118	16,768
Total securities available for sale	$1,169,337	$ 9,878	$ 4,671	$1,174,544
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 securities	17,367	863	66	18,164
Collateralized mortgage obligations:				
Government-sponsored enterprises	199,837	1,828	234	201,431
U.S. government 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

The following table sets forth information with regard to sales transactions of securities available for sale:

	Years ended December 31		
(In thousands)	2015	2014	2013
Proceeds from sales	$15,091	$189	$27,593
Gross realized gains	3,034	49	1,283
Net securities gains	$3,034	$49	$1,283

In addition to gains (losses) from sales transactions, the Company also recorded gains from calls on securities available for sale of approximately $0.1 million for the year ended December 31, 2015, $0.1 million for the year ended December 31, 2014, and $0.1 million for the year ended December 31, 2013.

At December 31, 2015 and 2014, securities available for sale and held to maturity with amortized costs totaling $1.4 billion and $1.4 billion, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at December 31, 2015, securities available for sale and held to maturity with an amortized cost of $205.9 million were pledged as collateral for securities sold under the repurchase agreements.

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

(In thousands)	Amortized	Unrealized	Unrealized	Estimated

	cost	gains	losses	fair value
December 31, 2015				
Mortgage-backed				
Government-sponsored enterprises	$ 9,432	-	$ 107	$ 9,325
U.S. government agency securities	611	95	-	706
Collateralized mortgage obligations				
Government-sponsored enterprises	272,550	1,411	1,560	272,401
State & municipal	188,438	2,288	18	190,708
Total securities held to maturity	$ 471,031	$ 3,794	$ 1,685	$ 473,140
December 31, 2014				
Mortgage-backed				
U.S. government agency securities	$ 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

At December 31, 2015 and 2014, all of the mortgaged-backed securities held to maturity were comprised of U.S. government agency securities.

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The following table sets forth information with regard to investment securities with unrealized losses at December 31, 2015 and 2014, segregated according to the length of time the securities had been in a continuous unrealized loss position:

	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
December 31, 2015									
Investment securities available for sale:									
Federal agency	$186,685	$(1,312)	15	$19,801	$(199)	2	$206,486	$(1,511)	17
State & municipal	4,599	(14)	7	502	(3)	1	5,101	(17)	8
Mortgage-backed	177,270	(1,068)	33	1,066	(14)	5	178,336	(1,082)	38
Collateralized mortgage obligations	256,265	(1,889)	24	5,218	(54)	2	261,483	(1,943)	26
Other securities	-	-	-	3,235	(118)	2	3,235	(118)	2
Total securities with unrealized losses	$624,819	$(4,283)	79	$29,822	$(388)	12	$654,641	$(4,671)	91
December 31, 2015									
Investment securities held to maturity:									
Mortgage-backed	$9,325	$(107)	1	$-	$-	-	$9,325	$(107)	1
Collateralized mortgage obligations	105,604	(281)	12	41,523	(1,279)	4	147,127	(1,560)	16
State & municipal	2,200	(18)	3	-	-	-	2,200	(18)	3
Total securities with unrealized losses	$117,129	$(406)	16	$41,523	$(1,279)	4	$158,652	$(1,685)	20
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

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 December 31, 2015, management also had 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 December 31, 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.

During 2014, the Company transferred approximately $340 million in securities from the available for sale portfolio to the held to maturity portfolio, which had unrealized losses at the time of transfer of approximately $8.3 million. This unrealized loss is amortized into interest income over the lives of the transferred securities.

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The following tables set forth information with regard to contractual maturities of debt securities at December 31, 2015:

(In thousands)	Amortized cost	Estimated fair value
Debt securities classified as available for sale		
Within one year	$3,462	$3,502
From one to five years	348,921	348,512
From five to ten years	147,139	149,185
After ten years	656,178	656,577
	$1,155,700	$1,157,776
Debt securities classified as held to maturity		
Within one year	$43,624	$43,641
From one to five years	14,179	14,226
From five to ten years	113,799	115,691
After ten years	299,429	299,582
	$471,031	$473,140

Maturities of mortgage-backed, CMOs 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.

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 December 31, 2015 and December 31, 2014.

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(4) Loans

A summary of loans, net of deferred fees and origination costs, by category is as follows:

	At December 31,	
(In thousands)	2015	2014
Residential real estate mortgages	$1,196,780	$1,115,715
Commercial	1,159,089	1,144,761
Commercial real estate	1,430,618	1,334,984
Consumer	1,568,204	1,430,216
Home equity	528,442	569,595
Total loans	$5,883,133	$5,595,271

Included in the above loans are net deferred loan origination costs totaling $38.7 million and $35.6 million at December 31, 2015 and 2014, respectively. The Company had no residential loans held for sale as of December 31, 2015 and $3.2 million as of December 31, 2014.

At December 31, 2015 and 2014, the Company serviced $25.1 million and $23.4 million, respectively, of agricultural loans sold with recourse. Due to sufficient collateral on these loans, no reserve is considered necessary at December 31, 2015 and 2014.

FHLB advances are collateralized by a blanket lien on the Company's residential real estate mortgages.

In the ordinary course of business, the Company has made loans at prevailing rates and terms to directors, officers, and other related parties. Such loans, in management's opinion, do not present more than the normal risk of collectability or incorporate other unfavorable features. The aggregate amount of loans outstanding to qualifying related parties and changes during the years are summarized as follows:

(In thousands)	2015	2014
Balance at January 1	$3,576	$3,372
New loans	390	522
Adjustment due to change in composition of related parties	(265)	253
Repayments	(1,355)	(571)
Balance at December 31	$2,346	$3,576

(5) 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	

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COMMERCIAL LOANS

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 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 by the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable and is generally less liquid than real estate. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers.

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 property which generally consists of real estate 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. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. These loans are typically 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 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. Agricultural real estate loans are made to finance the purchases and improvements of farm properties that generally consist of 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. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. 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 small business customers including term loans, small business mortgages and lines of credit. Such loans are generally less than $500 thousand 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

Indirect – The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the company finances the purchases of automobiles and recreational vehicles (such as campers, boats, etc.) indirectly through dealer relationships. Approximately 70% 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 borrower 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 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.

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 LOANS

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. When market conditions are favorable, for longer term, fixed-rate residential mortgages without escrow, the Company retains the servicing, but sells the right to receive principal and interest to Freddie Mac when market conditions are favorable. This practice allows the Company to manage interest rate risk, liquidity risk, and credit risk. 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. 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.

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Allowance for Loan Loss Calculation

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the inherent uncertainty in evaluating the levels of the allowance required to cover credit losses in the portfolio and the material effect that such judgments can have on the consolidated results of operations.

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 to the allowance for loan losses are made periodically by charges to the provision for loan losses. These charges 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 to 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.

The following table illustrates the changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2015, 2014 and 2013:

Allowance for Loan Losses
(in thousands)

	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	(5,718)	(18,140)	(2,229)	-	(26,087)
Recoveries	1,014	3,127	320	-	4,461
Provision	(2,184)	17,546	2,739	184	18,285
Ending Balance as of December 31, 2015	$ 25,545	$ 29,253	$ 7,960	$ 260	$ 63,018
Balance as of December 31, 2013	$ 35,090	$ 27,694	$ 6,520	$ 130	$ 69,434
Charge-offs	(9,414)	(16,642)	(1,417)	-	(27,473)
Recoveries	1,774	2,800	285	-	4,859
Provision	4,983	12,868	1,742	(54)	19,539
Ending Balance as of December 31, 2014	$ 32,433	$ 26,720	$ 7,130	$ 76	$ 66,359
Balance as of December 31, 2012	$ 35,624	$ 27,162	$ 6,252	$ 296	$ 69,334
Charge-offs	(10,459)	(15,459)	(1,771)	-	(27,689)
Recoveries	1,957	3,136	272	-	5,365
Provision	7,968	12,855	1,767	(166)	22,424
Ending Balance as of December 31, 2013	$ 35,090	$ 27,694	$ 6,520	$ 130	$ 69,434

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. The allowance for loan losses for the acquired loan portfolio totaled $0.7 million and $0.5 as of December 31, 2015 and December 31, 2014, respectively. Net charge-offs related to acquired loans totaled approximately $2.7 million and $4.8 million during the years ended December 31, 2015 and December 31, 2014, respectively, and are included in the table above.

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The following table illustrates the allowance for loan losses and the recorded investment by portfolio segment as of December 31, 2015 and 2014:

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

	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Unallocated	Total
As of December 31, 2015					
Allowance for loan losses	$25,545	$29,253	$7,960	$ 260	$63,018
Allowance for loans individually evaluated for impairment	2,005	-	-		2,005
Allowance for loans collectively evaluated for impairment	$23,540	$29,253	$7,960	$ 260	$61,013
Ending balance of loans	$2,589,707	$2,096,646	$1,196,780		$5,883,133
Ending balance of originated loans individually evaluated for impairment	12,253	7,693	6,017		25,963
Ending balance of acquired loans individually evaluated for impairment	1,205	-	-		1,205
Ending balance of acquired loans collectively evaluated for impairment	284,524	95,427	230,358		610,309
Ending balance of originated loans collectively evaluated for impairment	$2,291,725	$1,993,526	$960,405		$5,245,656
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	$2,479,745	$1,999,811	$1,115,715		$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
	$2,135,335	$1,847,057	$845,424		$4,827,816

Ending balance of originated loans collectively evaluated for impairment

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Explanation of Responses:

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The following table sets forth information with regard to past due and nonperforming loans by loan class:

Age Analysis of Past Due Financing Receivables
As of December 31, 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	$ 782	$ 23	$ -	$ 805	$ 2,817	$ 640,696	$ 644,318
Commercial Real Estate	39	32	-	71	5,546	1,189,280	1,194,897
Agricultural	94	-	-	94	897	33,633	34,624
Agricultural Real Estate	-	-	-	-	1,046	28,172	29,218
Business Banking	912	394	-	1,306	4,247	395,368	400,921
	1,827	449	-	2,276	14,553	2,287,149	2,303,978
Consumer Loans							
Indirect	15,731	2,963	2,271	20,965	1,786	1,454,499	1,477,250
Home Equity	3,396	1,671	340	5,407	4,835	454,473	464,715
Direct	425	201	28	654	49	58,551	59,254
	19,552	4,835	2,639	27,026	6,670	1,967,523	2,001,219
Residential Real Estate							
Mortgages	3,301	365	696	4,362	7,713	954,347	966,422
	$ 24,680	$ 5,649	$ 3,335	$ 33,664	$ 28,936	$ 5,209,019	$ 5,271,619
ACQUIRED							
Commercial Loans							
Commercial	$ -	$ -	$ -	$ -	$ -	$ 68,991	$ 68,991
Commercial Real Estate	-	-	-	-	1,313	165,630	166,943
Business Banking	288	-	-	288	307	49,200	49,795
	288	-	-	288	1,620	283,821	285,729
Consumer Loans							
Indirect	143	11	1	155	104	27,516	27,775
Home Equity	327	132	-	459	457	62,811	63,727
Direct	76	20	-	96	43	3,786	3,925
	546	163	1	710	604	94,113	95,427
Residential Real Estate							
Mortgages	1,443	293	326	2,062	2,584	225,712	230,358
	$ 2,277	$ 456	$ 327	$ 3,060	$ 4,808	$ 603,646	$ 611,514
Total Loans	$ 26,957	$ 6,105	$ 3,662	$ 36,724	$ 33,744	$ 5,812,665	$ 5,883,133

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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	1,256	4,253	8,770	835,819	848,842
	$ 25,496	$ 5,805	$ 4,204	$ 35,505	$ 30,845	$ 4,781,587	$ 4,847,937
ACQUIRED							
Commercial Loans							
Commercial	$ -	$ -	$ -	$ -	$ 3,009	$ 72,255	$ 75,264
Commercial Real Estate	-	-	-	-	2,666	197,222	199,888
Business Banking	5	15	-	20	665	57,494	58,179
	5	15	-	20	6,340	326,971	333,331
Consumer Loans							
Indirect	518	5	54	577	106	64,540	65,223
Home Equity	190	60	5	255	557	75,904	76,716
Direct	31	-	7	38	33	5,246	5,317
	739	65	66	870	696	145,690	147,256
Residential Real Estate							
Mortgages	1,162	265	671	2,098	3,193	261,456	266,747
	$ 1,906	$ 345	$ 737	$ 2,988	$ 10,229	$ 734,117	$ 747,334
Total Loans	$ 27,402	$ 6,150	$ 4,941	$ 38,493	$ 41,074	$ 5,515,704	$ 5,595,271

There were no material commitments to extend further credit to borrowers with nonperforming loans.

The methodology used to establish the allowance for loan losses on impaired loans incorporates specific allocations on loans analyzed individually. Classified loans, including all TDRs and nonaccrual commercial loans that are graded substandard or below, with outstanding balances of $500 thousand or more are evaluated for impairment through the

Company's quarterly status review process. In determining that we will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreements, we consider factors such as payment history and changes in the financial condition of individual borrowers, local economic conditions, historical loss experience and the conditions of the various markets in which the collateral may be liquidated. For loans that are evaluated for impairment, impairment is measured by one of three methods: 1) the fair value of collateral less cost to sell, 2) present value of expected future cash flows or 3) the loan's observable market price. These impaired loans are reviewed on a quarterly basis for changes in the measurement of impairment. For impaired loans measured using the present value of expected cash flow method, any change to the previously recognized impairment loss is recognized as a change to the allowance account and recorded in the consolidated statement of income as a component of the provision for credit losses.

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The following provides additional information on loans specifically evaluated for impairment for the years ended December 31, 2015 and 2014

Impaired Loans

	December 31, 2015			December 31, 2014		
(in thousands)	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance
ORIGINATED						
With no related allowance recorded:						
Commercial Loans						
Commercial	$2,244	$2,490		$1,748	$1,901	
Commercial Real Estate	3,165	3,175		4,505	4,520	
Agricultural	576	1,164		20	26	
Agricultural Real Estate	618	744		1,147	1,441	
Business Banking	983	1,033		896	1,301	
Total Commercial Loans	7,586	8,606		8,316	9,189	
Consumer Loans						
Indirect	12	21		-	-	
Home Equity	7,681	8,574		5,498	6,033	
Total Consumer Loans	7,693	8,595		5,498	6,033	
Residential Real Estate Mortgages	6,017	6,627		3,544	3,959	
Total	21,296	23,828		17,358	19,181	
With an allowance recorded:						
Commercial Loans						
Commercial	457	457	300	-	-	-
Commercial Real Estate	4,210	6,059	970	2,763	4,611	600
Total Commercial Loans	4,667	6,516	1,270	2,763	4,611	600
ACQUIRED						
With no related allowance recorded:						
Commercial Loans						
Commercial Real Estate	-	-		2,666	3,830	
Total Commercial Loans	-	-		2,666	3,830	
With an allowance recorded:						
Commercial Loans						
Commercial	1,205	1,321	735	3,009	4,668	500
Total	$27,168	$31,665	$ 2,005	$25,796	$32,290	$ 1,100

The following table summarizes the average recorded investments on loans specifically evaluated for impairment and the interest income recognized for the years ended December 31, 2015, 2014 and 2013:

	December 31, 2015		December 31, 2014		December 31, 2013	
(in thousands)	Average Recorded	Interest Income	Average Recorded	Interest Income	Average Recorded	Interest Income

	Investment	Recognized Accrual	Investment	Recognized Accrual	Investment	Recognized Accrual
ORIGINATED						
Commercial Loans						
Commercial	$2,219	$ 71	$1,954	$ 115	$3,488	$ -
Commercial Real Estate	8,538	164	9,679	169	11,085	95
Agricultural	148	1	91	1	1,035	1
Agricultural Real Estate	628	45	1,346	46	1,067	47
Business Banking	960	21	610	55	127	61
Consumer Loans						
Home Equity	7,070	374	5,198	267	3,120	145
Residential Real Estate Mortgages	5,128	219	3,039	119	2,085	69
ACQUIRED						
Commercial Loans						
Commercial	2,045	-	5,756	-	-	-
Commercial Real Estate	5,734	-	3,386	-	1,310	-
Total	$32,470	$ 895	$31,059	$ 772	$23,317	$ 418

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While we continue to adhere to prudent underwriting standards, as a lender we may be adversely impacted by general economic weaknesses and, in particular, a sharp downturn in the housing market nationally. Decreases in real estate values could adversely affect the value of property used as collateral for our loans. Adverse changes in the economy may have a negative effect on the ability of our borrowers to make timely loan payments, which would have an adverse impact on our earnings. A further increase in loan delinquencies would decrease our net interest income and adversely impact our loan loss experience, causing increases in our provision and allowance for loan losses.

The Company has developed an internal loan grading system to evaluate and quantify the Bank's loan portfolio with respect to quality and risk. The system focuses on, among other things, financial strength of borrowers, experience and depth of management, primary and secondary sources of repayment, payment history, nature of the business, outlook on particular industries. The internal grading system enables the Company to monitor the quality of the entire loan portfolio on a continuous basis and provide management with an early warning system, enabling recognition and response to problem loans and potential problem loans.

Commercial Grading System

For commercial and agricultural loans, the Company uses a grading system that relies on quantifiable and measurable characteristics when available. This would include comparison of financial strength to available industry averages, comparison of transaction factors (loan terms and conditions) to loan policy, and comparison of credit history to stated repayment terms and industry averages. Some grading factors are necessarily more subjective such as economic and industry factors, regulatory environment, and management. The grading system for commercial and agricultural loans is as follows:

Doubtful

A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information. Because of high probability of loss, nonaccrual treatment is required for doubtful assets.

Substandard

Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some substandard loans, the likelihood of full collection of interest and principal may be in doubt and should be placed on nonaccrual. Although substandard assets in the aggregate will have a distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be rated substandard.

Special Mention

Special Mention loans have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the Company's position at some future date. These loans pose elevated risk, but their weakness does not yet justify a substandard classification. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or may be struggling with an ill-proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Although a Special Mention loan has a higher probability of default than a pass asset, its default is not imminent.

Pass

Loans graded as Pass encompass all loans not graded as Doubtful, Substandard, or Special Mention. Pass loans are in compliance with loan covenants, and payments are generally made as agreed. Pass loans range from superior quality to fair quality.

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Business Banking Grading System

Business Banking loans are graded as either Classified or Non-classified:

Classified

Classified loans are inadequately protected by the current worth and paying capacity of the obligor or, if applicable, the collateral pledged. These loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt, or in some cases make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Classified loans have a high probability of payment default, or a high probability of total or substantial loss. These loans require more intensive supervision by management and are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. When the likelihood of full collection of interest and principal may be in doubt; classified loans are considered to have a nonaccrual status. In some cases, classified loans are considered uncollectible and of such little value that their continuance as assets is not warranted.

Non-classified

Loans graded as Non-classified encompass all loans not graded as Classified. Non-classified loans are in compliance with loan covenants, and payments are generally made as agreed.

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Consumer and Residential Mortgage Grading System

Consumer and Residential Mortgage loans are graded as either Performing or Nonperforming. Nonperforming loans are loans that are 1) over 90 days past due and interest is still accruing or 2) on nonaccrual status. All loans not meeting any of these three criteria are considered Performing.

The following tables illustrate the Company's credit quality by loan class for the years ended December 31, 2015 and 2014:

Credit Quality Indicators
December 31, 2015
(In thousands)
ORIGINATED
Commercial Credit Exposure

By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
Pass	$ 604,405	$ 1,144,832	$ 33,565	$ 27,320	$ 1,810,122
Special Mention	9,726	21,587	311	429	32,053
Substandard	30,187	28,478	740	1,469	60,874
Doubtful	-	-	8	-	8
Total	$ 644,318	$ 1,194,897	$ 34,624	$ 29,218	$ 1,903,057

Business Banking Credit Exposure

By Internally Assigned Grade:	Business Banking	Total
Non-classified	$ 386,397	$ 386,397
Classified	14,524	14,524
Total	$ 400,921	$ 400,921

Consumer Credit Exposure

By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$ 1,473,193	$ 459,540	$ 59,177	$ 1,991,910
Nonperforming	4,057	5,175	77	9,309
Total	$ 1,477,250	$ 464,715	$ 59,254	$ 2,001,219

Residential Mortgage Credit Exposure

By Payment Activity:	Residential Mortgage	Total
Performing	$ 958,013	$ 958,013
Nonperforming	8,409	8,409
Total	$ 966,422	$ 966,422

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Credit Quality Indicators
December 31, 2015
(In thousands)
ACQUIRED
Commercial Credit Exposure

By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Total
Pass	$ 67,241	$ 154,871	$ -	$222,112
Special Mention	802	2,174	-	2,976
Substandard	948	9,898	-	10,846
Doubtful	-	-	-	-
Total	$ 68,991	$ 166,943	$ -	$235,934

Business Banking Credit Exposure

By Internally Assigned Grade:	Business Banking	Total
Non-classified	$46,032	$46,032
Classified	3,763	3,763
Total	$49,795	$49,795

Consumer Credit Exposure

By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$27,670	$63,270	$3,882	$94,822
Nonperforming	105	457	43	605
Total	$27,775	$63,727	$3,925	$95,427

Residential Mortgage Credit Exposure

By Payment Activity:	Residential Mortgage	Total
Performing	$227,448	$227,448
Nonperforming	2,910	2,910
Total	$230,358	$230,358

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Credit Quality Indicators
December 31, 2014
(In thousands)
ORIGINATED
Commercial Credit Exposure

By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
Pass	$ 570,884	$ 1,023,856	$ 30,481	$ 23,443	$ 1,648,664
Special Mention	6,022	17,341	275	42	23,680
Substandard	38,241	27,671	2,183	1,489	69,584
Doubtful	-	-	8	-	8
Total	$ 615,147	$ 1,068,868	$ 32,947	$ 24,974	$ 1,741,936

Business Banking Credit Exposure

By Internally Assigned Grade:	Business Banking	Total
Non-classified	$379,445	$379,445
Classified	18,990	18,990
Total	$398,435	$398,435

Consumer Credit Exposure

By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$1,306,095	$485,463	$55,658	$1,847,216
Nonperforming	3,955	7,417	136	11,508
Total	$1,310,050	$492,880	$55,794	$1,858,724

Residential Mortgage Credit Exposure

By Payment Activity:	Residential Mortgage	Total
Performing	$ 838,816	$838,816
Nonperforming	10,026	10,026
Total	$ 848,842	$848,842

Credit Quality Indicators
December 31, 2014
(In thousands)
ACQUIRED
Commercial Credit Exposure

By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Total
Pass	$ 63,630	$ 186,036	$ -	$249,666
Special Mention	2,840	2,646	-	5,486
Substandard	8,794	11,206		20,000
Doubtful	-	-	-	-
Total	$ 75,264	$ 199,888	$ -	$275,152

Business Banking Credit Exposure

By Internally Assigned Grade:	Business Banking	Total

Non-classified	$53,264	$53,264
Classified	4,915	4,915
Total	$58,179	$58,179

Consumer Credit Exposure

By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$65,063	$76,154	$5,277	$146,494
Nonperforming	160	562	40	762
Total	$65,223	$76,716	$5,317	$147,256

Residential Mortgage Credit Exposure

By Payment Activity:	Residential Mortgage	Total
Performing	$262,883	$262,883
Nonperforming	3,864	3,864
Total	$266,747	$266,747

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Troubled Debt Restructuring

Substantially all modifications include one or a combination of the following: an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; temporary reduction in the interest rate; or change in scheduled payment amount.

The following tables illustrate the recorded investment and number of modifications for modified loans, including the recorded investment in the loans prior to a modification and the recorded investment in the loans after restructuring for the years ended December 31, 2015 and 2014:

	Year ended December 31, 2015		
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial			
Commercial	1	$ 186	$ 186
Small Business	1	220	171
Total Commercial	2	406	357
Consumer			
Home Equity	50	3,664	3,261
Total Consumer	50	3,664	3,261
Residential Real Estate	37	3,085	3,085
Total Troubled Debt Restructurings	89	$ 7,155	$ 6,703

	Year ended December 31, 2014		
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial			
Small Business	3	$ 920	$ 842
Total Commercial	3	920	842
Consumer			
Indirect	1	34	18
Home Equity	56	3,322	2,599
Total Consumer	57	3,356	2,617
Residential Real Estate	27	2,717	2,088
Total Troubled Debt Restructurings	87	$ 6,993	$ 5,547

The following table illustrates the recorded investment and number of modifications for TDRs within the years ended December 31, 2015 and 2014 where a concession has been made and subsequently defaulted during the period:

	Year ended December 31, 2015	Year ended December 31, 2014

	Number of contracts		Recorded Investment	Number of contracts		Recorded Investment
Consumer						
Indirect	-	$	-	1	$	34
Home Equity	4		344	6		269
Total Consumer	4		344	7		303
Residential Real Estate	3		208	6		429
Total Troubled Debt Restructurings	7	$	552	13	$	732

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(6) Premises and Equipment, Net

A summary of premises and equipment follows:

	December 31,	
(In thousands)	2015	2014
Land, buildings, and improvements	$125,428	$122,400
Equipment	59,574	58,835
Premises and equipment before accumulated depreciation	185,002	181,235
Accumulated depreciation	96,176	91,977
Total premises and equipment	$88,826	$89,258

Buildings and improvements are depreciated based on useful lives of 15 to 40 years. Equipment is depreciated based on useful lives of three to ten years.

Rental expense included in occupancy expense amounted to $7.9 million in 2015, $8.0 million in 2014, and $7.5 million in 2013. The future minimum rental payments related to noncancelable operating leases with original terms of one year or more are as follows at December 31, 2015 (in thousands):

Future Minimum Rental Payments	
2016	$7,367
2017	7,015
2018	6,356
2019	5,803
2020	4,977
Thereafter	21,628
Total	$53,146

(7) Goodwill and Other Intangible Assets

A summary of goodwill is as follows:

(In thousands)	
January 1, 2014	$263,634
Goodwill Acquired	2,323
December 31, 2015	$265,957
January 1, 2013	$264,997
Goodwill Adjustments	(1,363)
December 31, 2014	$263,634

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The Company has intangible assets with definite useful lives capitalized on its consolidated balance sheet in the form of core deposit and other identified intangible assets. These intangible assets are amortized over their estimated useful lives, which range primarily from one to twelve years.

A summary of core deposit and other intangible assets follows:

	December 31,	
(In thousands)	2015	2014
Core deposit intangibles		
Gross carrying amount	$19,401	$19,401
Less: accumulated amortization	14,800	12,522
Net carrying amount	4,601	6,879
Identified intangible assets		
Gross carrying amount	29,525	28,316
Less: accumulated amortization	16,861	14,878
Net carrying amount	12,664	13,438
Total intangibles		
Gross carrying amount	48,926	47,717
Less: accumulated amortization	31,661	27,400
Net carrying amount	$17,265	$20,317

Amortization expense on intangible assets with definite useful lives totaled $4.9 million for 2015, $5.0 million for 2014 and $4.9 million for 2013. Amortization expense on intangible assets with definite useful lives is expected to total $3.8 million for 2016, $3.2 million for 2017, $2.5 million for 2018, $1.9 million for 2019, $1.5 million for 2020 and $4.4 million thereafter. Other identified intangible assets include customer lists, non-competes, and trademark intangibles.

(8) Deposits

The following table sets forth the maturity distribution of time deposits at December 31, 2015 (in thousands):

Time deposits	
Within one year	$372,619
After one but within two years	173,561
After two but within three years	104,088
After three but within four years	209,564
After four but within five years	28,789
After five years	20,206
Total	$908,827

Time deposits of $250,000 or more aggregated $84.9 million and $100.7 million December 31, 2015 and 2014, respectively.

(9) Short-Term Borrowings

In addition to the liquidity provided by balance sheet cash flows, liquidity must also be supplemented with additional sources such as credit lines from correspondent banks as well as borrowings from the FHLB and the Federal Reserve Bank. Other funding alternatives may also be appropriate from time to time, including wholesale and retail repurchase agreements and brokered CDs.

Short-term borrowings totaled $442.5 million and $316.8 million at December 31, 2015 and 2014, respectively, and consist of Federal funds purchased and securities sold under repurchase agreements, which generally represent overnight borrowing transactions, and other short-term borrowings, primarily FHLB advances, with original maturities of one year or less.

The Company has unused lines of credit with the FHLB and access to brokered deposits available for short-term financing of approximately $2.0 billion and $1.8 billion at December 31, 2015 and 2014, respectively. Borrowings on the FHLB lines are secured by FHLB stock, certain securities and one-to-four family first lien mortgage loans. Securities collateralizing repurchase agreements are held in safekeeping by nonaffiliated financial institutions and are under the Company's control.

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Information related to short-term borrowings is summarized as follows:

(In thousands)	2015	2014	2013
Federal funds purchased			
Balance at year-end	$99,500	$68,000	$130,000
Average during the year	97,424	110,154	39,907
Maximum month end balance	159,000	183,000	130,000
Weighted average rate during the year	0.36 %	0.29 %	0.26 %
Weighted average rate at December 31	0.51 %	0.34 %	0.18 %
Securities sold under repurchase agreements			
Balance at year-end	$167,981	$148,802	$176,042
Average during the year	162,201	165,858	169,352
Maximum month end balance	178,326	182,861	185,871
Weighted average rate during the year	0.06 %	0.06 %	0.06 %
Weighted average rate at December 31	0.06 %	0.06 %	0.05 %
Other short-term borrowings			
Balance at year-end	$175,000	$100,000	$150,000
Average during the year	80,260	106,438	71,589
Maximum month end balance	175,000	320,000	210,000
Weighted average rate during the year	0.42 %	0.40 %	0.43 %
Weighted average rate at December 31	0.56 %	0.36 %	0.55 %

See Note 3 for additional information regarding securities pledged as collateral for securities sold under the repurchase agreements.

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(10) Long-Term Debt

Long-term debt consists of obligations having an original maturity at issuance of more than one year. A majority of the Company's long-term debt is comprised of FHLB advances collateralized by the FHLB stock owned by the Company, certain of its mortgage-backed securities and a blanket lien on its residential real estate mortgage loans. A summary as of December 31, 2015 and 2014 is as follows:

(In thousands)	As of December 31, 2015							As of December 31, 2014						
Maturity	Amount	Weighted Average Rate		Callable Amount	Weighted Average Rate			Amount	Weighted Average Rate		Callable Amount	Weighted Average Rate	
2015	$-	-		$ -	-			$217	-		$-	-	
2016	50,360	2.92	%	30,000	4.15	%		50,626	2.91	%	30,000	4.15	%
2017	40,000	2.68	%	25,000	3.48	%		40,000	2.68	%	25,000	3.48	%
2018	40,000	2.57	%	25,000	3.15	%		40,000	2.57	%	25,000	3.15	%
2021	87	4.00	%	-	-			102	4.00	%	-	-	
	$130,447			$ 80,000				$130,945			$80,000		

(11) Junior Subordinated Debt

The Company sponsors five business trusts, CNBF Capital Trust I, NBT Statutory Trust I, NBT Statutory Trust II, Alliance Financial Capital Trust I and Alliance Financial Capital Trust II. The trusts were formed for the purpose of issuing company-obligated mandatorily redeemable preferred securities to third-party investors and investing in the proceeds from the sale of such preferred securities solely in junior subordinated debt securities of the Company. The debentures held by each trust are the sole assets of that trust. These five statutory business trusts are collectively referred herein to as "the Trusts." The Company guarantees, on a limited basis, payments of distributions on the trust preferred securities and payments on redemption of the trust preferred securities. The Trusts are variable interest entities ("VIEs") for which the Company is not the primary beneficiary, as defined by U.S. GAAP. In accordance with U.S. GAAP, the accounts of the Trusts are not included in the Company's consolidated financial statements. See Note 1 — Summary of Significant Accounting Policies for additional information about the Company's consolidation policy.

As of December 31, 2015, the Trusts had the following issues of trust preferred debentures, all held by the Trusts, outstanding (dollars in thousands):

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate	Trust Preferred Debt Owed To Trust	Final Maturity Date
CNBF Capital Trust I	August 1999	$ 18,000	3-month LIBOR plus 2.75%	$ 18,720	August 2029
NBT Statutory Trust I	November 2005	5,000	3-month LIBOR plus 1.40%	5,155	December 2035
NBT Statutory Trust II	February 2006	50,000	3-month LIBOR plus 1.40%	51,547	March 2036

Alliance Financial Capital Trust I	December 2003	10,000	3-month LIBOR plus 2.85%	10,310	January 2034
Alliance Financial Capital Trust II	September 2006	15,000	3-month LIBOR plus 1.65%	15,464	September 2036

The Company's junior subordinated debentures include amounts related to the Company's NBT Statutory Trust I and II as well as junior subordinated debentures associated with one statutory trust affiliates that were acquired from our merger with CNB Financial Corp. and two statutory trusts acquired from Alliance (the "Trusts"). The Trusts qualify as variable interest entities and were formed to issue mandatorily redeemable trust preferred securities to investors and loan the proceeds to us for general corporate purposes. The Trusts hold, as their sole assets, junior subordinated debentures of the Company with face amounts totaling $98 million at December 31, 2015. The Company owns all of the common securities of the Trusts and have accordingly recorded $3.2 million in equity method investments classified as other assets in our Consolidated Balance Sheets at December 31, 2015. The Company owns all of the common stock of the Trusts, which have issued trust preferred securities in conjunction with the Company issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities.

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The Company's junior subordinated debentures are redeemable prior to the maturity date at our option upon each trust's stated option repurchase dates, and from time to time thereafter. These debentures are also redeemable in whole at any time upon the occurrence of specific events defined within the trust indenture. Our obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the issuers' obligations under the trust preferred securities. The Company owns all of the common stock of the Trusts, which have issued trust preferred securities in conjunction with the Company issuing trust preferred debentures to the Trusts. The terms of the trust preferred debentures are substantially the same as the terms of the trust preferred securities.

With respect to the Trusts, the Company has the right to defer payments of interest on the debentures issued to the Trusts at any time or from time to time for a period of up to ten consecutive semi-annual periods with respect to each deferral period. Under the terms of the debentures, if in certain circumstances there is an event of default under the debentures or the Company elects to defer interest on the debentures, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock.

Despite the fact that the Trusts are not included in the Company's consolidated financial statements, $97 million of the $101 million in trust preferred securities issued by these subsidiary trusts is included in the Tier 1 capital of the Company for regulatory capital purposes as allowed by the Federal Reserve Board (NBT Bank owns $1.0 million of CNBF Trust I securities). The Dodd-Frank Act requires bank holding companies with assets greater than $500 million to be subject to the same capital requirements as insured depository institutions, meaning, for instance, that such bank holding companies will not be able to count trust preferred securities issued after May 19, 2010 as Tier 1 capital. The aforementioned Trusts are grandfathered with respect to this enactment based on their date of issuance.

(12) Income Taxes

The significant components of income tax expense attributable to operations are:

	Years ended December 31,		
(In thousands)	2015	2014	2013
Current			
Federal	$32,871	$26,059	$23,536
State	4,329	2,823	2,316
	37,200	28,882	25,852
Deferred			
Federal	2,521	6,648	2,334
State	482	1,699	10
	3,003	8,347	2,344
Total income tax expense	$40,203	$37,229	$28,196

Not included in the above table are items that were recorded to stockholders' equity of approximately $3.4 million, $(1.1) million, and $7.0 million for 2015, 2014, and 2013, respectively, relating to deferred taxes on the unrealized (gain) loss on available for sale securities, tax benefits recognized with respect to stock options exercised, and deferred taxes related to pension plans.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
(In thousands)	2015	2014

Deferred tax assets		
Allowance for loan losses	$24,090	$25,689
Deferred compensation	10,023	8,744
Postretirement benefit obligation	2,988	2,377
Fair value adjustments from acquisitions	2,543	-
Unrealized losses on securities	589	-
Accrued liabilities	2,889	1,778
Stock-based compensation expense	5,394	6,457
Equipment leasing	476	1,416
Other	1,477	1,325
Total deferred tax assets	50,469	47,786
Deferred tax liabilities		
Pension benefits	11,908	12,192
Fair value adjustments from acquisitions	-	1,243
Unrealized gains on securities	-	1,331
Premises and equipment, primarily due to accelerated depreciation	2,444	2,491
Deferred loan costs	1,591	1,460
Intangible amortization	19,082	14,162
Other	504	390
Total deferred tax liabilities	35,529	33,269
Net deferred tax asset at year-end	14,940	14,517
Net deferred tax asset at beginning of year	14,517	21,789
Increase (Decrease) in net deferred tax asset	$423	$(7,272)

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Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the available carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on available evidence, gross deferred tax assets will ultimately be realized and a valuation allowance was not deemed necessary at December 31, 2015 and 2014.

At December 31, 2015, 2014, and 2013 the Company had no ASC 740-10 unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

The Company is no longer subject to U.S. Federal tax examination by tax authorities for years prior to 2012 and New York State for years prior to 2012. The Company recognizes interest expense and penalties related to unrecognized tax benefits, if any, in income tax expense.

The following is a reconciliation of the provision for income taxes to the amount computed by applying the applicable Federal statutory rate of 35 % to income before taxes:

	Years ended December 31		
(In thousands)	2015	2014	2013
Federal income tax at statutory rate	$40,820	$39,306	$31,482
Tax exempt income	(2,037)	(2,250)	(2,433)
Net increase in CSV of life insurance	(1,373)	(1,734)	(1,166)
Low income housing tax credits	(939)	(880)	(819)
State taxes, net of federal tax benefit	3,127	2,939	1,512
Other, net	605	(152)	(380)
Income tax expense	$40,203	$37,229	$28,196

(13) Employee Benefit Plans

Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan (“the Plan”) covering substantially all of its employees at December 31, 2015. Benefits paid from the plan are based on age, years of service, compensation, social security benefits, and are determined in accordance with defined formulas. The Company’s policy is to fund the pension plan in accordance with ERISA standards. Assets of the plan are invested in bonds and publicly traded stocks and mutual funds. Prior to January 1, 2000, the Plan was a traditional defined benefit plan based on final average compensation. On January 1, 2000, the Plan was converted to a cash balance plan with grandfathering provisions for existing participants. Effective March 1, 2013, the pension plan was amended. Benefit accruals for participants who, as of January 1, 2000, elected to continue participating in the traditional defined benefit plan design were frozen as of March 1, 2013.

The Company assumed a noncontributory, defined benefit pension plan in the Alliance acquisition. This plan covers certain Alliance full-time employees who met eligibility requirements on October 6, 2006, at which time all benefits were frozen. Under this plan, retirement benefits are primarily a function of both the years of service and the level of compensation. Effective May 1, 2013, this plan was merged into the Plan. The merging of the plans required a valuation as of the merger date and resulted in a $2.4 million adjustment to accumulated other comprehensive income in 2013. The merging of the plans did not have a significant impact on the Company’s financial statements and related footnotes.

In addition to the Plan, the Company provides supplemental employee retirement plans to certain current and former executives. The Company also assumed supplemental retirement plans for certain current and former executives in the Alliance acquisition.

The supplemental employee retirement plans and the defined benefit pension plan are collectively referred to herein as “Pension Benefits.”

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees’ active service period. Only employees that were employed by NBT Bank on or before January 1, 2000 are eligible to receive postretirement health care benefits. The plan is contributory for participating retirees, requiring participants to absorb certain deductibles and coinsurance amounts with contributions adjusted annually to reflect cost sharing provisions and benefit limitations called for in the plan. Employees become eligible for these benefits if they reach normal retirement age while working for the Company. For eligible employees described above, the Company funds the cost of postretirement health care as benefits are paid. The Company elected to recognize the transition obligation on a delayed basis over twenty years. In addition, the Company assumed post-retirement medical life insurance benefits for certain Alliance employees, retirees and their spouses, if applicable, in the Alliance acquisition. These postretirement benefits are referred to herein as “Other Benefits.”

Accounting standards require an employer to: (1) recognize the overfunded or underfunded status of defined benefit postretirement plans, which is measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its balance sheet; (2) recognize changes in that funded status in the year in which the changes occur through comprehensive income; and (3) measure the defined benefit plan assets and obligations as of the date of its year-end balance sheet.

The components of accumulated other comprehensive loss, which have not yet been recognized as components of net periodic benefit cost, related to pensions and other postretirement benefits at December 31, 2015 are summarized below.

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The Company expects that $2.3 million in net actuarial loss and nominal prior service costs will be recognized as components of net periodic benefit cost in 2016.

	Pension Benefits		Other Benefits	
(In thousands)	2015	2014	2015	2014
Net actuarial loss	$33,070	$28,767	$2,333	$2,929
Prior service cost	76	97	(95)	(314)
Total amounts recognized in accumulated other comprehensive loss (pre-tax)	$33,146	$28,864	$2,238	$2,615

A December 31 measurement date is used for the pension, supplemental pension and postretirement benefit plans. The following table sets forth changes in benefit obligations, changes in plan assets, and the funded status of the pension plans and other postretirement benefits:

	Pension Benefits		Other Benefits	
(In thousands)	2015	2014	2015	2014
Change in benefit obligation				
Benefit obligation at beginning of year	$98,556	$85,667	$8,710	$7,428
Service cost	2,677	2,290	17	16
Interest cost	3,977	4,142	374	347
Plan participants' contributions	-	-	263	266
Actuarial(gain) loss	(5,225)	12,501	(333)	1,452
Settlement	(200)	-	-	-
Benefits paid	(7,340)	(6,044)	(709)	(799)
Projected benefit obligation at end of year	92,445	98,556	8,322	8,710
Change in plan assets				
Fair value of plan assets at beginning of year	117,232	118,574	-	-
Actual return on plan assets	(3,159)	3,950	-	-
Employer contributions	796	752	446	533
Plan participants' contributions	-	-	263	266
Benefits paid	(7,340)	(6,044)	(709)	(799)
Fair value of plan assets at end of year	107,529	117,232	-	-
Funded status at year end	$15,084	$18,676	$(8,322)	$(8,710)

An asset is recognized for an overfunded plan and a liability is recognized for an underfunded plan. The accumulated benefit obligation for pension benefits was $92.4 million and $98.6 million at December 31, 2015 and 2014, respectively. The accumulated benefit obligation for other postretirement benefits was $8.3 million and $8.7 million at December 31, 2015 and 2014, respectively. The funded status of the pension and other postretirement benefit plans has been recognized as follows in the consolidated balance sheets at December 31, 2015 and 2014.

	Pension Benefits		Other Benefits	
(In thousands)	2015	2014	2015	2014
Other assets	$34,965	$39,044	$-	$-
Other liabilities	(19,881)	(20,368)	(8,322)	(8,710)
Funded status	$15,084	$18,676	$(8,322)	$(8,710)

The following assumptions were used to determine the benefit obligation and the net periodic pension cost for the years indicated:

Years ended December 31,

	2015	2014	2013
Weighted average assumptions:			
The following assumptions were used to determine benefit obligations:			
Discount rate	4.69%-4.71%	4.19%-4.30%	4.90%-5.05%
Expected long-term return on plan assets	7.00 %	7.50 %	7.50 %
Rate of compensation increase	3.00 %	3.00%-3.75%	3.00 %
The following assumptions were used to determine net periodic pension cost:			
Discount rate	4.19%-4.30%	4.90%-5.05%	3.50 %
Expected long-term return on plan assets	7.50 %	7.50 %	7.50 %
Rate of compensation increase	3.00%-3.75%	3.00%-3.75%	3.00 %

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Net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for the years ended December 31 included the following components:

	Pension Benefits			Other Benefits		
(In thousands)	2015	2014	2013	2015	2014	2013
Components of net periodic benefit cost						
Service cost	$2,677	$2,290	$2,493	$17	$16	$23
Interest cost	3,977	4,142	3,223	374	347	286
Expected return on plan assets	(8,589)	(8,681)	(7,804)	-	-	-
Amortization of gain due to settlement	(154)	-	-	-	-	-
Amortization of prior service cost	21	23	23	(219)	(206)	(205)
Amortization of unrecognized net loss	2,174	79	2,692	263	151	280
Net periodic pension cost	$106	$(2,147)	$627	$435	$308	$384
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)						
Net loss (gain)	$6,523	$17,233	$(21,500)	$(333)	$1,452	$(369)
Prior service cost	-	-	-	-	-	(54)
Amortization of gain due to settlement	(46)	-	-	-	-	-
Amortization of prior service cost	(21)	(23)	(23)	219	206	205
Amortization of unrecognized net gain	(2,174)	(79)	(2,692)	(263)	(151)	(280)
Total recognized in other comprehensive loss (income)	4,282	17,131	(24,215)	(377)	1,507	(498)
Total recognized in net periodic benefit cost and other comprehensive income (loss), pre-tax	$4,388	$14,984	$(23,588)	$58	$1,815	$(114)

The following table sets forth estimated future benefit payments for the pension plans and other postretirement benefit plans:

(In thousands)	Pension Benefits	Other Benefits
2016	$6,165	$ 621
2017	7,649	647
2018	7,123	671
2019	7,024	661
2020	6,881	676
2021 - 2025	$36,842	$ 3,259

The Company is not required to make contributions to the defined benefit plan in 2016.

For measurement purposes, the annual rates of increase in the per capita cost of covered medical and prescription drug benefits for fiscal year 2015 were assumed to be 6.8 to 11.0 percent. The rates were assumed to decrease gradually to 3.9 percent for fiscal year 2075 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on amounts reported for health care plans. A one-percentage point change in the health care trend rates would have the following effects as of and for the year ended December 31, 2015:

(In thousands)	One Percentage point increase	One Percentage point decrease

Increase (decrease) on total service and interest cost components	$ 38	$ (33)
Increase (decrease) on postretirement accumulated benefit obligation	778	(670)

Plan Investment Policy

The Company's key investment objectives in managing its defined benefit plan assets are to ensure that present and future benefit obligations to all participants and beneficiaries are met as they become due; to provide a total return that, over the long-term, maximizes the ratio of the plan assets to liabilities, while minimizing the present value of required Company contributions, at the appropriate levels of risk; to meet statutory requirements and regulatory agencies' requirements; and to satisfy applicable accounting standards. The Company periodically evaluates the asset allocations, funded status, rate of return assumption and contribution strategy for satisfaction of our investment objectives.

The target and actual allocations expressed as a percentage of the defined benefit pension plan's assets are as follows:

	Target 2015	2015	2014
Cash and cash equivalents	0 - 20 %	2 %	4 %
Fixed income securities	20 - 40 %	42 %	38 %
Equities	40 - 80 %	56 %	58 %
Total		100 %	100 %

Only high-quality bonds are to be included in the portfolio. All issues that are rated lower than A by Standard and Poor's are to be excluded. Equity securities at December 31, 2015 and 2014 do not include any Company common stock.

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The following table presents the financial instruments recorded at fair value on a recurring basis by the Plan as of December 31, 2015 and 2014:

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance as of December 31, 2015
Cash and cash equivalents	$ 2,513	$ -	$ 2,513
Foreign equity mutual funds	33,342	-	33,342
Equity mutual funds	26,993	-	26,993
U.S. government bonds	-	3,410	3,410
Corporate bonds	-	41,271	41,271
Totals	$ 62,848	$ 44,681	$ 107,529

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance as of December 31, 2014
Cash and cash equivalents	$ 4,423	$ -	$ 4,423
Foreign equity mutual funds	38,581	-	38,581
Equity mutual funds	29,718	-	29,718
U.S. government bonds	-	4,420	4,420
Corporate bonds	-	40,090	40,090
Totals	$ 72,722	$ 44,510	$ 117,232

The plan had no financial instruments recorded at fair value on a nonrecurring basis as of December 31, 2015.

Determination of Assumed Rate of Return

The expected long-term rate-of-return on assets was 7.0% at December 31, 2015 and 7.50 % at December 31, 2014. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the portfolio considering the asset distribution and related historical rates of return. The appropriateness of the assumption is reviewed annually.

Employee 401(k) and Employee Stock Ownership Plans

The Company maintains a 401(k) and employee stock ownership plan (the "401(k) Plan"). The Company contributes to the 401(k) Plan based on employees' contributions out of their annual salaries. In addition, the Company may also make discretionary contributions to the 401(k) Plan based on profitability. Participation in the 401(k) Plan is contingent upon certain age and service requirements. The employer contributions associated with the 401(k) Plan were $2.5 million in 2015, $2.8 million in 2014, and $2.1 million in 2013.

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(14) Stock-Based Compensation

In April 2008, the Company adopted the NBT Bancorp Inc. 2008 Omnibus Incentive Plan (the "Plan"). Under the terms of the Plan, options and other equity-based awards are granted to directors and employees to increase their direct proprietary interest in the operations and success of the Company. The Plan assumed all prior equity-based incentive plans and any new equity-based awards are granted under the terms of the Plan. Under terms of the Plan, stock options are granted to purchase shares of the Company's common stock at a price equal to the fair market value of the common stock on the date of the grant. Options granted have a vesting period of four years and terminate ten years from the date of the grant. Shares issued as a result of stock option exercises and vesting of restricted shares and stock unit awards are funded from the Company's treasury stock. Restricted shares granted under the Plan vest after five years for employees and three years for non-employee directors. Restricted stock units granted under the Plan may have different terms and conditions. Performance shares and units granted under the Plan for executives may have different terms and conditions. Since 2011, the Company primarily grants restricted stock unit awards. Stock option grants since that time were reloads of existing grants.

The following table summarizes information concerning stock options outstanding at December 31, 2015:

	Number of Shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (in yrs)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	1,038,342	$ 23.10		
Granted	36,316	25.85		
Exercised	(519,947)	23.16		
Forfeited	-	-		
Expired	(13,147)	22.97		
Outstanding at December 31, 2015	541,564	$ 23.23	3.24	$2,541,332
Exercisable at December 31, 2015	501,952	$ 23.03	2.77	$2,457,469
Expected to Vest	39,240	$ 25.76	9.11	$83,294

Total stock-based compensation expense for stock option awards totaled $0.2 million, $0.1 million, and $0.2 million for the years ended December 31, 2015, 2014, and 2013, respectively. Cash proceeds, tax benefits and intrinsic value related to total stock options exercised is as follows:

	Years ended December 31,		
(dollars in thousands)	2015	2014	2013
Proceeds from stock options exercised	$12,044	$6,554	$7,927
Tax (expense) benefits related to stock options exercised	(43)	313	178
Intrinsic value of stock options exercised	2,446	789	905
Fair value of shares vested during the year	63	393	766

The Company has outstanding restricted and deferred stock awards granted from various plans at December 31, 2015. The Company recognized $4.2 million, $4.2 million, and $3.8 million in stock-based compensation expense related to these stock awards for the years ended December 31, 2015, 2014, and 2013, respectively. Tax benefits recognized with respect to restricted stock awards and stock units were $3.9 million, $2.9 million and $2.4 million for the years ended December 31, 2015, 2014 and 2013, respectively. Unrecognized compensation cost related to restricted stock awards and stock units totaled $3.7 million at December 31, 2015 and will be recognized over 1.7 years on a weighted average basis. Shares issued are funded from the Company's treasury stock. The following table summarizes information for unvested restricted stock awards outstanding as of December 31, 2015:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested Restricted Stock Awards		
Unvested at January 1, 2015	52,000	$ 23.43
Forfeited	-	-
Vested	(29,000)	22.85
Unvested at December 31, 2015	23,000	$ 24.17

The following table summarizes information for unvested restricted stock units outstanding as of December 31, 2015:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested Restricted Stock Units		
Unvested at January 1, 2015	638,975	$ 31.01
Forfeited	(8,407)	-
Vested	(125,520)	-
Granted	160,040	24.67
Unvested at December 31, 2015	665,088	$ 35.73

The Company has 3.5 million securities remaining available to be granted as part of the Plan at December 31, 2015.

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(15) Stockholders' Equity

In accordance with accounting standards, unrealized gains on available for sale securities and unrecognized actuarial gains or losses and prior service costs associated with the Company's pension and postretirement benefit plans are included in accumulated other comprehensive loss, net of tax. For the years ended December 31, components of accumulated other comprehensive loss are:

(In thousands)	2015	2014
Unrecognized prior service cost and net actuarial loss on pension plans	$(21,557)	$(19,181)
Unrealized net holding gains (losses) on available for sale securities	(861)	2,154
Accumulated other comprehensive loss	$(22,418)	$(17,027)

Certain restrictions exist regarding the ability of the subsidiary bank to transfer funds to the Company in the form of cash dividends. The approval of the Office of Comptroller of the Currency (OCC) is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years as specified in applicable OCC regulations.. At December 31, 2015, approximately $81.9 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the State of Delaware General Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

Under a previously disclosed stock repurchase plan, the Company purchased 1,047,152 shares of its common stock during the twelve month period ended December 31, 2015, for a total of $26.8 million at an average price of $25.59 per share. There are 952,848 shares available for repurchase under this plan, which expires on December 31, 2016.

(16) Regulatory Capital Requirements

The Company and NBT Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, NBT Bank must meet specific capital guidelines that involve quantitative measures of NBT Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and NBT Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital to risk-weighted assets and of Tier 1 capital to average assets. As of December 31, 2015 and 2014, the Company and NBT Bank meet all capital adequacy requirements to which they were subject.

Under their prompt corrective action regulations, regulatory authorities are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution's financial statements. The regulations establish a framework for the classification of banks into five categories: well capitalized, adequately capitalized, under capitalized, significantly under capitalized, and critically under capitalized. As of December 31, 2015, the most recent notification from NBT Bank's regulators categorized NBT Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized NBT Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 capital to average asset ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed NBT Bank's category.

The Company and NBT Bank's actual capital amounts and ratios are presented as follows:

	Actual		Regulatory ratio requirements	
(Dollars in thousands)	Amount	Ratio	Minimum capital adequacy	For classification as well capitalized
As of December 31, 2015				
Total Capital (to risk weighted assets):				
Company	$809,685	12.74%	8.00%	10.00 %
NBT Bank	724,238	11.47%	8.00%	10.00 %
Tier I Capital (to risk weighted assets)				
Company	745,341	11.73%	4.00%	6.00 %
NBT Bank	659,894	10.45%	4.00%	6.00 %
Tier I Capital (to average assets)				
Company	745,341	9.44 %	4.00%	5.00 %
NBT Bank	659,894	8.41 %	4.00%	5.00 %
Common Equity Tier 1 Capital				
Company	648,341	10.20%	4.50%	6.50 %
NBT Bank	659,894	10.45%	4.50%	6.50 %
As of December 31, 2014				
Total Capital (to risk weighted assets):				
Company	$777,651	13.50%	8.00%	10.00 %
NBT Bank	727,771	12.72%	8.00%	10.00 %
Tier I Capital (to risk weighted assets)				
Company	709,965	12.32%	4.00%	6.00 %
NBT Bank	660,086	11.54%	4.00%	6.00 %
Tier I Capital (to average assets)				
Company	709,965	9.39 %	4.00%	5.00 %
NBT Bank	660,086	8.79 %	4.00%	5.00 %

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(17) Earnings Per Share

The following is a reconciliation of basic and diluted earnings per share for the years presented in the consolidated statements of income:

	Years ended December 31,								
	2015			2014			2013		
(In thousands, except per share data)	Net income	Weighted average shares	Per share amount	Net income	Weighted average shares	Per share amount	Net income	Weighted average shares	Per share amount
Basic earnings per share	$76,425	43,836	$ 1.74	$75,074	43,877	$ 1.71	$61,747	41,930	$ 1.47
Effect of dilutive securities									
Stock based compensation		553			518			420	
Diluted earnings per share	$76,425	44,389	$ 1.72	$75,074	44,395	$ 1.69	$61,747	42,350	$ 1.46

There were approximately thirty thousand, 0.5 million, and 1.0 million weighted average stock options for the years ended December 31, 2015, 2014, and 2013, respectively, that were not considered in the calculation of diluted earnings per share since the stock options' exercise prices were greater than the average market price during these periods.

(18) Reclassification Adjustments Out of Other Comprehensive (Loss) Income

The following table summarizes the reclassification adjustments out of accumulated other comprehensive loss (in thousands):

Detail About Accumulated Other Comprehensive (Loss) Income Components	Amount reclassified from accumulated other comprehensive income (loss)		Affected line item in the consolidated statement of comprehensive income
	Years ended December 31, 2015	December 31, 2014	
Available for sale securities:			
Gains on available for sale securities	$(3,087)	$ (92)	Net securities gains
Amortization of unrealized gains and losses related to securities transfer	1,311	421	Interest Income
Tax benefit	691	(128)	Income tax expense
Net of tax	$(1,085)	$ 201	
Pension and other benefits:			
Amortization of net gains	$2,437	$ 94	Salaries and employee benefits
Amortization of prior service costs	(198)	(19)	Salaries and employee benefits
Tax expense	868	29	Income tax expense
Net of tax	$1,371	$ 46	
Total reclassifications during the period, net of tax	$286	$ 247	

(19) Commitments and Contingent Liabilities

The Company's concentrations of credit risk are reflected in the consolidated balance sheets. The concentrations of credit risk with standby letters of credit, unused lines of credit, commitments to originate new loans and loans sold with recourse generally follow the loan classifications.

At December 31, 2015, approximately 58% of the Company's loans were secured by real estate located in central and upstate New York, northeastern Pennsylvania, western Massachusetts, southern New Hampshire, and Vermont. Accordingly, the ultimate collectability of a substantial portion of the Company's portfolio is susceptible to changes in market conditions of those areas. Management is not aware of any material concentrations of credit to any industry or individual borrowers.

The Company is a party to certain financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit, and certain mortgage loans sold to investors with recourse. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, unused lines of credit, standby letters of credit, and loans sold with recourse is represented by the contractual amount of those instruments. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

	At December 31,	
(In thousands)	2015	2014
Unused lines of credit	$252,953	$214,175
Commitments to extend credits, primarily variable rate	1,062,425	972,912
Standby letters of credit	31,503	35,244
Commercial letters of credit	11,332	22,486
Loans sold with recourse	25,122	23,351

Since many loan commitments, standby letters of credit, and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows. The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.

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The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These stand-by letters of credit are frequently issued in support of third party debt, such as corporate debt issuances, industrial revenue bonds, and municipal securities. The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and letters of credit are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. The fair value of the Company's stand-by letters of credit at December 31, 2015 and 2014 was not significant.

The total amount of loans serviced by the Company for unrelated third parties was approximately $616.1 million and $626.0 million at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company had approximately $1.1 million and $1.5 million, respectively, of mortgage servicing rights.

In the normal course of business there are various outstanding legal proceedings. If legal costs are deemed material by management, the Company accrues for the estimated loss from a loss contingency if the information available indicates that it is probable that a liability had been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated.

The Company is required to maintain reserve balances with the Federal Reserve Bank of New York. The required average total reserve for NBT Bank for the 14-day maintenance period ending December 23, 2015 was $55.8 million.

(20) Fair Values of Financial Instruments

The following table sets forth information with regard to estimated fair values of financial instruments at December 31, 2015 and December 31, 2014. This table excludes financial instruments for which the carrying amount approximates fair value. Financial instruments for which the fair value approximates carrying value include cash and cash equivalents, securities available for sale, trading securities, accrued interest receivable, non-maturity deposits, short-term borrowings, accrued interest payable, and interest rate swaps.

		December 31, 2015		December 31, 2014	
(In thousands)	Fair Value Hierarchy	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets					
Securities held to maturity	2	$471,031	$473,140	$454,361	$454,994
Net loans	3	5,820,115	5,958,427	5,528,912	5,584,777
Financial liabilities					
Time deposits	2	$908,827	$903,501	$1,043,823	$1,038,877
Long-term debt	2	130,447	131,268	130,945	132,562
Junior subordinated debt	2	101,196	97,346	101,196	103,770

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has a substantial trust and investment management operation that contributes net fee income annually. The trust and investment management operation is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities include the benefits resulting from the low-cost funding of deposit liabilities as compared to the cost of borrowing funds in the market, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimate of fair value.

Securities Held to Maturity

The fair value of the Company's investment securities held to maturity is primarily measured using information from a third party pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Net Loans

The fair value of the Company's loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made for the same remaining maturities. Loans were first segregated by type, and then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Time Deposits

The fair value of time deposits was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments. The fair values of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Long-Term Debt

The fair value of long-term debt was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments.

Trust Preferred Debentures

The fair value of trust preferred debentures has been estimated using a discounted cash flow analysis.

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The following table sets forth the Company's financial assets and liabilities measured on a recurring basis that were accounted for at fair value as of December 31, 2015 and December 31, 2014. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2015
Assets:				
Securities Available for Sale:				
Federal Agency	$ -	$ 311,272	$ -	$ 311,272
State & municipal	-	31,637	-	31,637
Mortgage-backed	-	409,896	-	409,896
Collateralized mortgage obligations	-	404,971	-	404,971
Other securities	7,526	9,242	-	16,768
Total Securities Available for Sale	$ 7,526	$ 1,167,018	$ -	$ 1,174,544
Trading Securities	8,377	-	-	8,377
Interest Rate Swaps	-	6,224	-	6,224
Total	$ 15,903	$ 1,173,242	$ -	$ 1,189,145
Liabilities:				
Interest Rate Swaps	$ -	$ 6,224	$ -	$ 6,224
Total	$ -	$ 6,224	$ -	$ 6,224

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2014
Assets:				
Securities Available for Sale:				
U.S. Treasury	$ 23,111	$ -	$ -	$ 23,111
Federal Agency	-	329,914	-	329,914
State & municipal	-	37,570	-	37,570
Mortgage-backed	-	364,727	-	364,727
Collateralized mortgage obligations	-	242,129	-	242,129
Other securities	7,612	8,108	-	15,720
Total Securities Available for Sale	$ 30,723	$ 982,448	$ -	$ 1,013,171
Trading Securities	7,793	-	-	7,793
Interest Rate Swaps	-	4,707	-	4,707

Total	$ 38,516	$ 987,155	$ -	$ 1,025,671
Liabilities:				
Interest Rate Swaps	$ -	$ 4,707	$ -	$ 4,707
Total	$ -	$ 4,707	$ -	$ 4,707

Fair values for securities are based on quoted market prices or dealer quotes, where available. Where quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When necessary, the Company utilizes matrix pricing from a third party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

The Company enters into interest rate swaps to facilitate customer transactions and meet their financing needs. These swaps are considered derivatives, but are not designated in hedging relationships. These instruments have interest rate and credit risk associated with them. To mitigate the interest rate risk, the Company enters into offsetting interest rate swaps with counterparties. The counterparty swaps are also considered derivatives and are also not designated in hedging relationships. Interest rate swaps are recorded within other assets or other liabilities on the consolidated balance sheet at their estimated fair value. Changes to the fair value of assets and liabilities arising from these derivatives are included, net, in other operating income in the consolidated statement of income.

FASB ASC Topic 820 requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis. In accordance with the provisions of FASB ASC Topic 310, the Company had collateral dependent impaired loans with a carrying value of approximately $5.9 million which had specific reserves included in the allowance for loan losses of $2.0 million at December 31, 2015. The Company uses the fair value of underlying collateral to estimate the specific reserves for collateral dependent impaired loans. The fair value of underlying collateral is generally determined through independent appraisals, which generally include various Level 3 inputs which are not identifiable. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses ranging from 10% to 35%. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3.

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FASB ASC Topic 825 gives entities the option to measure eligible financial assets, financial liabilities and Company commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes in fair value must be recorded in earnings. As of December 31, 2015 and 2014, the Company did not elect the fair value option for any eligible items.

(21) Sale of Equity Investment

On April 17, 2014, NBT Capital Corp., a wholly-owned subsidiary of NBT, sold to LendingClub Corporation, its 20% ownership interest in Springstone Financial, LLC, which NBT originally acquired in exchange for a $3 million investment, as part of LendingClub's acquisition of all of the outstanding equity in Springstone. In total, LendingClub paid the group of selling equityholders a purchase price equal to $140 million in cash and preferred stock. As a result of this sale, the Company recognized a gain of $19.4 million in 2014 and a gain of $4.2 million in 2015. There is $0.9 million in proceeds being held in escrow for indemnification provisions of the sale contract which will be recognized into income when the conditions of the contract have been deemed to be satisfied.

(22) Parent Company Financial Information

Condensed Balance Sheets

	December 31,	
(In thousands)	2015	2014
Assets		
Cash and cash equivalents	$28,682	$3,586
Securities available for sale, at estimated fair value	12,711	11,649
Trading securities	8,042	6,761
Investment in subsidiaries, on equity basis	941,731	947,880
Other assets	65,133	61,829
Total assets	$1,056,299	$1,031,705
Liabilities and Stockholders' Equity		
Total liabilities	$174,295	$167,524
Stockholders' equity	882,004	864,181
Total liabilities and stockholders' equity	$1,056,299	$1,031,705

Condensed Income Statements

	Years ended December 31,		
(In thousands)	2015	2014	2013
Dividends from subsidiaries	$78,200	$35,400	$13,500
Management fee from subsidiaries	92,629	87,116	84,778
Securities gains	3,034	49	1,273
Interest, dividend and other income	693	800	636
Total revenue	174,556	123,365	100,187
Operating expense	94,332	89,834	83,679
Income before income tax benefit and equity in undistributed income of subsidiaries	80,224	33,531	16,508
Income tax benefit (expense)	(515)	631	(1,046)
Dividends in excess of income (equity in undistributed income) of subsidiaries	(3,284)	40,912	46,285
Net income	$76,425	$75,074	$61,747

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Explanation of Responses:

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Statements of Cash Flow

(In thousands)	Years ended December 31, 2015	2014	2013
Operating activities			
Net income	$76,425	$75,074	$61,747
Adjustments to reconcile net income to net cash provided by operating activities			
Stock-based compensation	4,086	3,521	4,305
Gains (losses) on sales of available-for-sale securities	(3,034)	49	1,273
Equity in undistributed income of subsidiaries	2,967	(75,824)	(59,785)
Cash dividend from subsidiaries	-	35,400	13,500
Net change in other liabilities	6,770	18,594	(18,077)
Net change in other assets	(6,627)	(25,151)	14,928
Net cash provided by operating activities	80,587	31,663	17,891
Investing activities			
Purchases of available-for-sale securities	(3,083)	(597)	-
Sales and maturities of available-for-sale securities	5,297	140	1,948
Net cash provided by acquisitions	-	-	2,232
Purchases of premises and equipment	(408)	(640)	(782)
Net cash provided by (used in) investing activities	1,806	(1,097)	3,398
Financing activities			
Proceeds from the issuance of shares to employee benefit plans and other stock plans	7,692	5,943	5,512
Purchases of treasury shares	(26,797)	(72)	(12,459)
Cash dividends and payments for fractional shares	(38,149)	(36,905)	(33,518)
Excess tax benefit from exercise of stock options	(43)	313	(178)
Net cash used in financing activities	(57,297)	(30,721)	(40,643)
Net increase (decrease) in cash and cash equivalents	25,096	(155)	(19,354)
Cash and cash equivalents at beginning of year	3,586	3,741	23,095
Cash and cash equivalents at end of year	$28,682	$3,586	$3,741

A statement of changes in stockholders' equity has not been presented since it is the same as the consolidated statement of changes in stockholders' equity previously presented.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out by the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report. No changes were made to the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Explanation of Responses:

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Management Report on Internal Controls Over Financial Reporting

The management of NBT Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2015, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company's internal control over financial reporting as of December 31, 2015 was effective at the reasonable assurance level based on those criteria.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm" on the following page.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NBT Bancorp Inc.:

We have audited NBT Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NBT Bancorp Inc. and subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

Albany, New York

February 29, 2016

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ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement for its Annual Meeting of shareholders to be held on May 3, 2016 (the "Proxy Statement"), which will be filed with the SEC within 120 days after the Company's 2015 fiscal year end.

ITEM 11. Executive Compensation

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days after the Company's 2015 fiscal year end.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table provides information with respect to shares of Common Stock that may be issued under the Company's existing equity compensation plans:

Plan Category	A. Number of securities to be issued upon exercise of outstanding options, warrants and rights	B. Weighted-average exercise price of Outstanding options, warrants and rights	Number of securities remaining available for Future issuance under Equity compensation plans (excluding securities reflected in column A)
Equity compensation plans approved by stockholders	541,564	$ 23.23	3,502,897
Equity compensation plans not approved by stockholders	None	None	None

The other information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2015 fiscal year end.

ITEM 13. Certain Relationships, Related Transactions and Director Independence

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2015 fiscal year end.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the Proxy Statement which will be filed with the SEC within 120 days of the Company's 2015 fiscal year end.

Explanation of Responses:

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) The following Consolidated Financial Statements are included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2015 and 2014.

Consolidated Statements of Income for each of the three years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Changes in Stockholders' Equity for each of the three years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2015, 2014 and 2013.

Notes to the Consolidated Financial Statements.

(a)(2) There are no financial statement schedules that are required to be filed as part of this form since they are not applicable or the information is included in the consolidated financial statements.

(a)(3) See below for all exhibits filed herewith and the Exhibit Index.

3.1	Restated Certificate of Incorporation of NBT Bancorp Inc. as amended through July 1, 2015 (filed as Exhibit 3.1 to Registrant's Form 10-Q filed on August 10, 2015 and incorporated herein by reference)
3.2	Amended and restated Bylaws of NBT Bancorp Inc. effective July 1, 2015 (filed as Exhibit 3.2 to Registrant's Form 8-K, filed on July 1, 2015 and incorporated herein by reference).
3.3	Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registrant's Form 8-K, filed on November 18, 2004, and incorporated herein by reference).
4.1	Specimen common stock certificate for NBT's Bancorp Inc. common stock (filed as Exhibit 4.1 to the Registrant's Amendment No. 1 to Registration Statement on Form S-4 filed on December 27, 2005 and incorporated herein by reference).
10.1	NBT Bancorp Inc. 1993 Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-71830 filed on October 18, 2001 and incorporated by reference herein).*
10.2	NBT Bancorp Inc. Non-Employee Director, Divisional Director and Subsidiary Director Stock Option Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-73038 filed on November 9, 2001 and incorporated by reference herein).*
10.3	NBT Bancorp Inc. Non-employee Directors Restricted and Deferred Stock Plan (filed as Exhibit 10.5 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).*
10.4	NBT Bancorp Inc. Performance Share Plan (filed as Exhibit 10.6 to Registrant's Form 10-K for the year ended December 31, 2008, filed on March 2, 2009 and incorporated herein by reference).*
10.5	NBT Bancorp Inc. 2016 Executive Incentive Compensation Plan.*
10.6	2006 Non-Executive Restricted Stock Plan (filed as Exhibit 99.1 to Registrant's Form S-8 Registration Statement, file number 333-139956, filed on January 12, 2007, and incorporated herein by reference).*
10.7	

Supplemental Retirement Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe as amended and restated Effective January 1, 2005 (filed as Exhibit 10.11 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).*

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10.8	Death Benefits Agreement between NBT Bancorp Inc., NBT Bank, National Association and Daryl R. Forsythe made August 22, 1995 (filed as Exhibit 10.12 to Registrant's Form 10-K for the year ended December 31, 2005, filed on March 15, 2006 and incorporated herein by reference).*
10.9	Employment Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and Martin A. Dietrich (filed as Exhibit 10.1 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.10	Supplemental Executive Retirement Agreement between NBT Bancorp Inc. and Martin A. Dietrich as amended and restated January 20, 2010. (filed as Exhibit 10.14 to Registrant's Form 10-K for the year ended December 31, 2009, filed on March 1, 2010 and incorporated herein by reference).*
10.11	Employment Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and Michael J. Chewens (filed as Exhibit 10.2 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.12	Form of Amended and Restated NBT Bancorp Inc. Supplemental Retirement Agreement, dated as of November 5, 2009, between NBT Bancorp Inc. and Messrs. Chewens, Levy and Raven (filed as Exhibit 10.7 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).*
10.13	Amendment to the Supplemental Executive Retirement Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and Michael J. Chewens (filed as Exhibit 10.6 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.14	Amendment to the Supplemental Executive Retirement Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and David E. Raven (filed as Exhibit 10.7 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.15	Amendment to the Supplemental Executive Retirement Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and Jeffrey M. Levy (filed as Exhibit 10.8 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.16	Employment Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and David E. Raven (filed as Exhibit 10.3 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.17	Employment Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and Jeffrey M. Levy (filed as Exhibit 10.4 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*
10.18	Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Martin A. Dietrich made November 10, 2008 (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2008, filed on November 10, 2008 and incorporated herein by reference).*
10.19	First Amendment dated November 5, 2009 to Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and Martin A. Dietrich made November 10, 2008 (filed as Exhibit 10.6 to Registrant's Form 10-Q for the quarterly period ended September 30, 2009, filed on November 9, 2009 and incorporated herein by reference).*
10.20	Second Amendment dated July 28, 2014 to Split-Dollar Agreement between NBT Bancorp, Inc., NBT Bank, National Association, and Martin A. Dietrich made November 10, 2008 (filed as Exhibit 10.1 to Registrant's Form 8-K, filed on August 1, 2014, and incorporated herein by reference).*
10.21	NBT Bancorp Inc. 2008 Omnibus Incentive Plan (filed as Appendix A of Registrant's Definitive Proxy Statement on Form 14A filed on March 31, 2008, and incorporated herein by reference).*
10.22	Long Term Incentive Compensation Plan for Named Executive Officers (filed as Exhibit 10.24 to Registrant's Form 10-K for the year ended December 31, 2011, filed on February 29, 2012 and incorporated herein by reference).*
10.23	Employment Agreement, dated March 10, 2015, by and between NBT Bancorp Inc. and Timothy L. Brenner (filed as Exhibit 10.5 to Registrant's Form 8-K filed on March 16, 2015 and incorporated herein by reference).*

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10.24	Amended and Restated Supplemental Retirement Agreement and First Amendment to the Supplemental Retirement Agreement between Alliance Financial Corporation, Alliance Bank, N.A. and Jack H. Webb (filed as Exhibit 10.29 to Registrant's Form 10-K for the year ended December 31, 2013, filed on March 3, 2014 and incorporated herein by reference).*
10.25	Split Dollar Agreement between the Alliance Bank N.A. and Jack H. Webb (filed as Exhibit 10.30 to Registrant's Form 10-K for the year ended December 31, 2013, filed on March 3, 2014 and incorporated herein by reference).*
21	A list of the subsidiaries of the Registrant.
23	Consent of KPMG LLP.
31.1	Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement

(b) Exhibits to this Form 10-K are attached or incorporated herein by reference as noted above.

(c) Not applicable

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, NBT Bancorp Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NBT BANCORP INC. (Registrant)
February 29, 2016

/s/ Martin A. Dietrich
Martin A. Dietrich

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Daryl R. Forsythe

Daryl R. Forsythe
Chairman and Director
Date: February 29, 2016

/s/ Martin A. Dietrich

Martin A. Dietrich
NBT Bancorp Inc. President, CEO, and Director (Principal Executive Officer)
Date: February 29, 2016

/s/ Michael J. Chewens

Michael J. Chewens
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Date: February 29, 2016

/s/ Patricia T. Civil

Patricia T. Civil, Director
Date: February 29, 2016

/s/ Timothy E. Delaney

Timothy E. Delaney, Director
Date: February 29, 2016

/s/ James H. Douglas

James H. Douglas, Director
Date: February 29, 2016

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/s/ John C. Mitchell

John C. Mitchell, Director
Date: February 29, 2016

/s/ Michael M. Murphy

Michael M. Murphy, Director
Date: February 29, 2016

/s/ Joseph A. Santangelo

Joseph A. Santangelo, Director
Date: February 29, 2016

/s/ Robert A. Wadsworth

Robert A. Wadsworth, Director
Date: February 29, 2016

/s/ Lowell A. Seifter

Lowell A. Seifter, Director
Date: February 29, 2016

/s/ Jack H. Webb

Jack H. Webb, Director
Date: February 29, 2016