NBT BANCORP INC
Form 10-K
February 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015
COMMISSION FILE NUMBER: 0-14703

NBT BANCORP INC.
(Exact name of registrant as specified in its charter)

Delaware	16-1268674
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

52 SOUTH BROAD STREET
NORWICH, NEW YORK 13815
(Address of principal executive office) (Zip Code)
(607) 337-2265 (Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Based on the closing price of the registrant's common stock as of June 30, 2015, the aggregate market value of the voting stock, common stock, par value, $0.01 per share, held by non-affiliates of the registrant is $1,107,379,951.

The number of shares of common stock outstanding as of February 12, 2016, was 43,126,156.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 3, 2016 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

NBT BANCORP INC.
FORM 10-K – Year Ended December 31, 2015

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PART I

ITEM 1. Business

NBT Bancorp Inc. (the "Registrant" or the "Company") is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The Company, on a consolidated basis, at December 31, 2015 had assets of $8.3 billion and stockholders' equity of $882.0 million.

The principal assets of the Registrant consist of all of the outstanding shares of common stock of its subsidiaries, including: NBT Bank, National Association (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc. ("NBT Holdings"), Hathaway Agency, Inc., and CNBF Capital Trust I, NBT Statutory Trust I and NBT Statutory Trust II (collectively, the "Trusts"). The Company's principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial and NBT Holdings.

The Company's business, primarily conducted through the Bank but also through its other subsidiaries, consists of providing commercial banking and financial services to customers in its market area, which includes central and upstate New York, northeastern Pennsylvania, southern New Hampshire, western Massachusetts, Vermont, and the greater Portland, Maine area. The Company has been, and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company's business philosophy is to operate as a community bank with local decision-making, principally in non-metropolitan markets, providing a broad array of banking and financial services to retail, commercial, and municipal customers. The financial condition and operating results of the Company are dependent on its net interest income which is the difference between the interest and dividend income earned on its earning assets, primarily loans and investments, and the interest expense paid on its interest bearing liabilities, primarily consisting of deposits and borrowings. Among other factors, net income is also affected by provisions for loan losses and noninterest income, such as service charges on deposit accounts, insurance and other financial services fees, trust revenue, and gains/losses on securities sales, bank owned life insurance income, ATM and debit card fees, and retirement plan administration fees as well as noninterest expense, such as salaries and employee benefits, occupancy, equipment, data processing and communications, professional fees and outside services, office supplies and postage, amortization, loan collection and other real estate owned expenses, advertising, FDIC expenses, and other expenses.

Substantially all of the Company's business activities are with customers located in the United States. Percentage of revenue and loan composition by state is summarized below:

	Interest and Fee Income		Noninterest Income		Total Revenue	
New York	54	%	30	%	84	%
Pennsylvania	6	%	1	%	7	%
New Hampshire	3	%	0	%	3	%
Vermont	4	%	0	%	4	%
Massachusetts	1	%	1	%	2	%
	68	%	32	%	100	%

	Commercial		Consumer		Residential Real Estate		Total Loan Portfolio	
New York	32	%	27	%	16	%	75	%
Pennsylvania	3	%	4	%	3	%	10	%
New Hampshire	4	%	1	%	1	%	6	%

Vermont	4	%	2	%	1	%	7	%
Massachusetts	1	%	0	%	0	%	1	%
Maine	1	%	0	%	0	%	1	%
	45	%	34	%	21	%	100	%

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Percentage of total loan portfolio secured by real estate is summarized below:

	Secured By Real Estate	Not Secured By Real Estate
New York	58 %	42 %
Pennsylvania	68 %	32 %
New Hampshire	71 %	29 %
Vermont	56 %	44 %
Massachusetts	74 %	26 %
Maine	100 %	0 %

Like much of the nation, the market areas that the Company serves are still experiencing economic challenges and volatility. A variety of factors (e.g., any substantial rise in inflation or rise in unemployment rates, decrease in consumer confidence, adverse international economic conditions, natural disasters, war, or political instability) may affect both the Company's markets and the national market. The Company will continue to emphasize managing its funding costs and lending and investment rates to effectively maintain profitability. In addition, the Company will continue to seek and maintain relationships that can generate noninterest income. We anticipate that this approach should help mitigate profit fluctuations that are caused by movements in interest rates, business and consumer loan cycles, and local economic factors.

NBT Bank, N.A.

The Bank is a full service commercial bank formed in 1856, which provides a broad range of financial products to individuals, corporations and municipalities throughout the central and upstate New York, northeastern Pennsylvania, western Massachusetts, southern New Hampshire, Vermont, and the greater Portland, Maine market areas.

Through its network of branch locations, the Bank offers a wide range of products and services tailored to individuals, businesses, and municipalities. Deposit products offered by the Bank include demand deposit accounts, savings accounts, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts ("MMDA"), and certificate of deposit ("CD") accounts. The Bank offers various types of each deposit account to accommodate the needs of its customers with varying rates, terms, and features. Loan products offered by the Bank include consumer loans, home equity loans, mortgages, small business loans and commercial loans, with varying rates, terms and features to accommodate the needs of its customers. The Bank also offers various other products and services through its branch network such as trust and investment services and financial planning and life insurance services. In addition to its branch network, the Bank also offers access to certain products and services electronically enabling customers to check balances, transfer funds, pay bills, view statements, apply for loans and access various other product and service information. The Bank provides 24-hour access to an automated telephone line whereby customers can check balances, obtain account information, transfer funds, request statements, and perform various other activities.

NBT Financial Services, Inc.

Through NBT Financial Services, the Company operates EPIC Advisors, Inc. ("EPIC"), a retirement plan administrator. Through EPIC, the Company offers services including retirement plan consulting and recordkeeping services. EPIC's headquarters are located in Rochester, New York.

NBT Holdings, Inc.

Through NBT Holdings, the Company operates NBT-Mang Insurance Agency, LLC ("Mang"), a full-service insurance agency acquired by the Company on September 1, 2008. Mang's headquarters are in Norwich, New York. Through Mang, the Company offers a full array of insurance products, including personal property and casualty, business liability and commercial insurance, tailored to serve the specific insurance needs of individuals as well as businesses in a range of industries operating in the markets served by the Company.

The Trusts

The Trusts were organized to raise additional regulatory capital and to provide funding for certain acquisitions. CNBF Capital Trust I ("Trust I") and NBT Statutory Trust I are Delaware statutory business trusts formed in 1999 and 2005, respectively, for the purpose of issuing trust preferred securities and lending the proceeds to the Company. In connection with the acquisition of CNB Bancorp, Inc., the Company formed NBT Statutory Trust II ("Trust II") in February 2006 to fund the cash portion of the acquisition as well as to provide regulatory capital. The Company raised $51.5 million through Trust II in February 2006. 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 Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"). In accordance with FASB ASC, the accounts of the Trusts are not included in the Company's consolidated financial statements.

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Operating Subsidiaries of the Bank

The Bank has six operating subsidiaries, NBT Capital Corp., Broad Street Property Associates, Inc., NBT Services, Inc., CNB Realty Trust, Alliance Preferred Funding Corp., and Alliance Leasing, Inc. NBT Capital Corp., formed in 1998, is a venture capital corporation formed to assist young businesses to develop and grow primarily in the markets they serve. Broad Street Property Associates, Inc., formed in 2004, is a property management company. NBT Services, Inc., formed in 2004, has a 44% ownership interest in Land Record Services, LLC. Land Record Services, LLC, a title insurance agency, offers mortgagee and owner's title insurance coverage to both retail and commercial customers. CNB Realty Trust, formed in 1998, is a real estate investment trust. Alliance Preferred Funding Corp., formed in 1999, is a real estate investment trust. Alliance Leasing, Inc. was formed in 2002 to provide equipment leasing services.

Competition

The financial services industry, including commercial banking, is highly competitive, and we encounter strong competition for deposits, loans and other financial products and services in our market area. The increasingly competitive environment is the result of the continued low rate environment, changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers. The Company competes for loans, deposits, and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Some of the Company's nonbanking competitors have fewer regulatory constraints and may have lower cost structures. In addition, some of the Company's competitors have assets, capital and lending limits greater than that of the Company, have greater access to capital markets and offer a broader range of products and services than the Company. These institutions may have the ability to finance wide-ranging advertising campaigns and may also be able to offer lower rates on loans and higher rates on deposits than the Company can offer. Some of these institutions offer services, such as credit cards and international banking, which the Company does not directly offer.

Various in-state market competitors and out-of-state banks continue to enter or have announced plans to enter or expand their presence in the market areas in which the Company currently operates. With the addition of new banking presences within our market, the Company expects increased competition for loans, deposits, and other financial products and services.

In order to compete with other financial services providers, the Company stresses the community nature of its banking operations and principally relies upon local promotional activities, personal relationships established by officers, directors, and employees with their customers, and specialized services tailored to meet the needs of the communities served. We also offer certain customer services, such as agricultural lending, that many of our larger competitors do not offer. While the Company's position varies by market, the Company's management believes that it can compete effectively as a result of local market knowledge, local decision making, and awareness of customer needs.

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The table below summarizes the Bank's deposits and market share by the thirty-eight counties of New York, Pennsylvania, New Hampshire, Vermont, Massachusetts, and Maine in which it had customer facilities as of June 30, 2015. Market share is based on deposits of all commercial banks, credit unions, savings and loans associations, and savings banks.

County	State	Deposits (in thousands)	Market Share	Market Rank	Number of Branches*	Number of ATMs*
Chenango	NY	$863,452	90.39 %	1	11	13
Fulton	NY	415,323	60.81 %	1	5	6
Schoharie	NY	191,126	46.89 %	1	4	4
Hamilton	NY	41,699	44.44 %	2	1	1
Cortland	NY	268,435	40.55 %	1	5	7
Montgomery	NY	234,727	35.02 %	2	5	4
Otsego	NY	323,695	33.50 %	2	8	12
Delaware	NY	301,749	31.56 %	1	5	4
Essex	NY	161,200	25.72 %	2	3	5
Susquehanna	PA	164,428	21.87 %	2	5	7
Madison	NY	207,536	17.05 %	2	4	6
Oneida	NY	399,069	12.43 %	5	7	11
Pike	PA	77,814	12.03 %	5	2	2
Saint Lawrence	NY	133,194	11.89 %	3	5	5
Broome	NY	303,702	11.65 %	3	8	10
Herkimer	NY	55,313	9.22 %	4	2	1
Wayne	PA	111,218	9.01 %	4	3	4
Tioga	NY	32,787	8.00 %	5	1	1
Clinton	NY	99,791	7.84 %	5	3	2
Oswego	NY	131,705	7.67 %	5	4	6
Lackawanna	PA	388,887	7.66 %	7	13	16
Franklin	NY	28,354	6.15 %	5	1	1
Schenectady	NY	156,115	6.08 %	6	2	2
Onondaga	NY	388,339	4.24 %	8	11	13
Saratoga	NY	144,106	3.60 %	9	4	4
Greene	NY	36,868	3.36 %	6	2	2
Monroe	PA	79,664	3.11 %	8	4	5
Berkshire	MA	109,907	3.07 %	7	6	6
Warren	NY	47,138	3.02 %	6	2	3
Cheshire	NH	31,361	2.33 %	7	1	0
Chittenden	VT	84,565	2.10 %	7	3	3
Albany	NY	199,318	1.66 %	10	4	5
Luzerne	PA	91,977	1.62 %	13	4	6
Rensselaer	NY	15,559	0.81 %	12	1	1
Hillsborough	NH	65,945	0.54 %	11	2	2
Rockingham	NH	18,828	0.30 %	19	2	2
Rutland	VT	2,185	0.23 %	9	1	1
Cumberland	ME	905	0.01 %	16	1	0
		$6,407,984			155	183

Deposit market share data is based on the most recent data available (as of June 30, 2015). Source: SNL Financial LLC

* Branch and ATM data is as of December 31, 2015.

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Supervision and Regulation

The Company, the Bank and certain of its non-banking subsidiaries are subject to extensive regulation under federal and state laws. The regulatory framework applicable to bank holding companies and their subsidiary banks is intended to protect depositors, federal deposit insurance funds, and the stability of the U.S. banking system. This system is not designed to protect equity investors in bank holding companies, such as the Company. Statutes, regulations and policies are subject to ongoing review by Congress, state legislatures and federal and state agencies. A change in any statute, regulation or policy applicable to the Company may have a material effect on the results of the Company and its subsidiaries.

Overview

The Company is a registered bank holding company and financial holding company under the Bank Holding Company Act of 1956 (the "BHC Act"), as amended, and is subject to the supervision of and regular examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "FRB") as its primary federal regulator. The Company is also subject to the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. The Company is traded on the NASDAQ under the ticker symbol, "NBTB," and is subject to the NASDAQ stock market rules.

The Bank is organized as a national banking association under the National Bank Act. The Bank is subject to the supervision of, and to regular examination by, the Office of the Comptroller of the Currency ("OCC") as its chartering authority and primary federal regulator. The Bank is also subject to the supervision and regulation of the Federal Deposit Insurance Corporation ("FDIC") as its deposit insurer. Financial products and services offered by the Company and the Bank are subject to federal consumer protection laws and implementing regulations promulgated by the Consumer Financial Protection Bureau ("CFPB"). The Company and the Bank are also subject to oversight by state attorneys general for compliance with state consumer protection laws. The Bank's deposits are insured by the FDIC up to the applicable deposit insurance limits in accordance with FDIC laws and regulations. The non-bank subsidiaries of the Company and the Bank are subject to federal and state laws and regulations, including regulations of the FRB and the OCC, respectively.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") has significantly changed the financial regulatory landscape in the U.S. Several provisions of the Dodd-Frank Act are subject to further rulemaking, guidance and interpretation by the federal banking agencies. As a result, management cannot predict the ultimate impact of the Dodd-Frank Act or the extent to which it could affect operations of the Company and the Bank.

Set forth below is a summary of the significant laws and regulations applicable to the Company and its subsidiaries. The description that follows is qualified in its entirety by reference to the full text of the statutes, regulations, and policies that are described. Such statutes, regulations, and policies are subject to ongoing review by Congress and state legislatures and federal and state regulatory agencies. A change in any of the statutes, regulations, or regulatory policies applicable to the Company and its subsidiaries could have a material effect on the results of the Company.

Federal Bank Holding Company Regulation

The Company is a bank holding company as defined by the BHCA. The BHCA generally limits the business of the Company to banking, managing or controlling banks, and other activities that the FRB has determined to be so closely related to banking "as to be a proper incident thereto." The Company has also qualified for and elected to be a financial holding company. Financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity that is either (i) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury), or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system (as solely determined by the FRB). If a bank holding company seeks to engage in the broader range of activities permitted under the BHC Act for financial holding companies, (i) the bank holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed," as defined in the FRB's Regulation Y, and (ii) it must file a declaration with the FRB that it elects to be a "financial holding company." In order for a financial holding company to commence any activity that is financial in nature, incidental thereto, or complementary to a financial activity, or to acquire a company engaged in any such activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act of 1977 (the "CRA"). See the section titled "Community Reinvestment Act of 1977" for further information relating to the CRA.

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Regulation of Mergers and Acquisitions

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate acquisitions of depository institutions and their holding companies. The BHC Act requires prior FRB approval for the direct or indirect acquisition of 5% or more of the voting shares of a bank or its parent holding company. Under the Bank Merger Act, prior approval of the OCC is required for a national bank to merge with another bank where the national bank is the resulting bank or to purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the federal banking agencies will consider, among other criteria, the competitive effect and public benefits of the transactions, the capital position of the combined banking organization, the applicant's performance record under the CRA, and the effectiveness of the subject organizations in combating money laundering activities.

As a financial holding company, the Company is permitted to acquire control of non-depository institution companies engaged in activities that are financial in nature and in activities that are incidental and complementary to financial activities without prior FRB approval. However, the BHC Act, as amended by the Dodd-Frank Act, requires prior written approval from the FRB or prior written notice to the FRB before a financial holding company may acquire control of a company with consolidated assets of $10 billion or more.

Capital Contributions

The principal source of the Company's liquidity is dividends from the Bank. The OCC oversees the ability of the Bank to make capital contributions, including dividends. The OCC generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the bank would thereafter be undercapitalized. The federal banking agencies have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. The appropriate federal regulatory authority is authorized to determine, based on the financial condition of a bank holding company or a bank, that the payment of dividends would be an unsafe or unsound practice and to prohibit such payment.

The OCC's prior approval is required if the total of all dividends declared by a national bank in any calendar year would exceed the sum of the bank's net income for that year and its undistributed net income for the preceding two calendar years, less any required transfers to surplus. The National Bank Act also prohibits national banks from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan and lease losses.

Affiliate and Insider Transactions

Transactions between the Bank and its affiliates, including the Company, are governed by sections 23A and 23B of the Federal Reserve Act (the "FRA") and the FRB's implementing Regulation W. An "affiliate" of a bank includes any company or entity that controls, is controlled by, or is under common control with the Bank. Generally, sections 23A and 23B of the FRA are intended to protect insured depository institutions from losses in transactions with affiliates. These sections place quantitative and qualitative limitations on covered transactions between the Bank and its affiliates, and require that all transactions between a bank and its affiliates occur on market terms that are consistent with safe and sound banking practices.

Section 22(h) of the FRA and its implementing Regulation O restricts loans to directors, executive officers, and principal stockholders ("Insiders"). Under Section 22(h), loans to Insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to Insiders above specified amounts must receive the prior approval of the Bank's board of directors. Further, under Section 22(h) of the FRA, loans to directors, executive officers, and principal stockholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the Bank's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers.

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Federal Deposit Insurance and Brokered Deposits

The Dodd-Frank Act increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor per insured institution. The Bank's deposit accounts are fully insured by the FDIC Deposit Insurance Fund (the "DIF") up to the deposit insurance limits in accordance with applicable laws and regulations.

The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating ("CAMELS rating"). The risk matrix uses different risk categories distinguished by capital levels and supervisory ratings. As a result of the Dodd-Frank Act, the base for deposit insurance assessments is now consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. In addition to deposit insurance assessments, the Federal Deposit Insurance Act ("FDIA") provides for additional assessments to be imposed on insured depository institutions to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments are adjusted quarterly to reflect changes in the assessment base of the DIF and do not vary depending upon a depository institution's capitalization or supervisory evaluation.

Under FDIC laws and regulations, no FDIC-insured depository institution can accept brokered deposits unless it is well capitalized, or unless it is adequately capitalized and receives a waiver from the FDIC. Applicable laws and regulations also prohibit any depository institution that is not well capitalized from paying an interest rate on brokered deposits in excess of three-quarters of one percentage point over certain prevailing market rates.

Federal Home Loan Bank System

The Bank is also a member of the Federal Home Loan Bank ("FHLB") of New York, which provides a central credit facility primarily for member institutions for home mortgage and neighborhood lending. The Bank is subject to the rules and requirements of the FHLB, including the requirement to acquire and hold shares of capital stock in the FHLB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, up to a maximum of $25.0 million. The Bank was in compliance with FHLB rules and requirements as of December 31, 2015.

Debit Card Interchange Fees

The Dodd-Frank Act requires that any interchange transaction fee charged for a debit transaction be reasonable and proportional to the cost incurred by the issuer for the transaction. FRB regulations mandated by the Dodd-Frank Act limit interchange fees on debit cards to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. Issuers that, together with their affiliates, have less than $10 billion of assets, such as the Company, are exempt from the debit card interchange fee standards. However, FRB regulations prohibit all issuers, including the Company and the Bank, from restricting the number of networks over which electronic debit transactions may be processed to less than two unaffiliated networks.

Source of Strength Doctrine

FRB policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Section 616 of the Dodd-Frank Act codifies the requirement that bank holding companies serve as a source of financial strength to their subsidiary depository institutions. As a result, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide such resources. Any capital loan by the Company to the Bank is subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The U.S. bankruptcy code provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

In addition, under the National Bank Act, if the Bank's capital stock is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the Company. If the assessment is not paid within three months, the OCC could order a sale of the Bank to cover any deficiency.

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Capital Adequacy and Prompt Corrective Action

In July 2013, the FRB, the OCC and the FDIC approved final rules (the "Capital Rules") that established a new capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. In addition, the Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal banking agencies' rules.

The Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Bank, as compared to prior U.S. general risk-based capital rules. The Capital Rules revised the definitions and the components of regulatory capital and impacted the calculation of the numerator in banking institutions' regulatory capital ratios. The Capital Rules became effective for the Company on January 1, 2015, subject to phase-in periods for certain components and other provisions.

The Capital Rules: (i) require a capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common forms of Tier 2 capital are subordinated notes and a portion of the allocation for loan losses, in each case, subject to the Capital Rules' specific requirements.

Pursuant to the Capital Rules, the minimum capital ratios as of January 1, 2015 are:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (CET1 plus Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The Capital Rules also require a "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity and other capital instrument repurchases and compensation based on the amount of the shortfall. When fully phased-in on January 1, 2019, the capital standards applicable to the Company will include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the prior general risk-based capital rules, the effects of accumulated other comprehensive income or loss ("AOCI") items included in shareholders' equity (for example, marks-to-market of securities held in the available-for-sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Under the Capital Rules, the effects of certain AOCI items are not excluded; however, banking organizations not using the advanced approaches, including the Company were permitted to make a one-time permanent election to continue to exclude these items in January 2015. The Capital Rules also preclude certain hybrid securities, such as trust preferred securities issued after May 19, 2010, from inclusion in bank holding companies' Tier 1 capital.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, are phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the Capital Rules revised the "prompt corrective action" ("PCA") regulations adopted pursuant to Section 38 of the FDIA, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to 6%); and (iii) eliminating the provision that permitted a bank with a composite supervisory rating of 1 and a 3% leverage ratio to be considered adequately capitalized. The Capital Rules did not change the total risk-based capital requirement for any PCA category.

The Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes.

Management believes that the Company is in compliance, and will continue to be in compliance, with the targeted capital ratios as such requirements are phased in.

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Volcker Rule

Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, restricts the ability of banking entities, such as the Company, from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain types of funds ("Covered Funds"), subject to certain limited exceptions. The implementing regulation defines a Covered Fund to include certain investments such as collateralized loan obligation ("CLO") and collateralized debt obligation securities. The regulation also provides an exemption for CLOs meeting certain requirements. Compliance with the Volcker Rule is generally required by July 21, 2017. Given the Company's size and the scope of its activities, the Company does not believe the implementation of the Volcker Rule will have a significant effect on its financial statements.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Consumer Protection and CFPB Supervision

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating the CFPB, an independent agency charged with responsibility for implementing, enforcing, and examining compliance with federal consumer financial laws. The CFPB has examination authority over all banks and savings institutions with more than $10 billion in assets. As the Company is below this threshold, the OCC continues to exercise primary examination authority over the Bank with regard to compliance with federal consumer financial laws and regulations. Under the Dodd-Frank Act state attorneys general are empowered to enforce rules issued by the CFPB.

The Company is subject to federal consumer financial statutes and the regulations promulgated thereunder including, but not limited to:

the Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

the Equal Credit Opportunity Act ("ECOA"), prohibiting discrimination in connection with the extension of credit;

the Home Mortgage Disclosure Act ("HMDA"), requiring home mortgage lenders, including the Bank, to make available to the public expanded information regarding the pricing of home mortgage loans, including the "rate spread" between the annual percentage rate and the average prime offer rate for mortgage loans of a comparable type;

the Fair Credit Reporting Act ("FCRA"), governing the provision of consumer information to credit reporting agencies and the use of consumer information; and

the Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies.

On January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage ("QM") provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the "QM Rule"). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM Rule requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM Rule requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM Rule definition, though some mortgages that meet GSE, FHA and VA underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. The QM Rule became effective January 10, 2014.

The Bank's failure to comply with any of the consumer financial laws can result in civil actions, regulatory enforcement action by the federal banking agencies and the U.S. Department of Justice.

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USA PATRIOT Act

The Bank Secrecy Act ("BSA"), as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act"), imposes obligations on U.S. financial institutions, including banks and broker-dealer subsidiaries, to implement policies, procedures and controls which are reasonably designed to detect and report instances of money laundering and the financing of terrorism. The USA PATRIOT Act requires all financial institutions, including the Company and the Bank, to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. The USA PATRIOT Act also encourages information-sharing among financial institutions, regulators, and law enforcement authorities by providing an exemption from the privacy provisions of the GLB Act for financial institutions that comply with this provision. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act, which applies to the Bank, or the BHC Act, which applies to the Company. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, financial and reputational consequences. As of December 31, 2015, the Company and the Bank believe that they are in compliance with the BSA and the USA PATRIOT Act, and implementing regulations thereunder.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals, and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Financial Privacy

Section V of the Gramm-Leach-Bliley Act and its implementing regulations require all financial institutions, including the Company and the Bank, to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. In addition, FCRA, as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), includes many provisions affecting the Company, Bank, and/or their affiliates, including provisions concerning obtaining consumer reports, furnishing information to consumer reporting agencies, maintaining a program to prevent identity theft, sharing of certain information among affiliated companies, and other provisions. The FACT Act requires persons subject to FCRA to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The CFPB and the Federal Trade Commission ("FTC") have extensive rulemaking authority under the FACT Act, and the Company and the Bank are subject to the rules that have been promulgated under the FACT Act, including rules regarding limitations on affiliate marketing and implementation of programs to identify, detect and mitigate certain identity theft red flags. The Company has developed policies and procedures for itself and its subsidiaries, including the Bank, and believes it is in compliance with all privacy, information sharing, and notification provisions of the GLB Act and the FACT Act. The Bank is also subject to data security standards, privacy and data breach notice requirements, primarily those issued by the OCC.

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Community Reinvestment Act of 1977

The Bank has a responsibility under the CRA, as implemented by OCC regulations, to help meet the credit needs of its communities, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Regulators periodically assess the Bank's record of compliance with the CRA. In addition, the ECOA and the Fair Housing Act prohibit discrimination in lending practices on the basis of characteristics specified in those statutes. The Bank's failure to comply with the CRA could, at a minimum, result in regulatory restrictions on its activities and the activities of the Company. The Bank's latest CRA rating was "Satisfactory."

Employees

At December 31, 2015, the Company had 1,721 full-time equivalent employees. The Company's employees are not presently represented by any collective bargaining group.

Available Information

The Company's website is http://www.nbtbancorp.com. The Company makes available free of charge through its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. We also make available through our website other reports filed with or furnished to the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act, as well as our Code of Business Conduct and Ethics and other codes/committee charters. The references to our website do not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

Any materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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ITEM 1A. Risk Factors

There are risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Any of the following risks could affect the Company's financial condition and results of operations and could be material and/or adverse in nature. You should consider all of the following risks together with all of the other information in this Annual Report on Form 10-K.

Deterioration in local economic conditions may negatively impact our financial performance.

The Company's success depends primarily on the general economic conditions in central and upstate New York, northeastern Pennsylvania, southern New Hampshire, western Massachusetts, Vermont and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in the upstate New York areas of Norwich, Syracuse, Oneonta, Amsterdam-Gloversville, Albany, Binghamton, Utica-Rome, Plattsburgh, Glens Falls and Ogdensburg-Massena, the northeastern Pennsylvania areas of Scranton, Wilkes-Barre and East Stroudsburg, Berkshire County, Massachusetts, southern New Hampshire, Vermont, and the greater Portland, Maine area. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources.

As a lender with the majority of our loans secured by real estate or made to businesses in New York, Pennsylvania, Massachusetts, New Hampshire, Vermont, and Maine, a downturn in these local economies could cause significant increases in nonperforming loans, which could negatively impact our earnings. Declines in real estate values in our market areas could cause any of our loans to become inadequately collateralized, which would expose us to greater risk of loss. Additionally, a decline in real estate values could result in the decline of originations of such loans, as most of our loans, and the collateral securing our loans, are located in those areas.

Variations in interest rates may negatively affect our financial performance.

The Company's earnings and financial condition are largely dependent upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect the Company's earnings and financial condition. The Company cannot predict with certainty, or control, changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the FRB, affect interest income and interest expense. High interest rates could also affect the amount of loans that the Company can originate because higher rates could cause customers to apply for fewer mortgages or cause depositors to shift funds from accounts that have a comparatively lower cost to accounts with a higher cost. The Company may also experience customer attrition due to competitor pricing. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, net interest income will be negatively affected. Changes in the asset and liability mix may also affect net interest income. Similarly, lower interest rates cause higher yielding assets to prepay and floating or adjustable rate assets to reset to lower rates. If the Company is not able to reduce its funding costs sufficiently, due to either competitive factors or the maturity schedule of existing liabilities, then the Company's net interest margin will decline.

Although management believes it has implemented effective asset and liability management strategies to mitigate the potential adverse effects of changes in interest rates on the Company's results of operations, any substantial or unexpected change in, or prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Net Interest Income" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosure About Market Risk located elsewhere in this report for further discussion related to the Company's management of interest rate risk.

Changes in the equity markets could materially affect the level of assets under management and the demand for other fee-based services.

Economic downturns could affect the volume of income from and demand for fee-based services. Revenues from the trust and benefit plan administration businesses depend in large part on the level of assets under management and administration. Market volatility that leads customers to liquidate investments, as well as lower asset values, can reduce our level of assets under management and administration and thereby decrease our investment management and administration revenues.

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Our lending, and particularly our emphasis on commercial lending, exposes us to the risk of losses upon borrower default.

As of December 31, 2015, approximately 44% of the Company's loan portfolio consisted of commercial and industrial, agricultural, commercial construction and commercial real estate loans. These types of loans generally expose a lender to greater risk of non-payment and loss than residential real estate loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Because the Company's loan portfolio contains a significant number of commercial and industrial, agricultural, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and/or an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Loans" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to commercial and industrial, agricultural, construction and commercial real estate loans.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

The Company maintains an allowance for loan losses, which is an allowance established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses that could be incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political, environmental, and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. These potential increases in the allowance for loan losses would result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Risk Management – Credit Risk" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the allowance for loan losses.

Strong competition within our industry and market area could hurt our performance and slow our growth.

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets in which the Company operates. Additionally, various banks continue to enter or have announced plans to enter the market areas in which the Company currently operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company can.

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The Company's ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand the Company's market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which the Company introduces new products and services relative to its competitors;
- customer satisfaction with the Company's level of service;
- industry and general economic trends; and
- the ability to attract and retain talented employees.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

We are subject to extensive government regulation and supervision, which may interfere with our ability to conduct our business and may negatively impact our financial results.

We, primarily through the Bank and certain non-bank subsidiaries, are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, the Federal Deposit Insurance Fund and the safety and soundness of the banking system as a whole, not shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer, and/or limit the pricing the Company may charge on certain banking services, among other things. Since the global financial crisis, financial institutions generally have been subject to increased scrutiny from regulatory authorities. Recent changes to the legal and regulatory framework governing our operations, including the passage and continued implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), have drastically revised the laws and regulations under which we operate. In general, bank regulatory agencies have increased their focus on risk management and customer compliance, and we expect this focus to continue. Additional compliance requirements are likely and can be costly to implement. Compliance personnel and resources may increase our costs of operations and adversely impact our earnings.

Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned "Supervision and Regulation" in Item 1. Business of this report for further information.

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We will be subject to heightened regulatory requirements if we exceed $10 billion in total consolidated assets.

Based on our historical growth rates and current size, it is possible that our total assets could exceed $10 billion dollars in the near future. The Dodd-Frank Act and its implementing regulations impose enhanced supervisory requirements on bank holding companies with more than $10 billion in total consolidated assets. For bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets such requirements include, among other things:

- compliance with the FRB's annual stress testing requirements;
- increased capital, leverage, liquidity and risk management standards;
- examinations by the CFPB for compliance with federal consumer financial protection laws and regulations;
- limits on interchange fees on debit cards; and
- changes to the FDIC deposit insurance assessments calculation that would increase our insurance premium costs.

Federal financial regulators may require us to take actions to prepare for compliance before we exceed $10 billion in total consolidated assets. Our regulators may consider our preparation for compliance with these regulatory requirements when examining our operations or considering any request for regulatory approval. We may, therefore, incur compliance costs before we reach $10 billion in total consolidated assets and may be required to maintain the additional compliance procedures even if we do not grow at the anticipated rate or at all.

Failure to comply with these new requirements may negatively impact the results of our operations and financial condition. To ensure compliance, we will be required to investment significant resources, which may necessitate hiring additional personnel and implementing additional internal controls. These additional compliance costs may have a material adverse effect on our business, results of operations and financial condition.

The Company is subject to liquidity risk which could adversely affect net interest income and earnings

The purpose of the Company's liquidity management is to meet the cash flow obligations of its customers for both deposits and loans. The primary liquidity measurement the Company utilizes is called basic surplus, which captures the adequacy of the Company's access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. However, competitive pressure on deposit pricing could result in a decrease in the Company's deposit base or an increase in funding costs. In addition, liquidity will come under additional pressure if loan growth exceeds deposit growth. These scenarios could lead to a decrease in the Company's basic surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. Depending on the level of interest rates, the Company's net interest income, and therefore earnings, could be adversely affected. See the section captioned "Liquidity Risk" in Item 7.

Our ability to service our debt, pay dividends and otherwise pay our obligations as they come due is substantially dependent on capital distributions from our subsidiaries.

The Company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's common stock and interest and principal on the Company's debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Company. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to the Company, the Company may not be able to service debt, pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, financial condition and results of operations.

A breach of information security, including as a result of cyber attacks, could disrupt our business and impact our earnings.

We depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite existing safeguards, we cannot be certain that all of our systems are free from vulnerability to attack or other technological difficulties or failures. If information security is breached or difficulties or failures occur, despite the controls we and our third party vendors have instituted, information can be lost or misappropriated, resulting in financial loss or costs to us, reputational harm or damages to others. Such costs or losses could exceed the amount of insurance coverage, if any, which would adversely affect our earnings.

We continually encounter technological change and the failure to understand and adapt to these changes could hurt our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

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The possibility of the economy's return to recessionary conditions and the possibility of further turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position and results of operations.

The economy in the United States and globally as experienced volatility in recent years and may continue to do so for the foreseeable future. There can be no assurance that economic conditions will not worsen. Unfavorable or uncertain economic conditions can be caused by declines in economic growth, business activity, or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, the timing and impact of changing governmental policies, natural disasters, terrorist attacks, acts of war, or a combination of these or other factors. A worsening of business and economic conditions recovery could have adverse effects on our business, including the following:

- investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on the Company's stock price and resulting market valuation;
- economic and market developments may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates;
- the Company's ability to assess the creditworthiness of its customers may be impaired if the models and approaches the Company uses to select, manage, and underwrite its customers become less predictive of future behaviors;
- the Company could suffer decreases in demand for loans or other financial products and services or decreased deposits or other investments in accounts with the Company;
- competition in the financial services industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, or otherwise; and;
- the value of loans and other assets, or collateral securing loans may decrease.

We are subject to other-than-temporary impairment risk which could negatively impact our financial performance.

The Company recognizes an impairment charge when the decline in the fair value of equity, debt securities and cost-method investments below their cost basis are judged to be other-than-temporary. Significant judgment is used to identify events or circumstances that would likely have a significant adverse effect on the future use of the investment. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, forecasted recovery, the financial condition and near-term prospects of the investee, and whether the Company has the intent to sell and whether it is more likely than not it will be forced to sell the security in question. Information about unrealized gains and losses is subject to changing conditions. The values of securities with unrealized gains and losses will fluctuate, as will the values of securities that we identify as potentially distressed. Our current evaluation of other-than-temporary impairments reflects our intent to hold securities for a reasonable period of time sufficient for a forecasted recovery of fair value. However, our intent to hold certain of these securities may change in future periods as a result of facts and circumstances impacting a specific security. If our intent to hold a security with an unrealized loss changes, and we do not expect the security to fully recover prior to the expected time of disposition, we will write down the security to its fair value in the period that our intent to hold the security changes.

The process of evaluating the potential impairment of goodwill and other intangibles is highly subjective and requires significant judgment. The Company estimates the expected future cash flows of its various businesses and determines the carrying value of these businesses. The Company exercises judgment in assigning and allocating certain assets and liabilities to these businesses. The Company then compares the carrying value, including goodwill and other intangibles, to the discounted future cash flows. If the total of future cash flows is less than the carrying amount of the assets, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the assets. Estimates of the future cash flows associated with the assets are critical to these assessments. Changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges and therefore have a material adverse impact on the Company's financial condition and performance.

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The risks presented by acquisitions could adversely affect our financial condition and results of operations.

The business strategy of the Company has included and may continue to include growth through acquisition. Any future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks may include, among other things:

our ability to realize anticipated cost savings;
the difficulty of integrating operations and personnel, the loss of key employees;
the potential disruption of our or the acquired company's ongoing business in such a way that could result in decreased revenues, the inability of our management to maximize our financial and strategic position;
the inability to maintain uniform standards, controls, procedures and policies; and
the impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management.

We cannot provide any assurance that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome these risks could have an adverse effect on the achievement of our business strategy and results of operations.

Our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to risk of environmental liabilities with respect to properties to which we obtain title.

A significant portion of our loan portfolio at December 31, 2015 was secured by real estate. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a government entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations and prospects.

We may be adversely affected by the soundness of other financial institutions including the FHLB of New York.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

The Company owns common stock of FHLB of New York in order to qualify for membership in the FHLB system, which enables it to borrow funds under the FHLB of New York's advance program. The carrying value and fair market value of our FHLB of New York common stock was $21.5 million as of December 31, 2015. There are 11 branches of the FHLB, including New York, which are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment. Any adverse effects on the FHLB of New York could adversely affect the value of our investment in its common stock and negatively impact our results of operations.

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Provisions of our certificate of incorporation and bylaws, as well as Delaware law and certain banking laws, could delay or prevent a takeover of us by a third party.

Provisions of the Company's certificate of incorporation and bylaws, the corporate law of the State of Delaware and state and federal banking laws, including regulatory approval requirements, could delay, defer or prevent a third party from acquiring the Company, despite the possible benefit to the Company's stockholders, or otherwise adversely affect the market price of the Company's common stock. These provisions include: supermajority voting requirements for certain business combinations and advance notice requirements for nominations for election to the Company's board of directors and for proposing matters that stockholders may act on at stockholder meetings. In addition, the Company is subject to Delaware law, which among other things prohibits the Company from engaging in a business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discouraging bids for the Company's common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of the Company's common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors other than candidates nominated by the Board.

Trading activity in the Company's common stock could result in material price fluctuations.

The market price of the Company's common stock may fluctuate significantly in response to a number of factors including, but not limited to:

- Changes in securities analysts' expectations of financial performance;
- Volatility of stock market prices and volumes;
- Incorrect information or speculation;
- Changes in industry valuations;
- Variations in operating results from general expectations;
- Actions taken against the Company by various regulatory agencies;
- Changes in authoritative accounting guidance by the Financial Accounting Standards Board or other regulatory agencies;
- Changes in general domestic economic conditions such as inflation rates, tax rates, unemployment rates, labor and healthcare cost trend rates, recessions, and changing government policies, laws and regulations; and
- Severe weather, natural disasters, acts of war or terrorism and other external events

ITEM 1B. Unresolved Staff Comments

None.

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ITEM 2. Properties

The Company owns its headquarters located at 52 South Broad Street, Norwich, New York 13815. The Company operated the following community banking branches and ATMs as of December 31, 2015:

County	Branches	ATMs	County	Branches	ATMs
New York			Pennsylvania		
Albany	4	5	Lackawanna	13	16
Broome	8	10	Luzerne	4	6
Chenango	11	13	Monroe	4	5
Clinton	3	2	Pike	2	2
Cortland	5	7	Susquehanna	5	7
Delaware	5	4	Wayne	3	4
Essex	3	5			
Franklin	1	1	New Hampshire		
Fulton	5	6	Cheshire	1	0
Greene	2	2	Hillsborough	2	2
Hamilton	1	1	Rockingham	2	2
Herkimer	2	1			
Madison	4	6	Vermont		
Montgomery	5	4	Chittenden	3	3
Oneida	7	11	Rutland	1	1
Onondaga	11	13			
Oswego	4	6	Massachusetts		
Otsego	8	12	Berkshire	6	6
Rensselaer	1	1			
Saratoga	4	4	Maine		
Schenectady	2	2	Cumberland	1	0
Schoharie	4	4			
Saint Lawrence	5	5			
Tioga	1	1			
Warren	2	3			
			Total	155	183

The Company leases 74 of the above listed branches from third parties. The Company owns all other banking premises. The Company believes that its offices are sufficient for its present operations. All of the above ATMs are owned by the Company.

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ITEM 3. Legal Proceedings

There are no material legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

ITEM 4. Mine Safety Disclosures

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder matters and Issuer Purchases of Equity Securities

Market Information

The common stock of the Company, par value $0.01 per share (the "Common Stock"), is quoted on the Nasdaq Global Select Market under the symbol "NBTB." The following table sets forth the high and low sales prices and dividends declared for the Common Stock for the periods indicated:

	High	Low	Dividend
2015			
1st quarter	$26.46	$22.97	$ 0.21
2nd quarter	26.89	23.75	0.22
3rd quarter	27.72	24.91	0.22
4th quarter	30.52	25.58	0.22
2014			
1st quarter	$25.81	$22.35	$ 0.21
2nd quarter	25.18	21.67	0.21
3rd quarter	24.81	22.50	0.21
4th quarter	26.88	22.22	0.21

The closing price of the Common Stock on February 12, 2016 was $25.79.

As of February 12, 2016, there were 6,728 shareholders of record of Common Stock. No unregistered securities were sold by the Company during the year ended December 31, 2015.

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Stock Performance Graph

The following stock performance graph compares the cumulative total stockholder return (i.e., price change, reinvestment of cash dividends and stock dividends received) on our Common Stock against the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index and the KBW Regional Bank Index (Peer Group). The stock performance graph assumes that $100 was invested on December 31, 2010. The graph further assumes the reinvestment of dividends into additional shares of the same class of equity securities at the frequency with which dividends are paid on such securities during the relevant fiscal year. The yearly points marked on the horizontal axis correspond to December 31 of that year. We calculate each of the referenced indices in the same manner. All are market-capitalization-weighted indices, so companies judged by the market to be more important (i.e., more valuable) count for more in all indices.

	Period Ending					
Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
NBT Bancorp	$100.00	$ 95.13	$90.42	$119.67	$125.64	$137.78
KBW Regional Bank Index	$100.00	$ 94.87	$107.38	$157.54	$161.29	$170.94
NASDAQ Composite Index	$100.00	$ 99.23	$116.79	$163.64	$187.85	$201.24

Source: Bloomberg, L.P.

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Dividends

We depend primarily upon dividends from our subsidiaries for a substantial part of our revenue. Accordingly, our ability to pay dividends to our shareholders depends primarily upon the receipt of dividends or other capital distributions from our subsidiaries. Payment of dividends to the Company from the Bank is subject to certain regulatory and other restrictions. Under OCC regulations, the Bank may pay dividends to the Company without prior regulatory approval so long as it meets its applicable regulatory capital requirements before and after payment of such dividends and its total dividends do not exceed its net income to date over the calendar year plus retained net income over the preceding two years. At December 31, 2015, the Bank was in compliance with all applicable minimum capital requirements and had the ability to pay dividends of $81.9 million to the Company without the prior approval of the OCC.

If the capital of the Company is diminished by depreciation in the value of its property or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, no dividends may be paid out of net profits until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets has been repaired. See the section captioned "Supervision and Regulation" in Item 1. Business and Note 15 – Stockholders' Equity in the notes to consolidated financial statements is included in Item 8. Financial Statements and Supplementary Data, which are located elsewhere in this report.

Stock Repurchase

The Company purchased 1,047,152 shares of its common stock during the year ended December 31, 2015 at an average price of $25.59 per share under previously announced plans. As of December 31, 2015, there were 952,848 shares available for repurchase under the repurchase plan that was announced on July 27, 2015, which expires on December 31, 2016. The Company did not purchase any shares of its common stock during the fourth quarter of 2015.

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ITEM 6. Selected Financial Data

The following summary of financial and other information about the Company is derived from the Company's audited consolidated financial statements for each of the last five fiscal years ended December 31 and should be read in conjunction with Item 7. and the Company's consolidated financial statements and accompanying notes, included elsewhere in this report:

	Year ended December 31,				
(In thousands, except share and per share data)	2015	2014	2013 (1)	2012 (2)	2011
Interest, fee and dividend income	$273,224	$275,081	$268,723	$239,397	$239,997
Interest expense	20,616	23,203	30,644	35,194	39,721
Net interest income	252,608	251,878	238,079	204,203	200,276
Provision for loan and lease losses	18,285	19,539	22,424	20,269	20,737
Noninterest income excluding securities gains	115,394	125,935	101,789	86,728	80,161
Securities gains, net	3,087	92	1,426	599	150
Noninterest expense	236,176	246,063	228,927	193,887	180,676
Income before income taxes	116,628	112,303	89,943	77,374	79,174
Net income	76,425	75,074	61,747	54,558	57,901
Per common share					
Basic earnings	$1.74	$1.71	$1.47	$1.63	$1.72
Diluted earnings	1.72	1.69	1.46	1.62	1.71
Cash dividends paid	0.87	0.84	0.81	0.80	0.80
Book value at year-end	20.31	19.69	18.77	17.24	16.23
Tangible book value at year-end (3)	13.79	13.22	12.09	12.23	11.70
Average diluted common shares outstanding	44,389	44,395	42,351	33,719	33,924
Securities available for sale, at fair value	$1,174,544	$1,013,171	$1,364,881	$1,147,999	$1,244,619
Securities held to maturity, at amortized cost	471,031	454,361	117,283	60,563	70,811
Loans and leases	5,883,133	5,595,271	5,406,795	4,277,616	3,800,203
Allowance for loan and lease losses	63,018	66,359	69,434	69,334	71,334
Assets	8,262,646	7,807,340	7,652,175	6,042,259	5,598,406
Deposits	6,604,843	6,299,605	5,890,224	4,784,349	4,367,149
Borrowings	674,124	548,943	866,061	605,855	627,358
Stockholders' equity	882,004	864,181	816,569	582,273	538,110
Key ratios					
Return on average assets	0.96 %	0.97 %	0.85 %	0.93 %	1.06 %
Return on average equity	8.70	8.84	8.09	9.72	10.73
Average equity to average assets	10.98	10.95	10.50	9.55	9.90
Net interest margin	3.50	3.61	3.66	3.86	4.09
Dividend payout ratio	49.92	49.16	55.48	49.38	46.78
Tier 1 leverage	9.44	9.39	8.93	8.54	8.74
Common equity tier 1 capital ratio					
Tier 1 risk-based capital	11.73	12.32	11.74	11.00	11.56
Total risk-based capital	12.74	13.50	12.99	12.25	12.81

(1) Includes the impact of the acquisition of Alliance Financial Corporation ("Alliance") on March 8, 2013.

(2) Includes the impact of the acquisition of Hampshire First Bank on June 8, 2012.

(3) Tangible book value calculation:

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	Year ended December 31,				
(In thousands, except per share data)	2015	2014	2013	2012	2011
Stockholders' equity	$882,004	$864,181	$816,569	$582,273	$538,110
Intangibles	283,222	283,951	290,554	169,335	150,222
Tangible equity	598,782	580,229	526,015	412,938	387,888
Diluted common shares outstanding	43,431	43,896	43,513	33,775	33,157
Tangible book value	$13.79	$13.22	$12.09	$12.23	$11.70

Selected Quarterly Financial Data

	2015				2014			
(Dollars in thousands, except share and per share data)	Fourth	Third	Second	First	Fourth	Third	Second	First
Interest, fee and dividend income	$68,771	$69,500	$67,727	$67,226	$69,414	$69,134	$68,456	$68,077
Interest expense	5,259	5,255	5,042	5,060	5,390	5,371	5,882	6,560
Net interest income	63,512	64,245	62,685	62,166	64,024	63,763	62,574	61,517
Provision for loan and lease losses	5,779	4,966	3,898	3,642	6,892	4,885	4,166	3,596
Noninterest income excluding net securities gains	29,427	31,258	28,189	26,520	27,013	26,639	46,013	26,270
Net securities gains	3,044	3	26	14	33	38	14	7
Noninterest expense	60,619	59,891	57,964	57,702	56,743	69,067	62,736	57,517
Net income	19,127	19,851	19,281	18,166	18,513	10,912	27,640	18,009
Basic earnings per share	$0.44	$0.45	$0.44	$0.41	$0.42	$0.25	$0.63	$0.41
Diluted earnings per share	$0.43	$0.45	$0.43	$0.41	$0.42	$0.25	$0.62	$0.41
Annualized net interest margin	3.42 %	3.48 %	3.51 %	3.60 %	3.61 %	3.61 %	3.60 %	3.63 %
Annualized return on average assets	0.93 %	0.97 %	0.97 %	0.94 %	0.94 %	0.55 %	1.43 %	0.95 %
Annualized return on average equity	8.58 %	8.97 %	8.81 %	8.46 %	8.46 %	5.06 %	13.12 %	8.81 %
Average diluted common shares outstanding	44,072	44,262	44,530	44,642	44,535	44,405	44,364	44,296

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ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Certain statements in this filing and future filings by the Company with the SEC, in the Company’s press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act. These statements may be identified by the use of phrases such as “anticipate,” “believe,” “expect,” “forecasts,” “projects,” “will,” “ca “would,” “should,” “could,” “may,” or other similar terms. There are a number of factors, many of which are beyond the Company’s control that could cause actual results to differ materially from those contemplated by the forward looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company’s assessment of that impact; (2) changes in the level of non-performing assets and charge-offs; (3) changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; (4) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board; (5) inflation, interest rate, securities market and monetary fluctuations; (6) political instability; (7) acts of war or terrorism; (8) the timely development and acceptance of new products and services and perceived overall value of these products and services by users; (9) changes in consumer spending, borrowings and savings habits; (10) changes in the financial performance and/or condition of the Company’s borrowers; (11) technological changes; (12) acquisitions and integration of acquired businesses; (13) the ability to increase market share and control expenses; (14) changes in the competitive environment among financial holding companies; (15) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply including those under the Dodd-Frank Act; (16) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; (17) changes in the Company’s organization, compensation and benefit plans; (18) the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; (19) greater than expected costs or difficulties related to the integration of new products and lines of business; and (20) the Company’s success at managing the risks involved in the foregoing items.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and advises readers that various factors including, but not limited to, those described above, could affect the Company’s financial performance and could cause the Company’s actual results or circumstances for future periods to differ materially from those anticipated or projected.

Except as required by law, the Company does not undertake, and specifically disclaims any obligations to, publicly release any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

General

The financial review which follows focuses on the factors affecting the consolidated financial condition and results of operations of the Company and its wholly owned subsidiaries, the Bank, NBT Financial Services and NBT Holdings during 2015 and, in summary form, the preceding two years. Collectively, the Registrant and its subsidiaries are referred to herein as “the Company.” Net interest margin is presented in this discussion on a fully taxable equivalent (FTE) basis. Average balances discussed are daily averages unless otherwise described. The audited consolidated financial statements and related notes as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015 should be read in conjunction with this review. Amounts in prior period consolidated financial statements are reclassified whenever necessary to conform to the 2015 presentation.

Critical Accounting Policies

The Company has identified policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan losses, pension accounting, provision for income taxes and impairment of goodwill and intangible assets.

Management of the Company considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover credit losses inherent in the loan portfolio and the material effect that such judgments can have on the results of operations. While management’s current evaluation of the allowance for loan losses indicates that the allowance is adequate, under adversely different conditions or assumptions, the allowance may need to be increased. For example, if historical loan loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provision for loan losses would be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Company’s nonperforming loans and potential problem loans have a significant impact on the overall analysis of the adequacy of the allowance for loan losses. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral values were significantly lower, the Company’s allowance for loan loss policy would also require additional provision for loan losses.

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Management is required to make various assumptions in valuing its pension assets and liabilities. These assumptions include the expected rate of return on plan assets, the discount rate, and the rate of increase in future compensation levels. Changes to these assumptions could impact earnings in future periods. The Company takes into account the plan asset mix, funding obligations, and expert opinions in determining the various rates used to estimate pension expense. The Company also considers the Citigroup Pension Liability Index, market interest rates and discounted cash flows in setting the appropriate discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the rate of increase in future compensation levels.

The Company is subject to examinations from various taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgments used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the taxing authorities determine that management's assumptions were inappropriate, an adjustment may be required which could have a material effect on the Company's results of operations.

As a result of acquisitions, the Company has acquired goodwill and identifiable intangible assets. Goodwill represents the cost of acquired companies in excess of the fair value of net assets at the acquisition date. Goodwill is evaluated at least annually or when business conditions suggest that an impairment may have occurred. Goodwill will be reduced to its carrying value through a charge to earnings if impairment exists. Core deposits and other identifiable intangible assets are amortized to expense over their estimated useful lives. The determination of whether or not impairment exists is based upon discounted cash flow modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows. It also requires them to select a discount rate that reflects the current return requirements of the market in relation to present risk-free interest rates, required equity market premiums and Company-specific risk indicators, all of which are susceptible to change based on changes in economic conditions and other factors. Future events or changes in the estimates used to determine the carrying value of goodwill and identifiable intangible assets could have a material impact on the Company's results of operations.

The Company's policies on the allowance for loan losses, pension accounting, provision for income taxes, goodwill and intangible assets are disclosed in Note 1 to the consolidated financial statements. A more detailed description of the allowance for loan losses is included in the section captioned "Risk Management – Credit Risk" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K. All significant pension accounting assumptions, income tax assumptions, and intangible asset assumptions and detail are disclosed in Notes 13, 12 and 7 to the consolidated financial statements, respectively. All accounting policies are important, and as such, the Company encourages the reader to review each of the policies included in Note 1 to obtain a better understanding of how the Company's financial performance is reported.

Non-GAAP Measures

This Annual Report on Form 10-K contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (GAAP). These measures adjust GAAP measures to exclude the effects of acquisition related intangible amortization expense on earnings and equity as well as providing a fully taxable equivalent yield on securities and loans. Where non-GAAP disclosures are used in this Annual Report on Form 10-K, the comparable GAAP measure, as well as a reconciliation to the comparable GAAP measure, is provided in the accompanying tables. Management believes that these non-GAAP measures provide useful information that is important to an understanding of the operating results of the Company's core business as well as provide information standard in the financial institution industry. Non-GAAP measures should not be considered a substitute for financial measures determined in accordance with GAAP and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company.

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Overview

Significant factors management reviews to evaluate the Company’s operating results and financial condition include, but are not limited to: net income and earnings per share, return on assets and equity, net interest margin, noninterest income, operating expenses, asset quality indicators, loan and deposit growth, capital management, liquidity and interest rate sensitivity, enhancements to customer products and services, technology advancements, market share and peer comparisons. The following information should be considered in connection with the Company's results for the fiscal year ended December 31, 2015:

Reported net income for 2015 was $76.4 million, the highest in the Company's history, and up from $75.1 million in 2014.

Net interest margin for 2015 declined 11 basis points as a result of the continued low rate environment on loans and investments.
Asset quality indicators showed stability or improvement from last year:

Nonperforming loans to total loans improved to 0.64% at December 31, 2015 from 0.82% at December 31, 2014;

Past due loans to total loans improved to 0.62% at December 31, 2015 from 0.69% at December 31, 2014;

Net charge-offs to average loans improved to 0.38% for 2015 from 0.41% in 2014.
Noninterest income was down 6.0% from last year driven primarily by the $19.4 million gain on the sale of our ownership interest in Springstone, LLC ("Springstone") recorded in 2014 as compared to the $4.2 million gain recorded in 2015 from the same.

Continued the sale of conforming residential real estate mortgages, taking advantage of favorable interest rate conditions when possible;
Increased efforts to grow noninterest income with focus on organic growth of our wealth management businesses; and
Continued demand deposit growth strategies resulting in 8.7% growth from 2014 to 2015.
The Company reported net income of $76.4 million or $1.72 per diluted share for 2015, up 1.8% from net income of $75.1 million or $1.69 per diluted share for 2014. The provision for loan losses totaled $18.3 million for the year ended December 31, 2015, down $1.3 million, or 6.4%, from $19.5 million for the year ended December 31, 2014.
The Company continued to experience pressure on net interest income in 2015 as low rates continued to have the effect of causing many assets to prepay or to be redeemed. Net interest income was $252.6 million for the year ended December 31, 2015, up $0.7 million from 2014. Fully taxable equivalent (“FTE”) net interest margin was 3.50% for the year ended December 31, 2015, down from 3.61% for the year ended December 31, 2014.

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2016 Outlook

The Company's 2015 earnings reflected the Company's continued ability to manage through the existing and near future economic conditions and challenges in the financial services industry, while investing in the Company's future. The Company believes effects of the economic crisis still exist and, as a result, there will be certain challenges faced in 2016. Significant items that may have an impact on 2016 results include:

The Company expects that it will experience some additional margin compression from the 2015 fourth quarter net interest margin of 3.42%. We expect that payments representing interest and principal on currently outstanding loans and investments will continue to be reinvested at rates that are lower than the rates currently outstanding on those loans and investments. In addition, deposit and borrowing rates are historically low and there are minimal opportunities for them to be lowered. Furthermore, the industry as a whole must focus on asset growth to increase interest income, thereby creating general pricing pressure in the entire industry.

Compliance with regulatory mandates could continue to negatively impact certain fee generating products as well as increase costs to comply, which could negatively impact noninterest income, noninterest expense and earnings.

Competitive pressure on deposits could result in an increase in interest expense if interest rates begin to rise.

The Company's 2016 outlook is subject to factors in addition to those identified above and those risks and uncertainties that could impact the Company's future results are explained in ITEM 1A. RISK FACTORS.

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Asset/Liability Management

The Company attempts to maximize net interest income and net income, while actively managing its liquidity and interest rate sensitivity through the mix of various core deposit products and other sources of funds, which in turn fund an appropriate mix of earning assets. The changes in the Company's asset mix and sources of funds, and the resulting impact on net interest income, on a fully tax equivalent basis, are discussed below. The following table includes the condensed consolidated average balance sheet, an analysis of interest income/expense and average yield/rate for each major category of earning assets and interest bearing liabilities on a taxable equivalent basis. Interest income for tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory Federal income tax rate of 35%.

Average Balances and Net Interest Income

(Dollars in thousands)	2015 Average Balance	Interest	Yield/ Rate	2014 Average Balance	Interest	Yield/ Rate	2013 Average Balance	Interest	Yie Rat
ASSETS									
Short-term interest bearing accounts	$10,157	$33	0.33%	$4,344	$28	0.65%	$30,522	$116	0.3
Securities available for sale (1)	1,059,284	20,888	1.97%	1,258,999	25,760	2.05%	1,349,887	27,357	2.0
Securities held to maturity (1)	459,589	11,296	2.46%	233,465	6,558	2.81%	88,193	3,692	4.1
Investment in FRB and FHLB Banks	33,044	1,712	5.18%	39,290	2,005	5.10%	37,998	1,771	4.6
Loans and leases (2)	5,743,860	242,587	4.22%	5,528,015	244,162	4.42%	5,106,607	239,572	4.6
Total interest earning assets	$7,305,934	$276,516	3.78%	$7,064,113	$278,513	3.94%	$6,613,207	$272,508	4.1
Other assets	691,583			691,934			653,432		
Total assets	$7,997,517			$7,756,047			$7,266,639		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Money market deposit accounts	$1,582,078	$3,351	0.21%	$1,457,770	$2,532	0.17%	$1,343,801	$2,004	0.1
NOW deposit accounts	987,638	515	0.05%	949,759	509	0.05%	882,629	1,468	0.1
Savings deposits	1,071,753	651	0.06%	1,020,974	760	0.07%	929,226	789	0.0
Time deposits	960,188	9,740	1.01%	1,015,748	9,837	0.97%	1,069,228	12,029	1.1
Total interest bearing deposits	$4,601,657	$14,257	0.31%	$4,444,251	$13,638	0.31%	$4,224,884	$16,290	0.3
Short-term borrowings	339,885	783	0.23%	382,451	845	0.22%	280,848	515	0.1
Trust preferred debentures	101,196	2,221	2.19%	101,196	2,165	2.14%	96,536	2,084	2.1
Long-term debt	130,705	3,355	2.57%	224,556	6,555	2.92%	338,697	11,755	3.4
Total interest bearing liabilities	$5,173,443	$20,616	0.40%	$5,152,454	$23,203	0.45%	$4,940,965	$30,644	0.6
Demand deposits	1,857,027			1,670,188			1,484,193		

Other liabilities	88,937			83,940			78,455		
Stockholders' equity	878,110			849,465			763,026		
Total liabilities and stockholders' equity	$7,997,517			$7,756,047			$7,266,639		
Net interest income (FTE)		255,900			255,310			241,864	
Interest rate spread			3.38%			3.49%			3.5
Net interest margin			3.50%			3.61%			3.6
Taxable equivalent adjustment		3,292			3,432			3,785	
Net interest income		$252,608			$251,878			$238,079	

1. Securities are shown at average amortized cost.
2. For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding. The interest collected thereon is included in interest income based upon the characteristics of the related loans.

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2015 OPERATING RESULTS AS COMPARED TO 2014 OPERATING RESULTS

Net Interest Income

Net interest income was $252.6 million for the year ended December 31, 2015, up $0.7 million from 2014. Fully taxable equivalent ("FTE") net interest margin was 3.50% for the year ended December 31, 2015, down from 3.61% for the year ended December 31, 2014. Average interest earning assets were up $241.8 million, or 3.4%, for the year ended December 31, 2015 as compared to 2014. This increase from last year was driven primarily by organic loan growth. Yields on earning assets decreased from 3.94% during 2014 to 3.78% for 2015, more than offsetting the growth in earning assets, resulting in a 0.7% decrease in interest income for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The yield compression was driven by a 20 basis-point decrease in loan yields from 2014 to 2015. Average interest bearing liabilities increased $21.0 million, or 0.4%, from the year ended December 31, 2014 to the year ended December 31, 2015. Total average deposits increased $344.2 million, or 5.6%, for the year ended December 31, 2015 as compared to last year driven primarily by an 11.2% increase in non-interest bearing demand deposits, as well as increases in money market deposit accounts and savings deposits in 2015. This increase was partially offset by a decrease in average long-term borrowings of $93.9 million for the year ended December 31, 2015 as compared to last year due to the debt restructuring completed during the third quarter of 2014, which resulted in the prepayment of $165.0 million of long-term debt. In addition, average short-term borrowings decreased $42.6 million for the year ended December 31, 2015 as compared to last year driven by deposit growth. The rates paid on interest bearing liabilities decreased by 5 basis-points for the year ended December 31, 2015 as compared to 2014. This decrease resulted primarily from a shift in deposits into lower cost core deposits as well as the aforementioned debt restructuring. The following table presents changes in interest income, on a FTE basis, and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

Analysis of Changes in Taxable Equivalent Net Interest Income

	Increase (Decrease) 2015 over 2014			Increase (Decrease) 2014 over 2013		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Short-term interest-bearing accounts	$24	$(19)	$5	$(138)	$50	$(88)
Securities available for sale	(3,966)	(906)	(4,872)	(1,857)	260	(1,597)
Securities held to maturity	5,649	(911)	4,738	4,414	(1,548)	2,866
Investment in FRB and FHLB Banks	(323)	30	(293)	63	171	234
Loans and leases	9,337	(10,912)	(1,575)	19,093	(14,503)	4,590
Total interest income	10,721	(12,718)	(1,997)	21,575	(15,570)	6,005
Money market deposit accounts	229	590	819	179	349	528
NOW deposit accounts	20	(14)	6	104	(1,063)	(959)
Savings deposits	36	(145)	(109)	74	(103)	(29)
Time deposits	(552)	455	(97)	(580)	(1,612)	(2,192)
Short-term borrowings	(97)	35	(62)	211	119	330
Junior subordinated debt	-	56	56	100	(19)	81
Long-term debt	(2,483)	(717)	(3,200)	(3,534)	(1,666)	(5,200)
Total interest expense	(2,847)	260	(2,587)	(3,446)	(3,995)	(7,441)
Change in FTE net interest income	$13,568	$(12,978)	$590	$25,021	$(11,575)	$13,446

Loans and Corresponding Interest and Fees on Loans

The average balance of loans increased by approximately $215.8 million, or 3.9%, from 2014 to 2015. The yield on average loans decreased from 4.42% in 2014 to 4.22% in 2015, as loan rates declined due to the continued low rate environment in 2015. Interest income from loans decreased 0.6%, from $244.2 million in 2014 to $242.6 million in 2015. This decrease was due to the decrease in yields, partially offset by the increase in average loan balances.

Total loans increased $287.9 million, or 5.1%, from December 31, 2014 to December 31, 2015. Increases in residential real estate mortgages, commercial real estate loans, and consumer loans were the primary drivers of the increase in total loans from 2014 as the Company experienced strong originations in 2015 in the upstate New York and Vermont markets.

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The following table reflects the loan portfolio by major categories as of December 31 for the years indicated:

Composition of Loan and Lease Portfolio

	December 31,				
(In thousands)	2015	2014	2013	2012	2011
Residential real estate mortgages	$1,196,780	$1,115,715	$1,041,502	$651,105	$581,502
Commercial	1,159,089	1,144,761	1,180,995	964,297	847,059
Commercial real estate	1,430,618	1,334,984	1,218,988	1,040,600	863,594
Consumer	1,568,204	1,430,216	1,345,395	1,046,333	938,412
Home equity	528,442	569,595	619,915	575,281	569,636
Total loans and leases	$5,883,133	$5,595,271	$5,406,795	$4,277,616	$3,800,203

Residential real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residences. Loans in the commercial and agricultural categories, including commercial and agricultural real estate mortgages, consist primarily of short-term and/or floating rate loans made to small and medium-sized entities. Consumer loans consist primarily of indirect installment credit to individuals, of which approximately 75% is secured by automobiles and other personal property including marine, recreational vehicles and manufactured housing. Consumer loans also consist of direct installment loans to individuals secured by similar collateral. Indirect installment loans represent $1.4 billion of total consumer loans at December 31, 2015, or 91%. Installment credit for automobiles accounts for approximately 75% of total consumer loans. Although automobile loans have generally been originated through dealers, all applications submitted through dealers are subject to the Company’s normal underwriting and loan approval procedures. Real estate construction and development loans include commercial construction and development and residential construction loans. Commercial construction loans are for small and medium sized office buildings and other commercial properties and residential construction loans are primarily for projects located in upstate New York and northeastern Pennsylvania.

Risks associated with the commercial real estate portfolio include the ability of borrowers to pay interest and principal during the loan’s term, as well as the ability of the borrowers to refinance at the end of the loan term.

The following table, Maturities and Sensitivities of Certain Loans to Changes in Interest Rates, summarizes the maturities of the commercial and agricultural and real estate construction and development loan portfolios and the sensitivity of those loans to interest rate fluctuations at December 31, 2015. Scheduled repayments are reported in the maturity category in which the contractual payment is due.

Maturities and Sensitivities of Certain Loans to Changes in Interest Rates

	Remaining maturity at December 31, 2015			
(In thousands)	Within One Year	After One Year But Within Five Years	After Five Years	Total
Floating/adjustable rate				
Commercial, commercial real estate, agricultural, and agricultural real estate	$414,391	$390,063	$956,839	$1,761,293
Fixed rate				
Commercial, commercial real estate, agricultural, and agricultural real estate	70,854	387,427	370,133	828,414
Total	$485,245	$777,490	$1,326,972	$2,589,707

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Securities and Corresponding Interest and Dividend Income

The average balance of securities available for sale decreased $199.7 million, or 15.9%, from 2014 to 2015. The yield on average securities available for sale was 1.97% for 2015 compared to 2.05% in 2014.

The average balance of securities held to maturity increased from $233.5 million in 2014 to $459.6 million in 2015. At December 31, 2015, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity decreased from 2.81% in 2014 to 2.46% in 2015.

During the third quarter of 2014, the Company transferred approximately $340 million in securities from the available for sale portfolio to the held to maturity portfolio to mitigate the impact of volatility of interest rate changes on tangible book value.

The average balance of FRB and FHLB stock decreased to $33.0 million in 2015 from $39.3 million in 2014. The yield from investments in FRB and FHLB banks increased from 5.10% in 2014 to 5.18% in 2015.

Securities Portfolio

	As of December 31,					
	2015		2014		2013	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale						
U.S. Treasury	$-	$-	$23,041	$23,111	$43,279	$43,616
Federal Agency	312,580	311,272	332,193	329,914	285,880	278,915
State & Municipal	31,208	31,637	37,035	37,570	113,435	113,665
Mortgage-backed	406,277	409,896	356,557	364,727	359,590	364,164
Collateralized mortgage obligations	405,635	404,971	240,074	242,129	565,200	549,528
Other securities	13,637	16,768	12,818	15,720	12,367	14,993
Total securities available for sale	$1,169,337	$1,174,544	$1,001,718	$1,013,171	$1,379,751	$1,364,881
Securities held to maturity						
Mortgage-backed	$10,043	$10,031	$755	$868	$953	$1,081
Collateralized mortgage obligations	272,550	272,401	317,628	317,597	62,025	57,456
State & Municipal	188,438	190,708	135,978	136,529	54,305	54,739
Total securities held to maturity	$471,031	$473,140	$454,361	$454,994	$117,283	$113,276

Our mortgage backed securities, U.S. agency notes, and CMOs are all “prime/conforming” and are guaranteed by Fannie Mae, Freddie Mac, the FHLB, the Federal Farm Credit Banks, or Ginnie Mae (“GNMA”). GNMA securities are considered equivalent to U.S. Treasury securities, as they are backed by the full faith and credit of the U.S. government. Currently, there are no securities backed by subprime mortgages in our investment portfolio.

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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	Weighted Average Yield	
Debt securities classified as available for sale				
Within one year	$3,462	$3,502	3.83	%
From one to five years	348,921	348,512	1.70	%
From five to ten years	147,139	149,185	2.66	%
After ten years	656,178	656,577	2.57	%
	$1,155,700	$1,157,776		
Debt securities classified as held to maturity				
Within one year	$43,624	$43,641	1.53	%
From one to five years	14,179	14,226	3.94	%
From five to ten years	113,799	115,691	2.98	%
After ten years	299,429	299,582	1.74	%
	$471,031	$473,140		

Funding Sources and Corresponding Interest Expense

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as necessary to support the Company’s growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities increased $21.0 million from 2014, and totaled $5.2 billion in 2015. The rate paid on interest-bearing liabilities decreased from 0.45% in 2014 to 0.40% in 2015. This decrease in rates, partially offset by an increase in average balances, caused a decrease in interest expense of $2.6 million, or 11.1%, from $23.2 million in 2014 to $20.6 million in 2015.

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Deposits

Average interest bearing deposits increased $157.4 million, or 3.5%, from 2014 to 2015, due primarily to organic deposit growth. Average money market deposits increased $124.3 million or 8.5% during 2015 when compared to 2014. Average NOW accounts increased $37.9 million or 4.0% during 2015 as compared to 2014. The average balance of savings accounts increased $50.8 million or 5.0% during 2015 when compared to 2014. These increases were partially offset by a decrease in average time deposits, which decreased $55.6 million, or 5.5%, from 2014 to 2015. The average balance of demand deposits increased $186.8 million, or 11.2%, during 2015 when compared to 2014. This growth in demand deposits was driven principally by increases in accounts from retail, municipal, and commercial customers.

The rate paid on average interest-bearing deposits was 0.31% for 2015 and 2014. The rate paid for money market deposit accounts increased from 0.17% during 2014 to 0.21% during 2015. The rate paid for time deposits increased from 0.97% during 2014 to 1.01% during 2015. The rate paid for savings deposits decreased from 0.07% during 2014 to 0.06% during 2015.

The following table presents the maturity distribution of time deposits of $100,000 or more at December 31:

Maturity Distribution of Time Deposits of $100,000 or More

	December 31,	
(In thousands)	2015	2014
Within three months	$46,570	$57,811
After three but within twelve months	80,674	86,553
After one but within three years	58,834	71,938
Over three years	55,425	53,543
Total	$241,503	$269,845

Borrowings

Average short-term borrowings decreased to $339.9 million in 2015 from $382.5 million in 2014. The average rate paid on short-term borrowings increased from 0.22% in 2014 to 0.23% in 2015. Average long-term debt decreased from $224.6 million in 2014 to $130.7 million in 2015. This decrease was due to the long-term debt restructure completed in the third quarter of 2014 which resulted in the prepayment of $165.0 million of long-term debt.

The average balance of junior subordinated debt remained at $101.2 million in 2015. The average rate paid for junior subordinated debt in 2015 was 2.19%, up slightly from 2.14% in 2014.

Short-term borrowings 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 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. Securities collateralizing repurchase agreements are held in safekeeping by non-affiliated financial institutions and are under the Company’s control. Long-term debt, which is comprised primarily of FHLB advances, are 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.

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Noninterest Income

Noninterest income is a significant source of revenue for the Company and an important factor in the Company's results of operations. The following table sets forth information by category of noninterest income for the years indicated:

	Years ended December 31,		
(In thousands)	2015	2014	2013
Insurance and other financial services revenue	$24,211	$24,517	$24,447
Service charges on deposit accounts	17,056	17,941	19,307
ATM and debit card fees	18,248	17,135	15,558
Retirement plan administration fees	14,146	12,129	11,497
Trust	19,026	18,950	16,682
Bank owned life insurance income	4,334	5,349	3,793
Net securities gains	3,087	92	1,426
Gain on the sale of Springstone investment	4,179	19,401	-
Other	14,194	10,513	10,505
Total noninterest income	$118,481	$126,027	$103,215

Noninterest income for the year ended December 31, 2015 was $118.5 million, down $7.5 million, or 6.0%, from the year ended December 31, 2014. The decrease from 2014 was primarily driven by a $19.4 million gain recognized in 2014 from the previously disclosed sale of our ownership interest in Springstone as compared with the $4.2 million gain recognized in 2015. Excluding the gains recognized from the sale of Springstone, noninterest income was up $7.7 milliion, or 7.2%, from 2014 to 2015. This increase was driven in part to a gain on the sale of an equity investment totaling $3.0 million in the fourth quarter of 2015. In addition, retirement plan administration fees were up $2.0 million, or 16.6%, from 2014 to 2015 due to new business generation as well as the 2015 acquisition of Third Party Administrators, Inc. ("TPA, Inc."). ATM and debit card fees were up $1.1 million, or 6.5%, in 2015 as compared to 2014 due to an increase in debit card activity. Other noninterest income was up $3.7 million in 2015 as compared with 2014 due primarily to charge-off recoveries on acquired loans of $1.5 million and a favorable settlement of a prior accrual of $1.6 million in 2015.

Noninterest Expense

Noninterest expenses are also an important factor in the Company's results of operations. The following table sets forth the major components of noninterest expense for the years indicated:

	Years ended December 31,		
(In thousands)	2015	2014	2013
Salaries and employee benefits	$124,318	$119,667	$113,580
Occupancy	22,095	22,128	20,720
Data processing and communications	16,588	16,137	15,353
Professional fees and outside services	13,407	14,426	13,309
Equipment	13,408	12,658	11,493
Office supplies and postage	6,367	6,983	6,563
FDIC expenses	5,145	4,944	4,960
Advertising	2,654	2,831	3,204
Amortization of intangible assets	4,864	5,047	4,872
Loan collection and other real estate owned	2,620	3,248	2,619
Merger expenses	-	-	12,364
Prepayment penalties on long-term debt	-	17,902	-

Other	24,710	20,092	19,890
Total noninterest expense	$236,176	$246,063	$228,927

Noninterest expense for the year ended December 31, 2015 was $236.2 million, down $9.9 million from 2014. This decrease was driven primarily by $17.9 million in prepayment penalties resulting from the debt restructuring in 2014. Excluding these prepayment penalties, noninterest expense was up $8.0 million, or 3.5%, from 2014 to 2015. This increase was due primarily to an increase in salaries and employee benefits of $4.7 million, or 3.9%, from 2014 to 2015. This increase was driven primarily by a $2.4 million increase in post retirement expenses as well as contract termination costs totaling $1.6 million accrued in the fourth quarter of 2015. In addition, other operating expenses were up $4.6 million in 2015 as compared with 2014. This increase was driven primarily by branch reorganization expenses totaling $3.8 million in 2015.

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Income Taxes

Income tax expense for the year ended December 31, 2015 was $40.2 million, up from $37.2 million for the same period in 2014. The effective tax rate was 34.5% for the year ended December 31, 2015, compared to 33.2% for the same period in 2014.

The income tax expense on the Company's income was different than the income tax expense at the Federal statutory rate of 35% due primarily to tax exempt income and, to a lesser extent, the effect of state income taxes and Federal low income housing tax credits.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified, which is generally in the third quarter of the subsequent year for U.S. federal and state provisions.

The amount of income taxes the Company pays is subject at times to ongoing audits by federal and state tax authorities, which may result in proposed assessments. Future results may include favorable or unfavorable adjustments to the estimated tax liabilities in the period the assessments are proposed or resolved or when statutes of limitation on potential assessments expire. As a result, the Company's effective tax rate may fluctuate significantly on a quarterly or annual basis.

Risk Management – Credit Risk

Credit risk is managed through a network of loan officers, credit committees, loan policies, and oversight from the senior credit officers and Board of Directors. Management follows a policy of continually identifying, analyzing, and grading credit risk inherent in each loan portfolio. An ongoing independent review, subsequent to management's review, of individual credits in the commercial loan portfolio is performed by the independent loan review function. These components of the Company's underwriting and monitoring functions are critical to the timely identification, classification, and resolution of problem credits.

Nonperforming Assets

	As of December 31,									
(Dollars in thousands)	2015	%	2014	%	2013	%	2012	%	2011	%
Nonaccrual loans										
Commercial and agricultural loans and real estate	$14,655	43 %	$18,226	45 %	$27,033	54 %	$20,923	53 %	$17,506	46 %
Real estate mortgages	8,625	26 %	10,867	26 %	10,296	21 %	8,083	20 %	8,090	21 %
Consumer	6,009	18 %	8,086	20 %	7,213	14 %	8,440	21 %	8,724	23 %
Troubled debt restructured loans	4,455	13 %	3,895	9 %	5,423	11 %	2,230	6 %	3,970	10 %
Total nonaccrual loans	33,744	100%	41,074	100%	49,965	100%	39,676	100%	38,290	100%
Loans 90 days or more past due and still accruing										

Commercial and agricultural loans and real estate	-	0 %	84	2 %	105	3 %	148	6 %	50	2 %
Real estate mortgages	1,022	28 %	1,927	39 %	808	22 %	330	13 %	763	24 %
Consumer	2,640	72 %	2,930	59 %	2,824	75 %	1,970	81 %	2,377	74 %
Total loans 90 days or more past due and still accruing	3,662	100%	4,941	100%	3,737	100%	2,448	100%	3,190	100%
Total nonperforming loans	37,406		46,015		53,702		42,124		41,480	
Other real estate owned	4,666		3,964		2,904		2,276		2,160	
Total nonperforming assets	$42,072		$49,979		$56,606		$44,400		$43,640	
Total nonperforming loans to loans	0.64 %		0.82 %		0.99 %		0.98 %		1.09 %	
Total nonperforming assets to total assets	0.51 %		0.64 %		0.74 %		0.73 %		0.78 %	
Total allowance for loan losses to nonperforming loans	168.47%		144.21%		129.29%		164.60%		171.97%	

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Total nonperforming assets were $42.1 million at December 31, 2015, compared to $50.0 million at December 31, 2014. Nonperforming loans at December 31, 2015 were $37.4 million or 0.64% of total loans compared with $46.0 million or 0.82% at December 31, 2014. Included in nonperforming loans are $4.8 million of nonaccrual loans in the acquired loan portfolio. Excluding nonaccrual acquired loans, originated nonperforming loans to originated loans was 0.61% at December 31, 2015. The Company recorded a provision for loan losses of $18.3 million for the year ended December 31, 2015 compared with $19.5 million for the year ended December 31, 2014. Net charge-offs to average loans for the year ended December 31, 2015 were 0.38%, compared with 0.41% for the year ended December 31, 2014. The allowance for loan losses was 168.47% of nonperforming loans at December 31, 2015 as compared to 144.21% at December 31, 2014. Excluding acquired loans, the allowance for loan losses as a percentage of total originated loans was 1.18% at December 31, 2015 compared to 1.36% at December 31, 2014.

Impaired loans, which primarily consist of nonaccruing commercial, commercial real estate, agricultural, and agricultural real estate loans, as well as loans that have been modified in a troubled debt restructuring ("TDR"), increased to $27.2 million at December 31, 2015 as compared to $25.8 million at December 31, 2014. At December 31, 2015, $5.9 million of the total impaired loans had a specific reserve allocation of $2.0 million compared to $5.8 million of impaired loans at December 31, 2014 which had a specific reserve allocation of $1.1 million.

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.

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.

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

Total net charge-offs for 2015 were $21.6 million, down slightly from $22.6 million in 2014. Net charge-offs to average loans was 0.38% for 2015 as compared with 0.41% for 2014. For the originated portfolio, net charge-offs to average loans for the year ended December 31, 2014 was 0.38%, compared to 0.51% for last year. Gross charge-offs were down slightly to $26.1 million for 2015 from $27.4 million for 2014. Recoveries decreased from $4.8 million for the year ended December 31, 2014 to $4.5 million for the year ended December 31, 2015.

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Allowance for Loan Losses

(Dollars in thousands)	2015	2014	2013	2012	2011
Balance at January 1	$66,359	$69,434	$69,334	$71,334	$71,234
Loans charged-off					
Commercial and agricultural	5,718	9,414	10,459	8,750	8,969
Residential real estate mortgages	2,229	1,417	1,771	1,906	1,310
Consumer*	18,140	16,642	15,459	15,848	14,209
Total loans charged-off	26,087	27,473	27,689	26,504	24,488
Recoveries					
Commercial and agricultural	1,014	1,774	1,956	1,641	1,438
Residential real estate mortgages	320	285	272	38	7
Consumer*	3,127	2,800	3,137	2,556	2,406
Total recoveries	4,461	4,859	5,365	4,235	3,851
Net loans charged-off	21,626	22,614	22,324	22,269	20,637
Provision for loan losses	18,285	19,539	22,424	20,269	20,737
Balance at December 31	$63,018	$66,359	$69,434	$69,334	$71,334
Allowance for loan losses to loans outstanding at end of year	1.07 %	1.19 %	1.28 %	1.62 %	1.88 %
Net charge-offs to average loans outstanding	0.38 %	0.41 %	0.44 %	0.55 %	0.56 %

* Consumer charge-off and recoveries include consumer and home equity.

In addition to the nonperforming loans discussed above, the Company has also identified approximately $73.8 million in potential problem loans at December 31, 2015 as compared to $93.6 million at December 31, 2014. Potential problem loans are loans that are currently performing, with a possibility of loss if weaknesses are not corrected. Such loans may need to be disclosed as nonperforming at some time in the future. Potential problem loans are classified by the Company's loan rating system as "substandard." At December 31, 2015, there were 13 potential problem loans exceeding $1.0 million, totaling $25.0 million in aggregate, compared to 18 potential problem loans exceeding $1.0 million, totaling $40.8 million at December 31, 2014. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses. To mitigate this risk, the Company maintains a diversified loan portfolio, has no significant concentration in any particular industry, and originates loans primarily within its footprint.

The following table sets forth the allocation of the allowance for loan losses by category, as well as the percentage of loans in each category to total loans, as prepared by the Company. This allocation is based on management's assessment of the risk characteristics of each of the component parts of the total loan portfolio as of a given point in time and is subject to changes as and when the risk factors of each such component part change. The allocation is not indicative of either the specific amounts of the loan categories in which future charge-offs may be taken, nor should it be taken as an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

Allocation of the Allowance for Loan and Lease Losses

	December 31,									
	2015		2014		2013		2012		2011	
		Category Percent of		Category Percent of		Category Percent of		Category Percent of		Category Percent of

(Dollars in thousands)	Allowance	Loans		Allowance	Loans		Allowance	Loans		Allowance	Loans		Allowance	of Loans	
Commercial and agricultural	$25,545	44	%	$32,433	44	%	$35,090	44	%	$35,624	47	%	$38,831	45	%
Real estate mortgages	7,960	20	%	7,130	20	%	6,520	19	%	6,252	15	%	6,249	15	%
Consumer	29,253	36	%	26,720	36	%	27,694	37	%	27,162	38	%	26,049	40	%
Unallocated	260	0	%	76	0	%	130	0	%	296	0	%	205	0	%
Total	$63,018	100	%	$66,359	100	%	$69,434	100	%	$69,334	100	%	$71,334	100	%

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The Company’s accounting policy relating to the allowance for loan losses requires a review of each significant loan type within the loan portfolio, considering asset quality trends for each type, including, but not limited to, delinquencies, nonaccruals, historical charge-off experience, and specific economic factors (e.g. milk prices are considered when reviewing agricultural loans). Based on this review, management believes the reserve allocations are adequate to address any trends in asset quality indicators. As a result of the general improvement and stabilization of asset quality indicators in 2015, as well as the aforementioned review of the loan portfolio, the allowance for loan losses as a percentage of originated loans decreased from 1.36% as of December 31, 2014 to 1.18% as of December 31, 2015. The most significant improvement was evidenced in the originated commercial and agricultural portfolio. Net charge-offs in the originated commercial and agricultural portfolio decreased $0.8 million from 2014 to 2015. In addition, nonaccrual commercial and agricultural loans decreased $3.6 million from 2014 to 2015. Acquired loans were recorded at fair value on the date of acquisition, with no carryover of the related allowance for loan losses. Generally, the fair value discount represents expected credit losses, net of market interest rate adjustments. The discount on loans receivable will be amortized to interest income over the estimated remaining life of the acquired loans using the level yield method.

At December 31, 2015, approximately 59% of the Company’s loans were secured by real estate located in central and northern New York, northeastern Pennsylvania, western Massachusetts, southern New Hampshire, Vermont, and Maine. 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.

Subprime mortgage lending, which has been the riskiest sector of the residential housing market, is not a market that the Company has ever actively pursued. The market does not apply a uniform definition of what constitutes “subprime” lending. Our reference to subprime lending relies upon the “Statement on Subprime Mortgage Lending” issued by the OTS and the other federal bank regulatory agencies (the “Agencies”), on June 29, 2007, which further referenced the “Expanded Guidance for Subprime Lending Programs,” or the Expanded Guidance, issued by the Agencies by press release dated January 31, 2001. In the Expanded Guidance, the Agencies indicated that subprime lending does not refer to individual subprime loans originated and managed, in the ordinary course of business, as exceptions to prime risk selection standards. The Agencies recognize that many prime loan portfolios will contain such accounts. The Agencies also excluded prime loans that develop credit problems after acquisition and community development loans from the subprime arena. According to the Expanded Guidance, subprime loans are other loans to borrowers which display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions’ specific subprime definitions, are set forth, including having a FICO score of 660 or below. Based upon the definition and exclusions described above, the Company is a prime lender. Within the loan portfolio, there are loans that, at the time of origination, had FICO scores of 660 or below. However, since the Company is a portfolio lender, it reviews all data contained in borrower credit reports and does not base underwriting decisions solely on FICO scores. We believe the aforementioned loans, when made, were amply collateralized and otherwise conformed to our prime lending standards.

For acquired loans that are not deemed to be impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value and amortized over the life of the asset.

As a result of the application of this accounting methodology, certain credit-related ratios may not necessarily be directly comparable with periods prior to acquisitions, or comparable with other institutions. The credit metrics most impacted by our acquisition of loans related to the acquisition of Alliance Financial Corporation ("Alliance") were the allowance for loans losses to total loans, and total allowance for loan losses to nonperforming loans. As of December 31, 2015, the allowance for loan losses to total originated loans and the total allowance for loan losses to originated nonperforming loans were 1.18% and 193.00%, respectively.

Loans acquired from Alliance that were not deemed to be impaired at acquisition and were classified as non-accrual and greater than 90 days past due and still accruing prior to acquisition, continued to be classified as non-accrual and 90 days past due and still accruing immediately after the acquisition. Loans acquired from Alliance that were classified as troubled debt restructurings prior to acquisition are no longer classified as such immediately following the acquisition. Acquired credit impaired loans from the Alliance acquisition were not classified non-accrual, even though they may be contractually past due, because we expect to fully collect the recorded investment of such loans.
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Liquidity Risk

Liquidity involves the ability to meet the cash flow requirements of customers who may be depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. The Asset Liability Committee (ALCO) is responsible for liquidity management and has developed guidelines which cover all assets and liabilities, as well as off balance sheet items that are potential sources or uses of liquidity. Liquidity policies must also provide the flexibility to implement appropriate strategies. Requirements change as loans grow, deposits and securities mature, and payments on borrowings are made. Liquidity management includes a focus on interest rate sensitivity management with a goal of avoiding widely fluctuating net interest margins through periods of changing economic conditions.

The primary liquidity measurement the Company utilizes is called "Basic Surplus," which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. At December 31, 2015, the Company's Basic Surplus measurement was 18.6% of total assets, or $1.5 billion, which was above the Company's minimum of 5% (calculated at $413 million of period end total assets at December 31, 2015) set forth in its liquidity policies.

This Basic Surplus approach enables the Company to adequately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the Company is able to operate with a more fully invested and, therefore, higher interest income generating securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position. At December 31, 2015, the Company considered its Basic Surplus position to be strong. However, certain events may adversely impact the Company's liquidity position in 2016. Improvement in the economy may increase demand for equity related products or increase competitive pressure on deposit pricing, which, in turn, could result in a decrease in the Company's deposit base or increase funding costs. Additionally, liquidity will come under additional pressure if loan growth exceeds deposit growth in 2016. These scenarios could lead to a decrease in the Company's Basic Surplus measure below the minimum policy level of 5%. To manage this risk, the Company has the ability to purchase brokered time deposits, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. The additional liquidity that could be provided by these measures was $1.6 billion at December 31, 2015. In addition, the Bank has enhanced its "Borrower-in-Custody" program with the FRB with the addition of the ability to pledge automobile loans. At December 31, 2015, the Bank had the capacity to borrow $823 million from this program.

At December 31, 2015 and 2014, FHLB advances outstanding totaled $432 million and $352 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $1.1 billion at December 31, 2015 and $958 million at December 31, 2014. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $772 million at December 31, 2015 or used to collateralize other borrowings, such as repurchase agreements.

At December 31, 2015, a portion of the Company's loans and securities were pledged as collateral on borrowings. Therefore, future growth of earning assets will depend upon the Company's ability to obtain additional funding, through growth of core deposits and collateral management, and may require further use of brokered time deposits, or other higher cost borrowing arrangements.

Net cash flows provided by operating activities totaled $124.5 million in 2015 and $87.8 million in 2014. The critical elements of net operating cash flows include net income, adjusted for non-cash income and expense items such as the provision for loan losses, deferred income tax expense, depreciation and amortization, and cash flows generated through changes in other assets and liabilities.

Net cash flows used by investing activities totaled $504.0 million and $143.7 million in 2015 and 2014, respectively. Critical elements of investing activities are loan and investment securities transactions.

Net cash flows provided by financing activities totaled $373.1 million in 2015 as compared to $43.6 million in 2014. The critical elements of financing activities are proceeds from deposits, borrowings, and stock issuances. In addition, financing activities are impacted by dividends and treasury stock transactions.

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In connection with its financing and operating activities, the Company has entered into certain contractual obligations. The Company's future minimum cash payments, excluding interest, associated with its contractual obligations pursuant to its borrowing agreements, operating leases, and other obligations at December 31, 2015 are as follows:

Contractual Obligations
(In thousands)

	Payments Due by Period						
	2016	2017	2018	2019	2020	Thereafter	Total
Long-term debt obligations	$50,360	$40,000	$40,000	$-	$-	$87	$130,447
Junior subordinated debt	-	-	-	-	-	101,196	101,196
Operating lease obligations	7,518	7,141	6,356	5,803	4,977	21,628	53,423
Capital lease obligations	161	87	60	47	8	-	363
IT/Software obligations	5,601	4,159	1,087	41	-	-	10,888
Data processing commitments	6,027	5,815	4,754	4,754	4,754	-	26,104
Total contractual obligations	$69,667	$57,202	$52,257	$10,645	$9,739	$122,911	$322,421

We have obligations under our pension, post-retirement plan, directors' retirement and supplemental executive retirement plans as described in Note 13 to the consolidated financial statements. The supplemental executive retirement, pension and postretirement benefit and directors' retirement payments represent actuarially determined future benefit payments to eligible plan participants.

Commitments to Extend Credit

The Company makes contractual commitments to extend credit, which include unused lines of credit, which are subject to the Company's credit approval and monitoring procedures. At December 31, 2015 and 2014, commitments to extend credit in the form of loans, including unused lines of credit, amounted to $1.3 billion and $1.2 billion, respectively. In the opinion of management, there are no material commitments to extend credit, including unused lines of credit that represent unusual risks. All commitments to extend credit in the form of loans, including unused lines of credit, expire within one year.

Standby Letters of Credit

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit. The Company guarantees the obligations or performance of customers by issuing stand-by letters of credit to third parties. These standby 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 standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, 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. At December 31, 2015 and 2014, outstanding standby letters of credit were approximately $31.5 million and $35.2 million, respectively. The fair value of the Company's standby letters of credit at December 31, 2015 and 2014 was not significant. The following table sets forth the commitment expiration period for standby letters of credit at December 31, 2015:

Commitment Expiration of Standby Letters of Credit	
Within one year	$24,314
After one but within three years	4,355
After three but within five years	1,933
After five years	901

Total	$31,503

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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 two interest rate swap agreements are identical, the income statement impact to the Bank is limited to the fees it receives from the customer. The Bank recognized approximately $0.7 million in swap fee income in 2015. At December 31, 2015, the Bank maintained a $8.0 million deposit with the counterparty to collateralize the swap agreements.

Loans Serviced for Others and Loans Sold with Recourse

The total amount of loans serviced by the Company for unrelated third parties was approximately $616.1 million and $624.4 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. 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.

Capital Resources

Consistent with its goal to operate a sound and profitable financial institution, the Company actively seeks to maintain a "well-capitalized" institution in accordance with regulatory standards. The principal source of capital to the Company is earnings retention. The Company's capital measurements are in excess of both regulatory minimum guidelines and meet the requirements to be considered well-capitalized.

The Company's principal source of funds to pay interest on trust preferred debentures and pay cash dividends to its shareholders are dividends from its subsidiaries. Various laws and regulations restrict the ability of banks to pay dividends to their shareholders. Generally, the payment of dividends by the Company in the future as well as the payment of interest on the capital securities will require the generation of sufficient future earnings by its subsidiaries.

The Bank also is subject to substantial regulatory restrictions on its ability to pay dividends to the Company. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. 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.

Stock Repurchase Plan

The Company purchased 1,047,152 shares of its common stock during the year ended December 31, 2015 at an average price of $25.59 per share under previously announced plans. As of December 31, 2015, there were 952,848 shares available for repurchase under the repurchase plan that was announced on July 27, 2015, which expires on December 31, 2016.

2014 OPERATING RESULTS AS COMPARED TO 2013 OPERATING RESULTS

Net Interest Income

Net interest income was $251.9 million for the year ended December 31, 2014, up 5.8% from 2013. Fully taxable equivalent ("FTE") net interest margin was 3.61% for the year ended December 31, 2014, down from 3.66% for 2013. Average interest earning assets were up $450.9 million, or 6.8%, for the year ended December 31, 2014 as compared to the same period in 2013. This increase was driven primarily by the acquisition of Alliance in March 2013 as well as organic loan production during the past several quarters. The net interest impact from the increase in average interest earning assets was partially offset by rate compression on earning assets, as their yield decreased from 4.12% during the year ended December 31, 2013 to 3.94% for 2014. This rate compression was driven primarily by decreasing loan yields from 4.69% in 2013 to 4.42% for 2014. As a result of the increase in average earning assets, interest income was up 2.4% for the year ended December 31, 2014 as compared to 2013. Average interest bearing liabilities increased $211.5 million, or 4.3%, for the year ended December 31, 2014 as compared to 2013. This increase was due primarily to an increase in deposits resulting from organic deposit growth as well as the aforementioned acquisition of Alliance. The rates paid on interest bearing liabilities for 2014 decreased by 17 basis points from 2013. This decrease was primarily driven by a decrease of 8 basis points in rates paid on deposits from improved funding mix as well as a 55 basis point decrease in the rate paid on long-term debt due primarily to maturity of long-term debt in the prior year, as well as the debt restructuring completed in the third quarter of 2014. The following table presents changes in interest income, on a FTE basis, and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume), and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

Loans and Corresponding Interest and Fees on Loans

The average balance of loans increased by approximately $421.4 million, or 8.3%, from 2013 to 2014. The yield on average loans decreased from 4.69% in 2013 to 4.42% in 2014, as loan rates declined due to the continued low rate environment in 2014. Interest income from loans on a FTE basis increased 1.9%, from $239.6 million in 2013 to $244.2 million in 2014. This increase was due to the increase in average loan balances noted above, partially offset by the decrease in yields.

Total loans increased $188.5 million, or 3.5%, from December 31, 2013 to December 31, 2014. Increases in residential real estate mortgages, commercial real estate loans, and consumer loans were the primary drivers of the increase in total loans from 2013 as the Company experienced strong originations in 2014 in the upstate New York and Vermont markets. Residential real estate mortgages consist primarily of loans secured by first or second deeds of trust on primary residences. Loans in the commercial and agricultural categories, including commercial and agricultural real estate mortgages, consist primarily of short-term and/or floating rate loans made to small and medium-sized entities. Consumer loans consist primarily of indirect installment credit to individuals, of which approximately 75% is secured by automobiles and other personal property including marine, recreational vehicles and manufactured housing. Consumer loans also consist of direct installment loans to individuals secured by similar collateral. Indirect installment loans represent $1.3 billion of total consumer loans at December 31, 2014, or 92%. Installment credit for automobiles accounts for approximately 74% of total consumer loans. Although automobile loans have generally been originated through dealers, all applications submitted through dealers are subject to the Company's normal underwriting and loan approval procedures. Real estate construction and development loans include commercial construction and development and residential construction loans. Commercial construction loans are for small and medium sized office buildings and other commercial properties and residential construction loans are primarily for projects located in upstate New York and northeastern Pennsylvania.

Risks associated with the commercial real estate portfolio include the ability of borrowers to pay interest and principal during the loan's term, as well as the ability of the borrowers to refinance at the end of the loan term.

Securities and Corresponding Interest and Dividend Income

The average balance of securities available for sale decreased $90.9 million, or 6.7%, from 2013 to 2014. The yield on average securities available for sale was 2.05% for 2014 compared to 2.03% in 2013.

The average balance of securities held to maturity increased from $88.2 million in 2013 to $233.5 million in 2014. At December 31, 2014, securities held to maturity were comprised primarily of tax-exempt municipal securities. The yield on securities held to maturity decreased from 4.19% in 2013 to 2.81% in 2014.

During the third quarter of 2014, the Company transferred approximately $340 million in securities from the available for sale portfolio to the held to maturity portfolio to mitigate the impact of volatility of interest rate changes on tangible book value.

The average balance of FRB and FHLB stock increased to $39.3 million in 2014 from $38.0 million in 2013. The yield from investments in FRB and FHLB banks increased from 4.66% in 2013 to 5.10% in 2014.

Funding Sources and Corresponding Interest Expense

The Company utilizes traditional deposit products such as time, savings, NOW, money market, and demand deposits as its primary source for funding. Other sources, such as short-term FHLB advances, federal funds purchased, securities sold under agreements to repurchase, brokered time deposits, and long-term FHLB borrowings are utilized as necessary to support the Company's growth in assets and to achieve interest rate sensitivity objectives. The average balance of interest-bearing liabilities increased $211.5 million from 2013 primarily due to the acquisition of Alliance in March 2013 as well as organic deposit growth, and totaled $5.2 billion in 2014. The rate paid on interest-bearing liabilities decreased from 0.62% in 2013 to 0.45% in 2014. This decrease in rates, partially offset by an increase in average balances, caused a decrease in interest expense of $7.4 million, or 24.3%, from $30.6 million in 2013 to $23.2 million in 2014.

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Deposits

Average interest bearing deposits increased $219.4 million, or 5.2%, from 2013 to 2014, due primarily to the acquisition of Alliance in March 2013 as well as organic deposit growth. Average money market deposits increased $114.0 million or 8.5% during 2014 when compared to 2013. Average NOW accounts increased $67.1 million or 7.6% during 2014 as compared to 2013. The average balance of savings accounts increased $91.7 million or 9.9% during 2014 when compared to 2013. These increases were partially offset by a decrease in average time deposits, which decreased $53.5 million, or 5.0%, from 2013 to 2014. The average balance of demand deposits increased $186.0 million, or 12.5%, during 2014 when compared to 2013. This growth in demand deposits was driven principally by increases in accounts from retail, municipal, and commercial customers spurred by strategic expansion into new markets as well as the aforementioned acquisition of Alliance in March 2013.

The rate paid on average interest-bearing deposits decreased from 0.39% during 2013 to 0.31% in 2014. The decrease in the rate on interest-bearing deposits was driven primarily by pricing decreases from NOW accounts and time deposits, which are sensitive to interest rate changes. The pricing decreases for these products resulted from the FRB maintaining a historic low Fed Funds target rate as well as an overall decrease in all interest rates. The rate paid for NOW accounts decreased from 0.17% during 2013 to 0.05% during 2014. The rate paid for time deposits decreased from 1.13% during 2013 to 0.97% during 2014.

Borrowings

Average short-term borrowings increased to $382.5 million in 2014 from $280.8 million in 2013. The average rate paid on short-term borrowings increased from 0.18% in 2013 to 0.22% in 2014. Average long-term debt decreased from $338.7 million in 2013 to $224.6 million in 2014. This decrease was due to the long-term debt restructure completed in the third quarter of 2014 which resulted in the prepayment of $165.0 million of long-term debt.

The average balance of junior subordinated debt increased to $101.2 million in 2014 compared to $96.5 million in 2013 due to the acquisition of Alliance. The average rate paid for junior subordinated debt in 2014 was 2.14%, down slightly from 2.16% in 2013.

Short-term borrowings 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 and access to brokered deposits available for short-term financing of approximately $1.8 billion and $1.7 billion at December 31, 2014 and 2013, respectively. Securities collateralizing repurchase agreements are held in safekeeping by non-affiliated financial institutions and are under the Company's control. Long-term debt, which is comprised primarily of FHLB advances, are 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.

Noninterest Income

Noninterest income for the year ended December 31, 2014 was $126.0 million, up $22.8 million, or 22.1%, from the year ended December 31, 2013. The increase from 2013 was primarily driven by the previously disclosed sale of our ownership interest in Springstone recorded in the second quarter of 2014. Excluding this non-core gain, noninterest income for the year ended December 31, 2014 was $106.6 million, up $3.4 million, or 3.3%, from 2013. This increase from 2013 was due primarily to increases in trust and ATM and debit card fees, due in large part to the full year impact from the acquisition of Alliance in 2014. In addition, bank owned life insurance income was up approximately $1.6 million over 2013 due to death benefits recorded in 2014. These increases were partially offset by a $1.4 million decrease in service charges on deposit accounts from 2013 and net securities gains totaling $1.4 million in 2013 as compared to only $0.1 million in 2014. The decrease in service charges on deposit accounts from the prior year was primarily the result of lower nonsufficient funds fees recorded during 2014 due to changes in customer behavior, improving macroeconomic conditions, and continued customer outreach and education.

Noninterest Expense

Noninterest expense for the year ended December 31, 2014 was $246.1 million, up $17.1 million from 2013. Excluding the non-core $17.9 million prepayment penalties in 2014 and the non-core merger related expenses totaling $12.4 million in 2013, noninterest expense for the year ended December 31, 2014 was $228.2 million, up $11.6 million, or 5.4% from 2013. This increase from 2013 was due primarily to the full twelve months of Alliance occupancy, salaries and employee benefits, data processing, professional fees, and equipment expenses. In addition, the increase in salaries and benefits in 2014 included incremental incentive compensation related to the Springstone transaction, partially offset by lower retirement plan expenses due mainly to plan asset performance and a previous plan amendment.

Income Taxes

Income tax expense for the year ended December 31, 2014 was $37.2 million, up from $28.2 million for the same period in 2013. The effective tax rate was 33.2% for the year ended December 31, 2014, compared to 31.3% for the same period in 2013. The increase in the effective tax rate was due to a higher level of taxable income primarily due to the full year impact of Alliance in 2014, no merger costs in 2014, a lower level of tax exempt municipal interest income as a percentage of total income in 2014, and an increase in the value of bank owned life.

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Recent Accounting Updates

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01 – Financial Instruments - Overall (Subtopic 825-10) – Recognition and measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this Update make targeted improvements to generally accepted accounting principles (GAAP) as follows:

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

2. Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.

3. Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.

4. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.

5. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

6. Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

7. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

8. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

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The guidance becomes effective for us on January 1, 2018 and is not expected to have a material impact on our financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments (Topic 805). The amendments in ASU 2015-16 The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance becomes effective for us on January 1, 2016 and is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30). The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The guidance becomes effective for us on January 1, 2016 and is not expected to have a material impact on our financial statements.

In February 2015, the FASB issued ASU No. 2015-02 —Consolidation (Topic 810), Amendments to the Consolidation Analysis. The update amends existing standards regarding the evaluation of certain legal entities and their consolidation in the financial statements. The amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities and eliminate the presumption that a general partner should consolidate a limited partnership. The amendments also affect the consolidation analysis of reporting entities that are involved with variable interest entities and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The guidance becomes effective for us on January 1, 2016 and we are evaluating the impact of this guidance on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This new guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In April 2015, the FASB approved deferral of the effective date of this guidance, which is now effective prospectively for the Company for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the effect the guidance will have on the Company's consolidated financial statements.

The FASB currently has two projects underway that could have a meaningful impact on bank financial statements, capital levels and regulatory capital ratios. The first project, which addresses the amount and timing of loss recognition for loans and investment securities, would generally result in an increase in overall allowance levels and lower capital levels. This project has been exposed for public comment three times since 2010. A final standard is expected to be issued in the first half of 2016 with an effective date of January 1, 2019 for calendar year entities.

The second project relates to leases and requires an operating lease to be recognized on the balance sheet as a "right to use" asset and as a corresponding liability representing the obligation to pay rent. This project would result in an increase to assets and liabilities recognized and therefore increase risk-weighted assets for regulatory capital purposes. This project has been exposed for public comment twice since 2010. A final standard is expected to be issued in 2016 with an effective date of January 1, 2019 for calendar year entities.

We are evaluating the projects as proposed and the possible range of impacts and will determine any impact of these projects to capital or future earnings once the final rules are issued.

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ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities or are immaterial to the results of operations.

Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on the Company's net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets. When interest-bearing liabilities mature or reprice more quickly than earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

In an attempt to manage the Company's exposure to changes in interest rates, management monitors the Company's interest rate risk. Management's asset/liability committee (ALCO) meets monthly to review the Company's interest rate risk position and profitability, and to recommend strategies for consideration by the Board of Directors. Management also reviews loan and deposit pricing, and the Company's securities portfolio, formulates investment and funding strategies, and oversees the timing and implementation of transactions to assure attainment of the Board's objectives in the most effective manner. Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

In adjusting the Company's asset/liability position, the Board and management attempt to manage the Company's interest rate risk while minimizing the net interest margin compression. At times, depending on the level of general interest rates, the relationship between long and short-term interest rates, market conditions and competitive factors, the Board and management may determine to increase the Company's interest rate risk position somewhat in order to increase its net interest margin. The Company's results of operations and net portfolio values remain vulnerable to changes in interest rates and fluctuations in the difference between long and short-term interest rates.

The primary tool utilized by ALCO to manage interest rate risk is a balance sheet/income statement simulation model (interest rate sensitivity analysis). Information such as principal balance, interest rate, maturity date, cash flows, next repricing date (if needed), and current rates is uploaded into the model to create an ending balance sheet. In addition, ALCO makes certain assumptions regarding prepayment speeds for loans and mortgage related investment securities along with any optionality within the deposits and borrowings. The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet over a 12-month period. Two additional models are run in which a gradual increase of 200 bps and a gradual decrease of 100 bps takes place over a 12 month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded into them are handled accordingly based on the interest rate scenario. The resultant changes in net interest income are then measured against the flat rate scenario.

In the declining rate scenario, net interest income is projected to decrease slightly when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The decrease in net interest income is a result of earning assets repricing downward, given potential higher prepayments and lower reinvestment rates, slightly faster than the interest bearing liabilities that are at or near their floors. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario; however, the potential impact on earnings is dependent on the ability to lag deposit repricing on NOW, savings, MMDA, and CD accounts. Net interest income for the next twelve months in the +200/-100 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the December 31, 2015 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates (In basis points)	Percent change in net interest income
+200	(3.27 %)
-100	(1.88 %)

The Company anticipates that under the current low rate environment, on a monthly basis, interest income is expected to decrease at a faster rate than interest expense given the potential higher prepayments and reinvestment into lower rates as deposit rates are at or near their respective floors. In order to protect net interest income from anticipated net interest margin compression in 2016, the Company will continue to focus on increasing earning assets through loan growth, asset mix of loans and investments, and leverage opportunities.

Another tool used by ALCO to manage interest rate risk is financial modeling of net portfolio values (discounted present value of assets minus discounted present value of liabilities). The table below represents the percent change in net portfolio values from base case (flat rates) for +200/-100 instantaneous rate shocks:

Net Portfolio Value Sensitivity Analysis

Change in interest rates (In basis points)	Percent change in net portfolio value
+200	(7.96 %)
-100	1.78 %

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ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NBT Bancorp Inc.:

We have audited the accompanying consolidated balance sheets of NBT Bancorp Inc. and subsidiaries (the Company) 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. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NBT Bancorp Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's 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, and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG LLP
Albany, New York
February 29, 2016

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Consolidated Balance Sheets

	As of December 31,	
(In thousands, except share and per share data)	2015	2014
Assets		
Cash and due from banks	$130,593	$139,635
Short-term interest bearing accounts	9,704	7,001
Securities available for sale, at fair value	1,174,544	1,013,171
Securities held to maturity (fair value $473,140 and $454,994)	471,031	454,361
Trading securities	8,377	7,793
Federal Reserve and Federal Home Loan Bank stock	36,673	32,626
Loans	5,883,133	5,595,271
Less allowance for loan losses	63,018	66,359
Net loans	5,820,115	5,528,912
Premises and equipment, net	88,826	89,258
Goodwill	265,957	263,634
Intangible assets, net	17,265	20,317
Bank owned life insurance	117,044	114,251
Other assets	122,517	136,381
Total assets	$8,262,646	$7,807,340
Liabilities		
Demand (noninterest bearing)	$1,998,165	$1,838,622
Savings, NOW, and money market	3,697,851	3,417,160
Time	908,827	1,043,823
Total deposits	6,604,843	6,299,605
Short-term borrowings	442,481	316,802
Long-term debt	130,447	130,945
Junior subordinated debt	101,196	101,196
Other liabilities	101,675	94,611
Total liabilities	7,380,642	6,943,159
Stockholders' equity		
Preferred stock, $0.01 par value; authorized 2,500,000 shares at December 31, 2015 and 2014	-	-
Common stock, $0.01 par value; authorized 100,000,000 shares at December 31, 2015 and December 31, 2014; issued 49,651,494 at December 31, 2015 and 2014	497	497
Additional paid-in-capital	576,726	576,504
Retained earnings	462,232	423,956
Accumulated other comprehensive loss	(22,418)	(17,027)
Common stock in treasury, at cost, 6,220,792 and 5,755,040 shares at December 31, 2015 and 2014, respectively	(135,033)	(119,749)
Total stockholders' equity	882,004	864,181
Total liabilities and stockholders' equity	$8,262,646	$7,807,340

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income

	Years ended December 31,		
(In thousands, except per share data)	2015	2014	2013
Interest, fee, and dividend income			
Interest and fees on loans	$241,828	$243,324	$238,672
Securities available for sale	20,418	24,464	25,510
Securities held to maturity	9,233	5,261	2,660
Other	1,745	2,032	1,881
Total interest, fee, and dividend income	273,224	275,081	268,723
Interest expense			
Deposits	14,257	13,638	16,290
Short-term borrowings	783	845	515
Long-term debt	3,355	6,555	11,755
Junior subordinated debt	2,221	2,165	2,084
Total interest expense	20,616	23,203	30,644
Net interest income	252,608	251,878	238,079
Provision for loan losses	18,285	19,539	22,424
Net interest income after provision for loan losses	234,323	232,339	215,655
Noninterest income			
Insurance and other financial services revenue	24,211	24,517	24,447
Service charges on deposit accounts	17,056	17,941	19,307
ATM and debit card fees	18,248	17,135	15,558
Retirement plan administration fees	14,146	12,129	11,497
Trust	19,026	18,950	16,682
Bank owned life insurance income	4,334	5,349	3,793
Net securities gains	3,087	92	1,426
Gain on the sale of Springtone investment	4,179	19,401	-
Other	14,194	10,513	10,505
Total noninterest income	118,481	126,027	103,215
Noninterest expense			
Salaries and employee benefits	124,318	119,667	113,580
Occupancy	22,095	22,128	20,720
Data processing and communications	16,588	16,137	15,353
Professional fees and outside services	13,407	14,426	13,309
Equipment	13,408	12,658	11,493
Office supplies and postage	6,367	6,983	6,563
FDIC expenses	5,145	4,944	4,960
Advertising	2,654	2,831	3,204
Amortization of intangible assets	4,864	5,047	4,872
Loan collection and other real estate owned	2,620	3,248	2,619
Merger expenses	-	-	12,364
Prepayment penalties on long term debt	-	17,902	-
Other	24,710	20,092	19,890
Total noninterest expense	236,176	246,063	228,927
Income before income tax expense	116,628	112,303	89,943
Income tax expense	40,203	37,229	28,196
Net income	$76,425	$75,074	$61,747
Earnings per share			
Basic	$1.74	$1.71	$1.47
Diluted	1.72	1.69	1.46

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

	Years ended December 31,		
(In thousands)	2015	2014	2013
Net income	$76,425	$75,074	$61,747
Other comprehensive (loss) income, net of tax			
Unrealized net holding gains (losses) arising during the year (pre-tax amounts of $(3,159), $18,069, and $(41,059))	(1,930)	10,933	(24,794)
Reclassification adjustment for net gains related to securities available for sale included in net income (pre-tax amounts of $3,087, $92, and $1,426)	(1,886)	(56)	(861)
Amortization of unrealized net gains and losses related to the reclassification of available for sale investment securities to held to maturity (pre-tax amounts of $(1,311), $(421), and $0)	801	257	-
Pension and other benefits:			
Amortization of prior service cost and actuarial gains (pre-tax amounts of $2,239, $75, and $2,790)	1,371	46	1,601
(Increase) decrease in prior service costs and unrecognized actuarial loss (pre-tax amounts of $(6,144), $(19,245) , and $21,923)	(3,747)	(11,442)	13,169
Total other comprehensive (loss) income	(5,391)	(262)	(10,885)
Comprehensive income	$71,034	$74,812	$50,862

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity

(In thousands except share and per share data)	Common stock	Additional paid-in-capital	Retained earnings	Accumulated other comprehensive (loss) income	Common stock in treasury	Total
Balance at December 31, 2012	$ 393	$ 346,692	$ 357,558	$ (5,880)	$ (116,490)	$ 582,273
Net income	-	-	61,747	-	-	61,747
Cash dividends - $0.81 per share	-	-	(33,518)	-	-	(33,518)
Purchase of 584,925 treasury shares	-	-	-	-	(12,459)	(12,459)
Net issuance of 10,346,363 shares for acquisition	104	225,447	-	-	(5,779)	219,772
Net issuance of 385,219 shares to employee stock plans, including tax benefit	-	(2,292)	-	-	7,626	5,334
Stock-based compensation	-	4,305	-	-	-	4,305
Other comprehensive loss	-	-	-	(10,885)	-	(10,885)
Balance at December 31, 2013	$ 497	$ 574,152	$ 385,787	$ (16,765)	$ (127,102)	$ 816,569
Net income	-	-	75,074	-	-	75,074
Cash dividends - $0.84 per share	-	-	(36,905)	-	-	(36,905)
Purchase of 3,288 treasury shares	-	-	-	-	(72)	(72)
Net issuance of 386,692 shares to employee stock plans, including tax benefit	-	(1,169)	-	-	7,425	6,256
Stock-based compensation	-	3,521	-	-	-	3,521
Other comprehensive loss	-	-	-	(262)	-	(262)
Balance at December 31, 2014	$ 497	$ 576,504	$ 423,956	$ (17,027)	$ (119,749)	$ 864,181
Net income	-	-	76,425	-	-	76,425
Cash dividends - $0.87 per share	-	-	(38,149)	-	-	(38,149)
Purchase of 1,047,152 treasury shares	-	-	-	-	(26,797)	(26,797)
Net issuance of 581,400 shares to employee stock plans, including tax benefit	-	(3,864)	-	-	11,513	7,649
Stock-based compensation	-	4,086	-	-	-	4,086
Other comprehensive loss	-	-	-	(5,391)	-	(5,391)
Balance at December 31, 2015	$ 497	$ 576,726	$ 462,232	$ (22,418)	$ (135,033)	$ 882,004

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

	Years ended December 31,		
(In thousands)	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			
Provision for loan losses	18,285	19,539	22,424
Depreciation and amortization of premises and equipment	8,646	8,324	7,948
Net accretion on securities	2,554	3,216	5,058
Amortization of intangible assets	4,864	5,047	4,872
Stock based compensation	4,086	3,521	4,305
Bank owned life insurance income	(4,334)	(5,349)	(3,793)
Trading security purchases	(810)	(1,626)	(1,085)
(Gains) losses in trading securities	226	(388)	(776)
Proceeds from sale of loans held for sale	72,498	7,050	71,342
Originations and purchases of loans held for sale	(69,677)	(10,215)	(66,512)
Net gains on sales of loans held for sale	(239)	(17)	(1,288)
Net security gains	(3,087)	(92)	(1,426)
Net gains on sales of other real estate owned	(1,337)	(459)	(1,106)
Gain on sale of equity investment	(4,179)	(19,401)	-
Prepayment penalties on long-term debt	-	17,902	-
Net decrease (increase) in other assets	15,386	(19,601)	22,807
Net increase (decrease) in other liabilities	5,236	5,286	(5,219)
Net cash provided by operating activities	124,543	87,811	119,298
Investing activities			
Net cash (used in) provided by acquisitions	(3,100)	-	80,883
Securities available for sale:			
Proceeds from maturities, calls, and principal paydowns	299,302	236,133	376,509
Proceeds from sales	15,091	189	27,593
Purchases	(481,262)	(197,652)	(353,714)
Securities held to maturity:			
Proceeds from maturities, calls, and principal paydowns	79,212	44,756	34,413
Purchases	(95,272)	(49,479)	(84,621)
Other:			
Net increase in loans	(315,363)	(212,238)	(255,318)
Proceeds from FHLB stock redemption	60,852	78,441	27,409
Purchases of Federal Reserve and FHLB stock	(64,899)	(64,203)	(36,366)
Proceeds from settlement of bank owned life insurance	1,541	6,064	-
Purchases of premises and equipment, net	(8,193)	(9,003)	(5,766)
Proceeds from sale of equity investment	4,179	19,639	-
Proceeds from sales of other real estate owned	3,908	3,612	5,224
Net cash used in investing activities	(504,004)	(143,741)	(183,754)
Financing activities			
Net increase (decrease) in deposits	305,238	409,381	(7,545)
Net increase (decrease) in short-term borrowings	125,679	(139,240)	271,497
Proceeds from issuance of long-term debt	-	120,051	-
Repayments of long-term debt	(498)	(315,831)	(163,595)
Proceeds from the issuance of shares to employee benefit plans and other stock plans	7,649	6,256	5,334
Purchase of treasury stock	(26,797)	(72)	(12,459)

Cash dividends and payments for fractional shares	(38,149)	(36,905)	(33,518)
Net cash provided by financing activities	373,122	43,640	59,714
Net (decrease) increase in cash and cash equivalents	(6,339)	(12,290)	(4,742)
Cash and cash equivalents at beginning of year	146,636	158,926	163,668
Cash and cash equivalents at end of year	$140,297	$146,636	$158,926

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Supplemental disclosure of cash flow information	Years ended December 31,		
Cash paid during the year for:	2015	2014	2013
Interest	$20,908	$23,387	$31,307
Income taxes, net of refund	28,684	38,912	20,848
Noncash investing activities:			
Loans transferred to other real estate owned	$3,293	$4,330	$4,746
Preferred stock acquired from sale of equity investment	-	2,762	-
Transfer of available for sale securities to held to maturity portfolio	-	332,115	-
Acquisitions:			
Fair value of assets acquired	$4,100	$-	$1,505,490
Fair value of liabilities assumed	-	-	1,285,718

See accompanying notes to consolidated financial statements.

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NBT BANCORP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of NBT Bancorp Inc. ("NBT Bancorp") and its subsidiaries, NBT Bank, National Association ("NBT Bank"), NBT Holdings, Inc., and NBT Financial Services, Inc., conform, in all material respects, to U.S. generally accepted accounting principles ("GAAP") and to general practices within the banking industry. Collectively, NBT Bancorp and its subsidiaries are referred to herein as "the Company."

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates associated with the allowance for loan losses, income taxes, pension expense, fair values of financial instruments, status of contingencies and other-than-temporary impairment on investments are particularly susceptible to material change in the near term.

The following is a description of significant policies and practices:

Consolidation

The accompanying consolidated financial statements include the accounts of NBT Bancorp and its wholly owned subsidiaries mentioned above. All material intercompany transactions have been eliminated in consolidation. Amounts previously reported in the consolidated financial statements are reclassified whenever necessary to conform to the current year's presentation. In the "Parent Company Financial Information," the investment in subsidiaries is recorded using the equity method of accounting.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when the Company has both the power and ability to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company's wholly owned subsidiaries CNBF Capital Trust I, NBT Statutory Trust I, NBT Statutory Trust II, Alliance Financial Capital Trust I and Alliance Financial Capital Trust II are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements.

Segment Report

The Company's operations are primarily in the community banking industry and include the provision of traditional banking services. The Company also provides other services through its subsidiaries such as insurance, retirement plan administration, and trust administration. The Company operates solely in the geographical regions of central and upstate New York, northeastern Pennsylvania, western Massachusetts, southern New Hampshire, Vermont, and the greater Portland, Maine area. The Company has no reportable operating segments.

Cash Equivalents

The Company considers amounts due from correspondent banks, cash items in process of collection, and institutional money market mutual funds to be cash equivalents for purposes of the consolidated statements of cash flows.

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Securities

The Company classifies its securities at date of purchase as either available for sale, held to maturity or trading. Held to maturity debt securities are those that the Company has the ability and intent to hold until maturity. Trading securities are securities purchased with the intent to sell within a short period of time. Available for sale securities are securities that are not classified as a held to maturity or trading securities. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported in stockholders' equity and the statement of comprehensive income as a component of accumulated other comprehensive income or loss. Held to maturity securities are recorded at amortized cost. Trading securities are recorded at fair value, with net unrealized gains and losses recognized in income. Transfers of securities between categories are recorded at fair value at the date of transfer. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses or in other comprehensive income, depending on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

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

Non-marketable equity securities are carried at cost.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on securities sold are derived using the specific identification method for determining the cost of securities sold.

Investments in Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") stock are required for membership in those organizations and are carried at cost since there is no market value available. The FHLB New York continues to pay dividends and repurchase stock. As such, the Company has not recognized any impairment on its holdings of FHLB stock.

Loans

Loans are recorded at their current unpaid principal balance, net of unearned income and unamortized loan fees and expenses, which are amortized under the effective interest method over the estimated lives of the loans. Interest income on loans is accrued based on the principal amount outstanding.

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

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

Commercial type loans are considered impaired when it is probable that the borrower will not repay the loan according to the original contractual terms of the loan agreement, and all loan types are considered impaired if the loan is restructured in a troubled debt restructuring ("TDR"). 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.

A loan is considered to be a TDR when the Company grants a concession to the borrower because of the borrower's financial condition that the Company would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of all or a portion of principal or interest, or other modifications at interest rates that are less than the current market rate for new obligations with similar risk. TDR loans are nonaccrual loans; however, they can be returned to accrual status after a period of performance, generally evidenced by six months of compliance with their modified terms.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of the expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized.

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Acquired Loans

Acquired loans are initially measured at fair value as of the acquisition date without carryover of historical allowance for loan losses.

For loans that meet the criteria stipulated in ASC 310-30, the Company shall recognize the accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. The excess of the loan's contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference shall not be recognized as an adjustment of yield, a loss accrual, or a valuation allowance. Decreases in the expected cash flows in subsequent periods require the establishment of an allowance for loan losses. Improvements in expected cash flows in future periods result in a reduction of the nonaccretable discount, with such amount reclassified as part of the accretable yield and subsequently recognized in interest income over the remaining lives of the acquired loans on a level-yield basis if the amount and timing of future cash flows is reasonably estimable.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

For loans that meet the criteria stipulated in ASC 310-20, the Company shall amortize/accrete into interest income the premium/discount determined at the date of purchase on a level-yield basis over the life of the loan. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses are similar to originated loans. Loans accounted for under ASC 310-20 are placed on nonaccrual status when past due in accordance with the Company's nonaccrual policy.

An acquired loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. In other cases, individual loans are removed from the pool based on comparing the amount received from its resolution (fair value of the underlying collateral less costs to sell in the case of a foreclosure) with its outstanding balance. Any difference between these amounts is recorded as a charge-off through the allowance for loan losses. Acquired loans subject to modification are not removed from the pool even if those loans would otherwise be deemed troubled debt restructurings as the pool, and not the individual loan, represents the unit of account.

Allowance for Loan Losses

The allowance for loan losses is the amount which, in the opinion of management, is necessary to absorb probable losses inherent in the loan portfolio. The allowance is determined based upon numerous considerations, including local and regional conditions, the growth and composition of the loan portfolio with respect to the mix between the various types of loans and their related risk characteristics, a review of the value of collateral supporting the loans, comprehensive reviews of the loan portfolio by the independent loan review staff and management, as well as consideration of volume and trends of delinquencies, nonperforming loans, and loan charge-offs. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. As a result of tests of adequacy, required additions to the allowance for loan losses are made periodically by charges to the provision for loan losses.

The allowance for loan losses related to impaired loans specifically allocated for impairment is based on discounted expected cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain loans where repayment of the loan is expected to be provided solely by the underlying collateral (collateral dependent loans). The Company's impaired loans are generally collateral dependent. The Company considers the estimated cost to sell, on a discounted basis, when determining the fair value of collateral in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loans.

The allowance for loan losses for homogeneous non impaired loans is calculated using a systematic methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. For purposes of our allowance methodology, the loan portfolio is segmented as described in Note 5, Allowance for Loan Loss and Credit Quality of Loans. Each segment has a distinct set of risk characteristics monitored by management. We further assess and monitor risk and performance at a more disaggregated level which includes our internal risk grading system for the commercial segments.

We first apply historical loss rates to pools of loans with similar risk characteristics. Loss rates are calculated by historical charge-offs that have occurred within each pool of loans over the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred. In conjunction with our annual review of the ALL assumptions, we update our study of LEPs for each portfolio segment using our loan charge-off history. Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates.

After consideration of the historic loss analysis, management applies additional qualitative adjustments so that the allowance for loan losses is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon size, trend, composition, and nature of loans; changes in lending policies and procedures, including underwriting standards and collection, charge-offs and recoveries; trends experienced in nonperforming and delinquent loans; current economic conditions in the Company's market; portfolio concentrations that may affect loss experience across one of more components of the portfolio; the effect of external factors such as competition, legal and regulatory requirements; and the experience, ability, and depth of lending management and staff. The evaluation of the various components of the allowance for loan losses requires considerable judgment in order to estimate inherent loss exposures. 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.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions or changes in the values of properties securing loans in the process of foreclosure. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination which may not be currently available to management.

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Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation of premises and equipment is determined using the straight-line method over the estimated useful lives of the respective assets. Expenditures for maintenance, repairs, and minor replacements are charged to expense as incurred.

Other Real Estate Owned

OREO consists of properties acquired through foreclosure or by acceptance of a deed in lieu of foreclosure. These assets are recorded at the lower of fair value of the asset acquired less estimated costs to sell or "cost" (defined as the fair value at initial foreclosure). At the time of foreclosure, or when foreclosure occurs in-substance, the excess, if any, of the loan over the fair market value of the assets received, less estimated selling costs, is charged to the allowance for loan losses and any subsequent valuation write-downs are charged to other expense. In connection with the determination of the allowance for loan losses and the valuation of other real estate owned, management obtains appraisals for properties. Operating costs associated with the properties are charged to expense as incurred. Gains on the sale of OREO are included in income when title has passed and the sale has met the minimum down payment requirements prescribed by GAAP. The balance of OREO at December 31, 2015 and 2014 was approximately $4.7 million and $4.0 million, respectively, and is recorded in Other Assets on the Consolidated Balance Sheet.

Goodwill and Other Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets that have finite useful lives are amortized over their useful lives. Core deposit intangibles and trust intangibles at the Company 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	$