

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. ☐

Edgar Filing: NBT BANCORP INC - 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.

Table of Contents

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.

Table of Contents

NBT BANCORP INC.

FORM 10-K – Year Ended December 31, 2015

TABLE OF CONTENTS

PART I

ITEM 1	<u>BUSINESS</u>	4
ITEM 1A	<u>RISK FACTORS</u>	15
ITEM 1B	<u>UNRESOLVED STAFF COMMENTS</u>	21
ITEM 2	<u>PROPERTIES</u>	22
ITEM 3	<u>LEGAL PROCEEDINGS</u>	23
ITEM 4	<u>MINE SAFETY DISCLOSURES</u>	23

PART II

ITEM 5	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	23
ITEM 6	<u>SELECTED FINANCIAL DATA</u>	26
ITEM 7	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	28
ITEM 7A	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	50
ITEM 8	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	51
	<u>Report of Independent Registered Public Accounting Firm</u>	51
	<u>Consolidated Balance Sheets at December 31, 2015 and 2014</u>	52
	<u>Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2015</u>	53
	<u>Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2015</u>	54
	<u>Consolidated Statements of Changes in Stockholders' Equity for each of the years in the three-year period ended December 31, 2015</u>	55
	<u>Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2015</u>	56
	<u>Notes to Consolidated Financial Statements</u>	58
ITEM 9	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	95
ITEM 9A	<u>CONTROLS AND PROCEDURES</u>	95
ITEM 9B	<u>OTHER INFORMATION</u>	98

PART III

ITEM 10	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	98
ITEM 11	<u>EXECUTIVE COMPENSATION</u>	98
ITEM 12	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	98
ITEM 13	<u>CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	98
ITEM 14	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	98

PART IV

ITEM 15	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	99
	<u>SIGNATURES</u>	102

Table of Contents

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	%

Edgar Filing: NBT BANCORP INC - Form 10-K

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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			