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

FORM 10-Q

(Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017.
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________.

COMMISSION FILE NUMBER 0-14703

NBT BANCORP INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	**16-1268674**
(State of Incorporation)	(I.R.S. Employer Identification No.)

52 SOUTH BROAD STREET, NORWICH, NEW YORK 13815
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **(607) 337-2265**

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company ☐ Emerging growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 31, 2017, there were 43,510,687 shares outstanding of the Registrant's common stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q - Quarter Ended June 30, 2017

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	
Item 1	Financial Statements	
	Consolidated Balance Sheets at June 30, 2017 and December 31, 2016	3
	Consolidated Statements of Income for the three and six month periods ended June 30, 2017 and 2016	4
	Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2017 and 2016	5
	Consolidated Statements of Stockholders' Equity for the six month periods ended June 30, 2017 and 2016	6
	Consolidated Statements of Cash Flows for the six month periods ended June 30, 2017 and 2016	7
	Notes to Unaudited Interim Consolidated Financial Statements	9
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	43
Item 3	Quantitative and Qualitative Disclosures about Market Risk	59
Item 4	Controls and Procedures	59
PART II	**OTHER INFORMATION**	
Item 1	Legal Proceedings	60
Item 1A	Risk Factors	60
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 3	Defaults Upon Senior Securities	60
Item 4	Mine Safety Disclosures	60
Item 5	Other Information	60
Item 6	Exhibits	61
SIGNATURES		62
INDEX TO EXHIBITS		63

Item 1 – FINANCIAL STATEMENTS

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

(In thousands, except share and per share data)	June 30, 2017	December 31, 2016
Assets		
Cash and due from banks	**$ 155,236**	$ 147,789
Short-term interest bearing accounts	**8,694**	1,392
Securities available for sale, at fair value	**1,365,521**	1,338,290
Securities held to maturity (fair value $516,656 and $525,050, respectively)	**515,628**	527,948
Trading securities	**10,406**	9,259
Federal Reserve and Federal Home Loan Bank stock	**53,040**	47,033
Loans	**6,367,911**	6,198,057
Less allowance for loan losses	**66,600**	65,200
Net loans	**6,301,311**	6,132,857
Premises and equipment, net	**82,185**	84,187
Goodwill	**268,043**	265,439
Intangible assets, net	**16,904**	15,815
Bank owned life insurance	**170,641**	168,012
Other assets	**128,809**	129,247
Total assets	**$ 9,076,418**	$ 8,867,268
Liabilities		
Demand (noninterest bearing)	**$ 2,220,256**	$ 2,195,845
Savings, negotiable order withdrawal and money market	**3,962,579**	3,905,432
Time	**832,449**	872,411
Total deposits	**7,015,284**	6,973,688
Short-term borrowings	**831,185**	681,703
Long-term debt	**88,958**	104,087
Junior subordinated debt	**101,196**	101,196
Other liabilities	**99,434**	93,278
Total liabilities	**8,136,057**	7,953,952
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at June 30, 2017 and December 31, 2016	**-**	-
Common stock, $0.01 par value. Authorized 100,000,000 shares at June 30, 2017 and December 31, 2016; issued 49,651,493 at June 30, 2017 and December 31, 2016	**497**	497
Additional paid-in-capital	**573,109**	575,078
Retained earnings	**523,260**	501,761
Accumulated other comprehensive loss	**(17,891)**	(21,520)
Common stock in treasury, at cost, 6,141,431 and 6,393,743 shares at June 30, 2017 and December 31, 2016, respectively	**(138,614)**	(142,500)
Total stockholders' equity	**940,361**	913,316
Total liabilities and stockholders' equity	**$ 9,076,418**	$ 8,867,268

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

(In thousands, except per share data)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Interest, fee and dividend income				
Interest and fees on loans	**$ 65,286**	$ 62,449	**$ 129,313**	$ 123,679
Securities available for sale	**7,218**	5,976	**14,227**	11,963
Securities held to maturity	**2,736**	2,496	**5,517**	4,784
Other	**654**	454	**1,273**	903
Total interest, fee and dividend income	**75,894**	71,375	**150,330**	141,329
Interest expense				
Deposits	**3,536**	3,605	**7,010**	7,202
Short-term borrowings	**1,366**	579	**2,505**	907
Long-term debt	**599**	773	**1,205**	1,606
Junior subordinated debt	**772**	641	**1,498**	1,260
Total interest expense	**6,273**	5,598	**12,218**	10,975
Net interest income	**69,621**	65,777	**138,112**	130,354
Provision for loan losses	**7,567**	4,780	**14,946**	10,878
Net interest income after provision for loan losses	**62,054**	60,997	**123,166**	119,476
Noninterest income				
Insurance and other financial services revenue	**5,621**	5,625	**12,391**	12,571
Service charges on deposit accounts	**4,161**	4,166	**8,138**	8,105
ATM and debit card fees	**5,518**	4,934	**10,468**	9,517
Retirement plan administration fees	**5,437**	4,054	**9,609**	7,808
Trust	**5,161**	4,937	**9,693**	9,313
Bank owned life insurance	**1,218**	1,271	**2,629**	2,562
Net securities gains	**2**	1	**2**	30
Other	**3,186**	4,626	**6,124**	8,075
Total noninterest income	**30,304**	29,614	**59,054**	57,981
Noninterest expense				
Salaries and employee benefits	**32,754**	32,931	**66,341**	65,372
Occupancy	**5,184**	5,254	**11,354**	10,745
Data processing and communications	**4,229**	4,121	**8,427**	8,171
Professional fees and outside services	**3,609**	3,331	**6,641**	6,562
Equipment	**3,793**	3,547	**7,491**	7,007
Office supplies and postage	**1,640**	1,676	**3,248**	3,223
FDIC expenses	**1,136**	1,293	**2,314**	2,551
Advertising	**656**	595	**1,046**	1,099
Amortization of intangible assets	**1,039**	928	**2,006**	2,024
Loan collection and other real estate owned, net	**664**	845	**1,943**	1,550
Other	**5,617**	5,924	**10,792**	10,365
Total noninterest expense	**60,321**	60,445	**121,603**	118,669
Income before income tax expense	**32,037**	30,166	**60,617**	58,788
Income tax expense	**10,678**	10,257	**18,979**	19,988
Net income	**$ 21,359**	$ 19,909	**$ 41,638**	$ 38,800
Earnings per share				
Basic	**$ 0.49**	$ 0.46	**$ 0.96**	$ 0.90
Diluted	**$ 0.49**	$ 0.46	**$ 0.95**	$ 0.89

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
(In thousands)				
Net income	**$ 21,359**	$ 19,909	**$ 41,638**	$ 38,800
Other comprehensive income, net of tax:				
Unrealized net holding gains arising during the period (pre-tax amounts of $2,528, $3,730, $3,364 and $16,941)	**1,562**	2,278	**2,059**	10,350
Reclassification adjustment for net (gains) related to securities available for sale included in net income (pre-tax amounts of $2, $1, $2 and $30)	**(1)**	-	**(1)**	(19)
Reclassification adjustment for an impairment write-down of equity security (pre-tax amounts of $-, $-, $1,312 and $-)	**-**	-	**811**	-
Unrealized loss on derivatives (cash flow hedges) (pre-tax amounts of $(434), $(62), $(104) and $(62))	**(268)**	(38)	**(64)**	(38)
Amortization of unrealized net gains related to the reclassification of available for sale investment securities to held to maturity (pre-tax amounts of $225, $280, $463 and $576)	**139**	171	**286**	352
Pension and other benefits:				
Amortization of prior service cost and actuarial loss (pre-tax amounts of $435, $513, $870 and $1,024)	**269**	313	**538**	626
Total other comprehensive income	**1,701**	2,724	**3,629**	11,271
Comprehensive income	**$ 23,060**	$ 22,633	**$ 45,267**	$ 50,071

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (unaudited)

(In thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock in Treasury	Total
Balance at December 31, 2015	**$ 497**	**$ 576,726**	**$ 462,232**	**$ (22,418)**	**$ (135,033)**	**$ 882,004**
Net income	-	-	38,800	-	-	38,800
Cash dividends - $0.44 per share	-	-	(18,958)	-	-	(18,958)
Purchase of 675,535 treasury shares	-	-	-	-	(17,193)	(17,193)
Net issuance of 237,824 shares to employee benefit plans and other stock plans, including tax benefit	-	(5,945)	-	-	4,088	(1,857)
Stock-based compensation	-	2,286	-	-	-	2,286
Other comprehensive income	-	-	-	11,271	-	11,271
Balance at June 30, 2016	**$ 497**	**$ 573,067**	**$ 482,074**	**$ (11,147)**	**$ (148,138)**	**$ 896,353**
Balance at December 31, 2016	**$ 497**	**$ 575,078**	**$ 501,761**	**$ (21,520)**	**$ (142,500)**	**$ 913,316**
Net income	-	-	41,638	-	-	41,638
Cash dividends - $0.46 per share	-	-	(20,044)	-	-	(20,044)
Net issuance of 252,312 shares to employee benefit plans and other stock plans, including tax benefit	-	(4,702)	-	-	3,886	(816)
Stock-based compensation	-	2,733	(95)	-	-	2,638
Other comprehensive income	-	-	-	3,629	-	3,629
Balance at June 30, 2017	**$ 497**	**$ 573,109**	**$ 523,260**	**$ (17,891)**	**$ (138,614)**	**$ 940,361**

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30,	
(In thousands)	**2017**	2016
Operating activities		
Net income	**$ 41,638**	$ 38,800
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	**14,946**	10,878
Depreciation and amortization of premises and equipment	**4,488**	4,511
Net accretion on securities	**2,430**	1,816
Amortization of intangible assets	**2,006**	2,024
Excess tax benefit on stock-based compensation	**1,526**	-
Stock-based compensation	**2,638**	2,286
Bank owned life insurance income	**(2,629)**	(2,562)
Trading security purchases	**(1,293)**	(270)
Losses on trading securities	**145**	56
Proceeds from sales of loans held for sale	**60,650**	44,598
Originations and purchases of loans held for sale	**(62,163)**	(47,298)
Net gains on sales of loans held for sale	**(223)**	(227)
Net security (gains)	**(2)**	(30)
Net (gain) on sales of other real estate owned	**(704)**	(528)
Impairment write-down	**1,312**	-
Net (increase) in other assets	**(3,261)**	(6,890)
Net increase in other liabilities	**4,405**	2,892
Net cash provided by operating activities	**65,909**	50,056
Investing activities		
Net cash used in acquisitions	**(4,000)**	-
Securities available for sale:		
Proceeds from maturities, calls and principal paydowns	**136,898**	161,017
Purchases	**(162,723)**	(238,610)
Securities held to maturity:		
Proceeds from maturities, calls and principal paydowns	**52,883**	41,440
Proceeds from sales	**764**	-
Purchases	**(41,334)**	(70,065)
Other:		
Net increase in loans	**(186,546)**	(164,269)
Proceeds from Federal Home Loan Bank stock redemption	**112,841**	64,194
Purchases of Federal Reserve and Federal Home Loan Bank stock	**(118,848)**	(72,781)
Proceeds from settlement of bank owned life insurance	**-**	1,457
Purchase of bank owned life insurance	**-**	(45,000)
Purchases of premises and equipment, net	**(2,604)**	(2,083)
Proceeds from the sales of other real estate owned	**6,420**	4,583
Net cash used in investing activities	**(206,249)**	(320,117)
Financing activities		
Net increase in deposits	**41,596**	135,573
Net increase in short-term borrowings	**149,482**	223,943
Repayments of long-term debt	**(15,129)**	(20,141)
Proceeds from the issuance of shares to employee benefit plans and other stock plans	**2,007**	986
Cash paid by employer for tax-withholdings on stock issuance	**(2,823)**	(2,843)
Purchase of treasury stock	**-**	(17,193)
Cash dividends	**(20,044)**	(18,958)
Net cash provided by financing activities	**155,089**	301,367
Net increase in cash and cash equivalents	**14,749**	31,306
Cash and cash equivalents at beginning of period	**149,181**	140,297
Cash and cash equivalents at end of period	**$ 163,930**	$ 171,603

Supplemental disclosure of cash flow information	Six months ended June 30,	
Cash paid during the period for:	**2017**	**2016**
Interest	**$ 12,404**	$ 10,926
Income taxes paid	**12,886**	20,809
Noncash investing activities:		
Loans transferred to other real estate owned	**$ 4,882**	$ 1,608
Acquisitions:		
Fair value of assets acquired	**$ 3,096**	$ -

See accompanying notes to unaudited interim consolidated financial statements.

NBT BANCORP INC. and Subsidiaries
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

1. Description of Business

NBT Bancorp Inc. (the "Registrant" or the "Company") is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The principal assets of the Registrant consist of all of the outstanding shares of common stock of its subsidiaries, including: NBT Bank, National Association (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc. ("NBT Holdings"), Hathaway Agency, Inc. and CNBF Capital Trust I, NBT Statutory Trust I, NBT Statutory Trust II, Alliance Financial Capital Trust I and Alliance Financial Capital Trust II (collectively, the "Trusts"). The Company's principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial and NBT Holdings.

The Company's business, primarily conducted through the Bank but also through its other subsidiaries, consists of providing commercial banking and financial services to customers in its market area, which includes central and upstate New York, northeastern Pennsylvania, 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.

2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Registrant and its wholly owned subsidiaries, the Bank, NBT Financial and NBT Holdings. Collectively, the Registrant and its subsidiaries are referred to herein as "the Company." The interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods in accordance with generally accepted accounting principles in the United States of America ("GAAP"). These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2016 Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. All intercompany transactions have been eliminated in consolidation. Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation. The Company has evaluated subsequent events for potential recognition and/or disclosure and there were none identified.

3. Securities

The amortized cost, estimated fair value and unrealized gains and losses of available for sale ("AFS") securities are as follows:

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
June 30, 2017				
Federal agency	**$ 159,999**	**$ 46**	**$ 525**	**$ 159,520**
State & municipal	**44,023**	**136**	**139**	**44,020**
Mortgage-backed:				
Government-sponsored enterprises	**544,616**	**3,503**	**1,414**	**546,705**
U.S. government agency securities	**17,167**	**406**	**217**	**17,356**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**528,561**	**622**	**5,551**	**523,632**
U.S. government agency securities	**55,713**	**191**	**628**	**55,276**
Other securities	**13,537**	**5,614**	**139**	**19,012**
Total securities AFS	**$ 1,363,616**	**$ 10,518**	**$ 8,613**	**$ 1,365,521**
December 31, 2016				
Federal agency	$ 175,135	$ 78	$ 805	$ 174,408
State & municipal	47,053	153	480	46,726
Mortgage-backed:				
Government-sponsored enterprises	513,814	3,345	2,492	514,667
U.S. government agency securities	14,955	411	189	15,177
Collateralized mortgage obligations:				
Government-sponsored enterprises	513,431	532	7,688	506,275
U.S. government agency securities	60,822	184	708	60,298
Other securities	15,849	6,394	1,504	20,739
Total securities AFS	$ 1,341,059	$ 11,097	$ 13,866	$ 1,338,290

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

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
June 30, 2017				
Mortgage-backed:				
Government-sponsored enterprises	**$ 102,651**	**$ 61**	**$ 878**	**$ 101,834**
U.S. government agency securities	**474**	**69**	**-**	**543**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**205,806**	**1,280**	**1,068**	**206,018**
State & municipal	**206,697**	**2,097**	**533**	**208,261**
Total securities HTM	**$ 515,628**	**$ 3,507**	**$ 2,479**	**$ 516,656**
December 31, 2016				
Mortgage-backed:				
Government-sponsored enterprises	$ 96,668	$ -	$ 1,176	$ 95,492
U.S. government agency securities	533	87	-	620
Collateralized mortgage obligations:				
Government-sponsored enterprises	225,213	1,060	1,508	224,765
State & municipal	205,534	434	1,795	204,173
Total securities HTM	$ 527,948	$ 1,581	$ 4,479	$ 525,050

Securities with amortized costs totaling $1.5 billion at June 30, 2017 and December 31, 2016 were pledged to secure public deposits and for other purposes required or permitted by law. At June 30, 2017 and December 31, 2016, securities with an amortized cost of $234.4 million and $235.6 million, respectively, were pledged as collateral for securities sold under repurchase agreements.

The following table sets forth information with regard to investment securities with unrealized losses segregated according to the length of time the securities had been in a continuous unrealized loss position:

(Dollars in thousands)	Less than 12 months			12 months or longer			Total		
Security Type:	**Fair Value**	**Unrealized losses**	**Number of Positions**	**Fair Value**	**Unrealized losses**	**Number of Positions**	**Fair Value**	**Unrealized losses**	**Number of Positions**
June 30, 2017									
AFS securities:									
Federal agency	**$ 109,778**	**$ (525)**	**9**	**$ -**	**$ -**	**-**	**$ 109,778**	**$ (525)**	**9**
State & municipal	**23,771**	**(120)**	**36**	**1,052**	**(19)**	**1**	**24,823**	**(139)**	**37**
Mortgage-backed	**210,648**	**(1,618)**	**46**	**963**	**(13)**	**4**	**211,611**	**(1,631)**	**50**
Collateralized mortgage obligations	**452,830**	**(6,091)**	**61**	**6,347**	**(88)**	**2**	**459,177**	**(6,179)**	**63**
Other securities	**1,990**	**(10)**	**1**	**2,976**	**(129)**	**1**	**4,966**	**(139)**	**2**
Total securities with unrealized losses	**$ 799,017**	**$ (8,364)**	**153**	**$ 11,338**	**$ (249)**	**8**	**$ 810,355**	**$ (8,613)**	**161**
HTM securities:									
Mortgage-backed	**$ 52,892**	**$ (878)**	**4**	**$ -**	**$ -**	**-**	**$ 52,892**	**$ (878)**	**4**
Collateralized mortgage obligations	**40,458**	**(148)**	**6**	**32,969**	**(920)**	**4**	**73,427**	**(1,068)**	**10**
State & municipal	**24,400**	**(397)**	**36**	**2,688**	**(136)**	**5**	**27,088**	**(533)**	**41**
Total securities with unrealized losses	**$ 117,750**	**$ (1,423)**	**46**	**$ 35,657**	**$ (1,056)**	**9**	**$ 153,407**	**$ (2,479)**	**55**
December 31, 2016									
AFS securities:									
Federal agency	$ 119,363	$ (805)	10	$ -	$ -	-	$ 119,363	$ (805)	10
State & municipal	31,873	(478)	55	483	(2)	1	32,356	(480)	56
Mortgage-backed	277,524	(2,668)	49	985	(13)	4	278,509	(2,681)	53
Collateralized mortgage obligations	473,746	(8,396)	57	-	-	-	473,746	(8,396)	57
Other securities	-	-	-	4,363	(1,504)	2	4,363	(1,504)	2
Total securities with unrealized losses	$ 902,506	$ (12,347)	171	$ 5,831	$ (1,519)	7	$ 908,337	$ (13,866)	178
HTM securities:									
Mortgage-backed	$ 95,492	$ (1,176)	5	$ -	$ -	-	$ 95,492	$ (1,176)	5
Collateralized mortgage obligations	108,587	(319)	12	35,209	(1,189)	4	143,796	(1,508)	16
State & municipal	81,984	(1,795)	155	-	-	-	81,984	(1,795)	155
Total securities with unrealized losses	$ 286,063	$ (3,290)	172	$ 35,209	$ (1,189)	4	$ 321,272	$ (4,479)	176

Declines in the fair value of HTM and AFS 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, the other-than-temporary impairment ("OTTI") 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 Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI 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 OTTI related to the credit loss shall be recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

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

Management has the intent to hold the securities classified as HTM until they mature, at which time it is believed the Company will receive full value for the securities. The unrealized losses on HTM debt securities are due to increases in market interest rates over yields at the time the underlying securities were purchased. When necessary, the Company has performed a discounted cash flow analysis to determine whether or not it will receive the contractual principal and interest on certain securities. The fair value is expected to recover as the bond approaches their maturity date or repricing date or if market yields for such investments decline.

Management also has the intent to hold and will not be required to sell, the securities classified as AFS for a period of time sufficient for a recovery of cost, which may be until maturity. The unrealized losses on AFS debt securities are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. When necessary, the Company has performed a discounted cash flow analysis to determine whether or not it will receive the contractual principal and interest on certain securities. For AFS debt and equity securities, OTTI losses are recognized in earnings if the Company intends to sell the security. In other cases the Company considers the relevant factors noted above, as well as the Company's intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value and whether evidence exists to support a realizable value equal to or greater than the cost basis. Any impairment loss on an equity security is equal to the full difference between the cost basis and the fair value of the security.

As of June 30, 2017 and December 31, 2016, management believes the impairments detailed in the table above are temporary. There were no impairments realized in the three months ended June 30, 2017. For the six months ended June 30, 2017, $1.3 million of an OTTI loss on an AFS equity investment was realized in the Company's unaudited interim consolidated statements of income. There were no OTTI losses realized in the Company's unaudited interim consolidated statements of income for the three and six month periods ended June 30, 2016.

During the three and six months ended June 30, 2017, the Company sold HTM securities with an amortized cost of $0.8 million and an unrealized loss of $2 thousand. Due to significant deterioration in the creditworthiness of the issuers of the HTM securities, the circumstances caused the Company to change its intent to hold the HTM securities sold to maturity, which did not affect the Company's intent to hold the remainder of the HTM portfolio to maturity. There were no sales of HTM securities in the three or six month periods ended June 30, 2016.

The following tables set forth information with regard to contractual maturities of debt securities at June 30, 2017:

(In thousands)	**Amortized cost**	**Estimated fair value**
AFS debt securities:		
Within one year	**$ 63,613**	**$ 63,631**
From one to five years	**136,121**	**136,321**
From five to ten years	**163,507**	**164,061**
After ten years	**986,838**	**982,496**
	$ 1,350,079	**$ 1,346,509**
HTM debt securities:		
Within one year	**$ 34,486**	**$ 34,493**
From one to five years	**38,026**	**38,392**
From five to ten years	**122,400**	**123,545**
After ten years	**320,716**	**320,226**
	$ 515,628	**$ 516,656**

Maturities of mortgage-backed, collateralized mortgage obligations and asset-backed securities are stated based on their estimated average lives. Actual maturities may differ from estimated average lives or contractual maturities because, in certain cases, borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Except for U.S. Government securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of consolidated stockholders’ equity at June 30, 2017 and December 31, 2016.

4. Allowance for Loan Losses and Credit Quality of Loans

Allowance for Loan Losses

The allowance for loan losses is maintained at a level estimated by management to provide adequately for probable incurred losses inherent in the current loan portfolio. The appropriateness of the allowance for loan losses is continuously monitored. It is assessed for appropriateness using a methodology designed to ensure the level of the allowance reasonably reflects the loan portfolio's risk profile. It is evaluated to ensure that it is sufficient to absorb all reasonably estimable credit losses inherent in the current loan portfolio.

To develop and document a systematic methodology for determining the allowance for loan losses, the Company has divided the loan portfolio into three segments, each with different risk characteristics and methodologies for assessing risk. Those segments are further segregated between our loans accounted for under the amortized cost method (referred to as "originated" loans) and loans acquired in a business combination (referred to as "acquired" loans). Each portfolio segment is broken down into class segments where appropriate. Class segments contain unique measurement attributes, risk characteristics and methods for monitoring and assessing risk that are necessary to develop the allowance for loan losses. Unique characteristics such as borrower type, loan type, collateral type and risk characteristics define each class segment. The following table illustrates the portfolio and class segments for the Company's loan portfolio:

Portfolio	Class
Commercial Loans	Commercial Commercial Real Estate Agricultural Agricultural Real Estate Business Banking
Consumer Loans	Indirect Home Equity Direct
Residential Real Estate Mortgages	

Commercial Loans

The Company offers a variety of commercial loan products including commercial (non-real estate), commercial real estate, agricultural, agricultural real estate and business banking loans. The Company's underwriting analysis for commercial loans typically includes credit verification, independent appraisals, a review of the borrower's financial condition and a detailed analysis of the borrower's underlying cash flows.

Commercial – The Company offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs such as inventory and receivables, business expansion and equipment purchases. Generally, a collateral lien is placed on equipment or other assets owned by the borrower. These loans typically carry a higher risk than commercial real estate loans due to the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable, which are generally less liquid than real estate. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers.

Commercial Real Estate – The Company offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real property, which generally consist of real estate with completed structures. These commercial real estate loans are secured by liens on the real estate, which may include both owner occupied and non-owner-occupied properties, such as apartments, commercial structures, housing businesses, health care facilities and other facilities. These loans are typically less risky than commercial loans, since they are secured by real estate and buildings. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 80% of the appraised value of the property.

Agricultural – The Company offers a variety of agricultural loans to meet the needs of our agricultural customers including term loans, time notes and lines of credit. These loans are made to purchase livestock, purchase and modernize equipment and finance seasonal crop expenses. Generally, a collateral lien is placed on the livestock, equipment, produce inventories and/or receivables owned by the borrower. These loans may carry a higher risk than commercial and agricultural real estate loans due to the industry price volatility and in some cases, the perishable nature of the underlying collateral. To reduce these risks, management may attempt to secure these loans with additional real estate collateral, obtain personal guarantees of the borrowers or obtain government loan guarantees to provide further support.

Agricultural Real Estate – The Company offers real estate loans to our agricultural customers to finance farm related real estate purchases, refinancings, expansions and improvements to agricultural properties. Agricultural real estate loans are made to finance the purchase and improvements of farm properties that generally consist of barns, production facilities and land. The agricultural real estate loans are secured by liens on the farm real estate. Because they are secured by land and buildings, these loans may be less risky than agricultural loans. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 75% of the appraised value of the property. Government loan guarantees may be obtained to provide further support.

Business Banking – The Company offers a variety of loan options to meet the specific needs of our business banking customers including term loans, business banking mortgages and lines of credit. Such loans are generally less than $0.8 million and are made available to businesses for working capital such as inventory and receivables, business expansion, equipment purchases and agricultural needs. Generally, a collateral lien is placed on equipment or other assets owned by the borrower such as inventory and/or receivables. These loans carry a higher risk than commercial loans due to the smaller size of the borrower and lower levels of capital. To reduce these risks, the Company obtains personal guarantees of the owners for a majority of the loans.

Consumer Loans

The Company offers a variety of consumer loan products including indirect, home equity and direct loans.

Indirect – The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the Company primarily finances the purchases of automobiles and recreational vehicles (such as campers, boats, etc.) indirectly through dealer relationships. Approximately 70% of the indirect relationships represent automobile financing. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to six years, based upon the nature of the collateral and the size of the loan. The majority of indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed. As of June 30, 2017 and December 31, 2016, respectively, the consumer loan portfolio includes $398.7 million and $374.9 million of unsecured consumer loans across a national footprint originated through our relationship with a leading national technology-driven consumer lending company. Advances of credit through this specialty lending business line are to prime borrowers and are subject to the Company's underwriting standards.

Home Equity – The Company offers fixed home equity loans as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Consumers are able to borrow up to 85% of the equity in their homes. The Company originates home equity lines of credit and second mortgage loans (loans secured by a second lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are in a second position with respect to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Direct – The Company offers a variety of consumer installment loans to finance vehicle purchases, mobile home purchases and personal expenditures. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to ten years, based upon the nature of the collateral and the size of the loan. The majority of consumer loans are underwritten on a secured basis using the underlying collateral being financed or a customer's deposit account. In addition to installment loans, the Company also offers personal lines of credit and overdraft protection. A minimal amount of loans are unsecured, which carry a higher risk of loss.

Residential Real Estate Mortgages

Residential real estate loans consist primarily of loans secured by first or second deeds of trust on primary residences. We originate adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. When market conditions are favorable, for longer term, fixed-rate residential mortgages without escrow, the Company retains the servicing, but sells the right to receive principal and interest to Freddie Mac. This practice allows the Company to manage interest rate, liquidity risk and credit risk. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower) or have private mortgage insurance. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period.

Allowance for Loan Loss Calculation

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

In addition, various regulatory agencies, as an integral component of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make loan grade changes as well as recognize additions to the allowance based on their examinations.

After a thorough consideration of the factors discussed above, any required additions or reductions to the allowance for loan losses are made periodically by charges or credits to the provision for loan losses. These charges are necessary to maintain the allowance at a level that management believes is reflective of overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans, additions and reductions of the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above.

The following tables illustrate the changes in the allowance for loan losses by our portfolio segments:

Three months ended June 30, *(In thousands)*	**Commercial Loans**	**Consumer Loans**	**Residential Real Estate Mortgages**	**Unallocated**	**Total**
Balance as of March 31, 2017	**$ 24,727**	**$ 34,769**	**$ 6,204**	**$ -**	**$ 65,700**
Charge-offs	**(1,123)**	**(6,261)**	**(698)**	**-**	**(8,082)**
Recoveries	**206**	**1,199**	**10**	**-**	**1,415**
Provision	**618**	**5,816**	**1,133**	**-**	**7,567**
Ending Balance as of June 30, 2017	**$ 24,428**	**$ 35,523**	**$ 6,649**	**$ -**	**$ 66,600**
Balance as of March 31, 2016	$ 25,299	$ 31,035	$ 7,984	$ -	$ 64,318
Charge-offs	(649)	(4,950)	(268)	-	(5,867)
Recoveries	339	907	91	-	1,337
Provision	233	4,479	68	-	4,780
Ending Balance as of June 30, 2016	$ 25,222	$ 31,471	$ 7,875	$ -	$ 64,568

Six months ended June 30,	**Commercial Loans**	**Consumer Loans**	**Residential Real Estate Mortgages**	**Unallocated**	**Total**
Balance as of December 31, 2016	**$ 25,444**	**$ 33,375**	**$ 6,381**	**$ -**	**$ 65,200**
Charge-offs	**(2,417)**	**(12,763)**	**(1,296)**	**-**	**(16,476)**
Recoveries	**653**	**2,234**	**43**	**-**	**2,930**
Provision	**748**	**12,677**	**1,521**	**-**	**14,946**
Ending Balance as of June 30, 2017	**$ 24,428**	**$ 35,523**	**$ 6,649**	**$ -**	**$ 66,600**
Balance as of December 31, 2015	$ 25,545	$ 29,253	$ 7,960	$ 260	$ 63,018
Charge-offs	(1,086)	(10,363)	(977)	-	(12,426)
Recoveries	1,104	1,881	113	-	3,098
Provision	(341)	10,700	779	(260)	10,878
Ending Balance as of June 30, 2016	$ 25,222	$ 31,471	$ 7,875	$ -	$ 64,568

For acquired loans, to the extent that we experience deterioration in borrower credit quality resulting in a decrease in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loan. There was no allowance for loan losses for the acquired loan portfolio as of June 30, 2017 and $0.8 million as of June 30, 2016. Net charge-offs related to acquired loans totaled approximately $0.3 million and $0.1 million during the three months ended June 30, 2017 and 2016, respectively and approximately $0.7 million and $0.4 million during the six months ended June 30, 2017 and 2016, respectively and are included in the table above.

The following tables illustrate the allowance for loan losses and the recorded investment by portfolio segments:

As of June 30, 2017 *(In thousands)*	**Commercial Loans**	**Consumer Loans**	**Residential Real Estate Mortgages**	**Total**
Allowance for loan losses	**$ 24,428**	**$ 35,523**	**$ 6,649**	**$ 66,600**
Allowance for loans individually evaluated for impairment	**461**	**-**	**-**	**461**
Allowance for loans collectively evaluated for impairment	**$ 23,967**	**$ 35,523**	**$ 6,649**	**$ 66,139**
Ending balance of loans	**$ 2,906,314**	**$ 2,185,790**	**$ 1,275,807**	**$ 6,367,911**
Ending balance of originated loans individually evaluated for impairment	**9,321**	**8,214**	**6,429**	**23,964**
Ending balance of acquired loans collectively evaluated for impairment	**222,519**	**52,539**	**186,214**	**461,272**
Ending balance of originated loans collectively evaluated for impairment	**$ 2,674,474**	**$ 2,125,037**	**$ 1,083,164**	**$ 5,882,675**
As of December 31, 2016				
Allowance for loan losses	$ 25,444	$ 33,375	$ 6,381	$ 65,200
Allowance for loans individually evaluated for impairment	1,517	-	-	1,517
Allowance for loans collectively evaluated for impairment	$ 23,927	$ 33,375	$ 6,381	$ 63,683
Ending balance of loans	$ 2,786,002	$ 2,149,441	$ 1,262,614	$ 6,198,057
Ending balance of originated loans individually evaluated for impairment	13,070	8,488	6,111	27,669
Ending balance of acquired loans individually evaluated for impairment	1,205	-	-	1,205
Ending balance of acquired loans collectively evaluated for impairment	236,413	63,005	199,471	498,889
Ending balance of originated loans collectively evaluated for impairment	$ 2,535,314	$ 2,077,948	$ 1,057,032	$ 5,670,294

Credit Quality of Loans

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 or circumstances indicate that borrowers may be unable to meet contractual principal or interest payments. When a loan is transferred to a nonaccrual status, all interest previously accrued in the current period but not collected is reversed against interest income in that period. Any payment received on a nonaccrual loan is applied to principal. 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.

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

As of June 30, 2017 (In thousands)	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 90 Days Past Due Accruing	Total Past Due Accruing	Nonaccrual	Current	Recorded Total Loans
ORIGINATED							
Commercial Loans:							
Commercial	$ 35	$ 530	$ -	$ 565	$ 5,118	$ 756,087	$ 761,770
Commercial Real Estate	1,621	631	-	2,252	1,928	1,371,367	1,375,547
Agricultural	-	-	-	-	630	37,025	37,655
Agricultural Real Estate	-	-	-	-	1,696	30,329	32,025
Business Banking	1,637	309	-	1,946	4,379	470,473	476,798
Total Commercial Loans	3,293	1,470	-	4,763	13,751	2,665,281	2,683,795
Consumer Loans:							
Indirect	16,770	4,188	2,319	23,277	1,835	1,589,934	1,615,046
Home Equity	2,480	701	354	3,535	2,811	448,502	454,848
Direct	197	115	38	350	80	62,927	63,357
Total Consumer Loans	19,447	5,004	2,711	27,162	4,726	2,101,363	2,133,251
Residential Real Estate Mortgages	3,051	974	136	4,161	7,007	1,078,425	1,089,593
Total Originated Loans	$ 25,791	$ 7,448	$ 2,847	$ 36,086	$ 25,484	$ 5,845,069	$ 5,906,639
ACQUIRED							
Commercial Loans:							
Commercial	$ -	$ -	$ -	$ -	$ -	$ 51,179	$ 51,179
Commercial Real Estate	-	294	-	294	619	124,490	125,403
Business Banking	612	-	-	612	783	44,542	45,937
Total Commercial Loans	612	294	-	906	1,402	220,211	222,519
Consumer Loans:							
Indirect	48	3	1	52	37	3,551	3,640
Home Equity	266	63	-	329	183	45,494	46,006
Direct	29	-	1	30	12	2,851	2,893
Total Consumer Loans	343	66	2	411	232	51,896	52,539
Residential Real Estate Mortgages	5	140	-	145	2,016	184,053	186,214
Total Acquired Loans	$ 960	$ 500	$ 2	$ 1,462	$ 3,650	$ 456,160	$ 461,272
Total Loans	$ 26,751	$ 7,948	$ 2,849	$ 37,548	$ 29,134	$ 6,301,229	$ 6,367,911

As of December 31, 2016 *(In thousands)*	31-60 Days Past Due Accruing	61-90 Days Past Due Accruing	Greater Than 90 Days Past Due Accruing	Total Past Due Accruing	Nonaccrual	Current	Recorded Total Loans
ORIGINATED							
Commercial Loans:							
Commercial	$ 33	$ 5	$ -	$ 38	$ 2,964	$ 650,568	$ 653,570
Commercial Real Estate	-	-	-	-	7,935	1,343,854	1,351,789
Agricultural	-	-	-	-	730	37,186	37,916
Agricultural Real Estate	-	-	-	-	1,803	30,619	32,422
Business Banking	1,609	318	-	1,927	4,860	465,900	472,687
Total Commercial Loans	1,642	323	-	1,965	18,292	2,528,127	2,548,384
Consumer Loans:							
Indirect	19,253	4,185	2,499	25,937	2,145	1,538,593	1,566,675
Home Equity	3,416	1,065	528	5,009	2,851	448,797	456,657
Direct	452	125	20	597	107	62,400	63,104
Total Consumer Loans	23,121	5,375	3,047	31,543	5,103	2,049,790	2,086,436
Residential Real Estate Mortgages	2,725	172	1,406	4,303	6,682	1,052,158	1,063,143
Total Originated Loans	$ 27,488	$ 5,870	$ 4,453	$ 37,811	$ 30,077	$ 5,630,075	$ 5,697,963
ACQUIRED							
Commercial Loans:							
Commercial	$ -	$ -	$ -	$ -	$ -	$ 49,447	$ 49,447
Commercial Real Estate	-	-	-	-	1,891	135,398	137,289
Business Banking	236	-	-	236	804	49,842	50,882
Total Commercial Loans	236	-	-	236	2,695	234,687	237,618
Consumer Loans:							
Indirect	100	5	-	105	47	8,541	8,693
Home Equity	254	53	30	337	237	50,553	51,127
Direct	30	2	-	32	20	3,133	3,185
Total Consumer Loans	384	60	30	474	304	62,227	63,005
Residential Real Estate Mortgages	609	28	327	964	2,636	195,871	199,471
Total Acquired Loans	$ 1,229	$ 88	$ 357	$ 1,674	$ 5,635	$ 492,785	$ 500,094
Total Loans	$ 28,717	$ 5,958	$ 4,810	$ 39,485	$ 35,712	$ 6,122,860	$ 6,198,057

There were no material commitments to extend further credit to borrowers with nonperforming loans as of June 30, 2017 and December 31, 2016.

Impaired Loans

The methodology used to establish the allowance for loan losses on impaired loans incorporates specific allocations on loans analyzed individually. Classified loans, including all trouble debt restructured loans ("TDRs") and nonaccrual commercial loans that are graded Substandard or below, with outstanding balances equal to or greater than $0.8 million are evaluated for impairment through the Company’s quarterly status review process. In determining whether we are able to collect all principal and interest payments due in accordance with the contractual terms of the loan agreements, we consider factors such as payment history and changes in the financial condition of individual borrowers, local economic conditions, historical loss experience and the conditions of the various markets in which the collateral may be liquidated. For loans that are evaluated for impairment, impairment is measured by one of three methods: 1) the fair value of collateral less cost to sell, 2) present value of expected future cash flows or 3) the loan’s observable market price. These impaired loans are reviewed on a quarterly basis for changes in the level of impairment. Any change to the previously recognized impairment loss is recognized as a change to the allowance account and recorded in the unaudited interim consolidated statements of income as a component of the provision for loan losses.

The following table provides information on loans specifically evaluated for impairment:

	June 30, 2017			December 31, 2016		
(In thousands)	**Recorded Investment Balance (Book)**	**Unpaid Principal Balance (Legal)**	**Related Allowance**	**Recorded Investment Balance (Book)**	**Unpaid Principal Balance (Legal)**	**Related Allowance**
ORIGINATED						
With no related allowance recorded:						
Commercial Loans:						
Commercial	**$ 3,303**	**$ 3,436**		$ 1,278	$ 1,697	
Commercial Real Estate	**2,614**	**2,647**		3,816	3,841	
Agricultural	**115**	**125**		130	137	
Agricultural Real Estate	**1,476**	**1,635**		1,434	1,567	
Business Banking	**964**	**1,056**		655	728	
Total Commercial Loans	**8,472**	**8,899**		7,313	7,970	
Consumer Loans:						
Indirect	**31**	**31**		5	16	
Home Equity	**8,064**	**8,900**		8,483	9,429	
Direct	**119**	**119**		-	-	
Total Consumer Loans	**8,214**	**9,050**		8,488	9,445	
Residential Real Estate Mortgages	**6,429**	**7,245**		6,111	6,906	
Total	**$ 23,115**	**$ 25,194**		$ 21,912	$ 24,321	
With an allowance recorded:						
Commercial Loans:						
Commercial	**695**	**700**	**$ 350**	-	-	$ -
Commercial Real Estate	**79**	**83**	**50**	5,553	5,736	735
Agricultural	**29**	**31**	**30**	49	49	37
Agricultural Real Estate	**46**	**48**	**31**	155	155	54
Total Commercial Loans	**$ 849**	**$ 862**	**$ 461**	$ 5,757	$ 5,940	$ 826
ACQUIRED						
With an allowance recorded:						
Commercial Loans:						
Commercial Real Estate	**-**	**-**	**-**	1,205	1,321	691
Total Commercial Loans	**$ -**	**$ -**	**$ -**	$ 1,205	$ 1,321	$ 691
Total:	**$ 23,964**	**$ 26,056**	**$ 461**	$ 28,874	$ 31,582	$ 1,517

Table of Contents

The following tables summarize the average recorded investments on impaired loans specifically evaluated for impairment and the interest income recognized:

	For the three months ended			
	June 30, 2017		June 30, 2016	
(In thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
ORIGINATED				
Commercial Loans:				
Commercial	**$ 3,931**	**$ -**	$ 3,126	$ -
Commercial Real Estate	**3,243**	**1**	15,278	-
Agricultural	**157**	**1**	18	-
Agricultural Real Estate	**1,549**	**10**	610	11
Business Banking	**890**	**3**	969	6
Consumer Loans:				
Indirect	**25**	**1**	9	-
Home Equity	**8,205**	**110**	8,223	120
Direct	**120**	**-**	-	-
Residential Real Estate Mortgage	**6,388**	**68**	6,203	67
Total Originated	**$ 24,508**	**$ 194**	$ 34,436	$ 204
ACQUIRED				
Commercial Loans:				
Commercial Real Estate	**-**	**-**	1,205	-
Total Acquired	**$ -**	**$ -**	$ 1,205	$ -
Total Loans	**$ 24,508**	**$ 194**	$ 35,641	$ 204

	For the six months ended			
	June 30, 2017		June 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
ORIGINATED				
Commercial Loans:				
Commercial	**$ 3,419**	**$ -**	$ 2,972	$ -
Commercial Real Estate	**4,584**	**45**	14,264	74
Agricultural	**165**	**1**	98	1
Agricultural Real Estate	**1,564**	**21**	613	22
Business Banking	**788**	**5**	973	12
Consumer Loans:				
Indirect	**16**	**1**	10	-
Home Equity	**8,310**	**220**	8,093	241
Direct	**120**	**-**	-	-
Residential Real Estate Mortgage	**6,308**	**129**	6,154	134
Total Originated	**$ 25,274**	**$ 422**	$ 33,177	$ 484
ACQUIRED				
Commercial Loans:				
Commercial Real Estate	**172**	**-**	1,205	-
Total Acquired	**$ 172**	**$ -**	$ 1,205	$ -
Total Loans	**$ 25,446**	**$ 422**	$ 34,382	$ 484

Credit Quality Indicators

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

Commercial Grading System

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

- **Doubtful**

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

- **Substandard**

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

- **Special Mention**

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

- **Pass**

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

Business Banking Grading System

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

- **Classified**

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

- **Non-classified**

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

Consumer and Residential Mortgage Grading System

Consumer and Residential Mortgage loans are graded as either Performing or Nonperforming.

- **Nonperforming**

  Nonperforming loans are loans that are 1) over 90 days past due and interest is still accruing or 2) on nonaccrual status.

- **Performing**

  All loans not meeting any of these criteria are considered Performing.

The following tables illustrate the Company's credit quality by loan class:

As of June 30, 2017
(In thousands)
ORIGINATED

Commercial Credit Exposure By Internally Assigned Grade:	**Commercial**	**Commercial Real Estate**	**Agricultural**	**Agricultural Real Estate**	**Total**
Pass	$ 708,569	$ 1,318,522	$ 32,258	$ 24,525	$ 2,083,874
Special Mention	24,829	31,829	2,520	2,501	61,679
Substandard	28,372	25,196	2,872	4,999	61,439
Doubtful	-	-	5	-	5
Total	$ 761,770	$ 1,375,547	$ 37,655	$ 32,025	$ 2,206,997

Business Banking Credit Exposure By Internally Assigned Grade:	**Business Banking**	**Total**
Non-classified	$ 463,897	$ 463,897
Classified	12,901	12,901
Total	$ 476,798	$ 476,798

Consumer Credit Exposure By Payment Activity:	**Indirect**	**Home Equity**	**Direct**	**Total**
Performing	$ 1,610,892	$ 451,683	$ 63,239	$ 2,125,814
Nonperforming	4,154	3,165	118	7,437
Total	$ 1,615,046	$ 454,848	$ 63,357	$ 2,133,251

Residential Mortgage Credit Exposure By Payment Activity:	**Residential Mortgage**	**Total**
Performing	$ 1,082,450	$ 1,082,450
Nonperforming	7,143	7,143
Total	$ 1,089,593	$ 1,089,593

As of June 30, 2017
(In thousands)
ACQUIRED

Commercial Credit Exposure By Internally Assigned Grade:	**Commercial**	**Commercial Real Estate**	**Total**
Pass	$ 44,517	$ 116,214	$ 160,731
Special Mention	5,719	2,175	7,894
Substandard	943	7,014	7,957
Total	$ 51,179	$ 125,403	$ 176,582

Business Banking Credit Exposure By Internally Assigned Grade:	**Business Banking**	**Total**
Non-classified	$ 42,499	$ 42,499
Classified	3,438	3,438
Total	$ 45,937	$ 45,937

Consumer Credit Exposure By Payment Activity:	**Indirect**	**Home Equity**	**Direct**	**Total**
Performing	$ 3,603	$ 45,823	$ 2,881	$ 52,307
Nonperforming	37	183	12	232
Total	$ 3,640	$ 46,006	$ 2,893	$ 52,539

Residential Mortgage Credit Exposure By Payment Activity:	**Residential Mortgage**	**Total**
Performing	$ 184,198	$ 184,198
Nonperforming	2,016	2,016
Total	$ 186,214	$ 186,214

As of December 31, 2016
(In thousands)
ORIGINATED

Commercial Credit Exposure By Internally Assigned Grade:	**Commercial**	**Commercial Real Estate**	**Agricultural**	**Agricultural Real Estate**	**Total**
Pass	$ 616,829	$ 1,288,409	$ 36,762	$ 28,912	$ 1,970,912
Special Mention	7,750	31,053	25	1,896	40,724
Substandard	28,991	32,327	1,124	1,614	64,056
Doubtful	-	-	5	-	5
Total	$ 653,570	$ 1,351,789	$ 37,916	$ 32,422	$ 2,075,697

Business Banking Credit Exposure By Internally Assigned Grade:	**Business Banking**	**Total**
Non-classified	$ 458,864	$ 458,864
Classified	13,823	13,823
Total	$ 472,687	$ 472,687

Consumer Credit Exposure By Payment Activity:	**Indirect**	**Home Equity**	**Direct**	**Total**
Performing	$ 1,562,031	$ 453,278	$ 62,977	$ 2,078,286
Nonperforming	4,644	3,379	127	8,150
Total	$ 1,566,675	$ 456,657	$ 63,104	$ 2,086,436

Residential Mortgage Credit Exposure By Payment Activity:	**Residential Mortgage**	**Total**
Performing	$ 1,055,055	$ 1,055,055
Nonperforming	8,088	8,088
Total	$ 1,063,143	$ 1,063,143

Table of Contents

As of December 31, 2016
(In thousands)
ACQUIRED

Commercial Credit Exposure By Internally Assigned Grade:	**Commercial**	**Commercial Real Estate**	**Total**
Pass	$ 48,194	$ 127,660	$ 175,854
Special Mention	76	1,231	1,307
Substandard	1,177	7,193	8,370
Doubtful	-	1,205	1,205
Total	$ 49,447	$ 137,289	$ 186,736

Business Banking Credit Exposure By Internally Assigned Grade:	**Business Banking**	**Total**
Non-classified	$ 47,347	$ 47,347
Classified	3,535	3,535
Total	$ 50,882	$ 50,882

Consumer Credit Exposure By Payment Activity:	**Indirect**	**Home Equity**	**Direct**	**Total**
Performing	$ 8,646	$ 50,860	$ 3,165	$ 62,671
Nonperforming	47	267	20	334
Total	$ 8,693	$ 51,127	$ 3,185	$ 63,005

Residential Mortgage Credit Exposure By Payment Activity:	**Residential Mortgage**	**Total**
Performing	$ 196,508	$ 196,508
Nonperforming	2,963	2,963
Total	$ 199,471	$ 199,471

Troubled Debt Restructured Loans

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

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.

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

	Three months ended June 30, 2017		
(Dollars in thousands)	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial			
Commercial	**1**	**$ 3,300**	**$ 3,239**
Business Banking	**1**	**337**	**333**
Total Commercial	**2**	**3,637**	**3,572**
Consumer			
Indirect	**3**	**32**	**31**
Home Equity	**1**	**78**	**78**
Direct	**1**	**120**	**120**
Total Consumer	**5**	**230**	**229**
Residential Real Estate	**4**	**346**	**346**
Total Troubled Debt Restructurings	**11**	**$ 4,213**	**$ 4,147**

	Three months ended June 30, 2016		
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer			
Home Equity	2	$ 74	$ 73
Total Consumer	2	74	73
Residential Real Estate	2	152	151
Total Troubled Debt Restructurings	4	$ 226	$ 224

(Dollars in thousands)	Six months ended June 30, 2017 Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial			
Commercial	**1**	**$ 3,300**	**$ 3,239**
Business Banking	**1**	**337**	**333**
Total Commercial	**2**	**3,637**	**3,572**
Consumer			
Indirect	**3**	**32**	**31**
Home Equity	**4**	**185**	**192**
Direct	**1**	**120**	**120**
Total Consumer	**8**	**337**	**343**
Residential Real Estate	**6**	**548**	**554**
Total Troubled Debt Restructurings	**16**	**$ 4,522**	**$ 4,469**

	Six months ended June 30, 2016 Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer			
Home Equity	14	$ 1,109	$ 1,017
Total Consumer	14	1,109	1,017
Residential Real Estate	6	683	578
Total Troubled Debt Restructurings	20	$ 1,792	$ 1,595

TDRs occurring during the three and six months ended June 30, 2017 and 2016 were due to the reduction in the interest rate or extension of the term. The following table illustrates the recorded investment and number of modifications for TDRs where a concession has been made and subsequently defaulted during the period:

	Three months ended June 30, 2017		Three months ended June 30, 2016	
(Dollars in thousands)	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Commercial				
Business Banking	**1**	**$ 329**	1	$ 67
Total Commercial	**1**	**329**	1	67
Consumer				
Indirect	**1**	**14**	-	-
Home Equity	**13**	**589**	10	520
Total Consumer	**14**	**603**	10	520
Residential Real Estate	**4**	**251**	6	664
Total Troubled Debt Restructurings	**19**	**$ 1,183**	17	$ 1,251

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Commercial				
Commercial	**1**	**$ 145**	-	$ -
Business Banking	**1**	**329**	1	67
Total Commercial	**2**	**474**	1	67
Consumer				
Indirect	**2**	**19**	-	-
Home Equity	**22**	**1,101**	14	898
Total Consumer	**24**	**1,120**	14	898
Residential Real Estate	**8**	**419**	10	873
Total Troubled Debt Restructurings	**34**	**$ 2,013**	25	$ 1,838

5. Defined Benefit Post-retirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan (“the Plan”) covering substantially all of its employees at June 30, 2017. Benefits paid from the plan are based on age, years of service, compensation, social security benefits and are determined in accordance with defined formulas. The Company’s policy is to fund the pension plan in accordance with Employee Retirement Income Security Act of 1974 standards. Assets of the Plan are invested in publicly traded stocks and mutual funds. The Company is not required to make contributions to the Plan in 2017 and did not do so during the three and six months ended June 30, 2017. The Company was not required to nor made contributions during the three and six months ended June 30, 2016.

In addition to the Plan, the Company also provides supplemental employee retirement plans to certain current and former executives. The Company also assumed supplemental retirement plans for certain current and former executives in the Alliance Financial Corporation (“Alliance”) acquisition. These supplemental employee retirement plans and the Plan are collectively referred to herein as “Pension Benefits.”

In addition, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees’ active service period. Only employees that were employed by the Company on or before January 1, 2000 are eligible to receive post-retirement health care benefits. In addition, the Company assumed post-retirement medical life insurance benefits for certain Alliance employees, retirees and their spouses, if applicable, in the Alliance acquisition. These post-retirement benefits are referred to herein as “Other Benefits.”

The components of expense for Pension Benefits and Other Benefits are set forth below:

	Pension Benefits		Other Benefits	
(In thousands)	Three months ended June 30,		Three months ended June 30,	
Components of net periodic (benefit) cost:	2017	2016	2017	2016
Service cost	**$ 402**	$ 560	**$ 3**	$ 4
Interest cost	**1,042**	1,051	**86**	94
Expected return on plan assets	**(1,985)**	(1,835)	**-**	-
Net amortization	**415**	483	**20**	29
Total (benefit) cost	**$ (126)**	$ 259	**$ 109**	$ 127

	Pension Benefits		Other Benefits	
	Six months ended June 30,		Six months ended June 30,	
Components of net periodic (benefit) cost:	2017	2016	2017	2016
Service cost	**$ 804**	$ 1,120	**$ 6**	$ 8
Interest cost	**2,084**	2,102	**172**	188
Expected return on plan assets	**(3,970)**	(3,670)	**-**	-
Net amortization	**831**	966	**40**	58
Total (benefit) cost	**$ (251)**	$ 518	**$ 218**	$ 254

6. Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders 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 units).

The following is a reconciliation of basic and diluted EPS for the periods presented in the unaudited interim consolidated statements of income:

Three months ended June 30,		**2017**		**2016**
(In thousands, except per share data)				
Basic EPS:				
Weighted average common shares outstanding		**43,579**		43,099
Net income available to common stockholders	**$**	**21,359**	$	19,909
Basic EPS	**$**	**0.49**	$	0.46
Diluted EPS:				
Weighted average common shares outstanding		**43,579**		43,009
Dilutive effect of common stock options and restricted stock		**322**		354
Weighted average common shares and common share equivalents		**43,901**		43,363
Net income available to common stockholders	**$**	**21,359**	$	19,909
Diluted EPS	**$**	**0.49**	$	0.46

Six months ended June 30,		**2017**		**2016**
Basic EPS:				
Weighted average common shares outstanding		**43,546**		43,220
Net income available to common stockholders	**$**	**41,638**	$	38,800
Basic EPS	**$**	**0.96**	$	0.90
Diluted EPS:				
Weighted average common shares outstanding		**43,546**		43,220
Dilutive effect of common stock options and restricted stock		**340**		364
Weighted average common shares and common share equivalents		**43,886**		43,584
Net income available to common stockholders	**$**	**41,638**	$	38,800
Diluted EPS	**$**	**0.95**	$	0.89

There were 3,250 and 33,179 stock options for the three months ended June 30, 2017 and June 30, 2016, respectively, that were not considered in the calculation of diluted EPS since the stock options' exercise price was greater than the average market price during these periods.

There were 1,144 and 25,139 stock options for the six months ended June 30, 2017 and June 30, 2016, respectively, that were not considered in the calculation of diluted EPS since the stock options' exercise price was greater than the average market price during these periods.

7. Reclassification Adjustments Out of Other Comprehensive Income

The following table summarizes the reclassification adjustments out of accumulated other comprehensive income:

Detail About Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Comprehensive Income
(In thousands)	Three months ended		
	June 30, 2017	June 30, 2016	
AFS Securities:			
Gains on AFS securities	**$ (2)**	$ (1)	Net securities gains
Amortization of unrealized gains related to securities transfer	**225**	280	Interest income
Income tax (expense)	**(85)**	(108)	Income tax (expense)
Net of tax	**$ 138**	$ 171	
Pension and other benefits:			
Amortization of net losses	**$ 435**	$ 515	Salaries and employee benefits
Amortization of prior service costs	**-**	(3)	Salaries and employee benefits
Income tax (expense)	**(166)**	(199)	Income tax (expense)
Net of tax	**$ 269**	$ 313	
Total reclassifications during the period, net of tax	**$ 407**	$ 484	

Detail About Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Comprehensive Income
	Six months ended		
	June 30, 2017	June 30, 2016	
AFS Securities:			
Gains on AFS securities	**$ (2)**	$ (30)	Net securities gains
Amortization of unrealized gains related to securities transfer	**463**	576	Interest income
Impairment write-down of equity security	**1,312**	-	Other noninterest income
Income tax (expense)	**(176)**	(213)	Income tax (expense)
Net of tax	**$ 1,597**	$ 333	
Pension and other benefits:			
Amortization of net losses	**$ 870**	$ 1,030	Salaries and employee benefits
Amortization of prior service costs	**-**	(6)	Salaries and employee benefits
Income tax (expense)	**(332)**	(398)	Income tax (expense)
Net of tax	**$ 538**	$ 626	
Total reclassifications during the period, net of tax	**$ 2,135**	$ 959	

8. Fair Value Measurements and Fair Value of Financial Instruments

GAAP states that 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 exists within GAAP that 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 prices 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. Certain common equity securities are reported at fair value utilizing Level 1 inputs (exchange quoted prices). Other investment securities are reported at fair value utilizing Level 1 and Level 2 inputs. The prices for Level 2 instruments are obtained through an independent pricing service or dealer market participants with whom the Company has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, amount other things. Management reviews the methodologies used in pricing the securities by its third party providers.

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.

For the three and six month periods ended June 30, 2017 and June 30, 2016, the Company has made no transfers of assets between Level 1 and Level 2 and has had no Level 3 activity.

The following tables set forth the Company's financial assets and liabilities measured on a recurring basis that were accounted for at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Balance as of June 30, 2017**
Assets:				
AFS securities:				
Federal agency	**$ -**	**$ 159,520**	**$ -**	**$ 159,520**
State & municipal	**-**	**44,020**	**-**	**44,020**
Mortgage-backed	**-**	**564,061**	**-**	**564,061**
Collateralized mortgage obligations	**-**	**578,908**	**-**	**578,908**
Other securities	**10,744**	**8,268**	**-**	**19,012**
Total AFS securities	**$ 10,744**	**$ 1,354,777**	**$ -**	**$ 1,365,521**
Trading securities	**10,406**	**-**	**-**	**10,406**
Derivatives	**-**	**5,631**	**-**	**5,631**
Total	**$ 21,150**	**$ 1,360,408**	**$ -**	**$ 1,381,558**
Liabilities:				
Derivatives	**$ -**	**$ 2,960**	**$ -**	**$ 2,960**
Total	**$ -**	**$ 2,960**	**$ -**	**$ 2,960**

(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Balance as of December 31, 2016**
Assets:				
AFS securities:				
Federal agency	$ -	$ 174,408	$ -	$ 174,408
State & municipal	-	46,726	-	46,726
Mortgage-backed	-	529,844	-	529,844
Collateralized mortgage obligations	-	566,573	-	566,573
Other securities	11,493	9,246	-	20,739
Total AFS securities	$ 11,493	$ 1,326,797	$ -	$ 1,338,290
Trading securities	9,259	-	-	9,259
Derivatives	-	3,210	-	3,210
Total	$ 20,752	$ 1,330,007	$ -	$ 1,350,759
Liabilities:				
Derivatives	$ -	$ 506	$ -	$ 506
Total	$ -	$ 506	$ -	$ 506

GAAP requires disclosure of assets and liabilities measured and recorded at fair value on a non-recurring basis such as loans held for sale, other real estate owned, collateral-dependent impaired loans, mortgage servicing rights and held to maturity securities. The only non-recurring fair value measurements recorded during the three and six month periods ended June 30, 2017 and June 30, 2016 were related to impaired loans. The Company uses the fair value of underlying collateral, less costs to sell, to estimate the specific reserves for collateral dependent impaired loans. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses ranging from 10% to 35%. Based on the valuation techniques used, the fair value measurements for collateral dependent impaired loans are classified as Level 3. As of June 30, 2017 and December 31, 2016, the Company had $0.8 million and $7.0 million, respectively, of loans recorded at fair value with specific allowance reserves of $0.5 million and $1.5 million, respectively.

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

(In thousands)	Fair Value Hierarchy	June 30, 2017 Carrying amount	June 30, 2017 Estimated fair value	December 31, 2016 Carrying amount	December 31, 2016 Estimated fair value
Financial assets					
HTM securities	2	**$ 515,628**	**$ 516,656**	$ 527,948	$ 525,050
Net loans	3	**6,301,311**	**6,453,713**	6,132,857	6,273,233
Financial liabilities					
Time deposits	2	**$ 832,449**	**$ 828,947**	$ 872,411	$ 868,153
Long-term debt	2	**88,958**	**89,064**	104,087	104,113
Junior subordinated debt	2	**101,196**	**103,499**	101,196	102,262

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

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

Securities Held to Maturity

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

Net Loans

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

Time Deposits

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

Long-Term Debt

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

Junior Subordinated Debt

The fair value of junior subordinated debt has been estimated using a discounted cash flow analysis.

Interest Rate Swaps

The Company enters into interest rate swaps to facilitate customer transactions and meet their financing needs. These swaps are considered derivatives, but are not designated in hedging relationships. These instruments have interest rate and credit risk associated with them. To mitigate the interest rate risk, the Company enters into offsetting interest rate swaps with counterparties. The counterparty swaps are also considered derivatives and are also not designated in hedging relationships. Interest rate swaps are recorded within other assets or other liabilities on the unaudited interim consolidated balance sheet at their estimated fair value. Changes to the fair value of assets and liabilities arising from these derivatives are included, net, in other operating income in the unaudited interim consolidated statement of income. At June 30, 2017, the notional amount of these customer derivative agreements and the offsetting derivative counterparty positions each totaled $410.5 million and the fair values included in other assets and other liabilities on the unaudited interim consolidated balance sheet applicable to these agreements amounted to $2.8 million. At December 31, 2016, the notional amount of these customer derivative agreements and the offsetting derivative counterparty positions each totaled $371.1 million and the fair values included in other assets and other liabilities on the unaudited interim consolidated balance sheet applicable to these agreements amounted to $0.3 million.

In 2016, the Company entered into interest rate swaps to modify the interest rate characteristics of certain short-term Federal Home Loan Bank advances from variable rate to fixed rate in order to reduce the impact of changes in future cash flows due to market interest rate changes. These agreements are designated as cash flow hedges. The notional amount of these interest rate derivative agreements total $250.0 million at June 30, 2017 and December 31, 2016. Fair values included in other assets on the unaudited interim consolidated balance sheet applicable to these agreements amounted to $2.8 million at June 30, 2017 and $2.9 million at December 31, 2016. Fair values included in other liabilities on the unaudited interim consolidated balance sheet applicable to these agreements amounted to $0.1 million at June 30, 2017 and $0.2 million at December 31, 2016.

9. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuating interest rates. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit origination guidelines, portfolio maintenance and management procedures as other credit and off-balance sheet products. Commitments to extend credit and unused lines of credit totaled $1.6 billion at June 30, 2017 and $1.5 billion at December 31, 2016. Since commitments to extend credit and unused lines of credit may expire without being fully drawn upon, this amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include accounts receivable, inventory, property, land and other items.

The Company guarantees the obligations or performance of customers by issuing standby 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 credit 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 guidelines, portfolio maintenance and management procedures as 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 commitments. Standby letters of credit totaled $47.5 million at June 30, 2017 and $36.8 million at December 31, 2016. As of June 30, 2017 and December 31, 2016, the fair value of standby letters of credit was not significant to the Company's unaudited interim consolidated financial statements.

10. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Effective January 1, 2017, the Company adopted the prevision of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 requires several revisions to equity compensation accounting. Under the new guidance all excess tax benefits and deficiencies that occur when an award vests, is exercised or expires are recognized in income tax expense as discrete period items. Previously, these transactions were typically recorded directly within equity. Consistent with this change, excess tax benefits and deficiencies are no longer included within estimated proceeds when performing the treasury stock method for calculating diluted earnings per share. Excess tax benefits are also recognized at the time an award is exercised or vests compared to the previous requirements to delay recognition until the deduction reduces taxes payable. The presentation of excess tax benefits in the statement of cash flows shifted to an operating activity from the prior classification as a financing activity. ASU 2016-09 also provides an accounting policy election to recognize forfeitures of awards as they occur when estimating stock-based compensation expense rather than the previous requirement to estimate forfeitures from inception. Further, ASU 2016-09 permits employers to use a net settlement feature to withhold taxes on equity compensation awards up to the maximum statutory tax rate without affecting the equity classification of the award.

Transition to the new guidance was accomplished through a combination of cumulative-effect adjustment to equity (forfeitures) and prospective methodologies (cash flows, tax windfalls and shortfalls). The actual effects of adoption in 2017 will primarily depend upon the share price of the common stock, which affects the vesting of certain performance awards, probability of exercise of certain stock options and the magnitude of windfalls for all awards upon either vesting or exercise. The effect on earnings per share calculations and election to account for forfeitures as incurred have not been significant.

Accounting Standards Issued Not Yet Adopted

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718).* ASU 2017-09 provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for the Company on January 1, 2018. Early adoption is permitted. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20)*. ASU 2017-08 requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, on contingent and callable at fixed prices on present dates. The ASU does not impact securities held at a discount; the discount continues to be amortized to the contractual maturity. The guidance is required to be applied with a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. ASU 2017-08 is effective for the Company on January 1, 2019. Early adoption is permitted. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)*. ASU 2017-07 requires the service cost component of net periodic pension and post-retirement benefit cost to be reported separately in the consolidated statements of income from the other components. Additionally, the amendments in the ASU require presentation of the service cost component in the consolidated statements of income in the same line item as other employee compensation costs and presentation of the other components in a different line item from the service cost component. The amendments in this ASU are required to be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic post-retirement benefit cost in the income statement and prospectively, on or after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets with a practical expedient allowed for prior comparative period presentation permitted. ASU 2017-07 is effective for the Company on January 1, 2018. Early adoption is permitted. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*. ASU 2017-05 will clarify the scope of Subtopic 610-20 and add guidance for partial sales of nonfinancial assets. The amendments define the term *in substance nonfinancial assets* and clarify that a nonfinancial asset within the scope may include nonfinancial assets transferred within a legal entity to a counterparty, in part, as a financial asset promised to a counterparty in a contract. Additionally, the amendments in ASU clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial assets and allocate consideration to each distinct asset. The amendments should be applied either on retrospectively to each period presented or with a modified retrospective approach. ASU 2017-05 is effective for the Company on January 1, 2018 and the Company is required to apply the amendment at the same time that is applies the amendments in 2014-09. Early adoption is permitted but only as of annual reporting period beginning after December 15, 2016. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 will amend and simplify the subsequent measurement of goodwill; the amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the qualitative impairment test is necessary. The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. ASU 2017-04 is effective for the Company on January 1, 2020. Early adoption is permitted on testing dates after January 1, 2017. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides a more robust framework to use in determining when a set of assets and activities (“set”) is a business and to address stakeholder feedback that the definition of a business in current GAAP is applied too broadly. The primary amendments in the ASU provide a screen to exclude transactions where substantially all of the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business. ASU 2017-01 is effective for the Company on January 1, 2018 using the prospective method. Early adoption is permitted. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 addresses diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows. ASU 2016-18 is effective for the Company on January 1, 2018 using the retrospective method. Early adoption is permitted provided that all amendments are adopted in the same period. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments)*. ASU 2016-15 addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This standard addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for the Company on January 1, 2018. Early adoption is permitted, including adoption in an interim period. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-16 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for the Company on January 1, 2020. Early adoption is permitted for all organizations for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right of use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonable certain to exercise an option to extend the lease, exercise a purchase option or not exercise an option to terminate the lease. ASU 2016-02 is effective for the Company on January 1, 2019. Early adoption is permitted in any interim or annual period. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments and requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value. Any changes in fair value will be recognized in net income unless the investments qualify for a new practicability exception. This ASU also requires entities to recognize changes in instrument-specific credit risk related to financial liabilities measured under the fair value option in other comprehensive income. No changes were made to the guidance for classifying and measuring investments in debt securities and loans. ASU 2016-01 is effective for the Company on January 1, 2018. Early adoption is permitted in any interim or annual period. Management is evaluating the effect that this guidance will have on the consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP 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. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 was initially effective for the Company on January 1, 2017; however, in August 2015, the FASB issued ASU No. 2015-14 - *Revenue from Contracts with Customers - Deferral of the Effective Date*, which deferred the effective date to January 1, 2018. Early adoption is not permitted. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08 - *Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* ASU No. 2016-10 - *Identifying Performance Obligations and Licensing,* ASU No. 2016-12 - *Narrow-Scope Improvements and Practical Expedients* and ASU No. 2016-20 - *Technical Corrections and Improvements to Top 606 - Revenue from Contract with Customers*. The adoption of these ASUs will be required using one of two retrospective application methods beginning with the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2018. The Company plans to apply the modified retrospective method with a cumulative-effect adjustment to opening retained earnings. Management is currently evaluating the potential impact of this guidance on our consolidated financial statements. In evaluating this standard, management has determined that the majority of revenue earned by the Company is from revenue streams not included in the scope of this standard and therefore management does not expect the adoption of the new revenue recognition guidance to have a material impact on our consolidated financial statements.

NBT BANCORP INC. AND SUBSIDIARIES
Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to provide a concise description of the financial condition and results of operations of NBT Bancorp Inc. ("NBT") and its wholly owned consolidated subsidiaries, including NBT Bank, National Association (the “Bank”), NBT Financial Services, Inc. (“NBT Financial”) and NBT Holdings, Inc. (“NBT Holdings”) (collectively referred to herein as the “Company”). This discussion will focus on results of operations, financial condition, capital resources and asset/liability management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for an understanding of the following discussion and analysis. Operating results for the three and six month periods ending June 30, 2017 are not necessarily indicative of the results of the full year ending December 31, 2017 or any future period.

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,” “can,” “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 nonperforming 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 (“FASB”) 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 those described above and other factors discussed in the Company’s annual and quarterly reports previously filed with the Securities and Exchange Commission, 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.

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

Non-GAAP Measures

This Quarterly Report on Form 10-Q 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 Form 10-Q, 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 results of NBT’s core business as well as provide information standard in the financial institution industry. Non-GAAP measures should not be considered substitutes for financial measures determined in accordance with GAAP and investors should consider NBT’s performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of NBT.

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 and 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 appropriate, 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.

Management is required to make various assumptions in valuing the Company’s 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.

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 selection of 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 and goodwill and intangible assets are disclosed in Note 1 to the consolidated financial statements presented in our 2016 Annual Report on Form 10-K. All accounting policies are important and as such, the Company encourages the reader to review each of the policies included in Note 1 to the consolidated financial statements presented in our 2016 Annual Report on Form 10-K to obtain a better understanding of how the Company’s financial performance is reported.

Refer to Note 10 to the unaudited interim consolidated financial statements in our Quarterly Report on Form 10-Q for recently adopted accounting standards.

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 average assets, equity and tangible common 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 first three and six months of 2017:

- Quarter to date earnings per share up 6.5% from prior year and on a linked quarter basis
- Net income up 5.3% from the first quarter of 2017 and up 7.3% from the second quarter of 2016
- Year to date annualized loan growth was 5.5%
- Average demand deposits for the six months ended June 30, 2017 were up 9.5% from the same period in 2016

Results of Operations

Net income for the three months ended June 30, 2017 was $21.4 million, up from $19.9 million for the same period last year. Diluted earnings per share for the three months ended June 30, 2017 was $0.49, as compared with $0.46 for the second quarter of 2016. Return on average assets (annualized) was 0.95% for the three months ended June 30, 2017 as compared to 0.94% for the same period last year. Return on average equity (annualized) was 9.11% for the three months ended June 30, 2017 as compared to 9.00% for the three months ended June 30, 2016. Return on average tangible common equity (annualized) was 13.46% for the three months ended June 30, 2017 as compared to 13.54% for the three months ended June 30, 2016.

Net income for the six months ended June 30, 2017 was $41.6 million, up from $38.8 million for the same period last year. Diluted earnings per share for the six months ended June 30, 2017 was $0.95, up from $0.89 for the same period last year. Return on average assets (annualized) was 0.94% for the six months ended June 30, 2017 as compared to 0.93% for the same period last year. Return on average equity (annualized) was 9.02% for the six months ended June 30, 2017 as compared to 8.81% for the six months ended June 30, 2016. Return on average tangible common equity (annualized) was 13.36% for the six months ended June 30, 2017 as compared to 13.35% for the six months ended June 30, 2016.

Return on average tangible common equity is a non-GAAP measure and excludes amortization of intangible assets (net of tax) from net income and average tangible equity calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Net income	**$ 21,359**	$ 19,909	**$ 41,638**	$ 38,800
Amortization of intangible assets (net of tax)	**642**	567	**1,239**	1,236
Net income, excluding intangible amortization	**$ 22,001**	$ 20,476	**$ 42,877**	$ 40,036
Average stockholders' equity	**$ 940,897**	$ 890,053	**$ 930,529**	$ 885,181
Less: average goodwill and other intangibles	**285,388**	281,709	**283,094**	282,230
Average tangible common equity	**$ 655,509**	$ 608,344	**$ 647,435**	$ 602,951

Net Interest Income

Net interest income is the difference between interest income on earning assets, primarily loans and securities and interest expense on interest bearing liabilities, primarily deposits and borrowings. Net interest income is affected by the interest rate spread, the difference between the yield on earning assets and cost of interest bearing liabilities, as well as the volumes of such assets and liabilities. Net interest income is one of the key determining factors in a financial institution’s performance as it is the principal source of earnings.

Net interest income was $69.6 million for the second quarter of 2017, up $1.1 million, or 1.6%, from the previous quarter. Fully taxable-equivalent ("FTE") net interest margin was 3.44% for the three months ended June 30, 2017, down from 3.46% for the previous quarter. The yield on average earning assets was consistent with the prior quarter at 3.75%, while the cost of interest bearing liabilities increased two basis points ("bps") to 0.44%. Average interest earning assets were up $82.7 million, or 1.0%, as compared to the prior quarter, primarily driven by an $83.0 million increase in loans and a $4.7 million increase in securities.

Net interest income was $69.6 million for the second quarter of 2017, up $3.8 million, or 5.8%, from the second quarter of 2016. FTE net interest margin of 3.44% was consistent with the second quarter of 2016 as the improvements in asset yields were offset by the increase in cost of interest bearing liabilities. Average interest earning assets were up $438.3 million, or 5.6%, from the same period in 2016, which was primarily driven by a $286.4 million increase in loans and a $151.3 million increase in securities.

Net interest income was $138.1 million for the six months ended June 30, 2017, up $7.8 million, or 6.0%, from the same period in 2016. FTE net interest margin was 3.45% for the six months ended June 30, 2017, down from 3.46% for the six months ended June 30, 2017. Average interest earning assets were up $498.7 million, or 6.5%, for the six months ended June 30, 2017 as compared to the same period in 2016. This increase from last year was driven primarily by a $306.9 million increase in loans and a $184.8 million increase in securities during the first six months of 2017. Interest income was up $9.0 million, or 6.4%, for the six months ended June 30, 2017 as compared to the same period in the prior year due to the increase in earnings assets combined with a one bp improvement in asset yields. Interest expense was up $1.2 million, or 11.3% for the six months ended June 30, 2017 as compared with the same period in 2016 and resulted from increased interest rates and the increase in average balances of interest bearing liabilities.

Table of Contents

Average Balances and Net Interest Income

The following tables include 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%.

Three months ended,

	June 30, 2017			June 30, 2016		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**
Assets:						
Short-term interest bearing accounts	**$ 9,497**	**$ 43**	**1.82%**	$ 16,063	$ 21	0.53%
Securities available for sale (1)(2)	**1,363,314**	**7,322**	**2.15%**	1,227,367	6,085	1.99%
Securities held to maturity (1)	**513,888**	**3,374**	**2.63%**	498,493	3,083	2.49%
Investment in FRB and FHLB stock	**46,132**	**611**	**5.31%**	38,939	433	4.47%
Loans (3)	**6,294,056**	**65,498**	**4.17%**	6,007,677	62,627	4.19%
Total interest earning assets	**8,226,887**	**$ 76,848**	**3.75%**	7,788,539	$ 72,249	3.73%
Other assets	**753,383**			747,074		
Total assets	**$ 8,980,270**			$ 8,535,613		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 1,723,594**	**$ 919**	**0.21%**	$ 1,709,644	$ 920	0.22%
Negotiable order withdrawal deposit accounts	**1,138,237**	**227**	**0.08%**	1,073,881	134	0.05%
Savings deposits	**1,232,301**	**172**	**0.06%**	1,143,654	164	0.06%
Time deposits	**824,398**	**2,218**	**1.08%**	906,250	2,387	1.06%
Total interest bearing deposits	**$ 4,918,530**	**$ 3,536**	**0.29%**	$ 4,833,429	$ 3,605	0.30%
Short-term borrowings	**643,971**	**1,366**	**0.85%**	484,590	579	0.48%
Long-term debt	**99,865**	**599**	**2.41%**	124,851	773	2.49%
Junior subordinated debt	**101,196**	**772**	**3.06%**	101,196	641	2.55%
Total interest bearing liabilities	**$ 5,763,562**	**$ 6,273**	**0.44%**	$ 5,544,066	$ 5,598	0.41%
Demand deposits	**2,181,952**			1,994,601		
Other liabilities	**93,859**			106,893		
Stockholders' equity	**940,897**			890,053		
Total liabilities and stockholders' equity	**$ 8,980,270**			$ 8,535,613		
Net FTE interest income		**70,575**			66,651	
Interest rate spread			**3.31%**			3.32%
Net interest margin			**3.44%**			3.44%
Taxable equivalent adjustment		**954**			874	
Net interest income		**$ 69,621**			$ 65,777	

(1) Securities are shown at average amortized cost.
(2) Excluding unrealized gains or losses.
(3) For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding.

Note: Interest income for tax-exempt securities and loans has been adjusted to a FTE basis using the statutory Federal income tax rate of 35%.

Table of Contents

Six months ended,

(Dollars in thousands)	June 30, 2017 Average Balance	Interest	Yield/ Rates	June 30, 2016 Average Balance	Interest	Yield/ Rates
Assets:						
Short-term interest bearing accounts	**$ 11,906**	**$ 90**	**1.52%**	$ 14,851	$ 43	0.58%
Securities available for sale (1)(2)	**1,357,797**	**14,442**	**2.14%**	1,207,902	12,174	2.03%
Securities held to maturity (1)	**517,068**	**6,782**	**2.64%**	482,204	5,953	2.48%
Investment in FRB and FHLB stock	**46,228**	**1,183**	**5.16%**	36,205	860	4.78%
Loans (3)	**6,252,786**	**129,725**	**4.18%**	5,945,875	124,028	4.19%
Total interest earning assets	**8,185,785**	**$ 152,222**	**3.75%**	7,687,037	$ 143,058	3.74%
Other assets	**750,943**			723,134		
Total assets	**$ 8,936,728**			$ 8,410,171		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 1,705,925**	**$ 1,814**	**0.21%**	$ 1,681,787	$ 1,832	0.22%
Negotiable order withdrawal deposit accounts	**1,140,720**	**410**	**0.07%**	1,062,920	266	0.05%
Savings deposits	**1,204,418**	**329**	**0.06%**	1,124,567	322	0.06%
Time deposits	**835,840**	**4,457**	**1.08%**	914,002	4,782	1.05%
Total interest bearing deposits	**$ 4,886,903**	**$ 7,010**	**0.29%**	$ 4,783,276	$ 7,202	0.30%
Short-term borrowings	**650,669**	**2,505**	**0.78%**	427,016	907	0.43%
Long-term debt	**101,945**	**1,205**	**2.38%**	127,636	1,606	2.53%
Junior subordinated deb	**101,196**	**1,498**	**2.99%**	101,196	1,260	2.50%
Total interest bearing liabilities	**$ 5,740,713**	**$ 12,218**	**0.43%**	$ 5,439,124	$ 10,975	0.41%
Demand deposits	**2,170,983**			1,982,458		
Other liabilities	**94,503**			103,408		
Stockholders' equity	**930,529**			885,181		
Total liabilities and stockholders' equity	**$ 8,936,728**			$ 8,410,171		
Net FTE interest income		**140,004**			132,083	
Interest rate spread			**3.32%**			3.33%
Net interest margin			**3.45%**			3.46%
Taxable equivalent adjustment		**1,892**			1,729	
Net interest income		**$ 138,112**			$ 130,354	

(1) Securities are shown at average amortized cost less OTTI write downs.
(2) Excluding unrealized gains or losses.
(3) For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding.

Note: Interest income for tax-exempt securities and loans has been adjusted to a FTE basis using the statutory Federal income tax rate of 35%.

The following table presents changes in interest income 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.

Three months ended June 30,

	Increase (Decrease) 2017 over 2016		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest bearing accounts	$ (12)	$ 34	$ 22
Securities available for sale	717	520	1,237
Securities held to maturity	100	191	291
Investment in FRB and FHLB stock	87	91	178
Loans	3,137	(266)	2,871
Total FTE interest income	4,029	570	4,599
Money market deposit accounts	9	(10)	(1)
Negotiable order withdrawal deposit accounts	9	84	93
Savings deposits	13	(5)	8
Time deposits	(214)	45	(169)
Short-term borrowings	236	551	787
Junior subordinated debt	-	131	131
Long-term debt	(149)	(25)	(174)
Total interest expense	(96)	771	675
Change in FTE net interest income	$ 4,125	$ (201)	$ 3,924

Six months ended June 30,

	Increase (Decrease) 2017 over 2016		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest bearing accounts	$ (10)	$ 57	$ 47
Securities available for sale	1,543	725	2,268
Securities held to maturity	435	394	829
Investment in FRB and FHLB stock	259	64	323
Loans	6,041	(344)	5,697
Total FTE interest income	8,268	896	9,164
Money market deposit accounts	24	(42)	(18)
Negotiable order withdrawal deposit accounts	21	123	144
Savings deposits	22	(15)	7
Time deposits	(426)	101	(325)
Short-term borrowings	624	974	1,598
Junior subordinated debt	-	238	238
Long-term debt	(311)	(90)	(401)
Total interest expense	(46)	1,289	1,243
Change in FTE net interest income	$ 8,314	$ (393)	$ 7,921

Note: Interest income for tax-exempt securities and loans has been adjusted to a FTE basis using the statutory Federal income tax rate of 35%.

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 periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
(In thousands)				
Insurance and other financial services revenue	**$ 5,621**	$ 5,625	**$ 12,391**	$ 12,571
Service charges on deposit accounts	**4,161**	4,166	**8,138**	8,105
ATM and debit card fees	**5,518**	4,934	**10,468**	9,517
Retirement plan administration fees	**5,437**	4,054	**9,609**	7,808
Trust	**5,161**	4,937	**9,693**	9,313
Bank owned life insurance	**1,218**	1,271	**2,629**	2,562
Net securities gains	**2**	1	**2**	30
Other	**3,186**	4,626	**6,124**	8,075
Total noninterest income	**$ 30,304**	$ 29,614	**$ 59,054**	$ 57,981

Noninterest income for the three months ended June 30, 2017 was $30.3 million, up $1.6 million, or 5.4%, from the prior quarter, and up $0.7 million, or 2.3%, from the second quarter of 2016. The increases in noninterest income from the prior quarter and the same quarter of the prior year were primarily driven by higher retirement plan administration, trust and ATM and debit card fees that were offset by lower insurance and other financial services revenue during the second quarter of 2017. Retirement plan administration fees increased in the second quarter of 2017 as compared to the prior quarter and the same quarter of the prior year due primarily to acquisitions completed in 2016 and the acquisition of Downeast Pension Services ("DPS") in the second quarter of 2017. ATM and debit card fees increased from the prior quarters due to higher number of accounts and usage. Insurance revenue decreased from the prior quarter due to seasonality increases typically seen in the first quarter. Other noninterest income decreased from the same quarter of the prior year due to a non-recurring gain recognized in the second quarter of 2016.

Noninterest income for the six months ended June 30, 2017 was $59.1 million, up $1.1 million, or 1.9%, from the same period of 2016. The increase in noninterest income from the prior year was primarily driven by higher retirement plan administration, trust and ATM and debit card fees that were offset by lower other noninterest income during the first six months of 2017 as compared to the same period in 2016. Retirement plan administration fees increased in 2017 as compared to the prior year due primarily to acquisitions completed in 2016 and the acquisition of DPS in the second quarter of 2017. ATM and debit card fees increased from the prior year due to higher number of accounts and usage in 2017 as compared to 2016. Other noninterest income decreased from the prior year due to a non-recurring gain recognized in the second quarter of 2016.

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 periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Salaries and employee benefits	**$ 32,754**	$ 32,931	**$ 66,341**	$ 65,372
Occupancy	**5,184**	5,254	**11,354**	10,745
Data processing and communications	**4,229**	4,121	**8,427**	8,171
Professional fees and outside services	**3,609**	3,331	**6,641**	6,562
Equipment	**3,793**	3,547	**7,491**	7,007
Office supplies and postage	**1,640**	1,676	**3,248**	3,223
FDIC expenses	**1,136**	1,293	**2,314**	2,551
Advertising	**656**	595	**1,046**	1,099
Amortization of intangible assets	**1,039**	928	**2,006**	2,024
Loan collection and other real estate owned	**664**	845	**1,943**	1,550
Other	**5,617**	5,924	**10,792**	10,365
Total noninterest expense	**$ 60,321**	$ 60,445	**$ 121,603**	$ 118,669

Noninterest expense for the three months ended June 30, 2017 was $60.3 million, down $1.0 million, or 1.6%, from the prior quarter, and down $0.1 million, or 0.2%, from the second quarter of 2016. The decrease from the prior quarter was primarily driven by decreases in occupancy expense due to seasonal expenses, salaries and employee benefits due to the timing of incentive and equity-based compensation that were offset by higher professional fees and outside services and other expenses due to timing.

Noninterest expense for the six months ended June 30, 2017 was $121.6 million, up $2.9 million, or 2.5%, from the same period of 2016. The increase from the prior year was primarily due to higher salaries and employee benefits, occupancy and equipment expenses in the first half of 2017 as compared to the same period of 2016.

Income Taxes

In the first quarter of 2017, NBT adopted new accounting guidance for equity-based transactions requiring that all excess tax benefits and tax deficiencies associated with equity-based compensation be recognized as an income tax benefit or expense in the income statement. Previously, tax effects resulting from changes in NBT's share price subsequent to the grant date were recorded through stockholders' equity at the time of vesting or exercise. The adoption of the accounting guidance resulted in $1.4 million and $0.1 million income tax benefit, in the first and second quarters of 2017, respectively. The year to date impact to diluted earnings per share was $0.03 of earnings per share.

Income tax expense for the three months ended June 30, 2017 was $10.7 million, up $2.4 million, or 28.6%, from the prior quarter, and up $0.4 million, or 4.1%, from the second quarter of 2016. The effective tax rate of 33.3% for the second quarter of 2017 was up from 29.0% for the first quarter of 2017 and down from 34.0% for the second quarter of 2016. The increase from the prior quarter was primarily due to a decrease of $1.4 million in the income tax benefit related to the adoption of new accounting guidance in the first quarter of 2017 and a higher level of taxable income in the three months ended June 30, 2017 than the three months ended March 31, 2017. Excluding the tax benefit of the new accounting guidance the effective tax rate was 34.3% and 33.6% for the first and second quarters of 2017, respectively. The decrease in the effective tax rate from the second quarter of 2016 is due to a higher level of non-taxable income as a percentage of pre-tax income in the second quarter of 2017 as compared to the same quarter in the prior year.

Income tax expense for the six months ended June 30, 2017 was $19.0 million, down $1.0 million, or 5.0%, from the same period of 2016. The effective tax rate of 31.3% for the first six months of 2017 was down from 34.0% for the same period in the prior year. The decrease from the prior year was primarily due to the $1.5 million income tax benefit related to the adoption of new accounting guidance in 2017 offset by a higher level of taxable income in the first half of 2017 compared to the same period in 2016. Excluding the tax benefit of the new accounting guidance the effective tax rate was 33.9% for the first half of 2017.

ANALYSIS OF FINANCIAL CONDITION

Securities

Total securities increased $16.1 million, or 8.6%, from December 31, 2016 to June 30, 2017. The securities portfolio represents 20.8% of total assets as of June 30, 2017 as compared to 21.2% as of December 31, 2016.

The following table details the composition of securities available for sale, securities held to maturity and regulatory investments for the periods indicated:

	June 30, 2017	December 31, 2016
Mortgage-backed securities:		
With maturities 15 years or less	**29%**	28%
With maturities greater than 15 years	**6%**	5%
Collateral mortgage obligations	**42%**	42%
Municipal securities	**13%**	14%
US agency notes	**9%**	10%
Other	**1%**	1%
Total	**100%**	100%

The Company’s mortgage backed securities, U.S. agency notes and collateralized mortgage obligations are all “prime/conforming” and are guaranteed by Fannie Mae, Freddie Mac, Federal Home Loan Bank, 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 subprime mortgages in our investment portfolio. Refer to Note 3 to the Company's unaudited interim consolidated financial statements included in this Form 10-Q for information related to other-than-temporary impairment considerations.

Loans

A summary of loans, net of deferred fees and origination costs, by category for the periods indicated follows:

(In thousands)	June 30, 2017	December 31, 2016
Residential real estate mortgages	**$ 1,275,807**	$ 1,262,614
Commercial	**1,342,334**	1,242,701
Commercial real estate mortgages	**1,563,980**	1,543,301
Consumer	**1,684,936**	1,641,657
Home equity	**500,854**	507,784
Total loans	**$ 6,367,911**	$ 6,198,057

Total loans increased by $169.9 million, or 2.7%, at June 30, 2017 from December 31, 2016, or 5.5% annualized during the six months ended June 30, 2017. Loan growth in the first six months of 2017 resulted from growth in the commercial, residential and consumer portfolios. Total loans represent approximately 70.2% of assets as of June 30, 2017, as compared to 69.9% as of December 31, 2016. Total loans represent approximately 90.8% of deposits as of June 30, 2017, as compared to 88.9% as of December 31, 2016.

Allowance for Loan Losses, Provision for Loan Losses and Nonperforming Assets

The allowance for loan losses is maintained at a level estimated by management to provide appropriately for risk of probable incurred losses inherent in the current loan portfolio. The adequacy of the allowance for loan losses is continuously monitored using a methodology designed to ensure that 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 incurred 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 degree of judgment exercised in evaluating the level 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 factors 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 thorough current assessment of a number of factors, which affect collectability. These factors include: past loss experience; the size, trend, composition and nature of the loans; changes in lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices; 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 judgment about information available to them at the time of their examination, which may not be currently available to management.

After a thorough consideration and validation of the factors discussed above, required additions or reductions to the allowance for loan losses are made periodically by charges or credits to the provision for loan losses. These are necessary to maintain the allowance at a level which management believes is reasonably reflective of the overall inherent risk of probable loss in the portfolio. While management uses available information to recognize losses on loans, additions or reductions 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. Management considers the allowance for loan losses to be appropriate based on evaluation and analysis of the loan portfolio.

The following table reflects changes to the allowance for loan losses for the periods presented. The allowance is increased by provisions for losses charged to operations and is reduced by net charge-offs. Charge-offs are made when the ability to collect loan principal within a reasonable time becomes unlikely. Any recoveries of previously charged-off loans are credited directly to the allowance for loan losses.

Allowance For Loan Losses

	Three months ended			
(Dollars in thousands)	June 30, 2017		June 30, 2016	
Balance, beginning of period	$ 65,700		$ 64,318	
Recoveries	1,415		1,337	
Charge-offs	(8,082)		(5,867)	
Net charge-offs	(6,667)		(4,530)	
Provision for loan losses	7,567		4,780	
Balance, end of period	$ 66,600		$ 64,568	
Composition of Net Charge-offs				
Commercial and agricultural	$ (917)	14%	$ (310)	7%
Real estate mortgage	(688)	10%	(177)	4%
Consumer	(5,062)	76%	(4,043)	89%
Net charge-offs	$ (6,667)	100%	$ (4,530)	100%
Annualized net charge-offs to average loans	0.42%		0.30%	

Allowance For Loan Losses

	Six months ended			
	June 30, 2017		June 30, 2016	
Balance, beginning of period	$ 65,200		$ 63,018	
Recoveries	2,930		3,098	
Charge-offs	(16,476)		(12,426)	
Net charge-offs	(13,546)		(9,328)	
Provision for loan losses	14,946		10,878	
Balance, end of period	$ 66,600		$ 64,568	
Composition of Net Charge-offs				
Commercial and agricultural	$ (1,764)	13%	$ 18	-%
Real estate mortgage	(1,253)	9%	(864)	9%
Consumer	(10,529)	78%	(8,482)	91%
Net charge-offs	$ (13,546)	100%	$ (9,328)	100%
Annualized net charge-offs to average loans	0.44%		0.32%	

Net charge-offs were $6.7 million for the three months ended June 30, 2017, as compared to $6.9 million for the prior quarter, and $4.5 million for the second quarter of 2016. Charge-offs increased from the second quarter of 2016 primarily due to higher commercial loan charge-offs during the second quarter of 2017. Provision expense was $7.6 million for the three months ended June 30, 2017, as compared with $7.4 million for the prior quarter, and $4.8 million for the second quarter of 2016; the increase in provision expense was primarily due to loan growth. Annualized net charge-offs to average loans for the second quarter of 2017 was 0.42%, compared with 0.45% for the first quarter of 2017 and 0.30% for the second quarter of 2016.

Net charge-offs were $13.5 million for the six months ended June 30, 2017, as compared to $9.3 million for the same period of 2016. Charge-offs increased from the second quarter of 2016 primarily due to higher commercial loan charge-offs during the second quarter of 2017. Provision expense was $14.9 million for the six months ended June 30, 2017, as compared with $10.9 million for same period of 2016; the increase in provision expense was primarily due to loan growth. Annualized net charge-offs to average loans for the first six months of 2017 was 0.44% compared with 0.32% for the first six months of 2016.

The allowance for loan losses totaled $66.6 million at June 30, 2017, compared to $65.7 million at March 31, 2017, and $64.6 million at June 30, 2016. The allowance for loan losses as a percentage of loans was 1.05% (1.13% excluding acquired loans) at June 30, 2017, compared to 1.05% (1.13% excluding acquired loans) at March 31, 2017 and 1.07% (1.16% excluding acquired loans) at June 30, 2016.

Nonperforming assets consist of nonaccrual loans, loans 90 days or more past due and still accruing, restructured loans, other real estate owned ("OREO") and nonperforming securities. Loans are generally placed on nonaccrual when principal or interest payments become 90 days past due, unless the loan is well secured and in the process of collection. Loans may also be placed on nonaccrual when circumstances indicate that the borrower may be unable to meet the contractual principal or interest payments. In the third quarter of 2016 the threshold for evaluating classified and nonperforming loans specifically evaluated for impairment was increased from $0.5 million to $0.8 million. OREO represents property acquired through foreclosure and is valued at the lower of the carrying amount or fair value, less any estimated disposal costs. Nonperforming securities, which include securities which management believes are other-than-temporarily impaired, are carried at their estimated fair value and are not accruing interest.

(Dollars in thousands)	**June 30, 2017**		**December 31, 2016**	
Nonaccrual loans	**Amount**	**%**	**Amount**	**%**
Commercial and agricultural loans and real estate	**$ 11,051**	**37%**	$ 19,351	54%
Real estate mortgages	**7,452**	**26%**	8,027	23%
Consumer	**4,332**	**15%**	4,653	13%
Troubled debt restructured loans	**6,299**	**22%**	3,681	10%
Total nonaccrual loans	**29,134**	**100%**	35,712	100%
Loans 90 days or more past due and still accruing				
Real estate mortgages	**136**	**5%**	1,733	36%
Consumer	**2,713**	**95%**	3,077	64%
Total loans 90 days or more past due and still accruing	**2,849**	**100%**	4,810	100%
Total nonperforming loans	**31,983**		40,522	
OREO	**4,747**		5,581	
Total nonperforming assets	**$ 36,730**		$ 46,103	
Total nonperforming loans to total loans	**0.50%**		0.65%	
Total nonperforming assets to total assets	**0.40%**		0.52%	
Allowance for loan losses to total nonperforming loans	**208.24%**		160.90%	

Nonperforming loans to total loans was 0.50% at June 30, 2017, down 15 bps from December 31, 2016 and from June 30, 2016. Past due loans as a percentage of total loans was 0.59% at June 30, 2017, down from 0.64% at December 31, 2016.

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 the acquisition or comparable with other institutions. The credit metrics most impacted by our acquisitions were the allowance for loans losses to total loans and total allowance for loan losses to nonperforming loans. As of June 30, 2017, the allowance for loan losses to total originated loans and the total allowance for loan losses to originated nonperforming loans were 1.13% and 235.08%, respectively. As of December 31, 2016, the allowance for loan losses to total originated loans and the total allowance for loan losses to originated nonperforming loans were 1.13% and 186.82%, respectively.

In addition to nonperforming loans, the Company has also identified approximately $70.6 million in potential problem loans at June 30, 2017 as compared to $70.0 million at December 31, 2016. At June 30, 2017, potential problem loans primarily consisted of commercial real estate, commercial and agricultural loans. Potential problem loans are loans that are currently performing, but known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms, which may result in classification of such loans as nonperforming at some time in the future. Potential problem loans are typically defined as loans that are performing but are classified by the Company’s loan rating system as “substandard.” 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.

Deposits

Total deposits were $7.0 billion at June 30, 2017, up $41.6 million, or 0.6%, from December 31, 2016. Total average deposits increased $292.2 million, or 4.3%, for the six months ended June 30, 2017 as compared to the same period last year driven primarily by growth in non-interest bearing demand deposits of $188.5 million, or 9.5%, combined with a $103.6 million, or 2.1%, increase in interest bearing deposits due to growth in money market deposit accounts, negotiable order withdrawal deposit accounts and savings accounts.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $831.2 million at June 30, 2017 compared to $681.7 million at December 31, 2016. The notional value of interest rate swaps hedging cash flows related to short-term borrowings totaled $250.0 million at June 30, 2017 and December 31, 2016. Long-term debt was $89.0 million at June 30, 2017 compared to $104.1 million at December 31, 2016. Junior subordinated debt was $101.2 million at June 30, 2017 and December 31, 2016.

For more information about the Company’s borrowing capacity and liquidity position, see “Liquidity Risk” below.

Capital Resources

Stockholders' equity of $940.4 million represented 10.36% of total assets at June 30, 2017 compared with $913.3 million, or 10.30% as of December 31, 2016. The increase in stockholders' equity resulted primarily from net income of $41.6 million for the six months ending June 30, 2017, partially offset by dividends paid of $20.0 million during the period.

The Company did not purchase shares of its common stock during the six months ended June 30, 2017. As of June 30, 2017, there were 1,000,000 shares available for repurchase under a plan authorized on March 28, 2016, which expires on December 31, 2017.

The Board of Directors considers the Company's earnings position and earnings potential when making dividend decisions. The Company's Board of Directors approved a 2017 third-quarter cash dividend of $0.23 per share at a meeting held on July 24, 2017. The dividend will be paid on September 15, 2017 to stockholders of record as of September 1, 2017. The Company does not have a target dividend pay-out ratio.

As the capital ratios in the following table indicate, the Company remained “well capitalized” at June 30, 2017 under applicable bank regulatory requirements. Capital measurements are well in excess of regulatory minimum guidelines and meet the requirements to be considered well capitalized for all periods presented. To be considered well capitalized, tier 1 leverage, common equity tier 1 capital, tier 1 capital and total risk-based capital ratios must be 5%, 6.5%, 8% and 10%, respectively.

Capital Measurements	**June 30, 2017**	**December 31, 2016**
Tier 1 leverage ratio	**9.08%**	9.11%
Common equity tier 1 capital ratio	**9.96%**	9.98%
Tier 1 capital ratio	**11.36%**	11.42%
Total risk-based capital ratio	**12.32%**	12.39%
Cash dividends as a percentage of net income	**48.14%**	50.00%
Per common share:		
Book value	**$ 21.61**	$ 21.11
Tangible book value (1)	**$ 15.06**	$ 14.61

(1) Stockholders' equity less goodwill and intangible assets divided by common shares outstanding.

Liquidity and Interest Rate Sensitivity Management

Market Risk

Interest rate risk is the primary 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. 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 effect of 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 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. Assuming interest rates remain at or near current historical lows, net interest margin will continue to experience compression. Additional rate reductions on deposits are becoming more difficult as deposit rates are at or near their floors and with asset yields continuing to reprice at lower rates, this could result in additional margin pressure as well as a decrease in net interest income.

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 with static balance sheets: (1) a gradual increase of 200 bp and (2) a gradual decrease of 100 bp taking place over a 12 month period. 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 resulting 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 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 at a faster rate than interest bearing liabilities. The inability to effectively lower deposit rates will likely reduce or eliminate the benefit of lower interest rates. In the rising rate scenarios, net interest income is projected to experience a decline from the flat rate scenario. Net interest income is projected to remain at lower levels than in a flat rate scenario through the simulation period primarily due to a lag in assets repricing while funding costs increase. The potential impact on earnings is dependent on the ability to lag deposit repricing. If short-term rates continue to increase, the Company expects competitive pressures will likely lead to core deposit pricing increases, which will likely continue compression of the net interest margin.

Net interest income for the next 12 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 June 30, 2017 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates (in bp points)	Percent change in net interest income
+200	(2.47%)
-100	(3.10%)

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. 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 and tactical actions. 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 the 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. Basic Surplus is calculated by subtracting short-term liabilities from liquid assets. 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 June 30, 2017, the Company's Basic Surplus measurement was 13.0% of total assets or approximately $1.2 billion as compared to the December 31, 2016 Basic Surplus of 13.6% or $1.2 billion and was above the Company's minimum of 5% or $0.5 billion set forth in its liquidity policies.

This Basic Surplus approach enables the Company to appropriately 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.

The Company's primary source of funds is the Bank. Certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends. The approval of the Office of Comptroller of the Currency ("OCC") is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years (as defined in the regulations). At June 30, 2017, approximately $87.5 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 is also subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the General Corporation Law of the State of Delaware, the Company may declare and pay dividends either out of its surplus or, in case there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

At June 30, 2017 and December 31, 2016, Federal Home Loan Bank ("FHLB") advances outstanding totaled approximately $725.0 million and $598.0 million, respectively. The Company's 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. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $0.8 billion at June 30, 2017 and December 31, 2016. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $683.8 million at June 30, 2017 or used to collateralize other borrowings, such as repurchase agreements. At June 30, 2017 the Bank also had additional borrowing capacity from unused collateral at the Federal Reserve of $0.9 billion.

Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information called for by Item 3 is contained in the Liquidity and Interest Rate Sensitivity Management section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4 - CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, the Company's disclosure controls and procedures were effective.

There were no changes made in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 – 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, except as described in the Company's 2016 Annual Report on Form 10-K.

Item 1A – RISK FACTORS

There are no material changes to the risk factors as previously discussed in Part I, Item 1A of our 2016 Annual Report on Form 10-K.

Item 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) None

Item 3 – DEFAULTS UPON SENIOR SECURITIES

None

Item 4 – MINE SAFETY DISCLOSURES

None

Item 5 – OTHER INFORMATION

None

Item 6 – EXHIBITS

3.1	Restated Certificate of Incorporation of NBT Bancorp Inc. as amended through July 1, 2015 (filed as Exhibit 3.1 to Registrant's Form 10-Q, filed on August 10, 2015 and incorporated herein by reference)
3.2	Amended and Restated Bylaws of NBT Bancorp Inc. effective January 23, 2017 (filed as Exhibit 3.1 to Registrant’s Form 8-K, filed on January 25, 2017 and incorporated herein by reference).
3.3	Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registrant’s Form 8-K, filed on November 18, 2004 and incorporated herein by reference).
4.1	Specimen common stock certificate for NBT’s Bancorp Inc. common stock (filed as Exhibit 4.1 to the Registrant’s Amendment No. 1 to Registration Statement on Form S-4, filed on December 27, 2005 and incorporated herein by reference).
31.1	Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this 9th day of August 2017.

NBT BANCORP INC.

By: /s/ Michael J. Chewens

Michael J. Chewens, CPA
Senior Executive Vice President
Chief Financial Officer

EXHIBIT INDEX

3.1	Restated Certificate of Incorporation of NBT Bancorp Inc. as amended through July 1, 2015 (filed as Exhibit 3.1 to Registrant's Form 10-Q, filed on August 10, 2015 and incorporated herein by reference)
3.2	Amended and Restated Bylaws of NBT Bancorp Inc. effective January 23, 2017 (filed as Exhibit 3.1 to Registrant’s Form 8-K, filed on January 25, 2017 and incorporated herein by reference).
3.3	Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registrant’s Form 8-K, filed on November 18, 2004 and incorporated herein by reference).
4.1	Specimen common stock certificate for NBT’s Bancorp Inc. common stock (filed as Exhibit 4.1 to the Registrant’s Amendment No. 1 to Registration Statement on Form S-4, filed on December 27, 2005 and incorporated herein by reference).
31.1	Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John H. Watt Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of NBT Bancorp Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

By: /s/ John H. Watt Jr.

John H. Watt Jr.
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael J. Chewens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NBT Bancorp Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

By: /s/ Michael J. Chewens

Michael J. Chewens
Senior Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

Written Statement of the Chief Executive Officer Pursuant to Section 906 of the SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer of NBT Bancorp Inc. (the "Company"), hereby certifies that to his knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended June 30, 2017, filed on the date hereof with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John H. Watt Jr.
John H. Watt Jr.
Chief Executive Officer
August 9, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NBT Bancorp Inc. and will be retained by NBT Bancorp Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Written Statement of the Chief Financial Officer Pursuant to Section 906 of the SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of NBT Bancorp Inc. (the "Company"), hereby certifies that to his knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended June 30, 2017, filed on the date hereof with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Chewens

Michael J. Chewens
Senior Executive Vice President and
Chief Financial Officer
August 9, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NBT Bancorp Inc. and will be retained by NBT Bancorp Inc. and furnished to the Securities and Exchange Commission or its staff upon request.