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 March 31, 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 April 30, 2017, there were 43,443,866 shares outstanding of the Registrant’s common stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q-Quarter Ended March 31, 2017

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Item 1 – FINANCIAL STATEMENTS

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

(In thousands, except share and per share data)	**March 31, 2017**	December 31, 2016
Assets		
Cash and due from banks	**$ 137,308**	$ 147,789
Short-term interest bearing accounts	**4,588**	1,392
Securities available for sale, at fair value	**1,367,574**	1,338,290
Securities held to maturity (fair value $513,654 and $525,050, respectively)	**515,793**	527,948
Trading securities	**10,044**	9,259
Federal Reserve and Federal Home Loan Bank stock	**42,577**	47,033
Loans	**6,272,303**	6,198,057
Less allowance for loan losses	**65,700**	65,200
Net loans	**6,206,603**	6,132,857
Premises and equipment, net	**83,144**	84,187
Goodwill	**265,439**	265,439
Intangible assets, net	**14,848**	15,815
Bank owned life insurance	**169,423**	168,012
Other assets	**128,144**	129,247
Total assets	**$ 8,945,485**	$ 8,867,268
Liabilities		
Demand (noninterest bearing)	**$ 2,205,419**	$ 2,195,845
Savings, negotiable order withdrawal and money market	**4,153,552**	3,905,432
Time	**826,080**	872,411
Total deposits	**7,185,051**	6,973,688
Short-term borrowings	**540,243**	681,703
Long-term debt	**104,023**	104,087
Junior subordinated debt	**101,196**	101,196
Other liabilities	**88,133**	93,278
Total liabilities	**8,018,646**	7,953,952
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at March 31, 2017 and December 31, 2016	**-**	-
Common stock, $0.01 par value. Authorized 100,000,000 shares at March 31, 2017 and December 31, 2016; issued 49,651,493 at March 31, 2017 and December 31, 2016	**497**	497
Additional paid-in-capital	**573,627**	575,078
Retained earnings	**511,925**	501,761
Accumulated other comprehensive loss	**(19,592)**	(21,520)
Common stock in treasury, at cost, 6,209,092 and 6,393,743 shares at March 31, 2017 and December 31, 2016, respectively	**(139,618)**	(142,500)
Total stockholders' equity	**926,839**	913,316
Total liabilities and stockholders' equity	**$ 8,945,485**	$ 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 March 31, 2017	2016
Interest, fee, and dividend income		
Interest and fees on loans	**$ 64,027**	$ 61,230
Securities available for sale	**7,009**	5,987
Securities held to maturity	**2,781**	2,288
Other	**619**	449
Total interest, fee, and dividend income	**74,436**	69,954
Interest expense		
Deposits	**3,474**	3,597
Short-term borrowings	**1,139**	328
Long-term debt	**606**	833
Junior subordinated debt	**726**	619
Total interest expense	**5,945**	5,377
Net interest income	**68,491**	64,577
Provision for loan losses	**7,379**	6,098
Net interest income after provision for loan losses	**61,112**	58,479
Noninterest income		
Insurance and other financial services revenue	**6,770**	6,946
Service charges on deposit accounts	**3,977**	3,939
ATM and debit card fees	**4,950**	4,583
Retirement plan administration fees	**4,172**	3,754
Trust	**4,532**	4,376
Bank owned life insurance	**1,411**	1,291
Net securities gains	**-**	29
Other	**2,938**	3,449
Total noninterest income	**28,750**	28,367
Noninterest expense		
Salaries and employee benefits	**33,587**	32,441
Occupancy	**6,170**	5,491
Data processing and communications	**4,198**	4,050
Professional fees and outside services	**3,032**	3,231
Equipment	**3,698**	3,460
Office supplies and postage	**1,608**	1,547
FDIC expenses	**1,178**	1,258
Advertising	**390**	504
Amortization of intangible assets	**967**	1,096
Loan collection and other real estate owned	**1,279**	705
Other	**5,175**	4,441
Total noninterest expense	**61,282**	58,224
Income before income tax expense	**28,580**	28,622
Income tax expense	**8,301**	9,731
Net income	**$ 20,279**	$ 18,891
Earnings per share		
Basic	**$ 0.47**	$ 0.44
Diluted	**0.46**	0.43

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries	**Three Months Ended March 31,**	
Consolidated Statements of Comprehensive Income (unaudited)	**2017**	2016
(In thousands)		
Net income	**$ 20,279**	$ 18,891
Other comprehensive income, net of tax:		
Unrealized net holding gains arising during the period (pre-tax amounts of $836 and $13,211)	**497**	8,072
Reclassification adjustment for net gains (losses) related to securities available for sale included in net income (pre-tax amounts of $- and $29)	**-**	(19)
Reclassification adjustment for an impairment write-down of equity security (pre-tax amounts of $1,312 and $-)	**811**	-
Unrealized gains on derivatives (cash flow hedges) (pre-tax amounts of $331 and $-)	**204**	-
Amortization of unrealized net gains related to the reclassification of available for sale investment securities to held to maturity (pre-tax amounts of $238 and $296)	**147**	181
Pension and other benefits:		
Amortization of prior service cost and actuarial loss (pre-tax amounts of $435 and $512)	**269**	313
Total other comprehensive income	**1,928**	8,547
Comprehensive income	**$ 22,207**	$ 27,438

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 income (loss)	Common stock in treasury	Total
Balance at December 31, 2015	**$ 497**	**$ 576,726**	**$ 462,232**	**$ (22,418)**	**$ (135,033)**	**$ 882,004**
Net income	-	-	18,891	-	-	18,891
Cash dividends - $0.22 per share	-	-	(9,473)	-	-	(9,473)
Purchase of 675,535 treasury shares	-	-	-	-	(17,193)	(17,193)
Net issuance of 106,674 shares to employee benefit plans and other stock plans, including tax benefit	-	(4,584)	-	-	1,923	(2,661)
Stock-based compensation	-	1,612	-	-	-	1,612
Other comprehensive income	-	-	-	8,547	-	8,547
Balance at March 31, 2016	**$ 497**	**$ 573,754**	**$ 471,650**	**$ (13,871)**	**$ (150,303)**	**$ 881,727**
Balance at December 31, 2016	**$ 497**	**$ 575,078**	**$ 501,761**	**$ (21,520)**	**$ (142,500)**	**$ 913,316**
Net income	-	-	20,279	-	-	20,279
Cash dividends - $0.23 per share	-	-	(10,020)	-	-	(10,020)
Net issuance of 184,651 shares to employee benefit plans and other stock plans, including tax benefit	-	(3,712)	-	-	2,882	(830)
Stock-based compensation	-	2,261	(95)	-	-	2,166
Other comprehensive income	-	-	-	1,928	-	1,928
Balance at March 31, 2017	**$ 497**	**$ 573,627**	**$ 511,925**	**$ (19,592)**	**$ (139,618)**	**$ 926,839**

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2017	2016
Operating activities		
Net income	**$ 20,279**	$ 18,891
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	**7,379**	6,098
Depreciation and amortization of premises and equipment	**2,249**	2,244
Net accretion on securities	**1,267**	799
Amortization of intangible assets	**967**	1,096
Excess tax benefit on stock-based compensation	**1,472**	-
Stock-based compensation expense	**2,166**	1,612
Bank owned life insurance income	**(1,411)**	(1,291)
Trading security purchases	**(1,277)**	(568)
Losses on trading securities	**491**	40
Proceeds from sales of loans held for sale	**24,896**	22,098
Originations and purchases of loans held for sale	**(27,622)**	(22,133)
Net gains on sales of loans held for sale	**(46)**	(49)
Net security (gains)	**-**	(29)
Net loss (gain) on sales of other real estate owned	**157**	(306)
Impairment write-down	**1,312**	-
Net decrease in other assets	**595**	2,135
Net (decrease) in other liabilities	**(5,145)**	(1,319)
Net cash provided by operating activities	**27,729**	29,318
Investing activities		
Securities available for sale:		
Proceeds from maturities, calls, and principal paydowns	**78,038**	74,090
Proceeds from sales	**1,000**	-
Purchases	**(110,330)**	(142,613)
Securities held to maturity:		
Proceeds from maturities, calls, and principal paydowns	**19,914**	15,591
Purchases	**(5,943)**	(9,471)
Other:		
Net increase in loans	**(82,299)**	(90,342)
Proceeds from Federal Home Loan Bank stock redemption	**56,521**	33,886
Purchases of Federal Reserve and Federal Home Loan Bank stock	**(52,065)**	(29,475)
Proceeds from settlement of bank owned life insurance	**-**	1,457
Purchases of bank owned life insurance	**-**	(45,000)
Purchases of premises and equipment, net	**(1,269)**	(1,625)
Proceeds from the sales of other real estate owned	**2,430**	3,208
Net cash used in investing activities	**(94,003)**	(190,294)
Financing activities		
Net increase in deposits	**211,363**	300,199
Net decrease in short-term borrowings	**(141,460)**	(94,613)
Repayments of long-term debt	**(64)**	(70)
Proceeds from the issuance of shares to employee benefit plans and other stock plans	**1,983**	(7)
Cash paid by employer for tax-withholding on stock issuance	**(2,813)**	(2,654)
Purchase of treasury stock	**-**	(17,193)
Cash dividends	**(10,020)**	(9,473)
Net cash provided by financing activities	**58,989**	176,189
Net increase (decrease) in cash and cash equivalents	**(7,285)**	15,213
Cash and cash equivalents at beginning of period	**149,181**	140,297
Cash and cash equivalents at end of period	**$ 141,896**	$ 155,510

Supplemental disclosure of cash flow information	Three Months Ended March 31,	
Cash paid during the period for:	**2017**	2016
Interest	**$ 6,363**	$ 5,876
Income taxes paid	**1,019**	3,405
Noncash investing activities:		
Loans transferred to other real estate owned	**$ 3,946**	$ 952

See accompanying notes to unaudited interim consolidated financial statements.

NBT BANCORP INC. and Subsidiaries
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 (“GAAP”). These 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
March 31, 2017				
Federal agency	**$ 160,064**	**$ 80**	**$ 563**	**$ 159,581**
State & municipal	**47,910**	**161**	**227**	**47,844**
Mortgage-backed:				
Government-sponsored enterprises	**559,228**	**3,156**	**2,280**	**560,104**
U.S. government agency securities	**17,566**	**397**	**40**	**17,923**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**511,651**	**562**	**6,910**	**505,303**
U.S. government agency securities	**58,239**	**180**	**741**	**57,678**
Other securities	**13,537**	**5,767**	**163**	**19,141**
Total securities AFS	**$ 1,368,195**	**$ 10,303**	**$ 10,924**	**$ 1,367,574**
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

Securities with amortized costs totaling $1.6 billion at March 31, 2017 and $1.5 billion at December 31, 2016 were pledged to secure public deposits and for other purposes required or permitted by law. At March 31, 2017 and December 31, 2016, securities with an amortized cost of $244.3 million and $235.6 million, respectively, were pledged as collateral for securities sold under repurchase agreements.

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

(In thousands)	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
March 31, 2017				
Mortgage-backed:				
Government-sponsored enterprises	**$ 94,849**	**$ -**	**$ 1,227**	**$ 93,622**
U.S. government agency securities	**491**	**76**	**-**	**567**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**215,639**	**959**	**1,637**	**214,961**
State & municipal	**204,814**	**972**	**1,282**	**204,504**
Total securities HTM	**$ 515,793**	**$ 2,007**	**$ 4,146**	**$ 513,654**
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

The following table sets forth information with regard to investment securities with unrealized losses at March 31, 2017 and December 31, 2016, segregated according to the length of time the securities had been in a continuous unrealized loss position:

	Less than 12 months			12 months or longer			Total		
Security Type:	**Fair value**	**Unrealized losses**	**Number of positions**	**Fair value**	**Unrealized losses**	**Number of positions**	**Fair value**	**Unrealized losses**	**Number of positions**
March 31, 2017									
AFS Securities:									
Federal agency	$ 94,535	$ (563)	9	$ -	$ -	-	$ 94,535	$ (563)	9
State & municipal	24,235	(200)	37	1,528	(27)	2	25,763	(227)	39
Mortgage-backed	265,960	(2,307)	46	974	(13)	4	266,934	(2,320)	50
Collateralized mortgage obligations	442,362	(7,651)	57	-	-	-	442,362	(7,651)	57
Other securities	1,983	(17)	1	2,959	(146)	1	4,942	(163)	2
Total securities with unrealized losses	$ 829,075	$ (10,738)	150	$ 5,461	$ (186)	7	$ 834,536	$ (10,924)	157
March 31, 2017									
HTM securities:									
Mortgaged-backed	$ 93,622	$ (1,227)	5	$ -	$ -	-	$ 93,622	$ (1,227)	5
Collateralized mortgage obligations	103,287	(360)	12	33,841	(1,277)	4	137,128	(1,637)	16
State & municipal	48,303	(1,282)	75	-	-	-	48,303	(1,282)	75
Total securities with unrealized losses	$ 245,212	$ (2,869)	92	$ 33,841	$ (1,277)	4	$ 279,053	$ (4,146)	96
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
December 31, 2016									
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 available at the time the underlying securities were purchased. When necessary, the Company has performed a discounted cash flow analysis to determine whether or not it will receive the contractual principal and interest on certain securities. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline.

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. The unrealized losses on equity securities are due to declines in the fair value below the cost basis of the securities. For AFS debt and equity securities, the Company considers a decline in fair value to be other-than-temporary if it is probable that the Company will not recover its cost basis. For 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 March 31, 2017 and December 31, 2016, management believes the impairments detailed in the table above are temporary. For the quarter ended March 31, 2017, $1.3 million of an OTTI loss on an equity investment was realized in the Company's consolidated statements of income. There were no OTTI losses realized in the Company's consolidated statements of income for the quarter ended December 31, 2016.

The following tables set forth information with regard to contractual maturities of debt securities at March 31, 2017:

(In thousands)	Amortized cost	Estimated fair value
AFS debt securities:		
Within one year	**$ 43,247**	**$ 43,292**
From one to five years	**163,135**	**163,417**
From five to ten years	**162,510**	**163,494**
After ten years	**985,766**	**978,230**
	$ 1,354,658	**$ 1,348,433**
HTM debt securities:		
Within one year	**$ 38,266**	**$ 38,275**
From one to five years	**30,155**	**30,330**
From five to ten years	**126,026**	**126,080**
After ten years	**321,346**	**318,969**
	$ 515,793	**$ 513,654**

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 March 31, 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 appropriately for risk of 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 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 and is generally less liquid than real estate. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers.

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

Agricultural – The Company offers a variety of agricultural loans to meet the needs of our agricultural customers including term loans, time notes, and lines of credit. These loans are made to purchase livestock, purchase and modernize equipment, and finance seasonal crop expenses. Generally, a collateral lien is placed on the livestock, equipment, produce inventories, and/or receivables owned by the borrower. These loans may carry a higher risk than commercial and agricultural real estate loans due to the industry price volatility, and 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 first liens on the farm real estate. Because they are secured by land and buildings, these loans may be less risky than agricultural loans. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 75% of the appraised value of the property. Government loan guarantees may be obtained to provide further support.

Business Banking - The Company offers a variety of loan options to meet the specific needs of our 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 the risk, the Company obtains personal guarantees of the owners for a majority of the loans.

CONSUMER LOANS

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

Indirect **–** The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the company primarily finances the purchases of automobiles and recreational vehicles (such as campers, boats, etc.) indirectly through dealer relationships. Approximately 70% of the indirect relationships represent automobile financing. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to six years, based upon the nature of the collateral and the size of the loan. The majority of indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

Home Equity – The Company offers fixed home equity loans as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Consumers are able to 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 LOANS

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

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 collectibility 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 collectibility. 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 which 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 for the three months ended March 31, 2017 and 2016:

(In thousands)	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	**(1,294)**	**(6,502)**	**(598)**	**-**	**(8,394)**
Recoveries	**447**	**1,035**	**33**	**-**	**1,515**
Provision	**130**	**6,861**	**388**	**-**	**7,379**
Ending Balance as of March 31, 2017	**$ 24,727**	**$ 34,769**	**$ 6,204**	**$ -**	**$ 65,700**
Balance as of December 31, 2015	$ 25,545	$ 29,253	$ 7,960	$ 260	$ 63,018
Charge-offs	(437)	(5,413)	(709)	-	(6,559)
Recoveries	765	974	22	-	1,761
Provision	(574)	6,221	711	(260)	6,098
Ending Balance as of March 31, 2016	$ 25,299	$ 31,035	$ 7,984	$ -	$ 64,318

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 March 31, 2017 and $0.7 million as of December 31, 2016. Net charge-offs related to acquired loans totaled approximately $0.4 million and $0.1 million during the three months ended March 31, 2017 and March 31, 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 March 31, 2017 and December 31, 2016:

(In thousands)	Commercial Loans	Consumer Loans	Residential Real Estate Mortgages	Total
As of March 31, 2017				
Allowance for loan losses	**$ 24,727**	**$ 34,769**	**$ 6,204**	**$ 65,700**
Allowance for loans individually evaluated for impairment	**422**	**-**	**-**	**422**
Allowance for loans collectively evaluated for impairment	**$ 24,305**	**$ 34,769**	**$ 6,204**	**$ 65,278**
Ending balance of loans	**$ 2,824,936**	**$ 2,171,593**	**$ 1,275,774**	**$ 6,272,303**
Ending balance of originated loans individually evaluated for impairment	**10,736**	**8,379**	**6,194**	**25,309**
Ending balance of acquired loans individually evaluated for impairment	**-**	**-**	**-**	**-**
Ending balance of acquired loans collectively evaluated for impairment	**228,021**	**56,852**	**193,253**	**478,126**
Ending balance of originated loans collectively evaluated for impairment	**$ 2,586,179**	**$ 2,106,362**	**$ 1,076,327**	**$ 5,768,868**
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. Interest accrued in a prior period and not collected is charged-off against the allowance for loan losses.

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

The following tables set forth information with regard to past due and nonperforming loans by loan class as of March 31, 2017 and December 31, 2016:

As of March 31, 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	$ 292	$ -	$ -	$ 292	$ 4,913	$ 702,383	$ 707,588
Commercial Real Estate	286	-	-	286	2,516	1,346,470	1,349,272
Agricultural	-	-	-	-	685	36,052	36,737
Agricultural Real Estate	-	-	-	-	1,771	30,314	32,085
Business Banking	2,965	428	-	3,393	4,766	463,074	471,233
Total Commercial Loans	3,543	428	-	3,971	14,651	2,578,293	2,596,915
Consumer Loans:							
Indirect	15,407	3,552	2,222	21,181	2,135	1,575,393	1,598,709
Home Equity	2,635	614	58	3,307	2,926	447,902	454,135
Direct	246	71	103	420	63	61,414	61,897
Total Consumer Loans	18,288	4,237	2,383	24,908	5,124	2,084,709	2,114,741
Residential Real Estate Mortgages	2,444	322	-	2,766	8,585	1,071,170	1,082,521
Total Originated Loans	$ 24,275	$ 4,987	$ 2,383	$ 31,645	$ 28,360	$ 5,734,172	$ 5,794,177
ACQUIRED							
Commercial Loans:							
Commercial	$ -	$ -	$ -	$ -	$ -	$ 45,908	$ 45,908
Commercial Real Estate	-	-	-	-	889	132,611	133,500
Business Banking	441	-	-	441	800	47,372	48,613
Total Commercial Loans	441	-	-	441	1,689	225,891	228,021
Consumer Loans:							
Indirect	37	1	9	47	39	5,713	5,799
Home Equity	177	-	-	177	196	47,716	48,089
Direct	24	1	-	25	13	2,926	2,964
Total Consumer Loans	238	2	9	249	248	56,355	56,852
Residential Real Estate Mortgages	1,300	15	-	1,315	2,377	189,561	193,253
Total Acquired Loans	$ 1,979	$ 17	$ 9	$ 2,005	$ 4,314	$ 471,807	$ 478,126
Total Loans	$ 26,254	$ 5,004	$ 2,392	$ 33,650	$ 32,674	$ 6,205,979	$ 6,272,303

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 March 31, 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 of $0.8 million or more 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 measurement of impairment. Any change to the previously recognized impairment loss is recognized as a change to the allowance account and recorded in the consolidated statement of income as a component of the provision for loan losses.

The following table provides information on loans specifically evaluated for impairment as of March 31, 2017 and December 31, 2016:

	March 31, 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	**$ 3,495**	**$ 3,536**		$ 1,278	$ 1,697	
Commercial Real Estate	**3,778**	**3,810**		3,816	3,841	
Agricultural	**130**	**138**		130	137	
Agricultural Real Estate	**1,520**	**1,660**		1,434	1,567	
Business Banking	**645**	**724**		655	728	
Total Commercial Loans	**9,568**	**9,868**		7,313	7,970	
Consumer Loans:						
Indirect	**5**	**15**		5	16	
Home Equity	**8,374**	**9,272**		8,483	9,429	
Total Consumer Loans	**8,379**	**9,287**		8,488	9,445	
Residential Real Estate Mortgages	**6,194**	**7,028**		6,111	6,906	
Total	**24,141**	**26,183**		21,912	24,321	
With an allowance recorded:						
Commercial Loans:						
Commercial Real Estate	**1,081**	**1,081**	**$ 335**	5,553	5,736	$ 735
Agricultural	**37**	**37**	**37**	49	49	37
Agricultural Real Estate	**50**	**50**	**50**	155	155	54
Total Commercial Loans	**1,168**	**1,168**	**422**	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:	**$ 25,309**	**$ 27,351**	**$ 422**	$ 28,874	$ 31,582	$ 1,517

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 March 31, 2017 and 2016:

	For the three months ended			
	March 31, 2017		March 31, 2016	
(In thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
ORIGINATED				
Commercial Loans:				
Commercial	**$ 2,926**	**$ -**	$ 2,773	$ 19
Commercial Real Estate	**5,995**	**44**	13,509	100
Agricultural	**173**	**-**	158	-
Agricultural Real Estate	**1,580**	**11**	616	11
Business Banking	**650**	**2**	978	6
Consumer Loans:				
Indirect	**5**	**-**	11	-
Home Equity	**8,431**	**110**	8,003	121
Residential Real Estate Mortgages	**5,611**	**39**	6,121	67
Total Originated	**25,371**	**206**	32,169	324
ACQUIRED				
Commercial Loans:				
Commercial Real Estate	**301**	**-**	1,205	-
Total Acquired	**301**	**-**	1,205	-
Total Loans	**$ 25,672**	**$ 206**	$ 33,374	$ 324

Credit Quality Indicators

The Company has developed an internal loan grading system to evaluate and quantify the Bank's loan portfolio with respect to quality and risk. The system focuses on, among other things, financial strength of borrowers, experience and depth of management, primary and secondary sources of repayment, payment history, nature of the business, 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. Commercial loans are graded as 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. Because of high probability of loss, nonaccrual treatment is required for Doubtful assets.

- **Substandard**

  Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some Substandard loans, the likelihood of full collection of interest and principal may be in doubt and 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 (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.

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The following tables illustrate the Company's credit quality by loan class as of March 31, 2017 and December 31, 2016:

Credit Quality Indicators
As of March 31, 2017

(In thousands)

ORIGINATED

Commercial Credit Exposure

By Internally Assigned Grade:	Commercial	Commercial Real Estate	Agricultural	Agricultural Real Estate	Total
Pass	$ 658,916	$ 1,286,478	$ 34,144	$ 27,349	$ 2,006,887
Special Mention	12,987	31,208	310	2,558	47,063
Substandard	35,685	31,586	2,278	2,178	71,727
Doubtful	-	-	5	-	5
Total	$ 707,588	$ 1,349,272	$ 36,737	$ 32,085	$ 2,125,682

Business Banking Credit Exposure

By Internally Assigned Grade:	Business Banking	Total
Non-classified	$ 457,783	$ 457,783
Classified	13,450	13,450
Total	$ 471,233	$ 471,233

Consumer Credit Exposure

By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$ 1,594,352	$ 451,151	$ 61,731	$ 2,107,234
Nonperforming	4,357	2,984	166	7,507
Total	$ 1,598,709	$ 454,135	$ 61,897	$ 2,114,741

Residential Mortgage Credit Exposure

By Payment Activity:	Residential Mortgage	Total
Performing	$ 1,073,936	$ 1,073,936
Nonperforming	8,585	8,585
Total	$ 1,082,521	$ 1,082,521

Credit Quality Indicators
As of March 31, 2017

(In thousands)

ACQUIRED

Commercial Credit Exposure

By Internally Assigned Grade:	Commercial	Commercial Real Estate	Total
Pass	$ 44,782	$ 123,532	$ 168,314
Special Mention	55	2,883	2,938
Substandard	1,071	7,085	8,156
Total	$ 45,908	$ 133,500	$ 179,408

Business Banking Credit Exposure

By Internally Assigned Grade:	Business Banking	Total
Non-classified	$ 44,889	$ 44,889
Classified	3,724	3,724
Total	$ 48,613	$ 48,613

Consumer Credit Exposure

By Payment Activity:	Indirect	Home Equity	Direct	Total
Performing	$ 5,751	$ 47,893	$ 2,951	$ 56,595
Nonperforming	48	196	13	257
Total	$ 5,799	$ 48,089	$ 2,964	$ 56,852

Residential Mortgage Credit Exposure

By Payment Activity:	Residential Mortgage	Total
Performing	$ 190,876	$ 190,876
Nonperforming	2,377	2,377
Total	$ 193,253	$ 193,253

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Credit Quality Indicators
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

Credit Quality Indicators
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 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. Residential and home equity TDRs occurring during 2017 and 2016 were due to the reduction in the interest rate or extension of the term.

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 for the three months ended March 31, 2017 and 2016 (dollars in thousands):

	Three months ended March 31, 2017		
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer			
Home Equity	**2**	**$ 78**	**$ 77**
Total Consumer	**2**	**78**	**77**
Residential Real Estate	**1**	**141**	**138**
Total Troubled Debt Restructurings	**3**	**$ 219**	**$ 215**

	Three months ended March 31, 2016		
	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer			
Home Equity	12	$ 1,035	$ 952
Total Consumer	12	1,035	952
Residential Real Estate	4	531	437
Total Troubled Debt Restructurings	16	$ 1,566	$ 1,389

Residential and home equity TDRs occurring during 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 within the three months ended March 31, 2017 and 2016 where a concession has been made and subsequently defaulted during the period (dollars in thousands):

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Residential Real Estate	-	**$** -	1	$ 175
Total Troubled Debt Restructurings	-	**$** -	1	$ 175

5. Defined Benefit Postretirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan ("the Plan") covering substantially all of its employees at March 31, 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 bonds and 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 months ended March 31, 2017.

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 acquisition. These supplemental employee retirement plans and the Plan are collectively referred to herein as "Pension Benefits."

Also, the Company provides certain health care benefits for retired employees. Benefits are accrued over the employees' active service period. Only employees that were employed by the Company on or before January 1, 2000 are eligible to receive postretirement 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 postretirement 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 March 31,		Three months ended March 31,	
Components of net periodic cost (benefit):	**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 cost (benefit)	**$ (126)**	$ 259	**$ 109**	$ 127

6. Earnings Per Share

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

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

	Three months ended March 31,	
(In thousands, except per share data)	**2017**	**2016**
Basic EPS:		
Weighted average common shares outstanding	**43,513**	43,342
Net income available to common stockholders	**$ 20,279**	$ 18,891
Basic EPS	**$ 0.47**	$ 0.44
Diluted EPS:		
Weighted average common shares outstanding	**43,883**	43,342
Dilutive effect of common stock options and restricted stock	**371**	365
Weighted average common shares and common share equivalents	**44,254**	43,707
Net income available to common stockholders	**$ 20,279**	$ 18,891
Diluted EPS	**$ 0.46**	$ 0.43

There were 783 and 30,861 stock options for the quarters ended March 31, 2017 and March 31, 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 (Loss)

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

Detail About Accumulated Other Comprehensive (Loss) Income Components	Amount reclassified from accumulated other comprehensive income (loss)		Affected line item in the consolidated statement of comprehensive income
	Three months ended		
	March 31, 2017	**March 31, 2016**	
Available for sale securities:			
(Gains) on available for sale securities	**$ -**	$ (29)	Net securities (gains) losses
Amortization of unrealized gains and losses related to securities transfer	**238**	296	Interest income
Impairment write-down of equity security	**1,312**	-	Other noninterest income
Income tax (expense)	**(592)**	(105)	Income tax (expense)
Net of tax	**$ 958**	$ 162	
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	**$ 1,227**	$ 475	

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 U.S. 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 (e.g., supported by little or no market activity).

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

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

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid agency securities, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy. The prices for these 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, among 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 month periods ended March 31, 2017 and December 31, 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 as of March 31, 2017 and December 31, 2016. 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 March 31, 2017
Assets:				
AFS securities:				
Federal agency	$ -	$ 159,581	$ -	$ 159,581
State & municipal	-	47,844	-	47,844
Mortgage-backed	-	578,027	-	578,027
Collateralized mortgage obligations	-	562,981	-	562,981
Other securities	10,923	8,218	-	19,141
Total AFS securities	$ 10,923	$ 1,356,651	$ -	$ 1,367,574
Trading Securities	10,044	-	-	10,044
Interest Rate Swaps	-	3,971	-	3,971
Total	$ 20,967	$ 1,360,622	$ -	$ 1,381,589
Liabilities:				
Interest Rate Swaps	$ -	$ 736	$ -	$ 736
Total	$ -	$ 736	$ -	$ 736

	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
Interest Rate Swaps	-	3,210	-	3,210
Total	$ 20,752	$ 1,330,007	$ -	$ 1,350,759
Liabilities:				
Interest Rate Swaps	$ -	$ 506	$ -	$ 506
Total	$ -	$ 506	$ -	$ 506

GAAP requires disclosure of assets and liabilities measured and recorded at fair value on a nonrecurring basis such as goodwill, loans held for sale, other real estate owned, collateral-dependent impaired loans, mortgage servicing rights, and held-to-maturity securities. The only nonrecurring fair value measurements recorded during the three month period ended March 31, 2017 were related to impaired loans. For the three months periods ending March 31, 2017 and March 31, 2016, the Company had $1.2 million and $9.0 million, respectively, of loans recorded at fair value with specific allowance reserves of $0.4 million and $3.0 million, respectively. 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.

The following table sets forth information with regard to estimated fair values of financial instruments at March 31, 2017 and December 31, 2016. This table excludes financial instruments for which the carrying amount approximates fair value. Financial instruments for which the fair value approximates carrying value include cash and cash equivalents, securities available for sale, trading securities, accrued interest receivable, non-maturity deposits, short-term borrowings, accrued interest payable, and interest rate swaps.

		March 31, 2017		December 31, 2016	
(In thousands)	**Fair Value Hierarchy**	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Financial assets					
Securities held to maturity	2	**$ 515,793**	**$ 513,654**	$ 527,948	$ 525,050
Net loans	3	**6,206,603**	**6,354,631**	6,132,857	6,273,233
Financial liabilities					
Time deposits	2	**$ 826,080**	**$ 821,557**	$ 872,411	$ 868,153
Long-term debt	2	**104,023**	**103,976**	104,087	104,113
Junior subordinated debt	2	**101,196**	**101,922**	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 consolidated balance sheet at their estimated fair value. Changes to the fair value of assets and liabilities arising from these derivatives are included, net, in other operating income in the consolidated statement of income. At March 31, 2017 the notional amount of these customer derivative agreement and the offsetting derivative counterparty positions each totaled $394.9 million and the fair values included in other assets and other liabilities on the consolidated balance sheet applicable to these agreements amounted to $0.7 million. At December 31, 2016, the notional amount of these customer derivative agreements and the offsetting derivative counterparty positions each totaled $371.1 million. At December 31, 2016, fair values included in other assets and other liabilities on the 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 FHLB 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 March 31, 2017 and December 31, 2016. Fair values included in other assets on the consolidated balance sheet applicable to these agreements amounted to $3.2 million at March 31, 2017 and $2.7 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 $1.5 billion at March 31, 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 $48.9 million at March 31, 2017 and $36.8 million at December 31, 2016. As of March 31, 2017, the fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

10. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Effective January 1, 2017, the Company adopted the prevision of 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 March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic310-20)*. 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 postretirement 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 postretirement 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 postretirement 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 address 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. and its wholly owned consolidated subsidiaries, 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-month period ending March 31, 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, other-than-temporary impairment, provision for income taxes 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.

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

Another critical accounting policy is the policy for acquired loans. Acquired loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate. Subsequent to the acquisition of acquired impaired loans, applicable accounting guidance requires the continued estimation of expected cash flows to be received. This estimation involves the use of key assumptions and estimates, similar to those used in the initial estimate of fair value. Changes in expected cash flows could result in the recognition of impairment through provision for credit losses. Subsequent to the purchase date, the methods utilized to estimate the required allowance for loan losses for the non-impaired acquired loans is similar to originated loans.

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, provision for income taxes, acquired loans 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 obtain a better understanding of how the Company's financial performance is reported.

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 months of 2017:

- First quarter loan growth of 4.9% (annualized)
- Average demand deposits up 9.6% from the first quarter of 2016
- Net interest margin expands 5 basis points
- Net interest income up 6.1% from the first quarter of 2016
- Adopted new accounting guidance for equity-based transactions

Results of Operations

Net income for the three months ended March 31, 2017 was $20.3 million, up from $18.9 million for the same period last year. Earnings per diluted share for the three months ended March 31, 2017 was $0.46, up from $0.43 for the first quarter of 2016. Return on average assets (annualized) was 0.92% for the three months ended March 31, 2017 as compared to 0.92% for the same period last year. Return on average tangible common equity (annualized) was 13.24% for the three months ended March 31, 2017 as compared to 13.17% for the three months ended March 31, 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 March 31,	
(In thousands)	**2017**	**2016**
Net Income	**$ 20,279**	$ 18,891
Amortization of intangible assets (net of tax)	**597**	670
	$ 20,876	$ 19,561
Average stockholders' equity	**$ 920,047**	$ 880,311
Less: average goodwill and other intangibles	**280,774**	282,751
Average tangible common equity	**$ 639,273**	$ 597,560

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 $68.5 million for the first quarter of 2017, up $1.1 million, or 1.6%, from the previous quarter and up $3.9 million, or 6.1%, from the first quarter of 2016. Fully taxable-equivalent ("FTE") net interest margin was 3.46% for the three months ended March 31, 2017, up from 3.41% for the previous quarter and down from 3.47% for the first quarter of 2016. The increase in net interest margin from the previous quarter was driven by an increase in yields on earning assets primarily due to higher interest rates in the quarter and two fewer days in the first quarter. Average interest earning assets were up $164.3 million, or 2.1%, for the first quarter of 2017 as compared to the prior quarter and up $558.7 million, or 7.4%, from the same period in 2016. This increase from the fourth quarter of 2016 was driven by a $74.3 million increase in securities available for sale and a $55.1 million increase in loans.

Net interest income was $68.5 million for the first quarter of 2017, up $3.9 million from the first quarter of 2016. FTE net interest margin was 3.46% for the three months ended March 31, 2017, down from 3.47% for the first quarter of 2016. Interest income for the first quarter of 2017 was up $4.5 million from the first quarter of 2016 primarily due to 7.4% increase in average interest earning assets. Interest expense for the first quarter of 2017 was up $0.6 million from the same period in 2016 and resulted primarily from increased interest rates and the average balance of interest bearing liabilities.

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

(Dollars in thousands)	**March 31, 2017**			**December 31, 2016**			**March 31, 2016**		
	Average Balance	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**
ASSETS									
Short-term interest bearing accounts	**$ 14,342**	**$ 47**	**1.33%**	$ 14,190	$ 23	0.64%	$ 13,639	$ 21	0.63%
Securities available for sale (1)	**1,352,219**	**7,121**	**2.14%**	1,277,931	6,164	1.92%	1,188,437	6,090	2.06%
Securities held to maturity (1)	**520,283**	**3,408**	**2.66%**	492,415	3,144	2.54%	465,916	2,870	2.48%
Investment in FRB and FHLB Banks	**46,326**	**572**	**5.01%**	39,448	604	6.09%	33,470	428	5.14%
Loans (2)	**6,211,058**	**64,227**	**4.19%**	6,155,985	64,095	4.14%	5,884,073	61,401	4.20%
Total interest earning assets	**8,144,228**	**$ 75,375**	**3.75%**	7,979,969	$ 74,030	3.69%	7,585,535	$ 70,810	3.75%
Other assets	**748,476**			760,563			699,194		
Total assets	**$ 8,892,704**			$ 8,740,532			$ 8,284,729		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Money market deposit accounts	**$ 1,688,060**	**$ 894**	**0.21%**	$ 1,674,119	$ 880	0.21%	$ 1,653,930	$ 912	0.22%
NOW deposit accounts	**1,143,231**	**183**	**0.06%**	1,130,578	146	0.05%	1,051,959	132	0.05%
Savings deposits	**1,176,224**	**157**	**0.05%**	1,145,352	161	0.06%	1,105,480	158	0.06%
Time deposits	**847,410**	**2,240**	**1.07%**	890,506	2,370	1.06%	921,754	2,395	1.04%
Total interest bearing deposits	**$ 4,854,925**	**$ 3,474**	**0.29%**	$ 4,840,555	$ 3,557	0.29%	$ 4,733,123	$ 3,597	0.31%
Short-term borrowings	**657,442**	**1,139**	**0.70%**	523,708	641	0.49%	369,443	328	0.36%
Long-term debt	**104,048**	**606**	**2.36%**	109,656	779	2.83%	130,420	619	2.46%
Junior subordinated debt	**101,196**	**726**	**2.91%**	101,196	707	2.78%	101,196	833	2.57%
Total interest bearing liabilities	**$ 5,717,611**	**$ 5,945**	**0.42%**	$ 5,575,115	$ 5,684	0.41%	$ 5,334,182	$ 5,377	0.41%
Demand deposits	**2,159,893**			2,136,310			1,970,315		
Other liabilities	**95,153**			115,258			99,921		
Stockholders' equity	**920,047**			913,849			880,311		
Total liabilities and stockholders' equity	**$ 8,892,704**			$ 8,740,532			$ 8,284,729		
Net interest income (FTE)		**69,430**			68,346			65,433	
Interest rate spread			**3.33%**			3.29%			3.34%
Net interest margin			**3.46%**			3.41%			3.47%
Taxable equivalent adjustment		**939**			921			856	
Net interest income		**$ 68,491**			$ 67,425			$ 64,577	

(1) Securities are shown at average amortized cost

(2) For purposes of these computations, nonaccrual loans are included in the average loan balances outstanding

The 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 March 31,

	Increase (Decrease) 2017 over 2016		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest bearing accounts	$ 1	$ 25	$ 26
Securities available for sale	816	215	1,031
Securities held to maturity	333	205	538
Investment in FRB and FHLB Banks	156	(12)	144
Loans	2,879	(53)	2,826
Total interest income	4,185	380	4,565
Money market deposit accounts	15	(33)	(18)
NOW deposit accounts	12	39	51
Savings deposits	9	(10)	(1)
Time deposits	(209)	54	(155)
Short-term borrowings	360	451	811
Junior subordinated debt	-	107	107
Long-term debt	(162)	(65)	(227)
Total interest expense	25	543	568
Change in FTE net interest income	$ 4,160	$ (163)	$ 3,997

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 March 31,	
	2017	**2016**
(In thousands)		
Insurance and other financial services revenue	**$ 6,770**	$ 6,946
Service charges on deposit accounts	**3,977**	3,939
ATM and debit card fees	**4,950**	4,583
Retirement plan administration fees	**4,172**	3,754
Trust	**4,532**	4,376
Bank owned life insurance	**1,411**	1,291
Net securities gains	**-**	29
Other	**2,938**	3,449
Total noninterest income	**$ 28,750**	$ 28,367

Noninterest income for the three months ended March 31, 2017 was $28.8 million, up $0.7 million from the prior quarter and up $0.4 million, or 1.4%, from the fourth quarter of 2016. The increase from the fourth quarter of 2016 was driven primarily by a $1.1 million seasonal increase in insurance and other financial services revenue. This was partially offset by a $0.5 million decrease in other non-interest income due to an equity securities impairment write-down of $1.3 million, which was offset by an equity investment gain of $0.8 million. Retirement plan administration fees were up $0.4 million, or 11.1%, for the first quarter of 2017 as compared to the first quarter of 2016 due primarily to the 2016 third quarter asset acquisition of Actuarial Designs & Solutions, Inc. ATM and debit card fees are up $0.4 million from the first quarter of 2016 due to increased accounts and card usage.

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 March 31,	
(In thousands)	**2017**	**2016**
Salaries and employee benefits	**$ 33,587**	$ 32,441
Occupancy	**6,170**	5,491
Data processing and communications	**4,198**	4,050
Professional fees and outside services	**3,032**	3,231
Equipment	**3,698**	3,460
Office supplies and postage	**1,608**	1,547
FDIC expenses	**1,178**	1,258
Advertising	**390**	504
Amortization of intangible assets	**967**	1,096
Loan collection and other real estate owned	**1,279**	705
Other	**5,175**	4,441
Total noninterest expense	**$ 61,282**	$ 58,224

Noninterest expense for the three months ended March 31, 2017 was $61.3 million, up $3.6 million or 6.3%, from the prior quarter and up $3.1 million, or 5.3%, from the first quarter of 2016. The increase from the prior quarter was due primarily to a $2.0 million increase in salaries and benefits due primarily to higher stock-based compensation and employee benefit expenses. Occupancy expense increased from the prior quarter by $1.0 million due to seasonal expenses. In addition, other noninterest expense increased $1.2 million from the previous quarter due to a $1.4 million favorable accrual adjustment recorded in the fourth quarter of 2016. Salaries and employee benefits increased $1.1 million, or 3.5%, from the first quarter of 2016 to the first quarter of 2017 due primarily to the merit pay increases and higher stock-based compensation expense.

Income Taxes

During 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 a $1.5 million income tax benefit in the first quarter of 2017, or $0.03 of diluted earnings per share.

Income tax expense for the three months ended March 31, 2017 was $8.3 million, down $1.8 million, or 17.8% from the prior quarter and down $1.4 million, or 14.7%, from the first quarter of 2016. The effective tax rate of 29.0% for the first quarter of 2017 was down from 34.0% for the prior quarter and first quarter of 2016 primarily due to the $1.5 million income tax benefit related to the adoption of new accounting guidance in the first quarter of 2017. Excluding the tax benefit of the new accounting guidance the effective tax rate was 34.3% for the first quarter of 2017.

ANALYSIS OF FINANCIAL CONDITION

Securities

Total securities increased $17.9 million, or 1.0%, from December 31, 2016 to March 31, 2017. The securities portfolio represents 21.2% of total assets as of March 31, 2017 and 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:

(In thousands)	**March 31, 2017**	December 31, 2016
Mortgage-backed securities:		
With maturities 15 years or less	**30%**	28%
With maturities greater than 15 years	**5%**	5%
Collateral mortgage obligations	**41%**	42%
Municipal securities	**14%**	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)	**March 31, 2017**	December 31, 2016
Residential real estate mortgages	**$ 1,275,774**	$ 1,262,614
Commercial	**1,284,464**	1,242,701
Commercial real estate mortgages	**1,540,472**	1,543,301
Consumer	**1,669,369**	1,641,657
Home equity	**502,224**	507,784
Total loans	**$ 6,272,303**	$ 6,198,057

Total loans increased by $74.2 million, or 1.2%, at March 31, 2017 from December 31, 2016, or 4.9% annualized during the three months ended March 31, 2017. Loan growth in the first three months of 2017 resulted from growth in the commercial, residential and consumer portfolios. Total loans represent approximately 70.1% of assets as of March 31, 2017, as compared to 69.9% 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.

	Three months ended			
(Dollars in thousands)	**March 31, 2017**		March 31, 2016	
Balance, beginning of period	**$ 65,200**		$ 63,018	
Recoveries	**1,515**		1,761	
Charge-offs	**(8,394)**		(6,559)	
Net charge-offs	**(6,879)**		(4,798)	
Provision for loan losses	**7,379**		6,098	
Balance, end of period	**$ 65,700**		$ 64,318	
Composition of Net Charge-offs				
Commercial and agricultural	**$ (847)**	**12%**	$ 328	(7)%
Real estate mortgage	**(565)**	**8%**	(687)	14%
Consumer	**(5,467)**	**80%**	(4,439)	93%
Net charge-offs	**$ (6,879)**	**100%**	$ (4,798)	100%
Annualized net charge-offs to average loans	**0.45%**		0.33%	

Net charge-offs were $6.9 million for the three months ended March 31, 2017, down from $8.6 million for the prior quarter and up from $4.8 million for the first quarter of 2016. Provision expense was $7.4 million for the three months ended March 31, 2017, as compared with $8.2 million for the prior quarter and $6.1 million for the first quarter of 2016. Annualized net charge-offs to average loans for the first quarter of 2017 was 0.45%, compared with 0.56% for the fourth quarter of 2016 and 0.33% for the first quarter of 2016.

The allowance for loan losses totaled $65.7 million at March 31, 2017, compared to $65.2 million at December 31, 2016 and $64.3 million at March 31, 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)	**March 31, 2017**		December 31, 2016	
Nonaccrual loans	**Amount**	**%**	Amount	%
Commercial and agricultural loans and real estate	**$ 14,719**	**45%**	$ 19,351	54%
Real estate mortgages	**9,498**	**29%**	8,027	23%
Consumer	**4,573**	**14%**	4,653	13%
Troubled debt restructured loans	**3,884**	**12%**	3,681	10%
Total nonaccrual loans	**32,674**	**100%**	35,712	100%
Loans 90 days or more past due and still accruing				
Commercial and agricultural loans and real estate	**-**	**0%**	-	0%
Real estate mortgages	**-**	**0%**	1,733	36%
Consumer	**2,392**	**100%**	3,077	64%
Total loans 90 days or more past due and still accruing	**2,392**	**100%**	4,810	100%
Total nonperforming loans	**35,066**		40,522	
OREO	**6,940**		5,581	
Total nonperforming assets	**$ 42,006**		$ 46,103	
Total nonperforming loans to total loans	**0.56%**		0.65%	
Total nonperforming assets to total assets	**0.47%**		0.52%	
Allowance for loan losses to total nonperforming loans	**187.36%**		160.90%	

Nonperforming loans to total loans was 0.56% at March 31, 2017, down 9 bps from December 31, 2016 and down 13 bps from March 31, 2016. Past due loans as a percentage of total loans was 0.54% at March 31, 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.

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 March 31, 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 213.71%, 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 $81.0 million in potential problem loans at March 31, 2017 as compared to $70.0 million at December 31, 2016. At March 31, 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 $7.2 billion at March 31, 2017, up $211.4 million, or 3.0%, from December 31, 2016. Total average deposits increased $311.4 million, or 4.6%, for the three months ended March 31, 2017, as compared to the same period last year driven primarily by growth in non-interest bearing demand deposits of $190.0 million, or 9.6%, combined with a $121.8 million, or 2.6%, increase in interest bearing deposits due to growth in money market deposit accounts, NOW accounts and savings accounts.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings, long-term debt and junior subordinated debt. Short-term borrowings totaled $540.2 million at March 31, 2017 compared to $681.7 million at December 31, 2016. Long-term debt was $104.0 million at March 31, 2017 compared to $104.1 million at December 31, 2016. Junior subordinated debt was $101.2 million at March 31, 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 $926.8 million represented 10.36% of total assets at March 31, 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 $20.3 million for the three months ending March 31, 2017, partially offset by dividends paid of $10.0 million during the period.

The Company did not purchase shares of its common stock during the three months ended March 31, 2017. As of March 31, 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 does not have a target dividend pay-out ratio.

As the capital ratios in the following table indicate, the Company remained "well capitalized" at March 31, 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	**March 31, 2017**	December 31, 2016
Tier 1 leverage ratio	**9.08%**	9.11%
Common equity tier 1 capital ratio	**10.02%**	9.98%
Tier 1 capital ratio	**11.40%**	11.42%
Total risk-based capital ratio	**12.40%**	12.39%
Cash dividends as a percentage of net income	**49.41%**	50.00%
Per common share:		
Book value	**$ 21.34**	$ 21.11
Tangible book value (1)	**$ 14.88**	$ 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. Increases in short-term interest rates in December 2016 and March 2017 helped drive a modest expansion of the net interest margin in Q1 2017, as the increases had little impact on deposit pricing. Future increases in short-term rates could result in deposits re-pricing higher, which, coupled with a flatter yield curve, would put pressure on the net interest margin.

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 March 31, 2017 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates (in bp points)	Percent change in net interest income
+200	(3.01%)
-100	(2.94%)

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 March 31, 2017, the Company's Basic Surplus measurement was 14.2% of total assets or approximately $1.3 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 $0.4 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 March 31, 2017, approximately $77.2 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 March 31, 2017 and December 31, 2016, FHLB advances outstanding totaled approximately $549 million and $598 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $1.0 billion at March 31, 2017 and $0.8 billion at December 31, 2016. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $558 million at March 31, 2017, or used to collateralize other borrowings, such as repurchase agreements. At March 31, 2017 the Bank also had additional borrowing capacity from unused collateral at the Federal Reserve of $0.8 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 March 31, 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

On May 9, 2017, the Company, the Bank and John H. Watt Jr., President and Chief Executive Officer of the Company and the Bank, entered into a Split-Dollar Agreement (the "Agreement") for the benefit of Mr. Watt. Pursuant to the Agreement, Mr. Watt shall be the direct beneficiary of death proceeds equal to the lesser of (i) the difference in the death benefit payable by the insurance carrier and the cash surrender value of the Policy (the "Net Amount at Risk") and (ii) the following:

Year of Death	Employee's Interest
2017-2018	$3,000,000
2019-2020	$2,225,000
2021-2022	$1,375,000
2023 and thereafter	$500,000.

If Mr. Watt is a member of the Board of Directors of the Company or the Bank but no longer an employee of the Company or the Bank at the time of his death, he shall be the direct beneficiary of death proceeds equal to the lesser of (i) $500,000 and (ii) the Net Amount at Risk. During Mr. Watt's lifetime, the Agreement may be terminated at any time by written instrument signed by the Company, the Bank and Mr. Watt, or by the Company and the Bank unilaterally at any time after Mr. Watt has ceased to be both the President and Chief Executive Officer and a member of the Board of Directors of the Company and the Bank, other than by reason of his disability. Pursuant to the terms of the Agreement, the Bank will pay the premiums on the related policy and will be the sole owner of the policy. The economic benefit of the Agreement to Mr. Watt will be imputed to him on an annual basis.

The foregoing description of the Agreement is not complete and is qualified in its entirety by reference to the full text of Agreement, which is filed as Exhibit 10.1 hereto and incorporated by reference herein.

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).
10.1	Split-Dollar Agreement between NBT Bancorp Inc., NBT Bank, National Association and John H. Watt Jr. dated May 9, 2017.*
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.
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101.INS	XBRL Instance Document.
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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.

* Management contract or compensatory plan or arrangement.

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 10th day of May 2017.

NBT BANCORP INC.

By: /s/ Michael J. Chewens

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

EXHIBIT INDEX

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Exhibit 10.1

SPLIT-DOLLAR AGREEMENT

THIS AGREEMENT (the "Agreement") is made and entered into as of the 9th day of May, 2017 by and among NBT BANCORP INC., a Delaware corporation, and NBT BANK, N.A., a national banking association organized under the laws of the United States (collectively, the "Bank"), and John H. Watt Jr.

WHEREAS, John H. Watt Jr. (the "Employee") is employed by the Bank as its president and chief executive officer;

WHEREAS, the Employee wishes to provide additional life insurance protection for his family in the event of his death;

WHEREAS, the Bank is willing to allocate a portion of the death proceeds of a life insurance policy or policies ("Policy") of the Employee's life to the Employee's beneficiary(ies) if the Employee dies while actively employed by the Bank or a Director of the Bank;

WHERAS, the Bank is willing pay any premiums due on the Policy;

WHEREAS, the Bank and the Employee have agreed to make the Policy subject to this Agreement; and

WHEREAS, it is understood and agreed that this Agreement is to be effective as of the date of this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual promises contained herein, the parties hereto agree as follows:

1. Insurance Policy.

The Bank is the sole owner of the Policy and shall have the right to exercise all incidents of ownership. The sole purpose of this Agreement is to provide a death benefit payable on the death of the Employee during the term of this Agreement. The parties agree that the Policy shall be subject to the terms of this Agreement and of the endorsement to the Policy filed with the Insurer to implement the provisions of this Agreement. The Bank may exercise all ownership rights granted to the owner of the Policy by the terms thereof, except as otherwise provided in this Agreement. If the Employee should die while employed by the Bank, he shall be the direct beneficiary of death proceeds equal to the lesser of (i) the dollar amount specified on Exhibit A hereto and (ii) the difference in the death benefit payable by the insurance carrier and the cash surrender value of the Policy (the "Net Amount at Risk") with the Bank entitled to all other proceeds. If the Employee is a member of the Board of the Bank but no longer an employee of the Bank at the time of his death, he shall be the direct beneficiary of death proceeds equal to the lesser of (i) $500,000 and (ii) the Net Amount at Risk with the Bank entitled to all other proceeds. The amount to which the Bank is entitled in either event is referred to herein as the "Bank's Interest in the Policy." The Bank will keep possession of the Policy. The Bank agrees to make the Policy available at reasonable times to the insured for the purpose of endorsing or filing any change of beneficiary on the Policy for the portion of the death proceeds that is unrelated to the Bank's Interest in the Policy, but the Policy shall thereafter be promptly returned to the Bank. Any indebtedness on the Policy will be deducted from the proceeds payable to the Bank. Also, any collateral assignment made by the Bank will be deducted from the proceeds payable to it.

2. Election of Settlement Option and Beneficiary. By notice to the Bank, the Employee may select the settlement option for payment of, and the beneficiary or beneficiaries to receive, the portion of the death benefit provided under the Policy other than the Bank's Interest in the Policy. Upon receipt of such notice, the Bank shall execute and deliver to the Insurer the forms necessary to elect the requested settlement option and to designate the requested person, persons or entity as the beneficiary or beneficiaries to receive such portion of the death proceeds of the Policy. The Bank and the Employee hereby agree to take all actions necessary to cause the beneficiary designation and settlement election provisions of the Policy to conform to the provisions hereof. The Bank shall not terminate, alter or amend such designation or election without the express written consent of the Employee.

3. Policy Dividends. Any dividend declared on the Policy shall be either applied to reduce the premium payments on the Policy agreed to be paid by the Bank pursuant to Section 4 herein or to purchase paid up additions to the Policy, at the discretion of the Bank.

4. Payment of Premiums. The Bank shall pay a sufficient amount of premiums to the Insurer to maintain the Policy in force, and shall, upon request, provide evidence to the Employee that the Policy remains in force. The Bank shall annually furnish the Employee a statement of the amount of income reportable by the Employee for federal and state income tax purposes, as a result of the insurance protection provided on the Employee's life.

5. Limitation on the Bank's Rights in the Policy. The Employee will have rights set out in Section 2 hereof with respect to the death benefit provided under the Policy for the benefit of the Employee's beneficiary or beneficiaries other than the Bank's Interest in the Policy. The Bank shall not sell, surrender, change the insured or assign or transfer ownership of the Policy except after termination of the Agreement pursuant to Section 6 hereof; other than for the purpose of obtaining a loan against the Policy. The aggregate amount of such loans, together with the unpaid interest accrued thereon, will at no time exceed the lesser of (a) the Bank's Interest in the Policy or (b) the loan value of the Policy as determined by the Insurer. The Bank will not take any action dealing with the Insurer that would impair any right or interest that the Employee has in the Policy. Without limiting the foregoing, following termination of this Agreement, to the extent permitted by the Policy, the Bank may designate any officer or other employee of the Bank as the insured under the Policy and may continue this Agreement with such officer or employee; provided, however, pursuant to this Agreement the Bank cannot assign, transfer, convey or sell the Policy to the Employee or any agent of the Employee for the Employee's behalf. The exercise by the Bank of the right to surrender the policy or to change the insured will terminate the rights of the Employee in the Policy.

6. Termination of the Agreement During the Employee's Lifetime.

(a) This Agreement may be terminated at any time while the Employee is living by a written instrument signed by the Bank and the Trustee.

(b) The Bank may unilaterally terminate this Agreement while the Employee is living by written notice to the Employee at any time after the Employee has ceased to be (i) both the President and Chief Executive Officer of the Bank and (ii) a member of the Board of the Bank, subject to subsection 6(c), below.

(c) The terms of subsection 6(b), above, notwithstanding, if the cessation of the Employee's employment as President and/or Chief Executive Officer of the Bank or Employee's Board membership is due to disability (as defined pursuant to the Bank's Long-Term Disability Plan), the Bank may not unilaterally terminate this agreement, but this Agreement shall continue in force until the earliest to occur of the following: (i) Employee reaching age 72, (ii) the Employee electing to receive his qualified retirement plan benefits or (iii) his ineligibility for benefits under the Bank's Long-Term Disability Plan. If at the occurrence of the first of these events the Employee is eligible to begin receiving benefits hereunder, this Agreement will continue and the Employee shall then receive benefits in accordance with the terms of this Plan. If, on the other hand, the Employee is not otherwise eligible to receive benefits hereunder, this Agreement shall terminate at that time unless the Employee thereupon returns to employment as the President and Chief Executive Officer of the Bank or as a member of the Board of Directors of the Bank, which shall continue the Agreement in full force.

(d) In any event, upon termination of this Agreement pursuant to this Section 6, the Bank cannot assign, transfer, convey or sell the Policy to the Employee or any agent of the Employee for the Employee's behalf.

7. Insurer Not a Party.

The Insurer shall be fully discharged from its obligations under the Policy by payment of the Policy death benefit to the beneficiary or beneficiaries named in the Policy, subject to the terms and conditions of the Policy. In no event shall the Insurer be considered a party to this Agreement, or any modification or amendment hereof. No provision of this Agreement, nor of any modification or amendment hereof, shall in any way be construed as enlarging, changing, varying, or in any other way affecting the obligations of the Insurer as expressly provided in the Policy, except insofar as the provisions hereof are made a part of the Policy by the beneficiary designation executed by the Bank and filed with the Insurer in connection herewith. The Insurer shall not be obligated to inquire as to the distribution of any monies payable or paid by it under the Policy on the Employee's life pursuant to the terms of this Agreement.

8. Named Fiduciary, Determination of Benefits, Claims Procedure and Administration.

(a) The Bank is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of this Agreement, and it shall be responsible for establishing and carrying out a funding policy and method consistent with the objectives of this Agreement.

(b) (1) Claim

A person who believes that he or she is being denied a benefit to which he or she is entitled under this Agreement (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Bank, setting forth his or her claim. The request must be addressed to the general counsel of the Bank at its then principal place of business.

(2) Claim Decision.

Upon receipt of a claim, the Bank shall advise the Claimant that a reply will be forthcoming within 90 days and shall, in fact, deliver such reply within such period. The Bank may, however, extend the reply period for an additional 90 days for reasonable cause.

If the claim is denied in whole or in part, the Bank shall adopt a written opinion, using language calculated to be understood by the Claimant, setting forth: (a) the specific reason or reasons for such denial; (b) the specific reference to pertinent provisions of this Agreement on which such denial is based; (c) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (d) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (e) the time limits for requesting a review under subsection (3) and for review under subsection (4) hereof.

(3) Request for Review.

Within 60 days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Bank review the determination of the Bank. Such request must be addressed to the general counsel of the Bank, at its then principal place of business. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Bank. If the Claimant does not request a review of the Bank's determination within such 60 day period, he or she shall be barred and estopped from challenging the Bank's determination.

(4) Review of Decision.

Within 60 days after the general counsel's receipt of a request for review, he or she will review the Bank's determination. After considering all materials presented by the Claimant, the general counsel will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Agreement on which the decision is based. If special circumstances require that the 60 day time period be extended, the Secretary will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.

9. **Amendment**. This Agreement may not be amended, altered or modified, except by a written instrument signed by the parties hereto, or their respective successors or assigns, and may not be otherwise terminated except as provided herein.

10. **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of the Bank and its successors and assigns, and the Employee for the benefit of his beneficiary or beneficiaries.

11. **Notices**. Any notice, consent or demand required or permitted to be given under the provisions of this Agreement shall be in writing, and shall be signed by the party giving or making the same. If such notice, consent or demand is mailed to a party hereto, it shall be sent by United States certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Bank. The date of such mailing shall be deemed the date of notice, consent or demand.

12. **Governing Law**. This Agreement, and the rights of the parties hereunder, shall be governed by and construed in accordance with the laws of the United States, to the extent applicable, and otherwise by the laws of the State of New York applicable to contracts entered into and performed wholly within its borders.

Exhibit A

Year of Death	Employee's Interest Under Section 1	
2017-2018	$	3,000,000
2019-2020	$	2,225,000
2021-2022	$	1,375,000
2023 and thereafter	$	500,000

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate, as of the day and year first above written.

NBT BANCORP INC.

By: /s/ Martin A. Dietrich
Title: Chairman

NBT BANK, N.A.

By: /s/ Martin A. Dietrich
Title: Chairman

EXECUTIVE

By: /s/ John H. Watt, Jr.
Title: President and Chief Executive Officer

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: May 10, 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: May 10, 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 March 31, 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
May 10, 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 March 31, 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
May 10, 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.