

# 2016 ANNUAL REPORT



# 2016 annual report

## Corporate Headquarters

NBT Bancorp Inc.  
52 South Broad Street  
Norwich, N.Y. 13815  
800.NBT.BANK

## Company Profile

- › Financial holding company
- › Incorporated in 1986 in the state of Delaware
- › Primarily operates through NBT Bank, N.A. and two financial services companies
- › NBT Bank, N.A. offers personal banking, asset management and business services through 154 locations in six states, including New York, Pennsylvania, Vermont, Massachusetts, New Hampshire and Maine.
- › EPIC Advisors, Inc., based in Rochester, N.Y., is a full-service 401(k) plan recordkeeping firm.
- › NBT-Mang Insurance Agency, based in Norwich, N.Y., is a full-service insurance agency.



Marty Dietrich and John Watt honored NBT's past and future at the Nasdaq opening bell on December 19, 2016.

# financial highlights

(all dollar amounts in thousands except share and per share data)

## FOR THE YEAR

### PERFORMANCE

	2016	2015
Net income.....	\$ 78,409	\$ 76,425
Return on average assets.....	0.92%	0.96%
Return on average tangible equity.....	13.13%	13.31%
Net interest margin.....	3.43%	3.50%

### PER COMMON SHARE DATA

Basic earnings.....	\$ 1.81	\$ 1.74
Diluted earnings.....	\$ 1.80	\$ 1.72
Cash dividends.....	\$ 0.90	\$ 0.87
Dividend yield.....	2.15%	3.12%

## At December 31

### BALANCE SHEET DATA

Total assets.....	\$ 8,867,268	\$ 8,262,646
Total loans.....	\$ 6,198,057	\$ 5,883,133
Allowance for loan losses.....	\$ 65,200	\$ 63,018
Deposits.....	\$ 6,973,688	\$ 6,604,843
Total shareholders' equity.....	\$ 913,316	\$ 882,004

### ASSET QUALITY

Nonperforming loans.....	\$ 40,522	\$ 37,406
Nonperforming assets.....	\$ 46,103	\$ 42,072
Nonperforming loans to total loans.....	0.65%	0.64%

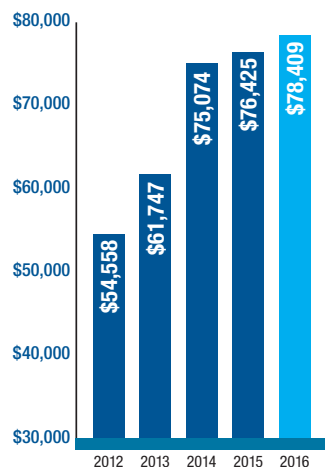
### CAPITAL

Common equity tier 1 capital ratio.....	9.98%	10.20%
Tier 1 capital ratio.....	11.42%	11.73%
Total risk-based capital ratio.....	12.39%	12.74%
Book value per share.....	\$ 21.11	\$ 20.31
Tangible book value per share.....	\$ 14.61	\$ 13.79
Closing stock price.....	\$ 41.88	\$ 27.88
Ending shares outstanding.....	43,257,750	43,430,702
Market capitalization.....	\$ 1,811,635	\$ 1,210,848

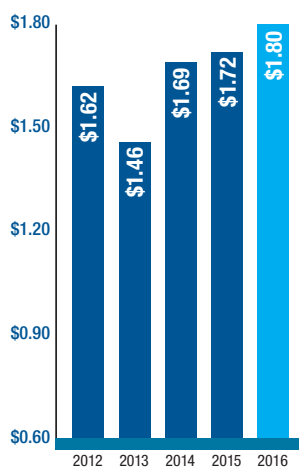
### WEALTH MANAGEMENT DIVISION

Assets under management and administration.....	\$ 6,346,337	\$ 5,770,229
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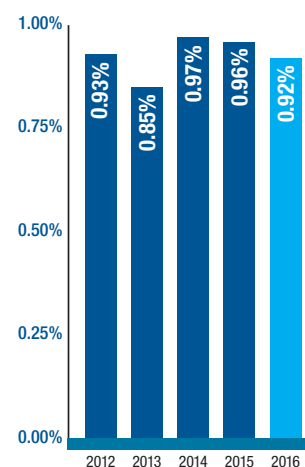
NET INCOME\*



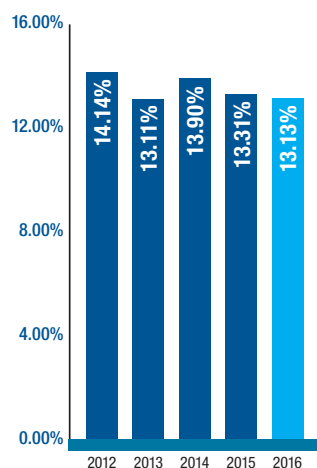
DILUTED EARNINGS PER SHARE\*



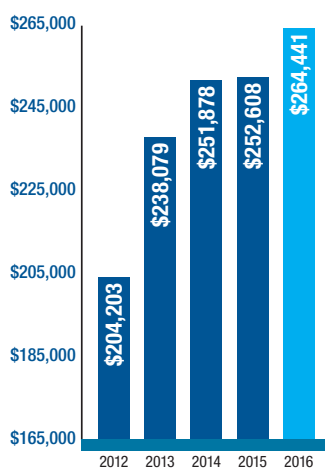
RETURN ON AVERAGE ASSETS\*



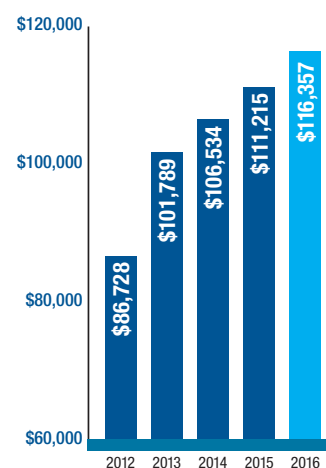
RETURN ON AVERAGE TANGIBLE EQUITY\*



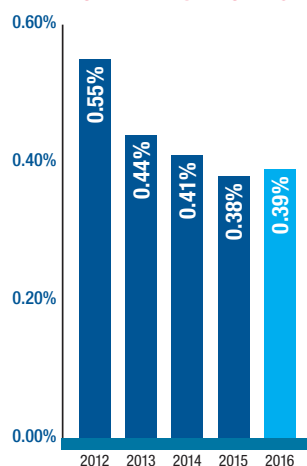
NET INTEREST INCOME



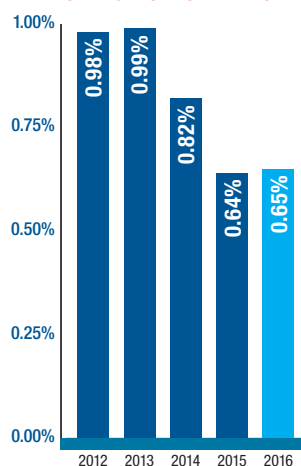
NONINTEREST INCOME\*\*



NET CHARGE-OFFS TO AVERAGE LOANS



TOTAL NONPERFORMING LOANS TO TOTAL LOANS



Dollar amounts  
in thousands  
except per share data

\*2013 includes merger  
expenses related to the  
acquisition of Alliance  
Financial Corporation

\*\*Shown excluding  
net securities gains (losses)  
and gains on the sale  
of our ownership in  
Springstone Financial, LLC

# to our shareholders

Fellow Shareholders,

One of our greatest responsibilities is to ensure that NBT Bancorp Inc. (NBT) remains fundamentally strong from the inside out. That means focusing not only on the things we do as a company, but also on *why* and *how* we do them.

We have long believed that when we live by our corporate values, we create a culture capable of sustaining consistently outstanding performance. On this point, NBT's track record offers proof positive: For the fourth year in a row, the company set a new earnings record, generating net income of \$78.4 million in 2016, up from \$76.4 million in 2015. Earnings per diluted share were \$1.80 for 2016, up 5% from \$1.72 the prior year.

Taking a longer look back, NBT has posted net income exceeding \$50 million annually for more than a decade—a period that included many challenges for the financial services industry, such as the Great Recession. This equates to an annual return on average assets of over 90 basis points for all but one of those years: 2013 when we acquired Alliance Financial Corporation and finished at 85 basis points. What's more, we achieved this profitability while investing in the expansion of our footprint into New England and completing the Alliance acquisition—the largest in our history.

## NBT BANCORP CORPORATE VALUES

CUSTOMER FOCUS | MUTUAL RESPECT  
TEAMWORK | INTEGRITY | POSITIVE ATTITUDE  
COMMUNITY INVOLVEMENT | ACCOUNTABILITY

We have no doubt that the commitment and capabilities of our employees are at the heart of this success, making what motivates and guides them of great importance. That's why our management team gathered in 2016 to refine and reaffirm the values that form the foundation for most everything we do.

These values, combined with our vision, promote an environment where we can be innovative in pursuing new business opportunities and in responding to shifts in our markets and industry. They define everyday interactions with customers and colleagues. Ultimately, they inspire us to act in the best interests of the company, our customers and our shareholders.

Our shared values and strategic focus areas also help create continuity. This was on full display as management of the company transitioned seamlessly during 2016.

## Solid Growth—By the Numbers

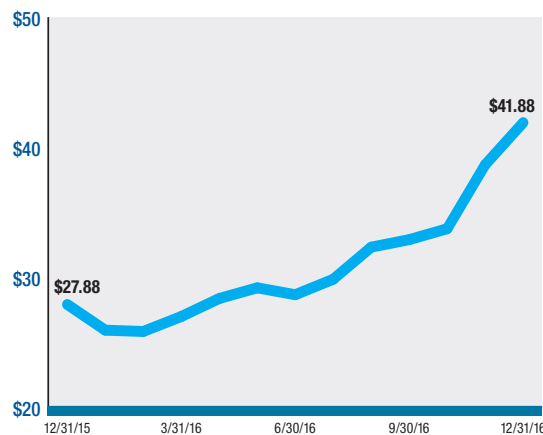
As a community bank, we rely on our local teams to develop new customer relationships and expand existing ones. By all accounts, they are getting the job done. Organic growth continued to be a key driver of NBT's success:

- Average demand deposits increased by 10% over 2015, the seventh consecutive year this growth has been 10% or higher.
- Loans grew by 5.4% in 2016, compared to 5.1% in 2015.
- 2016 net interest income was up \$11.8 million, or 4.7%, compared to 2015. This was driven by a \$510.5 million increase in earning assets.
- 2016 noninterest income grew by \$6 million, or 5%, compared to 2015 (excluding net securities gains and the gain on sale of an equity investment). Retirement plan income was up \$2 million, while ATM and debit card income increased \$1 million.

We also depend on our employees at all levels to find ways we can be more efficient, whether through streamlined processes or better use of resources. Again, their efforts paid off in 2016 as improved operating efficiencies resulted in flat noninterest expense year over year.

We have always had confidence in our strong fundamentals, including growth in loan production, core deposit levels and fee income generation. We believed that investors who took the long view with respect to the potential of their investment would see it grow in value when the outlook for interest rates and the financial sector turned in a favorable direction. Last year that time arrived: NBT's stock price increased by 50% from year-end 2015 to year-end 2016.

NBT BANCORP STOCK PRICE



## The Road Ahead

We will continue to focus on organic growth, which generates low-cost core deposits and reduces the company's need to borrow. In 2016 alone, average demand deposit growth saved NBT approximately \$4.5 million in interest expense.

Our New England expansion states of Vermont, Massachusetts, New Hampshire and Maine will continue to be an important part of that organic growth. We maintained our positive trajectory in New England in 2016 with total loans outstanding exceeding \$1 billion, an increase of more than 24% over the prior year.

We expect that noninterest income, particularly from our Wealth Management business, will continue to gain momentum as a significant contributor to the bottom line. Two acquisitions completed in 2016 added new capabilities that complement our established wealth management services: Actuarial Designs & Solutions, Inc. is a retirement plan consulting and services firm, and Columbia Ridge Capital Management, Inc. is a registered investment advisor.

NBT has always taken pride in employing technology to better serve our customers. Our digital capacity is constantly evolving to address the needs of increasingly mobile customers. We offer them more tools than ever to manage their finances from anywhere, at any time, through virtually any device connected to the Internet.

We continue to extend our digital branch model, recently completing work on our fourth such location in Hamilton, N.Y. These branches offer advanced self-service technology and layouts that facilitate a side-by-side customer/banker experience. Other digital initiatives include the more robust delivery of marketing messages through targeted, measurable channels and the introduction of interactive resources to help our employees sell, collaborate and grow professionally.



## Closing Thoughts

We see last year as the continuation of a remarkable story, one that now dates back 160 years! NBT ended 2016 with \$8.9 billion in assets, up 7.3% from the close of 2015.

SNL Financial ranked NBT the 84th largest bank in the U.S. based on total assets as of December 31, 2016.

We are that much closer to crossing the threshold of \$10 billion in assets and are on track with our readiness plan to meet the regulatory compliance requirements associated with that milestone.

Reflecting its continued confidence in the company's financial health, the Board of Directors voted to pay out a 500th consecutive cash dividend in March 2017—another record we are very proud of.

For the last decade, the banking industry has grappled with a sluggish economy, historically low interest rates and significant new government regulation. Recently, the Federal Reserve has signaled the likelihood of multiple increases in the Federal Funds Rate in 2017. Moreover, momentum appears to have shifted toward viable and reasonable regulatory reform, as well as corporate tax relief. While we support sensible reforms, we are also keenly aware of the need to preserve the safety and soundness of our nation's financial system. We look forward to more clarity on these matters in the near future.

We believe NBT is well positioned for continued solid performance based on our strong fundamentals, outstanding team, investments in technology and aligned culture. We know that our values and strategies have produced enviable results through some challenging times, and we expect even greater success as conditions improve for our industry.

We would like to thank our directors, shareholders, employees and our 500,000 customers for all of your enthusiastic support.

John H. Watt, Jr.  
President and  
Chief Executive Officer

Martin A. Dietrich  
Chairman of the Board

## seamless transitions



NBT executives rang the Nasdaq opening bell on December 19, 2016, celebrating 160 years in business for NBT Bank and a transition to new leadership for the company.

When Daryl R. Forsythe was named president and chief executive officer of NBT Bancorp and NBT Bank in 1995, Martin A. Dietrich had been with NBT for 14 years, working in various management capacities. Suffice it to say, they would come to know each other pretty well and forge a strong relationship in the years that followed. This set the table for over two decades of stable, like-minded leadership, as Marty would eventually succeed Daryl as CEO in 2006 and serve through 2016.

This past year will be remembered for some historic and seamless transitions in the company's corporate governance. In May 2016, Daryl retired from his role as NBT's chairman, bringing to a close 28 years of service to the company.

At the same time, the Board of Directors elected Marty chairman and announced a succession plan, promoting John H. Watt, Jr. to the position of NBT Bank president and naming him Marty's successor as CEO of the holding company and bank at the end of 2016, when Marty retired from those posts.

John joined NBT in 2014 and has played a key leadership role in several areas: commercial and consumer lending, credit administration and marketing. He was previously executive vice

president for commercial banking, investment management and bank operations and a director with Alliance Financial Corporation, which was acquired by NBT in 2013.

On December 19, 2016, NBT had the honor of ringing the bell to open the Nasdaq Stock Market for the second time in the company's history, commemorating the bank's 160th anniversary and the official transition of the CEO role from Marty to John.

Also in 2016, the board structure was streamlined so that the same directors serve on both the holding company and bank boards. The Board believes this evolution in the company's corporate structure represents a step toward more continuity, efficiency and agility.

The Board and the Executive Management Team would like to extend many thanks to Brian K. Hanaburgh, Susan H. Kwiatek, Thomas G. Mazzotta and Russell B. Strait, who completed terms of service on the bank board last May. In addition, they recognize V. Daniel Robinson, II, Matthew J. Salanger and Andrew S. Kowalczyk, III, as they began terms of service on the holding company board in December.



## executive management

### **John H. Watt, Jr.**

President and  
Chief Executive Officer

### **Michael J. Chewens**

Senior Executive  
Vice President and  
Chief Financial Officer

### **Timothy L. Brenner**

Executive Vice President  
and President of  
Wealth Management

### **Matthew K. Durkee**

Executive Vice President  
and President of  
New England Region

### **Sarah A. Halliday**

Executive Vice President  
and President of  
Commercial Banking

### **F. Sheldon Prentice**

Executive Vice President,  
General Counsel and  
Corporate Secretary

### **Catherine M. Scarlett**

Executive Vice President,  
Chief Human Resources  
Officer and Chief Ethics  
Officer

### **Joseph R. Stagliano**

Executive Vice President,  
Operations and  
Retail Banking

## board of directors

### **Martin A. Dietrich**

Chairman

Patricia T. Civil  
Timothy E. Delaney  
James H. Douglas  
Andrew S. Kowalczyk, III, Esq.  
John C. Mitchell  
Michael M. Murphy

### **John H. Watt, Jr.**

President and  
Chief Executive Officer

V. Daniel Robinson, II  
Matthew J. Salanger  
Joseph A. Santangelo  
Lowell A. Seifter, Esq.  
Robert A. Wadsworth  
Jack H. Webb

### **NBT Bank Honorary Directors include:**

Carl Barbic, Richard Chojnowski, Daryl R. Forsythe,  
Peter B. Gregory, DDS, Paul D. Horger, Esq., Janet H. Ingraham,  
Andrew S. Kowalczyk, Jr., Esq., Van Ness D. Robinson,  
Paul M. Solomon, Paul O. Stillman and J.K. Weinman.

[Additional information regarding our Executive Management Team and the NBT Bancorp Board of Directors can be found in the proxy statement for our 2017 Annual Meeting of Shareholders.](#)

## shareholder information

### **Annual Meeting**

Tuesday, May 23, 2017  
10:00 a.m.  
DoubleTree by Hilton Hotel  
225 Water Street  
Binghamton, N.Y. 13901  
607.722.7575

### **Stock**

Traded on:  
Nasdaq Global Select  
Market  
Symbol: NBTB

### **Financial Reports and Releases**

Copies of the company's annual report to the Securities and Exchange Commission on Form 10-K, quarterly reports on Form 10-Q and news releases may be obtained without charge by visiting our website at [www.nbtbankcorp.com](http://www.nbtbankcorp.com) or by writing to Chief Financial Officer Michael J. Chewens at the corporate headquarters address provided on the back cover.

### **Shareholder Relations**

Information regarding NBT Bancorp, our dividend reinvestment and stock purchase plan, and direct deposit of dividends can be found on our website at [www.nbtbankcorp.com](http://www.nbtbankcorp.com).

Those seeking additional information should contact Shareholder Relations by phone at 800.NBT.BANK (800.628.2265), Option 7, or by mail in the care of NBT Bank at P.O. Box 351, Norwich, N.Y. 13815.

### **Stock Transfer and Registrar Agent**

American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, N.Y. 11219  
800.NBT.BANK  
(800.628.2265), Option 7  
[www.amstock.com](http://www.amstock.com)  
[info@amstock.com](mailto:info@amstock.com)

### **Independent Auditors**

KPMG LLP  
515 Broadway  
Albany, N.Y. 12207



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