

NBT BANCORP

2018 ANNUAL REPORT





financial highlights

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

Like many other companies benefiting from a lower tax rate, NBT Bancorp Inc. incurred a one-time, \$4.4 million (\$0.10 diluted earnings per share) non-cash charge in 2017 associated with the Tax Cuts and Jobs Act. This charge is excluded from each of the adjusted measures under the Operating Performance heading.

FOR THE YEAR	2018	2017
OPERATING PERFORMANCE		
Net income.....	\$112,566	\$86,561
Return on average assets	1.20%	0.96%
Return on average tangible equity.....	16.71%	13.48%
Diluted earnings.....	\$2.56	\$1.97

FOR THE YEAR

PERFORMANCE

	2018	2017
Net income.....	\$112,566	\$82,151
Return on average assets	1.20%	0.91%
Return on average tangible equity.....	16.71%	12.82%
Net interest margin.....	3.58%	3.47%

PER COMMON SHARE DATA

	2018	2017
Basic earnings	\$2.58	\$1.89
Diluted earnings.....	\$2.56	\$1.87
Cash dividends	\$0.99	\$0.92
Dividend yield.....	2.86%	2.50%

AT DECEMBER 31

BALANCE SHEET DATA

	2018	2017
Total assets.....	\$9,556,363	\$9,136,812
Total loans.....	\$6,887,709	\$6,583,639
Allowance for loan losses	\$72,505	\$69,500
Deposits.....	\$7,368,211	\$7,170,636
Total shareholders' equity.....	\$1,017,909	\$958,177

ASSET QUALITY

	2018	2017
Nonperforming loans.....	\$30,572	\$31,118
Nonperforming assets.....	\$33,013	\$35,647
Nonperforming loans to total loans.....	0.44%	0.47%

CAPITAL

	2018	2017
Common equity tier 1 capital ratio.....	10.49%	10.06%
Tier 1 capital ratio.....	11.79%	11.42%
Total risk-based capital ratio	12.78%	12.42%
Book value per share	\$23.31	\$22.01
Tangible book value per share	\$16.66	\$15.54
Closing stock price	\$34.59	\$36.80
Ending shares outstanding	43,672,966	43,542,809
Market capitalization	\$1,510,648	\$1,602,375

company profile

- NBT Bancorp Inc. is a financial holding company incorporated in 1986 in the state of Delaware.
- The Company primarily operates through NBT Bank, N.A. and two financial services companies.
- NBT Bank, N.A. offers personal banking, commercial banking, and wealth management services through 149 locations in six states (including New York, Pennsylvania, Vermont, Massachusetts, New Hampshire, and Maine) and through online and mobile channels.
- EPIC Retirement Plan Services is a full-service 401(k) recordkeeping firm based in Rochester, NY.
- NBT Insurance Agency, LLC is a full-service insurance agency based in Norwich, NY.

Forward-Looking Statements

This letter contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to a number of risks and uncertainties. Such statements are not guarantees of future performance and actual results may differ materially from any forward-looking statements contained in this letter. For a discussion of the factors that might cause such differences, please refer to our filings with the Securities and Exchange Commission.

to our shareholders

Fellow Shareholders,

Thanks to hard work by the best team in community banking, we have the privilege of reporting that NBT Bancorp Inc. (NBT) recorded our most profitable year ever in 2018—surpassing \$100 million in net income for the first time in the Company's history.

Strong tailwinds contributed to our record-setting performance—among them a robust economy, a favorable interest rate environment, federal tax reform, and regulatory relief. But these external forces would have been of little consequence if not for the well-coordinated team of NBT Bankers who channeled them—leveraging our fundamental financial strengths and driving our future-focused strategies. We did what we do best in 2018, we served our customers and communities by making loans, investing, and providing appropriate financial advice.

We are proud to point out that NBT has performed consistently well over the long term. Looking forward, we are positioned to make the most of opportunities whenever they arise. We intend to do this by maintaining focus on enhancing the customer experience, developing our team, implementing technology to digitize our services and processes, and managing risk.

RECORD-BREAKING RESULTS

For the sixth year in a row, NBT set a new earnings record, generating net income of \$112.6 million in 2018, up from operating net income of \$86.6 million in 2017—a 30% increase. This translated into diluted earnings per share of \$2.56—also a new record and up nearly 30% from operating diluted earnings per share of \$1.97 the prior year. Earnings increased 12% year over year (excluding the impact of tax reform) as our diverse array of businesses successfully executed our core strategies and delivered strong results.

Net interest income increased \$22.1 million to \$305.6 million for the year ended December 31, 2018. Loans grew 4.6% or \$304 million year over year, with 64% of the growth coming from commercial lending. At the same time, we managed the rising interest rate environment as we had in prior cycles—by maintaining our disciplined deposit-pricing strategy that balances our commitment to customers with our responsibility to shareholders. This approach helped us grow core deposits and manage the related costs.

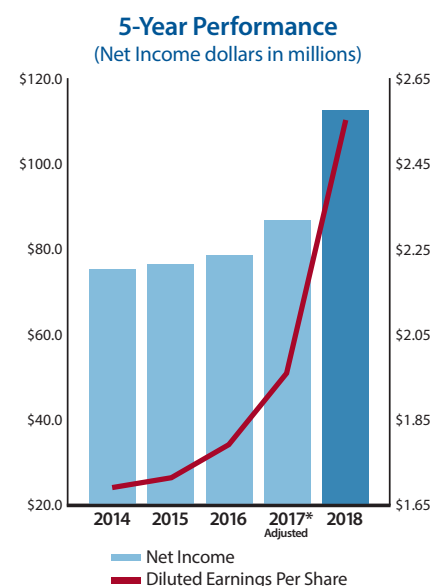
Low-cost core deposits made up 78% of total funding at year-end 2018. Our five-year annual growth rate (2014–2018) for noninterest-bearing demand deposit accounts was a solid 8%. These lower funding costs combined with higher asset yields drove net interest margin expansion by 11 basis points to 3.58% in 2018.

NBT's focus on growing fee-based businesses continues to produce positive results. Noninterest income, excluding net securities gains (losses), increased \$11.7 million to \$131.1 million in 2018, accounting for 30% of total revenue.

Executing on our commitment to help America retire was an important driver of fee income. EPIC Advisors, Inc., a subsidiary of NBT, acquired Retirement Plan Services, LLC of St. Louis, Missouri in the second quarter to add scale to our 401(k) recordkeeping business. The rebranded EPIC Retirement Plan Services now has clients in all 50 states with over 220,000 plan participants.

\$112.6
MILLION

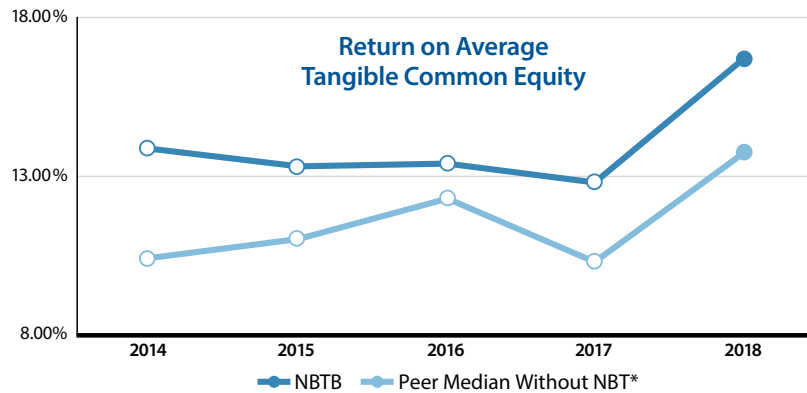
New
Earnings Record



*Excludes one-time, non-cash charge of \$4.4 million related to the Tax Cuts and Jobs Act which equates to \$0.10 per diluted share

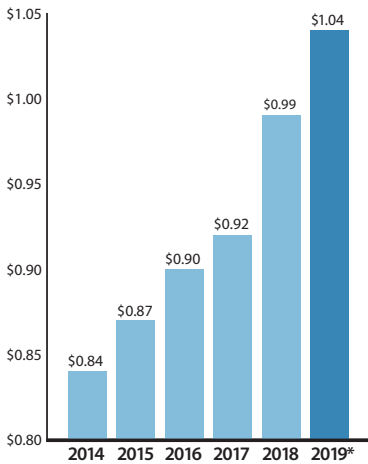
UNDERLYING STRENGTHS & SHAREHOLDER VALUE

Supporting our record earnings is a solid financial base. We are focused on delivering above-market levels of return on shareholder capital. Our return on average tangible equity for 2018 was 16.71%. We intend to continue to deploy capital in a strategic manner as we move forward. This includes expanding into new markets, investing in technology to support our customers and our employees, and returning capital to shareholders.



*Peer data source: SNL Financial Market. Peer median comprised of BHLB, BRKL, CBU, FBC, FCF, FFIC, FMBI, INDB, MBFI, NWBI, ONB, PFS, PRK, STBA, TMP, and TRST.

Dividend Growth



*Annualized based on first quarter 2019 dividend declared of \$0.26

In 2018, NBT’s Board of Directors increased the quarterly dividend on two occasions for a combined increase of 13%. We marked the 507th consecutive dividend payment in the history of the Company in December, upholding our commitment to provide long-term total return to our shareholders.

With a total capital ratio of 12.78% at year-end, NBT is considered well capitalized by regulators and is well positioned to meet our financial obligations and further our growth initiatives.

Asset quality continued to trend positively with net charge-offs to average loans improving from 0.42% for 2017 to 0.38% in 2018. These and other trends have demonstrated that we are continuing to manage risk thoughtfully and effectively as we grow.

KEY BUSINESS STRATEGIES: THE PATH FORWARD

NBT is committed to many important initiatives, including: New England expansion, digitization, and the development of our team.

New England Expansion. We ended 2018 with 19 locations and 160 employees in Vermont, Massachusetts, New Hampshire, and Maine. Our commercial and consumer success in the region has exceeded expectations. Total loans outstanding in the region grew 16% year over year, representing more than half of the Company’s total loan growth. We also increased deposits by 25% year over year.

We see opportunities for more growth in New England. In 2018, we recruited successful bankers and empowered our growing team to help advance our strategies, including deepening existing relationships, acquiring new customers, and exploring opportunities to expand into new communities. We expect to do more of this in 2019.



Digital Strategy. Bringing people and technology together to transform the customer experience is at the heart of our aggressive technology roadmap. With each initiative and project, we are enhancing the products and services we offer as we streamline back-office processes and redeploy resources in positive new ways. We expect to invest 10% of our total noninterest expense on technology in 2019 and will continue to build on these investments in the coming years.

Technology provides the tools and inspiration that enable us to move forward with confidence and speed—whether we are upgrading our mobile and online banking services, rolling out a new platform to support customer interactions in our branches and call centers, or providing employees with collaboration tools that boost engagement and productivity. We are also in the process of bringing new technology to our consumer and commercial loan origination processes and making additional digital options available to our wealth management clients.

Through detailed analysis of proprietary data, we are better able to understand customer behaviors and needs. We apply this knowledge as we develop our products and services and reach out to current and prospective customers to connect them with appropriate financial solutions.

We know our customers have the option to go to nonbank financial service providers with internet-only business models. To remain competitive, we must provide digitally-driven solutions that rival or exceed their offerings—all within the safety of the regulated, domestic banking system. With an agile approach to deploying technology and forging partnerships, we quickly turn ideas into actions that make NBT a better place to bank, a better place to work, and a better company in which to invest.

Recruiting, Developing, and Retaining Talent. At NBT, we strive to recruit and retain a diverse, engaged workforce. Our focus on diversity and inclusion will help NBT serve customers better, outperform our peers, and build shareholder value. We believe the more diverse the viewpoints at the table, the better our decision-making and strategy building will be.

We continue to promote a “speak-up” culture—the kind of workplace where all employees feel welcome and included, free to express their views, and confident their ideas will be heard and recognized. NBT is also a company where employees can embrace opportunities for advancement. We emphasize self-reflection and coaching supported by formal training programs that advance our future leaders.

We demonstrated our commitment to our people last year by investing a portion of the benefit we realized from tax reform to increase base pay for over 60% of our employees. This action supported both the intent of the Tax Cuts and Jobs Act and our strategy to recruit and retain a high-performing workforce, and it is having a real and sustained impact on the lives of our valued team members. Attrition is down, providing continuity of service and further enhancing the experience we provide to our customers.

OPERATIONAL EXCELLENCE & GROWTH

NBT ended 2018 with \$9.6 billion in assets, up from \$9.1 billion at the close of 2017. At our current rate of growth, we expect that sometime in the next 24 to 36 months our asset size will exceed \$10 billion.

We have been preparing for this growth by building the critical infrastructure that supports our regulated company. It is a part of our DNA to strive for excellence in our operations, processes, and systems. We maintain strong relationships with our regulators, and our team has the highest level of respect for risk management and compliance. We deploy technology and other resources on an ongoing basis to ensure that our processes and the terms and conditions of our products and services are compliant and that those products and services are suitable for customers.



Aggressive Technology
Roadmap

61%

Employees Impacted by
Increased Base Pay
in 2018



Regulatory relief enacted in 2018 eliminated mandatory stress tests for financial institutions larger than \$10 billion. The new law will provide some regulatory and expense relief for NBT when we pass through the \$10 billion threshold. Nevertheless, we know that crossing \$10 billion brings additional requirements and demands. We have been planning for this and, as we travel the road through \$10 billion, our team continues to work to ensure we are ready.

At the same time, NBT is preparing to implement the Current Expected Credit Loss (CECL) accounting model, which changes the way credit losses on many financial assets—especially loans—are recorded. It will become effective for NBT on January 1, 2020, and we will be ready.

THE BEST TEAM IN COMMUNITY BANKING

All our efforts to provide great experiences to our customers have been affirmed through the third-party recognition we have received.

- In May 2018, *Consumer Reports* featured NBT Bank as a better alternative to the top three national banks in New York State.
- The quality of our products was acknowledged by *Money* magazine as the top choice in New England in their annual list of “The Best Banks in America” published in November 2018.
- In March 2019, *Forbes* published its first-ever list of the “World’s Best Banks” and ranked NBT #14 among the 60 U.S. banks included. This list was based on consumer feedback, including general satisfaction and key attributes like trust, digital services, and financial advice.

We are proud of all the members of the NBT team and want to thank them for the dedication it takes to garner this recognition. Consistently focusing on the customer experience and delivering relevant financial products is no small feat. And it is not just about professionalism and expertise at work...it is about volunteerism, community leadership, philanthropy, and the way we show up to help whenever the communities we serve are in need. NBT truly has the Best Team in Community Banking!

When we are able to reach into our ranks to elevate high performers, we are especially proud. We would like to recognize two recent executive promotions: Shauna Hyle to Executive Vice President, Consumer Lending, and Joe Stagliano to President of Retail Community Banking. Shauna is also the newest member of our Executive Management Team. We are grateful to the entire Executive Management Team for guiding us to success in 2018.

We would also like to acknowledge NBT’s Operating Committee. This talented group of leaders represents different markets and disciplines from across the Company. They direct the execution of our business strategies, and their leadership was also critical to our success.

As 2018 closed, we acknowledged the retirement of our General Counsel Sheldon Prentice. We are grateful for Shel’s service to NBT and thankful his for thoughtful direction and guidance.

Finally, we thank our shareholders and customers to whom we are devoted. We are grateful for the trust you place in the entire NBT team.



Best Team
in
Community Banking

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

Martin A. Dietrich
Chairman of the Board

Leadership

Executive Management Team

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

Shauna M. Hyle
Executive Vice President,
Consumer Lending

Catherine M. Scarlett
Executive Vice President
and Chief Ethics and
Human Resources Officer

Joseph R. Stagliano
Executive Vice President
and President of Retail
Community Banking

Amy Wiles
Executive Vice President and
Chief Credit and Risk Officer

Board of Directors

Martin A. Dietrich
Chairman

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

Patricia T. Civil
Timothy E. Delaney
James H. Douglas
Andrew S. Kowalczyk, III, Esq.

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

NBT Bank Honorary Directors

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, and
Paul O. Stillman.

*Additional information regarding
our Executive Management Team
and Board of Directors can be found
in the proxy statement for our 2019
Annual Meeting of Shareholders.*

Operating Committee

The following NBT leaders served
on the Operating Committee
in 2018 with the Executive
Management Team:

John F. Buffa, Regional President,
Mohawk Valley

Kurt T. Edwards, Senior Vice
President and Chief Consumer
Credit Officer

Kenneth J. Entenmann, CFA®
Senior Vice President and
Chief Investment Officer

Amy S. Hurta, Senior Vice President,
Senior Director of Operations and
Chief Diversity Officer

David Krupski, Regional President,
Capital Region

Jeffrey D. Lake, Regional President,
Greater Binghamton

Mark R. Mershon, Corporate
Senior Vice President and Treasurer

F. Sheldon Prentice, Executive
Vice President, General Counsel
and Corporate Secretary*

Richard J. Shirtz, Regional
President, Central New York

David R. Theleman, Senior Vice
President and Chief Commercial
Credit Officer

*Retired

Regional Presidents

John F. Buffa,
Mohawk Valley

David Krupski,
Capital Region

Jeffrey D. Lake,
Greater Binghamton

Stephen P. Lubelczyk,
New Hampshire

Richard J. Shirtz,
Central New York

Kimberly J. Twitchell,
Maine

EPIC Retirement Plan Services

Manuel Marques, CPC, QPA, QKA,
QPFC, AIF®
President

NBT Insurance Agency, LLC

Tucker H. Lounsbury, CIC
President

shareholder information

Annual Meeting

Tuesday, May 21, 2019
10:00 a.m.
DoubleTree by Hilton Hotel
225 Water Street
Binghamton, NY 13901

Stock

Symbol: NBTB
Market: Nasdaq Global Select

Corporate Headquarters

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

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 or by
writing to Chief Financial Officer
Michael J. Chewens at the
corporate headquarters address
provided at left.

Shareholder Relations

Information regarding
the Company, our dividend
reinvestment and stock purchase
plan, and direct deposit of
dividends can be found on our
website at 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 to: NBT Bank,
52 South Broad Street, Norwich,
NY 13815.

Stock Transfer and Registrar Agent

American Stock Transfer
& Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800.NBT.BANK (800.628.2265),
Option 7
www.astfinancial.com
help@astfinancial.com

Independent Auditors

KPMG LLP
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Albany, NY 12207



www.nbtbankcorp.com | 800.NBT.BANK



www.nbtinsurance.com



www.nbtbank.com



www.epic1st.com