



Community  
BANK SYSTEM, INC.

May 2018



CBU  
LISTED  
NYSE

# Forward-Looking Statement

This presentation contains certain “forward-looking statements,” within the meaning of the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections about the industry, markets and economic environment in which the Company operates.

Such statements involve risks and uncertainties that could cause actual results to differ materially from the results discussed in these statements. These risks are detailed in the Company’s periodic reports filed with the Securities and Exchange Commission.

Annualized, pro forma, projected and estimated amounts are presented for illustrative purposes only and may not reflect actual results.





# Company Profile

- Successful, growing community bank headquartered outside of Syracuse, New York.
- One of the largest community banks based in Upstate New York with approximately \$11.0 billion in assets.
- More than 230 customer facilities across Upstate New York, Northeast Pennsylvania, Vermont and Massachusetts.
- Dominant market share: 1<sup>st</sup> or 2<sup>nd</sup> in two-thirds of the towns where we do business
- Significant and growing fee-based businesses
- Market capitalization of \$2.9 billion (at 4/30/18, share price of \$56.25).



# Company Strengths

- Track record of superior shareholder returns
  - Our 10-year cumulative total return to shareholders is 215%. This compares to a 106% total return for the KBW Regional Banking Index over the same period.\*
- Industry leading dividend record – 25 consecutive years of increases.
- Strong asset quality even through worst recession.
- Primarily non-urban footprint provides stable, 2% to 5% growth a year. No boom, no bust.
- We focus on smaller, in-footprint customers than our large competitors.
- Significant fee-based businesses reduce dependence on net interest income.
  - Benefit Plans Administration, Wealth Management and Insurance contribute approx. 65% of non-interest income.
- Conservative risk management makes our returns particularly robust relative to risk taken.

\* Based on 10-year historical performance through April 30, 2018 assuming dividend reinvestment.





# Recent Accomplishments

- Continuing to generate record Operating Earnings
  - 2017 Operating EPS up 13.3% over 2016.
  - Reported all-time record net operating earnings in 2017 (eighth consecutive year).
  - Record First Quarter 2018 Operating EPS up 30% over 2017 First Quarter.
- Maintained solid asset quality. Part of our operating DNA.
- Raised our dividend in 2017 for the 25<sup>th</sup> consecutive year, retaining our “Dividend Aristocrat” Status.
- Ranked the 6th best in an analysis of America’s best and worst large banks by Forbes Magazine.
- Completed the acquisition of Northeast Retirement Services in February 2017.
- Completed the acquisition of Merchants Bancshares (MBVT) in May 2017.



# Strategic Profile

Consistent strategy for over 20 years

- Market-leading branch system serving predominantly non-urban markets
- Excellent core deposit customer base
- Decentralized decision-making and authority
- Investment in growth of noninterest revenues
- Goal of 10% annual total shareholder return over time
- Disciplined growth through organic and acquired opportunities; focused on profitable relationships
- Acquisitions are accretive to earnings and low risk





# Strategy Element # 1

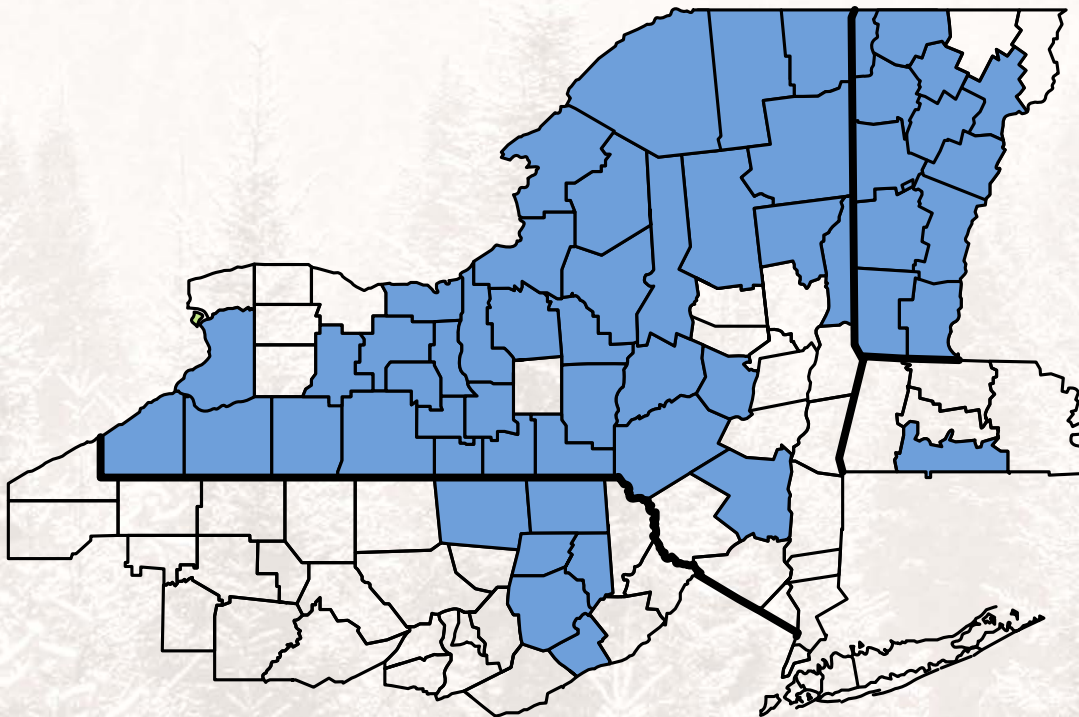
## Market-leading Branch System Focused on Core Accounts

- Emphasize responsive, local decision-making and customer service and support, and authority at the branch level.
- Focus on generating and retaining core deposit accounts.
- Mostly non-urban markets where leadership positions can be earned.



# Geographic Profile

■ Counties with Community Bank Retail Banking Locations



- We have dominant market shares in much of Upstate NY and Northeast PA where the markets have modest competition and modest growth, but we have achieved solid performance over time
- We entered Vermont and Western Massachusetts with the Merchants Bank acquisition in 2017





# Operating and Lending Strategies are Local and Conservative

- Community bank approach to growth
  - Tremendous discipline and focus on our local customers
  - Have always been an in-footprint lender
  - Deep knowledge of our markets
  - Emphasis on profitable customer relationships across all business lines
  - Decentralized local decision-making – branch managers act as local bank presidents
  - We never retreated from our markets or customers during economic downturns
- Average loan sizes are uniquely granular for an institution of our size
  - Average Commercial Loan \$400,000
  - Average Residential Mortgage \$106,000
  - Average Home Equity \$53,000
  - Average Indirect Loan \$20,000
- Commercial loan mix is well-diversified



# Strategy Element #2

Continue to Grow Noninterest Revenues  
(40% of operating revenues)

- Banking Services
- Benefits and Fund Administration, Transfer Agency and Consulting
- Wealth Management and Insurance

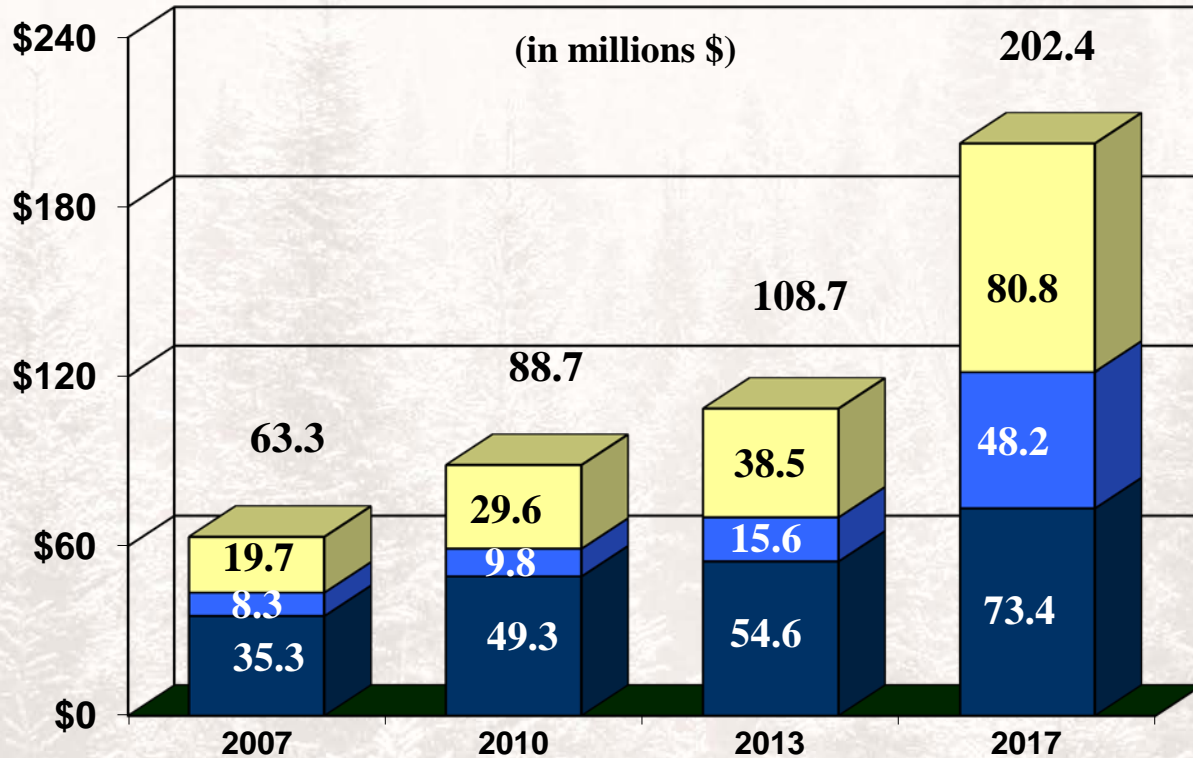




# Growth in Noninterest Income

10+ Year History

(excluding securities gains/losses and debt extinguishment)



Noninterest Income/  
Operating Income = 39%  
in 2017.

■ Banking Services   ■ Wealth Management and Insurance   ■ Benefit Plan Services

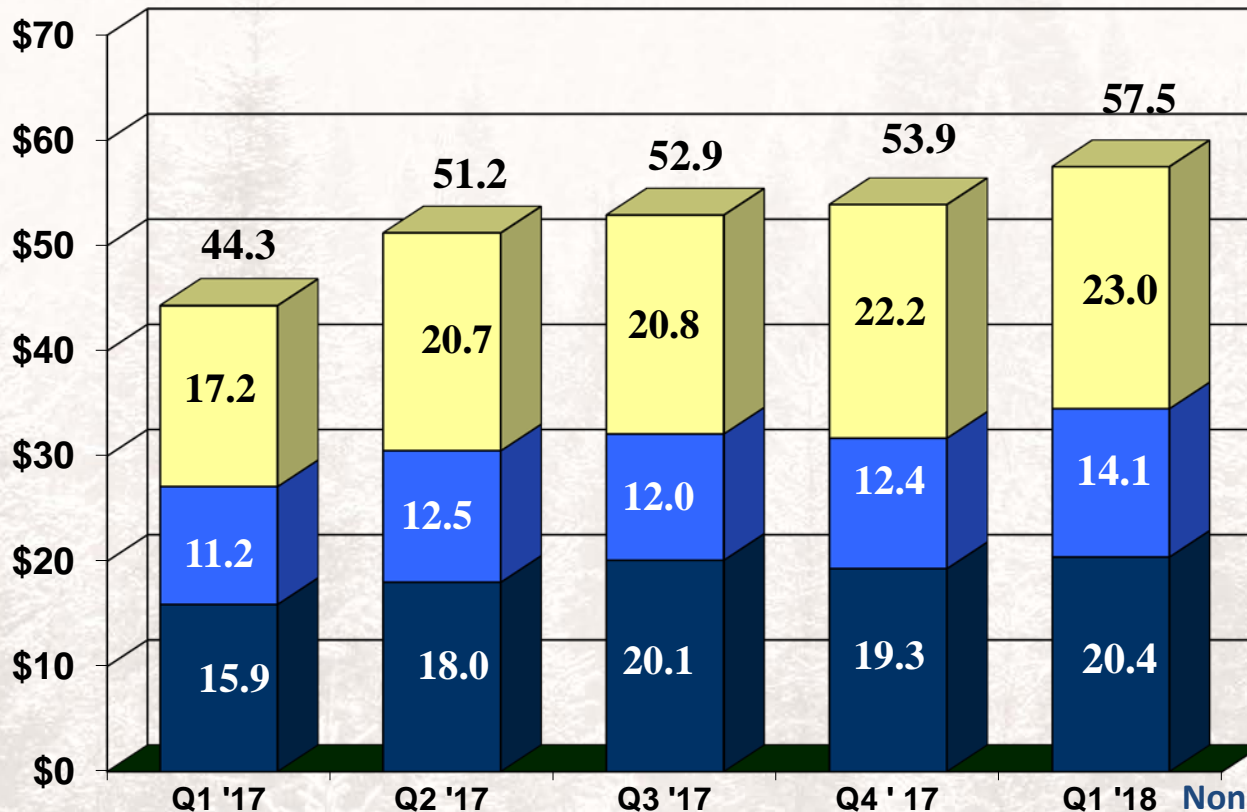


# Growth in Noninterest Income

Most Recent Five Quarters

(excluding securities gains/losses and debt extinguishment)

(in millions \$)



Noninterest Income/  
Operating Income = 40%  
in Q1 2018.

■ Banking Services   ■ Wealth Management and Insurance   ■ Benefit Plan Services





# Benefit Plan Administration & Consulting Revenue

Revenue Growth 10-year CAGR 16.5% (2008-2017)

\$80.8 million of revenues in 2017

\$23.0 million of revenues in Q1 2018

Upstate NY, Metro-NY, Philadelphia, Pittsburgh, Houston, Boston,  
Puerto Rico

- Collective Investment Fund Administration
- Defined Contribution Plan Benefit Administration
- Actuarial Services
- Health Care and Benefit Plan Consulting
- VEBA/HRA Administration
- Transfer agency



# Wealth Management and Insurance

Revenue Growth 10-year CAGR 19.2% (2008 – 2017)

\$48.2 million of revenues in 2017

\$14.1 million of revenues in Q1 2018

Upstate NY, Northeast PA and Vermont

\$6.8 billion in assets under management or administration

- Trust Services
- Asset Management and Advisory
- Insurance Agency
- Risk Management Services
- Planning





# Strategy Element #3: Growth Model

## Banking Acquisitions

	<u># of Branches</u>	<u>Assets (in millions)</u>
<b>Branch Acquisitions</b>		
December 2013	8 (net 6)	\$ 303
July/September 2012	19 (net 12)	\$ 800
November 2008	18	\$ 575
<b>Whole-Bank Acquisitions</b>		
May 2017	32	\$1,995
December 2015	12	\$ 798
April 2011	22	\$ 870



# Strategy Element #3: Growth Model

## Financial Services Acquisitions

	Year
• Northeast Retirement Services	2017
• Oneida Financial/One Group	2015
• EBS-RMSCO Actuarial Group	2014
• CAI Benefits, Inc.	2011
• Alliance Benefit Group – MidAtlantic	2008
• CBNA Insurance Agency	2007
• Hand Benefits & Trust	2007





# Recent Acquisitions (2012 – 2017)

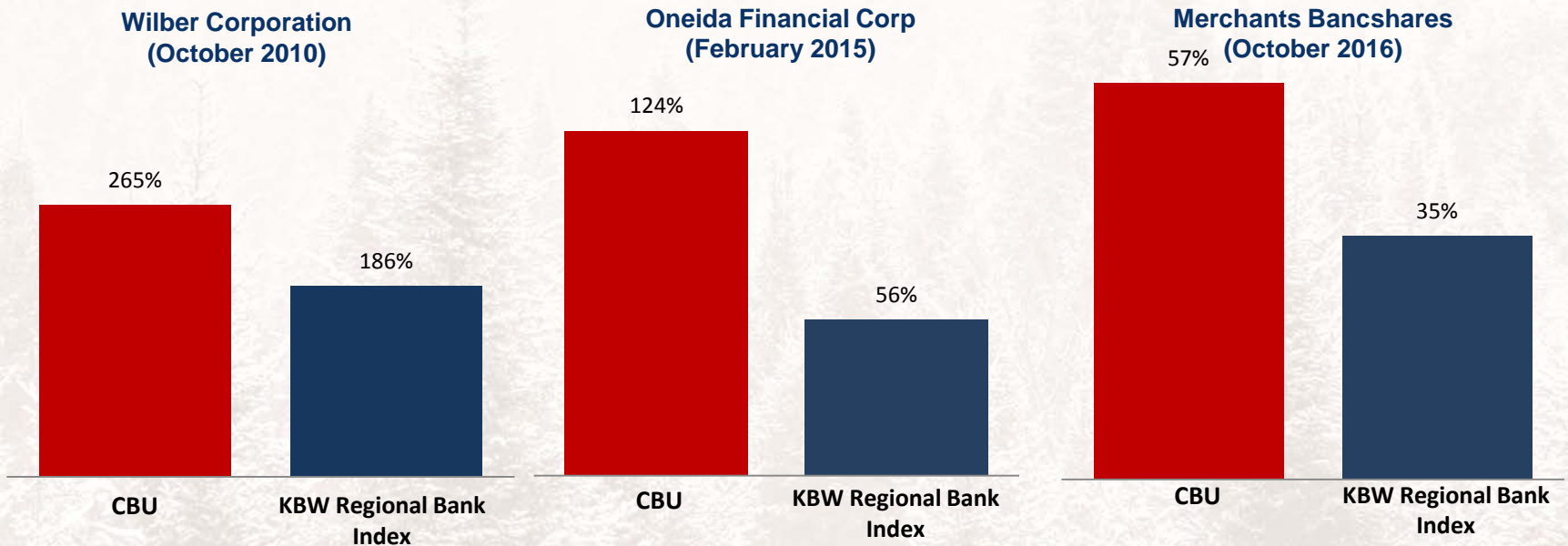
Manageable-sized acquisitions, largely in-market, or contiguous:

- Merchants Bancshares
  - Completed Q2 2017, Vermont and Western Massachusetts, \$2.0 billion in assets
- Northeast Retirement Services, Inc.
  - \$30 plus million of revenues in fund administration, transfer agency, and retirement plan services.
- 5 small insurance agencies acquired by OneGroup Subsidiary since Q1 2017
- Oneida Financial (Oneida Savings Bank and the OneGroup)
  - Completed Q4 2015, Central NY, \$800 million in assets
- 8 branches from Bank of America
  - Completed Q4 2013, Northeast PA, \$303 million in deposits
- 19 branches (12, net) from HSBC/First Niagara
  - Completed Q3 2012, Upstate NY, \$800 million in deposits



# Creating Excess Value for CBU's Partners and Shareholders

## Total Shareholder Return Since Announcement (including Day 1 Premium)



## Dividend Increase Since Acquisition



Source: SNL Financial, FactSet, Company filings. Market data as of 4/30/18.





# 2017 Performance Summary

	<b>2017 Results (In Millions)</b>	<b>% Change From 2016</b>
• Net interest income	\$315.7	12.8%
• Non-interest income	202.4	30.1%
• Operating expenses <sup>(1)</sup>	321.2	21.1%
• Provision for loan losses	11.0	36.0%
• Net income, operating <sup>(1)</sup>	133.7	23.2%
• Operating EPS (diluted) <sup>(1)</sup>	\$2.64	13.3%
• Net interest margin <sup>(2)</sup>	3.69%	(0.2%)
• Fully diluted shares outstanding	49.7	11.1%

Notes:

(1) Excludes the one-time deferred tax expense benefits of the Tax Cuts and Jobs Act and acquisition expenses incurred.

(2) Represents the difference in net interest margin results between comparative periods, i.e., a decrease of 2 basis points.



# First Quarter 2018 Performance Summary

	<b>Q1 2018 Results (In Millions)</b>	<b>% Change From Q1 2017</b>
• Net interest income	\$84.6	25.8%
• Non-interest income	57.5	29.7%
• Operating expenses <sup>(1)</sup>	86.3	20.1%
• Provision for loan losses	3.7	101.3%
• Net income, operating <sup>(1)</sup>	40.1	45.8%
• Operating EPS (diluted) <sup>(1)</sup>	\$0.78	30.0%
• Net interest margin <sup>(2)</sup>	3.71%	0.06%
• Fully diluted shares outstanding	51.7	11.8%

Notes:

(1) Excludes the one-time deferred tax expense benefits of the Tax Cuts and Jobs Act and acquisition expenses incurred.

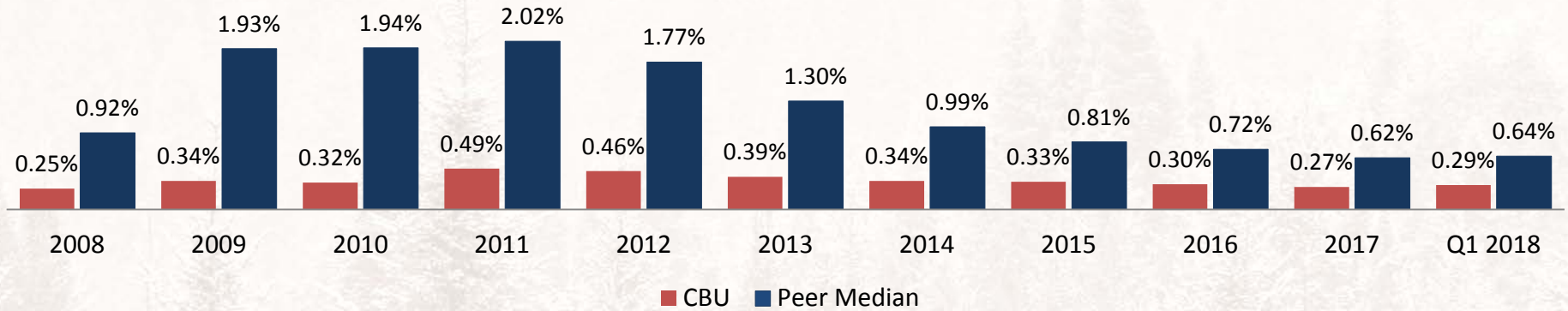
(2) Represents the difference in net interest margin results between comparative periods, i.e., an increase of 6 basis points.



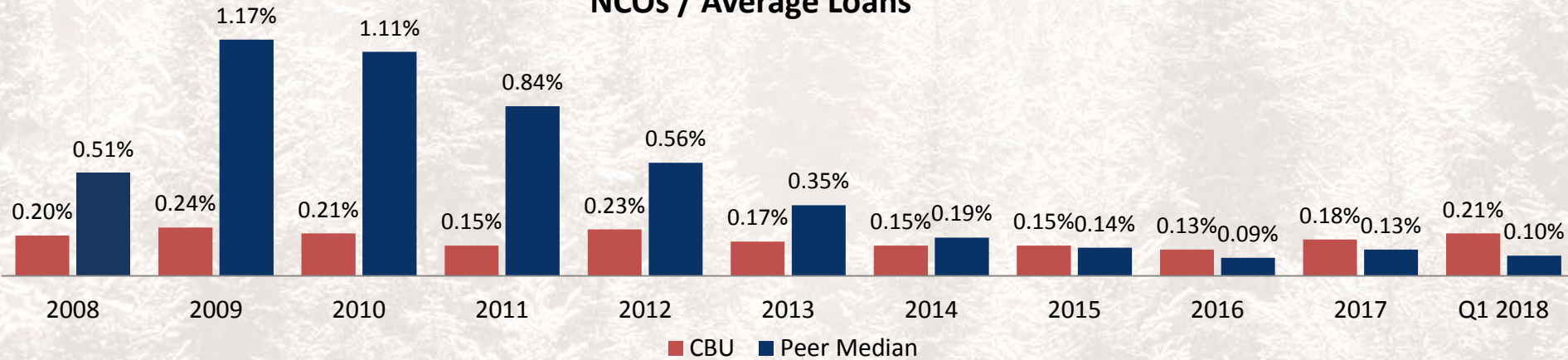


# Low-Risk Balance Sheet with Strong Asset Quality

## NPAs / Assets



## NCOs / Average Loans



Source: SNL Financial, Company filings.



# Loan Portfolio Balance

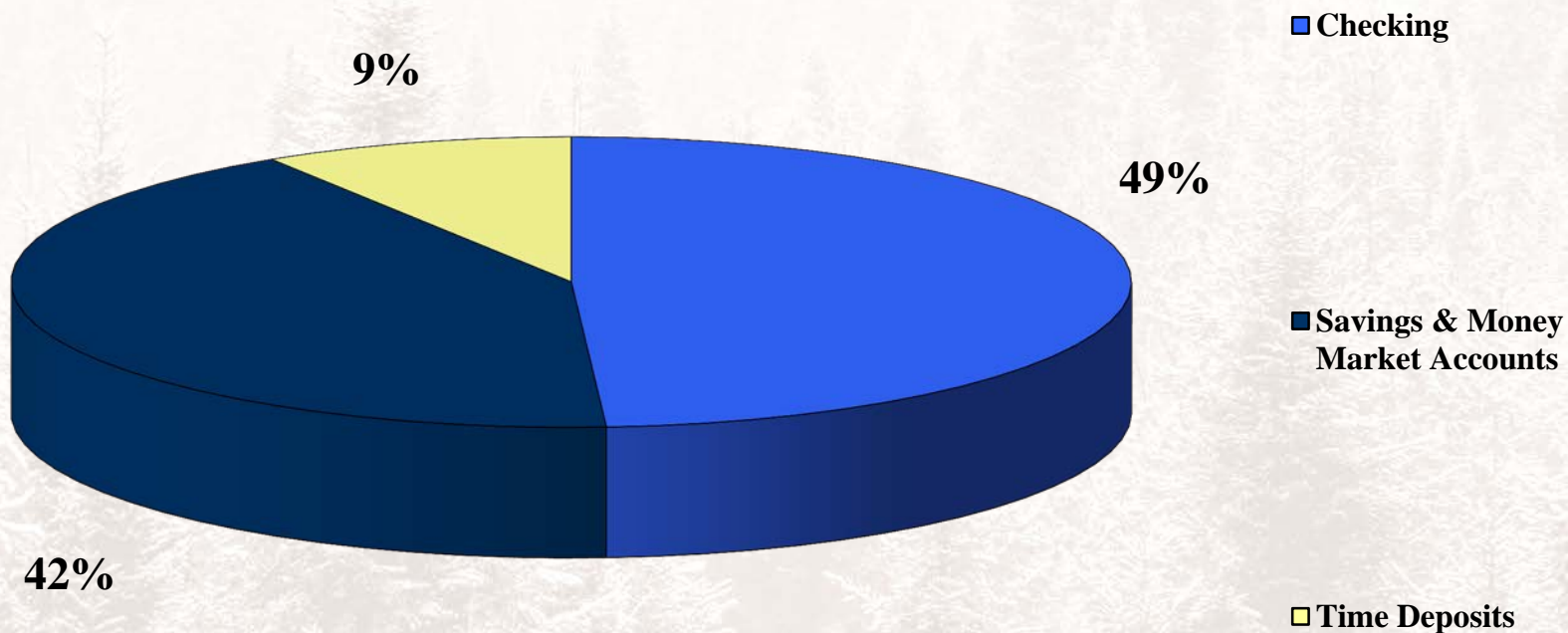
As of March 31, 2018	\$ bil.		Comments
Residential Mortgage and Home Equity	\$2.6	42%	Residential Mortgages: Primarily residential 1 <sup>st</sup> mortgages, fixed rate, primarily 15 to 20 year. All originated in-market. Loss ratio <0.10% historically. Home Equity 7% of total loans: 1 <sup>st</sup> or 2 <sup>nd</sup> lien, residential, 15 yrs or less, loss ratio <0.15% historically.
Business/Commercial	\$2.4	39%	Commercial Real Estate and C + I lending. Loss ratio <0.16% past 2, 5 and 10 years Important source of deposit funding and fee-generation.
Consumer Installment	\$1.2	19%	Consumer Indirect 16% of total loans: primarily used auto loans through dealerships in bank footprint; over 30 yrs in this business; loss ratios 0.30% to 0.46% past 6 yrs and <0.50% long-term record; Consumer Direct 3% of total loans.
Total Loans	\$6.2		





# Core Deposit Strength and Focus

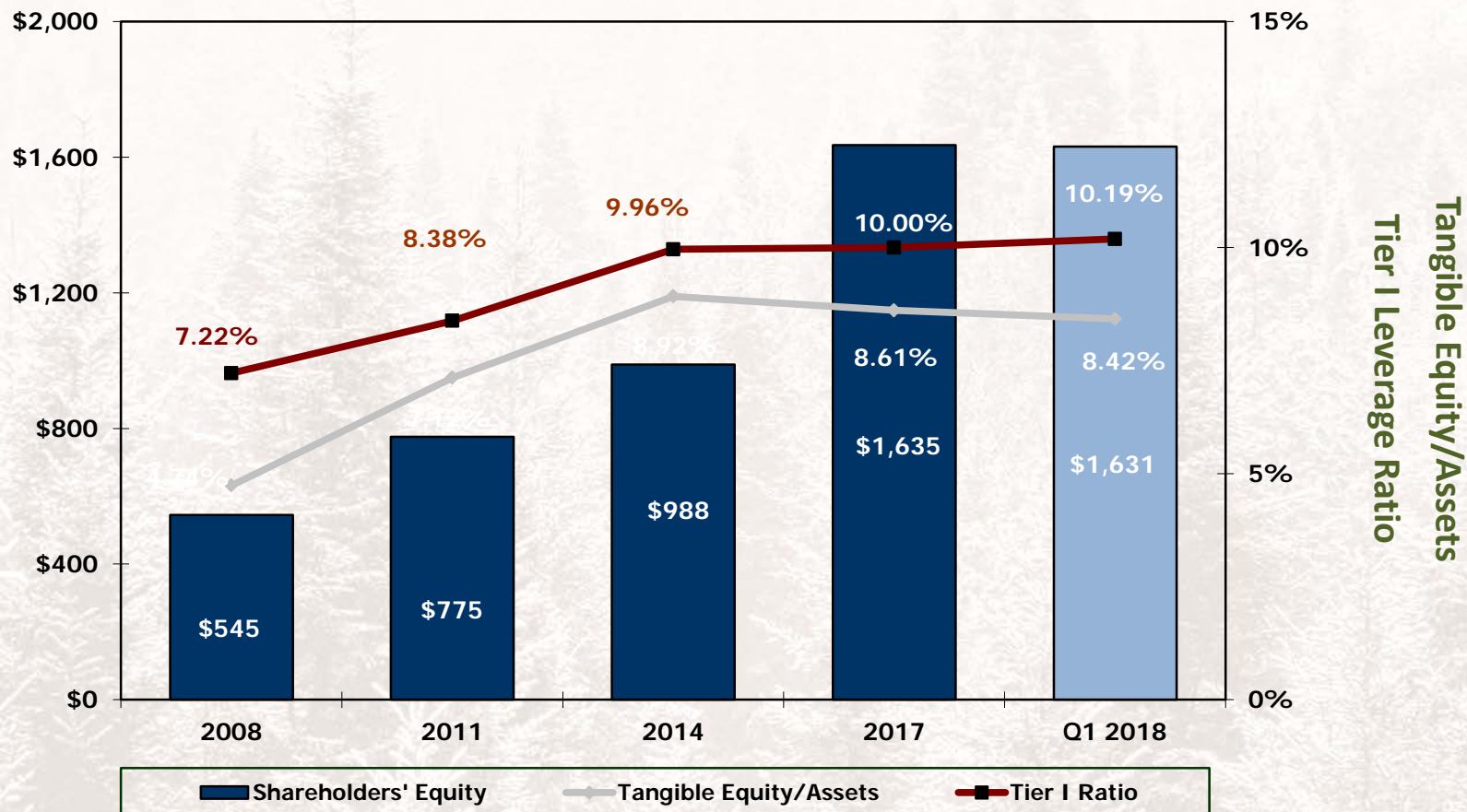
**2017 Cost of Deposits: 0.10%\***



\*First quarter 2018 Cost of Deposits was unchanged at 0.10%.



# Capital Growth and Stability



Note: Tangible Equity and Tangible Assets are non-GAAP measures. Please see Appendix for details.





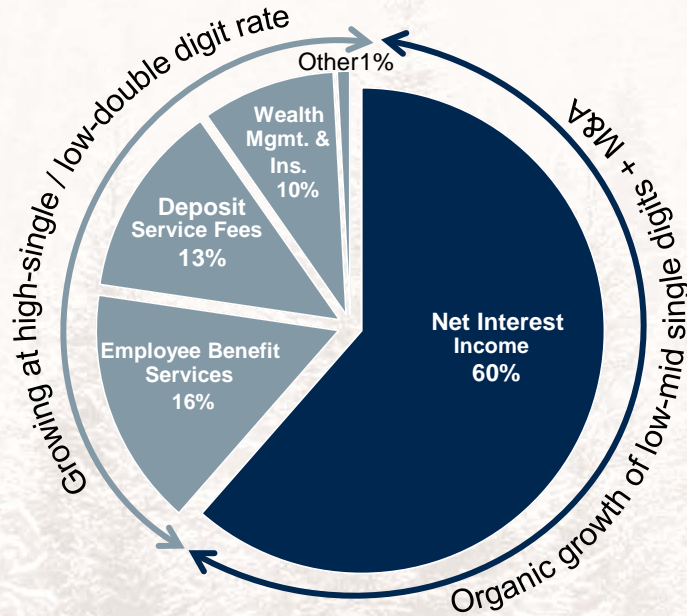
# Liquidity Management is Conservative

- Stable net interest margin, 3.60% to 3.90% range past 5 years, (3.69% in 2017; 3.71% in Q1 2018).
- Loan to deposit ratio of 71% as of March 2018.
- Investment portfolio – conservative; plain/vanilla. 62% US Treasury securities at 3/31/18. Sensible duration characteristics.

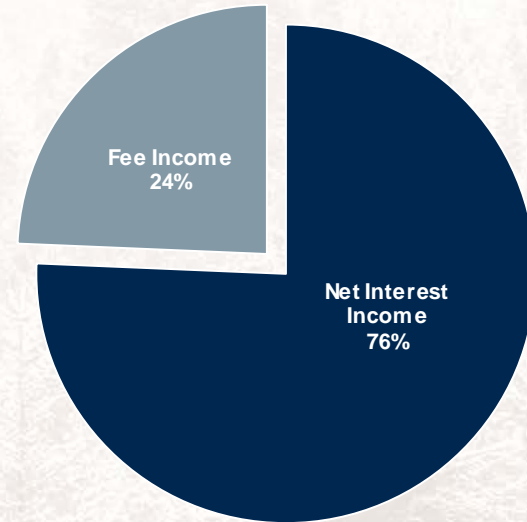


# CBU Has a Diversified, Lower-Capital Intensity Revenue Stream

## Revenue Composition



**CBU**



**Peer Median<sup>(1)</sup>**

Source: SNL Financial, Company filings. Data for CBU for the most recent quarter ended 3/31/18. Data for peers as of most recent quarter.

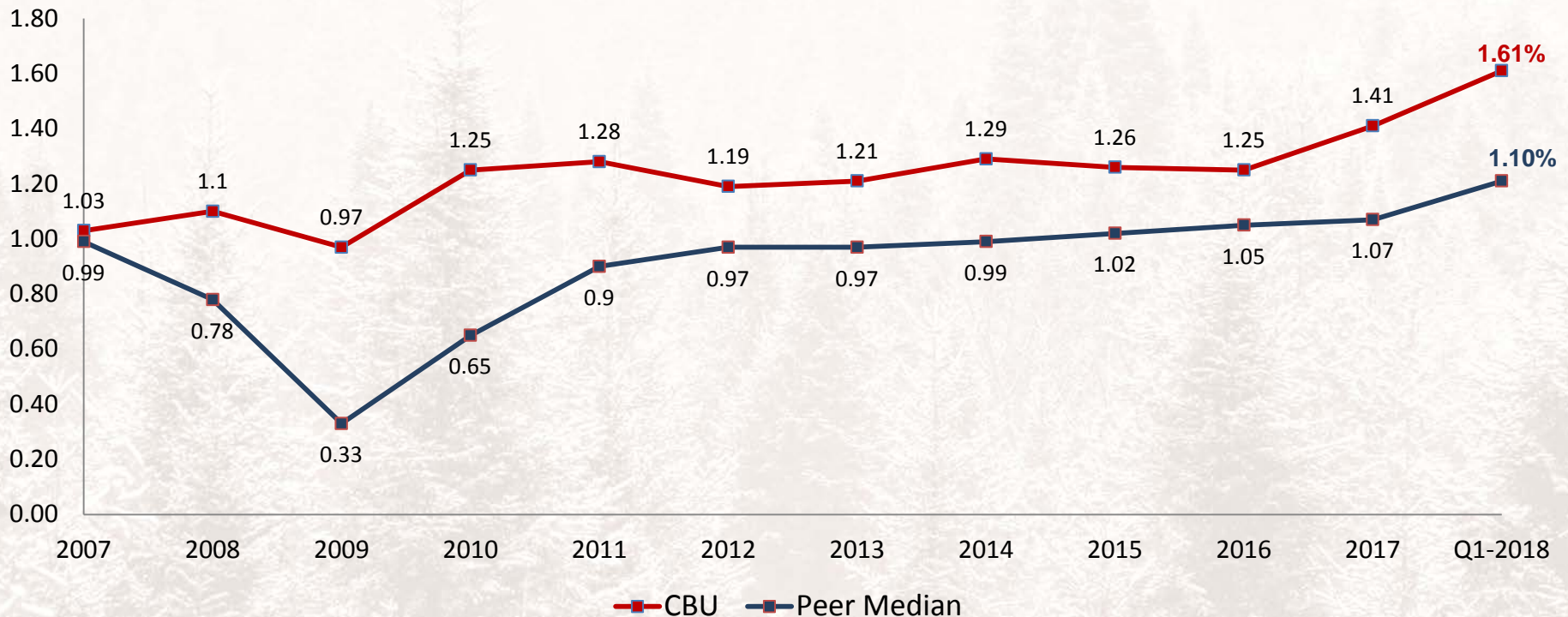
(1) Peers used throughout presentation are BHLB, CHFC, FCF, FFBC, FRME, FMBI, FNB, FULT, INDB, MBFI, NBTB, ONB, PRK, STBA, STL, UBSH, UBSI, VLY, WBS, WSBC, WTFC.





# Resulting in Consistent Outperformance

## Return on Average Assets

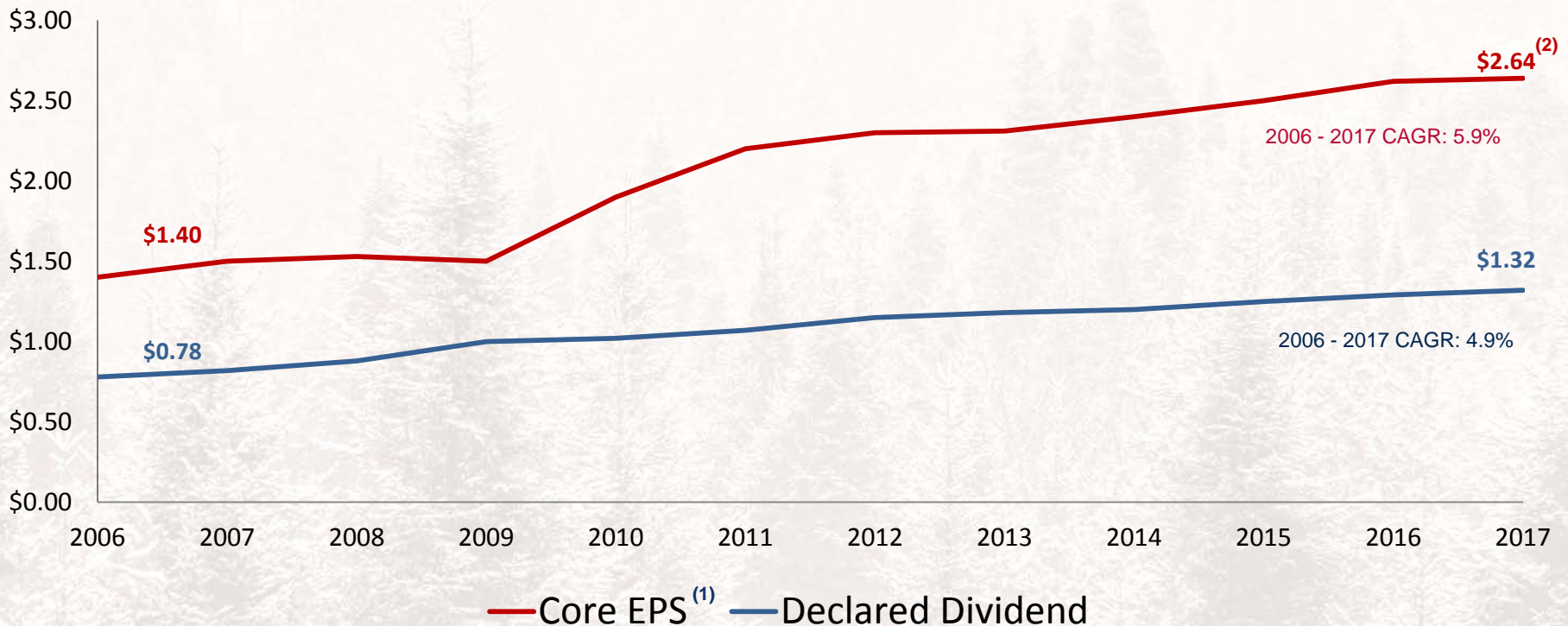


Note: Core ROAA shown excludes net income attributable to non controlling interest, realized gain on securities, non-recurring revenue/expense, amortization of intangible assets and goodwill impairment. Adjustments were made to the 2017 peer group results for the income statement impact of the Tax Cuts and Jobs Act. CBU's Core ROAA was 1.77% for FY2017. The ROAA was adjusted downward to 1.41% to exclude a \$38.0 million tax benefit recorded by the Company due to the passage of the Tax Cuts and Jobs Act in the fourth quarter 2017.

Source: SNL Financial, Company filings.



# And Stable, High-Quality Earnings and Dividend Growth



Notes: (1) Core EPS shown, which excludes net income attributable to non-controlling interest, gain on sale of securities, amortization of intangibles and goodwill, and nonrecurring items.

(2) Excludes impact on deferred tax liabilities from the Tax Cuts and Jobs Act and acquired non-impaired loan accretion.

Source: SNL Financial, Company filings, MSCI Research, ETF Channel.





# Investment Merits

- Community Bank was one of only 14 companies to become a new member of the S&P 1500 Dividend Aristocrats Index in 2012, signifying that the Company had raised its annual regular cash dividend payment for at least 20 consecutive years (now at 25 years in a row).
- Our 10-year cumulative total return to shareholders is 215%. This compares to a 106% total return for the KBW Regional Banking Index over the same period.\*
- NYSE-listed company with significant liquidity.
- Long-term growth focus. Successful and effective operating strategy. Strong fundamentals with strong asset quality. Superior return to shareholders.

\* Based on 10-year historical performance through April 30, 2018 assuming dividend reinvestment.



# Consistent Dividend Focus

- **Strong Dividend Payment**
  - \$1.36 per share annualized
  - Payout ratio of approximately 50%
- **Productive Dividend Yield:**
  - 2.42% as of April 30, 2018
- **Outstanding Track Record of Payment Increases**
  - 6.3% increase in August 2017
  - 25 straight years
- **Tax Cuts and Jobs Act Increases Dividend Capacity**





# Shareholder Profile

- Strong liquidity approx. 250,000 shares traded daily
- Ownership
  - 68% Institutional
    - 63% Traditional Investment Managers and Index Funds/ETFs
    - 2% Government Pension Sponsors
    - 3% All other
  - 32% Retail
    - 30% Public
    - 2% Insiders

Source: SNL Financial, Most Recent Available Date.



# Total Shareholder Returns (Annualized)

(Through April 30, 2018, or most recent available, Including Reinvestment of Dividends)

	2 Years	5 Years	10 Years	15 Years
<b>CBU</b>	<b>22.2%</b>	<b>17.9%</b>	<b>12.2%</b>	<b>12.0%</b>
S&P 600 Comm. Bank Index	20.0%	17.2%	7.3%	4.9%
KBW Regional Bank Index	20.2%	16.3%	7.5%	6.0%
S&P 500	15.6%	12.9%	9.0%	9.5%
DJIA	19.5%	13.0%	9.4%	10.0%

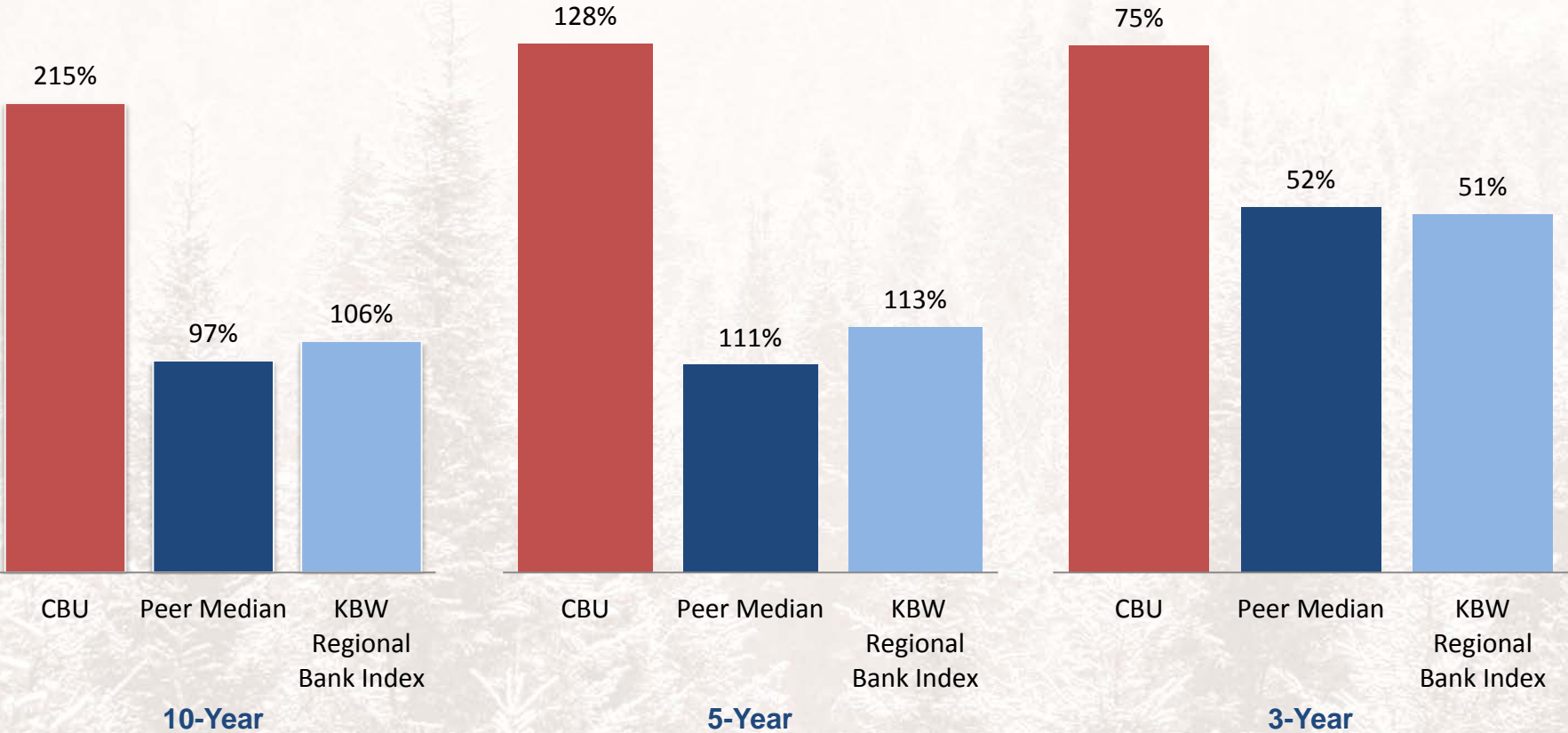
**Source: Bloomberg**





# Driving Top Decile Shareholder Returns

## Total Shareholder Return

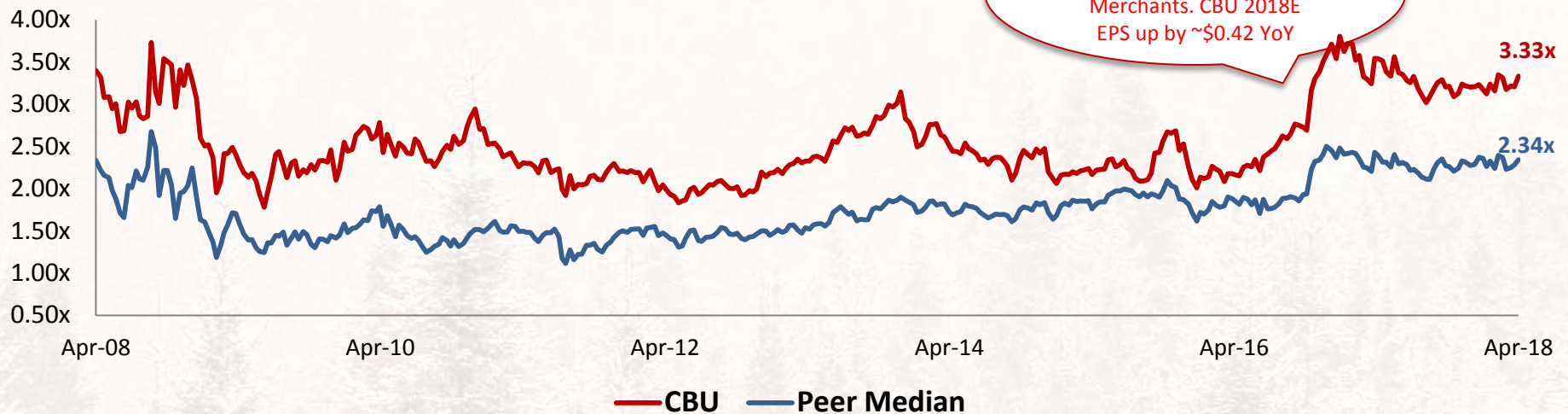


Source: FactSet. Market data as of 4/30/18.

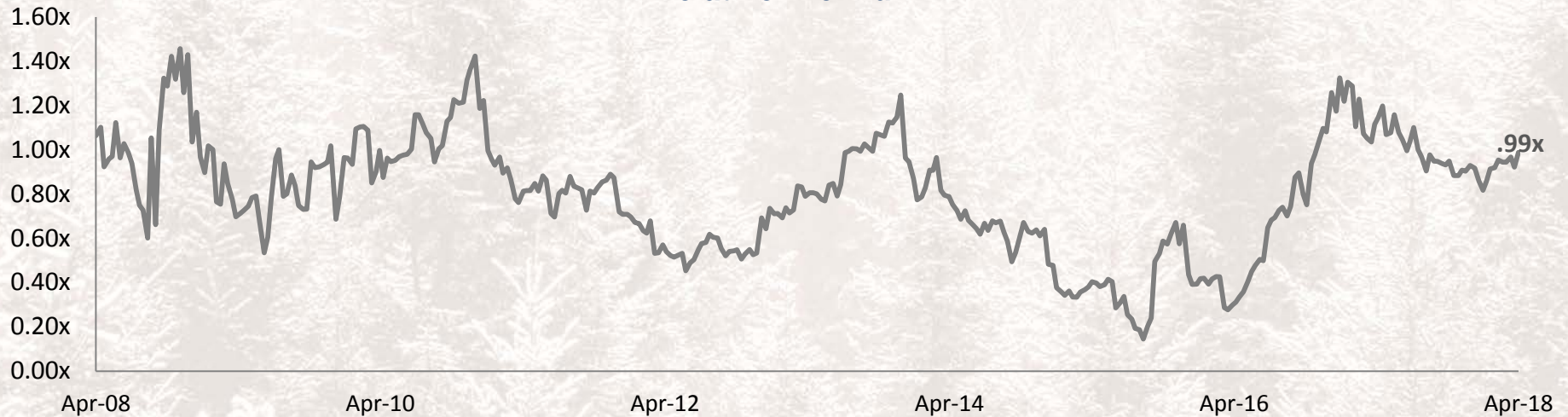


# Well-Deserved Valuation Premium

## Price / TBV



## Relative Premium



Source: SNL Financial, Company filings. Market data as of 4/30/18.





# Appendix



# Reconciliation of GAAP and Non-GAAP

Community Bank System's management uses the term "non-GAAP" financial measures in their analysis of the company's performance and operations. Management believes that these non-GAAP financial measures provide a greater understanding of ongoing operations and enhance comparability of results. These disclosures should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP financial measures that may be presented by other companies. The types of non-GAAP financial measures used in this presentation include:

- Tangible equity, tangible common equity, tangible assets and tangible book value are non-GAAP financial measures which Community Bank System's management uses to assess the quality of capital and believes that investors may find useful in their analysis, although these metrics are not necessarily comparable to similar non-GAAP financial measures used by other companies. Tangible equity is calculated by excluding the balance of goodwill and other intangible assets from the calculation of total equity and adding back the amount of the deferred tax liability related to tax deductible goodwill. Tangible common equity is calculated by excluding the balance of goodwill and other intangible assets from the calculation of stockholders' equity and adding back the amount of the deferred tax liability related to tax deductible goodwill. Tangible assets is calculated by excluding the balance of goodwill and other intangible assets from the calculation of total assets and adding back the amount of the deferred tax liability related to tax deductible goodwill. Tangible book value per share is calculated by dividing tangible common equity by the number of shares outstanding at a point of time.
- Operating earnings is a non-GAAP financial measure which Community Bank System believes investors may find useful in their analysis. Operating earnings is calculated by excluding the one-time deferred tax expense benefits of the Tax Cuts and Jobs Act, as well as acquisition-related and special charges from the calculation of noninterest expenses. The resulting increase in net income and diluted earnings per share is offset by the increase in tax liability related to such increase.





# CBU Free Cash Flow

Consistent and Growing  
Supports Growth in Dividends & Assets

	Qtr. Ended March 31 (\$000s)					
<b>Yrs Ended Dec. 31 (\$000s)</b>		<b>2016</b>	<b>2014</b>	<b>2012</b>	<b>2010</b>	<b>2008</b>
Operating earnings <sup>1</sup>	\$40,100	\$104,958	\$91,440	\$82,843	\$66,843	\$49,263
Addback/Subtract:						
+ Amortization of Intangibles	4,798	5,479	4,287	4,607	5,957	6,906
- Purchased loan accretion	(2,063)	( 2,868)	( 3,338)	( 3,132)	<u>0</u>	<u>0</u>
<b>Free Cash Flow, Operating</b>	<b>42,835</b>	<b>107,569</b>	<b>92,389</b>	<b>84,318</b>	<b>72,800</b>	<b>56,169</b>
Cash Dividends Paid	17,282	55,048	46,178	40,765	30,394	25,367
<b>Cash Div % of Free Cash Flow</b>	<b>40%</b>	<b>51%</b>	<b>50%</b>	<b>48%</b>	<b>42%</b>	<b>45%</b>

<sup>1</sup> - Excludes acquisition expenses



# Tangible Equity Components & Trends

	Mar. 31, 2018 (\$000s)				
Dec. 31 (\$000s)		2015	2012	2010	2008
Stock, APIC, Retained earnings	\$1,666,692	\$1,121,412	\$848,444	\$616,598	\$557,515
Accumulated other comprehensive gains (losses)	<u>(35,226)</u>	<u>19,235</u>	<u>54,334</u>	<u>(9,340)</u>	<u>(12,864)</u>
Total shareholders' equity	<u>1,631,466</u>	<u>1,140,647</u>	<u>902,778</u>	<u>607,258</u>	<u>544,651</u>
Intangible assets	820,584	484,146	387,134	311,714	328,624
Deferred tax liabilities from intangible assets	<u>47,904</u>	<u>39,724</u>	<u>27,947</u>	<u>20,765</u>	<u>14,216</u>
Net intangible assets	<u>772,680</u>	<u>444,422</u>	<u>359,187</u>	<u>290,949</u>	<u>314,408</u>
Tangible equity	858,786	696,225	543,591	316,309	230,243
Outstanding shares	<u>50,884</u>	<u>43,775</u>	<u>39,626</u>	<u>33,319</u>	<u>32,633</u>
Tangible equity per share	<u>16.88</u>	<u>\$15.90</u>	<u>\$13.72</u>	<u>\$9.49</u>	<u>\$7.06</u>
Tangible equity to net tangible assets ratio	<u>8.42%</u>	<u>8.59%</u>	<u>7.62%</u>	<u>6.14%</u>	<u>4.74%</u>





MAY 2018

 **Community**  
BANK SYSTEM, INC.

Thank You

**CBU**  
**LISTED**  
**NYSE**

