



Community
BANK SYSTEM, INC.

August/September 2018



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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 \$10.6 billion in assets.
- More than 230 customer facilities across Upstate New York, Northeast Pennsylvania, Vermont and Massachusetts.
- Dominant market share: 1st or 2nd in two-thirds of the towns where we do business
- Significant and growing fee-based businesses
- Market capitalization of \$3.2 billion (at 7/31/18, share price of \$63.25).



Company Strengths

- Track record of superior shareholder returns
 - Our 10-year cumulative total return to shareholders is 282% (CAGR 14.3%), which is 2.1X greater than the 10-year cumulative returns of the KBW Regional Banking Index of 136% (CAGR 8.9%). ⁽¹⁾
- Industry leading dividend record – 26 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 noninterest income. ⁽²⁾
- Conservative risk management makes our returns particularly robust relative to risk taken.

Notes:

(1) Based on 10-year historical performance through July 31, 2018 assuming dividend reinvestment.

(2) Expected to exceed 70% of non-interest income in the third and fourth quarters of 2018 after implementation of debit-card interchange fee restrictions imposed by the Dodd-Frank Act, commonly known as the Durbin Amendment or Durbin Mandate.



Recent Accomplishments

- Continuing to generate record Operating Earnings⁽¹⁾
 - Record net operating earnings in 2017 (eighth consecutive year). Up 13.3% over 2016.
 - Record Second Quarter 2018 Operating EPS up 28% over 2017 Second Quarter.
- Raised our dividend in 2018 for the 26th 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.
- Maintained Cost of Deposits of 10 to 11 basis points for last ten quarters in spite of seven 25 basis point increases in Fed Funds Target Rate.
- Maintained solid asset quality. Part of our operating DNA.

Note: ⁽¹⁾ Operating earnings are a non-GAAP measure and exclude one time merger related expenses and special charges. Please see Appendix for details.



Strategic Profile

Consistent business model 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 noninterest revenue businesses
- 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

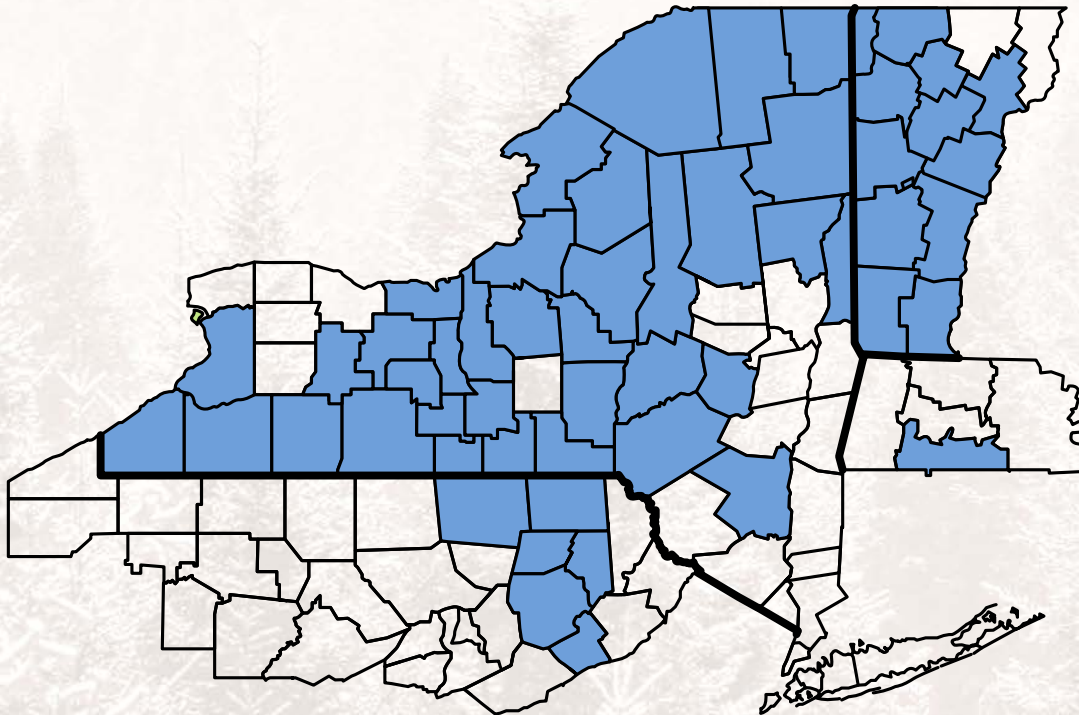
Market-leading Branch System Focused on Core Accounts

- 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 acquisition of Merchants Bank in 2017



Operating and Lending Strategies are Local and Conservative

- Community bank approach to growth
 - 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)

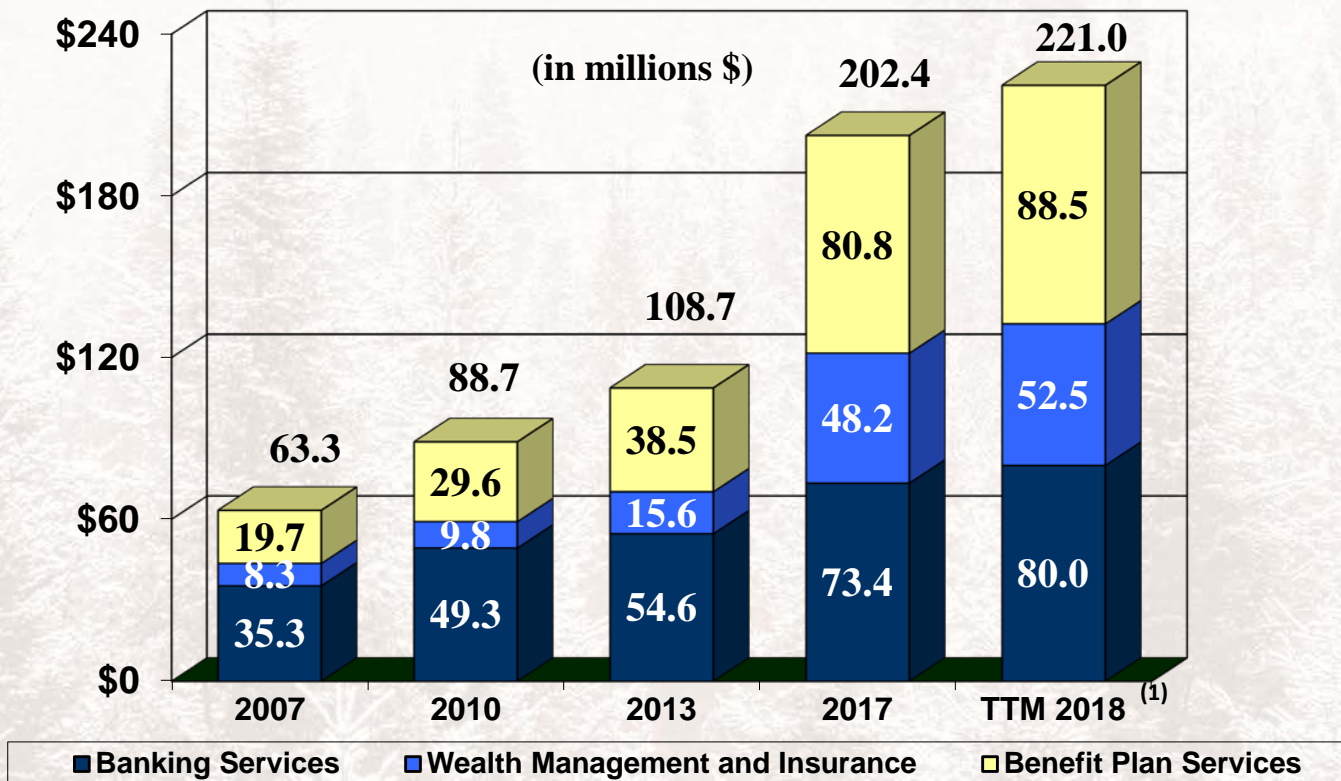
- Banking Services
- Benefits and Fund Administration, Transfer Agency and Consulting
- Wealth Management and Insurance



Growth in Noninterest Revenues

10+ Year History

(excluding securities gains/losses and debt extinguishment)



Note:

⁽¹⁾ TTM 2018 represent totals for twelve-month period beginning July 1, 2017 and ended June 30, 2018.

Noninterest Revenues/
Operating Revenues = 39%
in 2017 & TTM 2018.



Benefit Plan Administration & Consulting Revenue

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

\$80.8 million of revenues in 2017

\$45.6 million of revenues in first six months of 2018, a 20.3% increase over 2017

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

\$28.0 million of revenues in first six months of 2018

Upstate NY, Northeast PA, Vermont, NYC, and Florida

\$7.0 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>
Branch Acquisitions		
December 2013	8 (net 6)	\$ 303
July/September 2012	19 (net 12)	\$ 800
Whole-Bank Acquisitions		
May 2017	32	\$1,995
December 2015	12	\$ 798
April 2011	22	\$ 870



Strategy Element #3: Growth Model

Financial Services Acquisitions

<u>Employee Benefit Services</u>	<u>Year</u>
• HR Consultants	2018
• Northeast Retirement Services	2017
• EBS-RMSCO, Inc. (Actuarial Group)	2014
• CAI Benefits, Inc.	2011
<u>Wealth Management Services</u>	
• Financial Planning Practice (Canton, NY)	2018
• Financial Planning Practice (Wilkes-Barre, PA)	2017
• Merchants Bank Trust Dept.	2017
<u>Insurance Services</u>	
• Independent Agency (Binghamton, NY)	2018
• Benefits Consulting Practice – (NYC)	2017
• Independent Agencies (Hazleton, PA and Oneonta, NY)	2017
• Independent Agent (Canton, NY)	2016
• One Group – “Foundation Agency” (Syracuse, NY) ⁽¹⁾	2015

Note: ⁽¹⁾ Acquired as part of the Oneida Financial acquisition.



Recent Acquisitions (2012 – 2018)

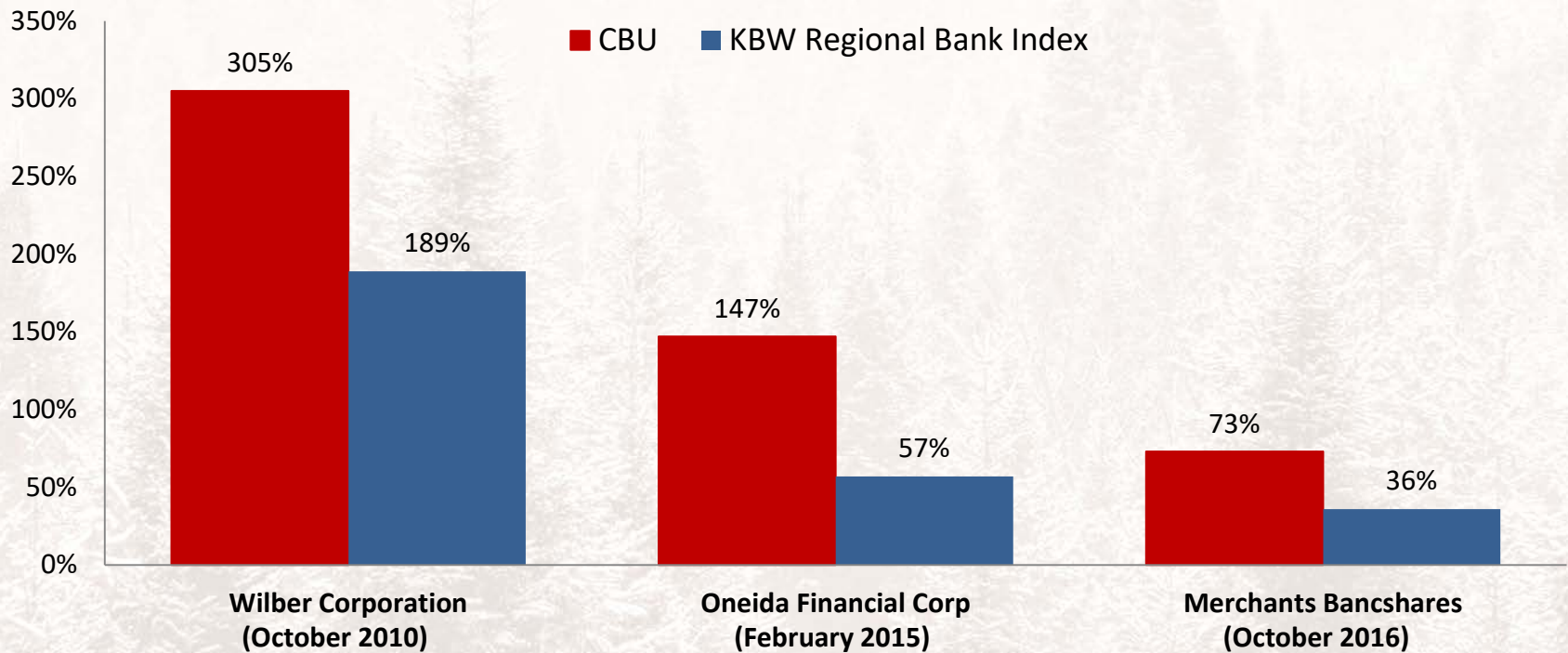
Manageable-sized acquisitions, largely in-market, or contiguous:

- 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. Now approaching \$40 million annually.
- 2 wealth management practices acquired by CISI subsidiary since Q2 2017
- 6 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

Since Acquisition 130% 60% 13%

Source: SNL Financial, FactSet, Company filings. Market data as of 7/31/18.



2017 Performance Summary

	2017 Results (In Millions)	% Change From 2016
• Net interest income	\$315.7	15.3%
• Noninterest income	202.4	30.1%
• Operating expenses ⁽¹⁾	321.2	21.1%
• Provision for loan losses	11.0	36.0%
• Net income, operating ⁽²⁾	131.0	24.8%
• Operating EPS (diluted) ⁽²⁾	2.64	12.3%
• Net interest margin ⁽³⁾	3.69	(0.2%)
• Fully diluted shares outstanding	49.7	11.1%

Notes:

(1) Excludes acquisition expenses.

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

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



First Six Months 2018 Performance Summary

	YTD 06/30/18 Results (In Millions)	% Change From YTD 06/30/17
• Net interest income	\$171.5	18.0%
• Non-interest income	114.1	19.4%
• Operating expenses ⁽¹⁾	172.4	13.5%
• Provision for loan losses	6.1	86.3%
• Net income, operating ⁽¹⁾	84.8	40.1%
• Operating EPS (diluted) ⁽¹⁾	1.63	29.4%
• Net interest margin ⁽²⁾	3.72	0.03%
• Fully diluted shares outstanding	51.8	8.4%

Notes:

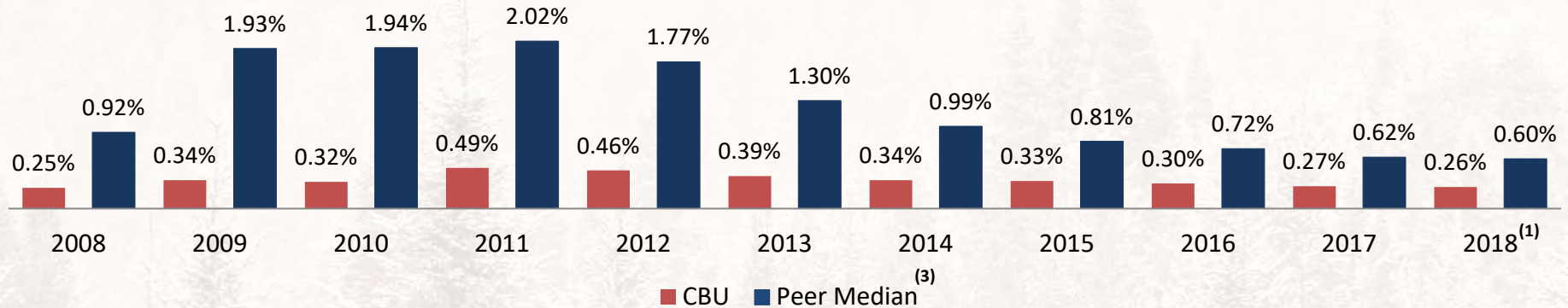
(1) Excludes acquisition expenses.

(2) Represents the difference in net interest margin results between comparative periods, i.e., an increase of 3 basis points.

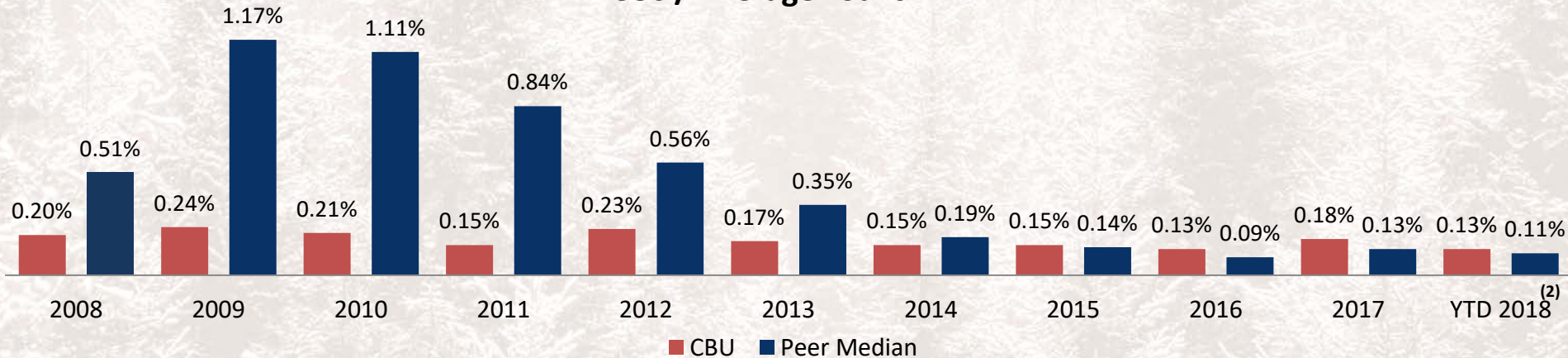


Low-Risk Balance Sheet with Strong Asset Quality

NPAs / Assets



NCOs / Average Loans



Source: SNL Financial, Company filings.

(1) As of June 30, 2018

(2) For six-month period ended June 30, 2018

(3) Peers used throughout this presentation may be found on Appendix A.



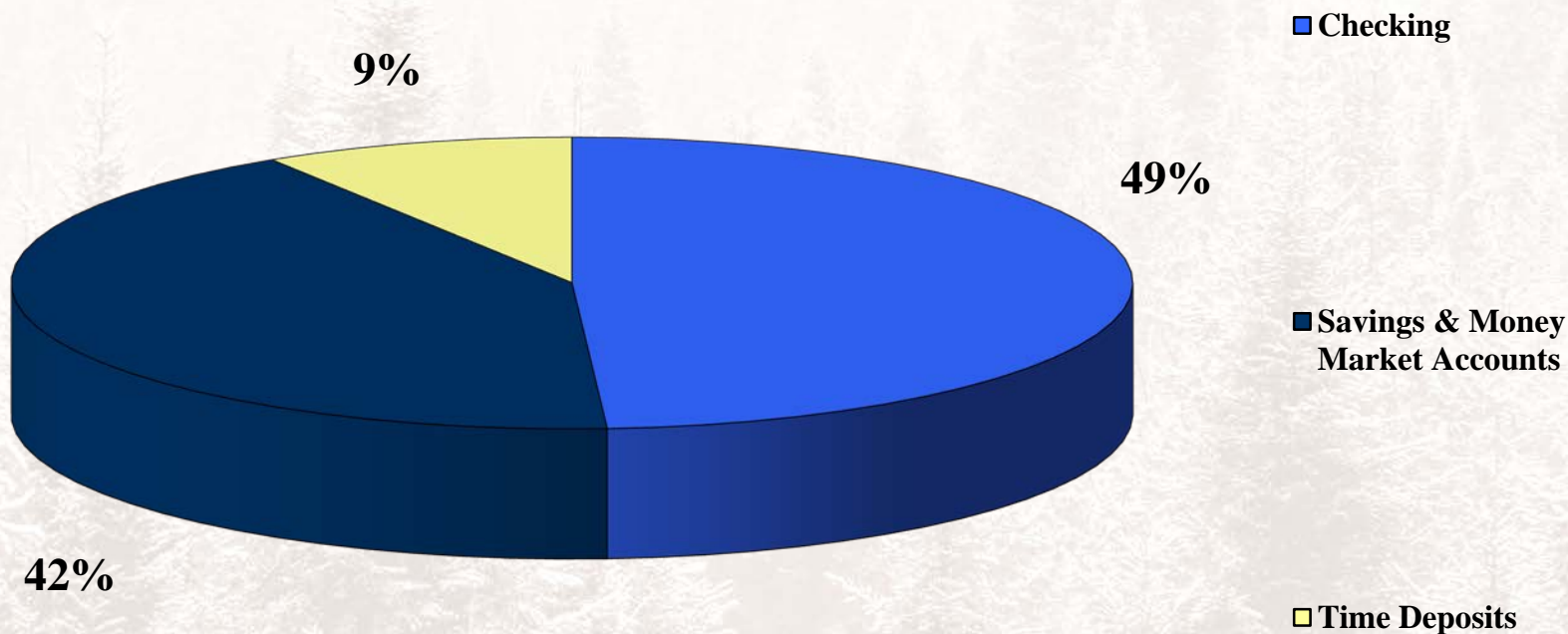
Loan Portfolio Balance

As of June 30, 2018	\$ bil.		Comments
Residential Mortgage and Home Equity	\$2.6	42%	Residential Mortgages: Primarily residential 1 st mortgages, fixed rate, primarily 15 to 20 year. All originated in-market. Annualized loss ratio <0.10% historically. Home Equity 7% of total loans: 1 st or 2 nd lien, residential, 15 yrs or less, loss ratio <0.15% historically.
Business/Commercial	\$2.4	38%	Commercial Real Estate and C + I lending. Annualized loss ratio <0.16% past 2, 5 and 10 years Important source of deposit funding and fee-generation.
Consumer Installment	\$1.2	20%	Consumer Indirect 16% of total loans: primarily used auto loans through dealerships in bank footprint; over 30 yrs in this business; annualized loss ratios of 0.30% to 0.46% (2012 – 2017); 0.23% annualized loss ratio for six-months ended June 30, 2018. Consumer Direct 3% of total loans.
Total Loans	\$6.2		



Core Deposit Strength and Focus

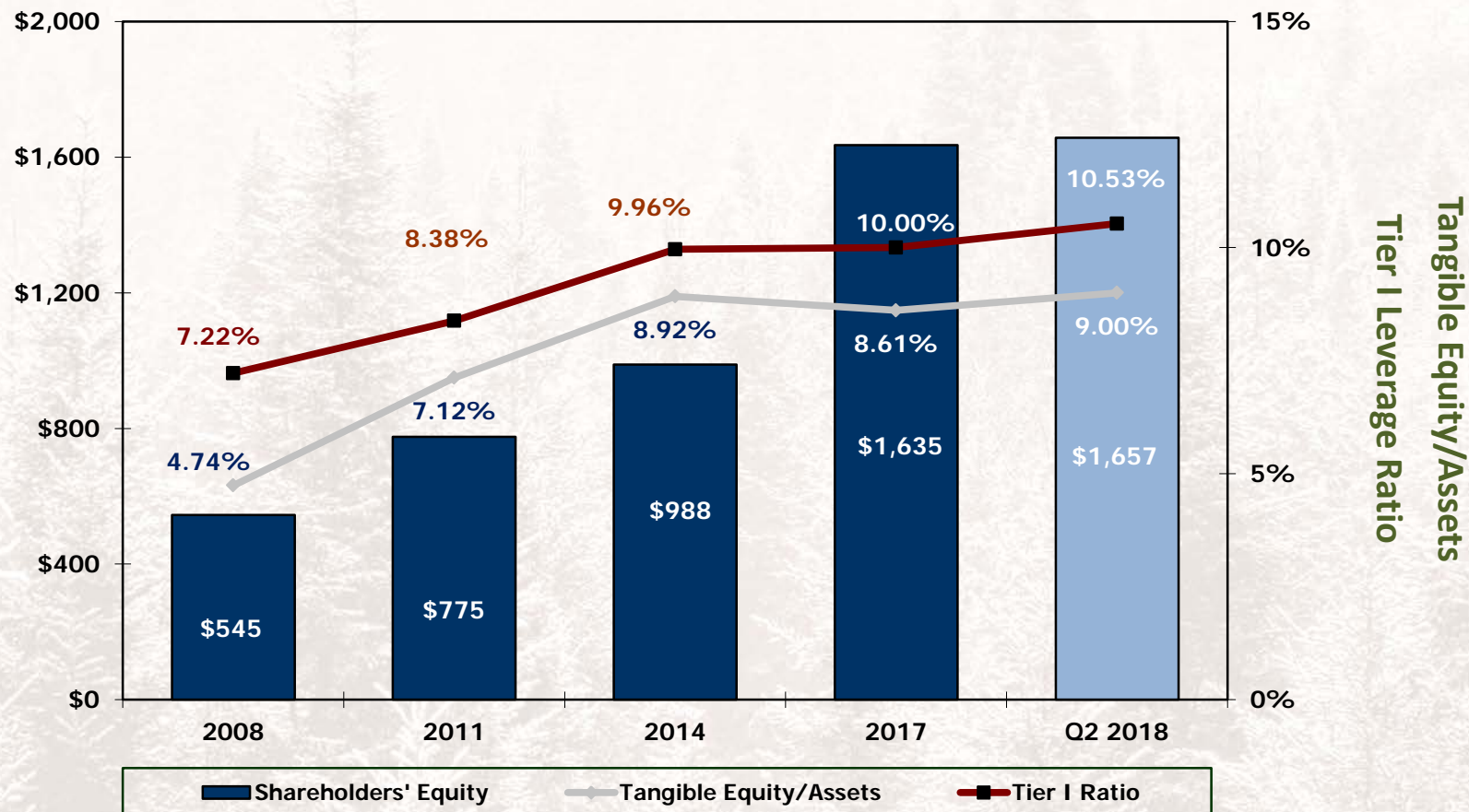
YTD 2018 Cost of Deposits: 0.11%*



*The Cost of Deposits has remained between 0.10% and 0.11% for the prior ten quarters.



Capital Growth and Stability



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



Asset & Liability Management is Conservative

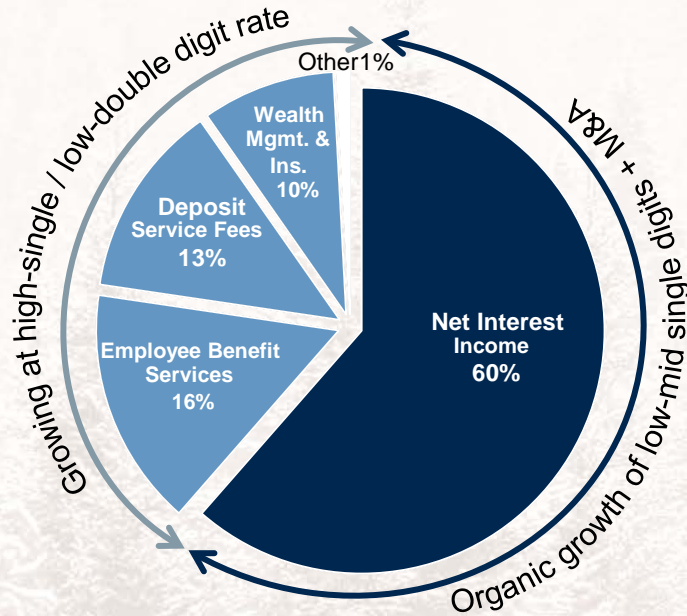
- Stable net interest margin, 3.69% to 3.91% range past 5 years, (3.69% in 2017; 3.72% YTD 2018).
- Loan to deposit ratio of 73% as of June 2018.
- Investment portfolio – conservative; plain/vanilla. 63% US Treasury securities at 6/30/18. Sensible duration characteristics.
- Core deposit focused – very limited use of wholesale funding.



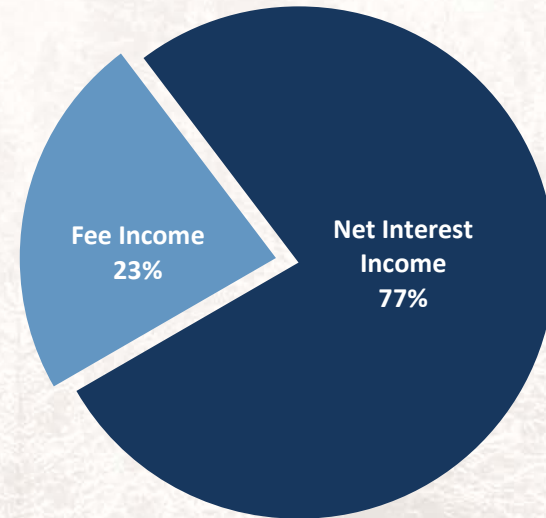
CBU Has a Diversified, Lower-Capital Intensity Revenue Stream

Peer Median

Revenue Composition



CBU



Peer Median⁽¹⁾

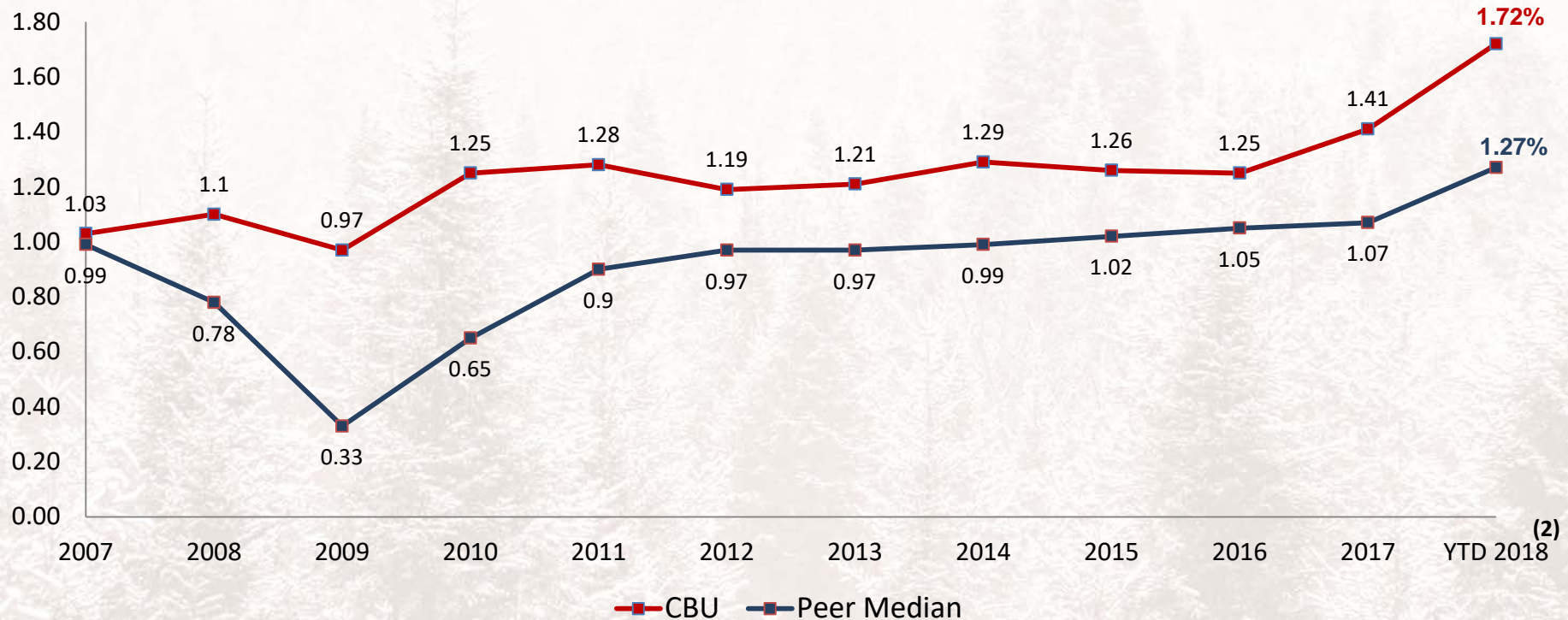
Source: SNL Financial, Company filings. Data for CBU for the six months ended 6/30/18.

(1) Peers used throughout presentation may be found on Appendix A.



Resulting in Consistent Outperformance

Return on Average Assets⁽¹⁾



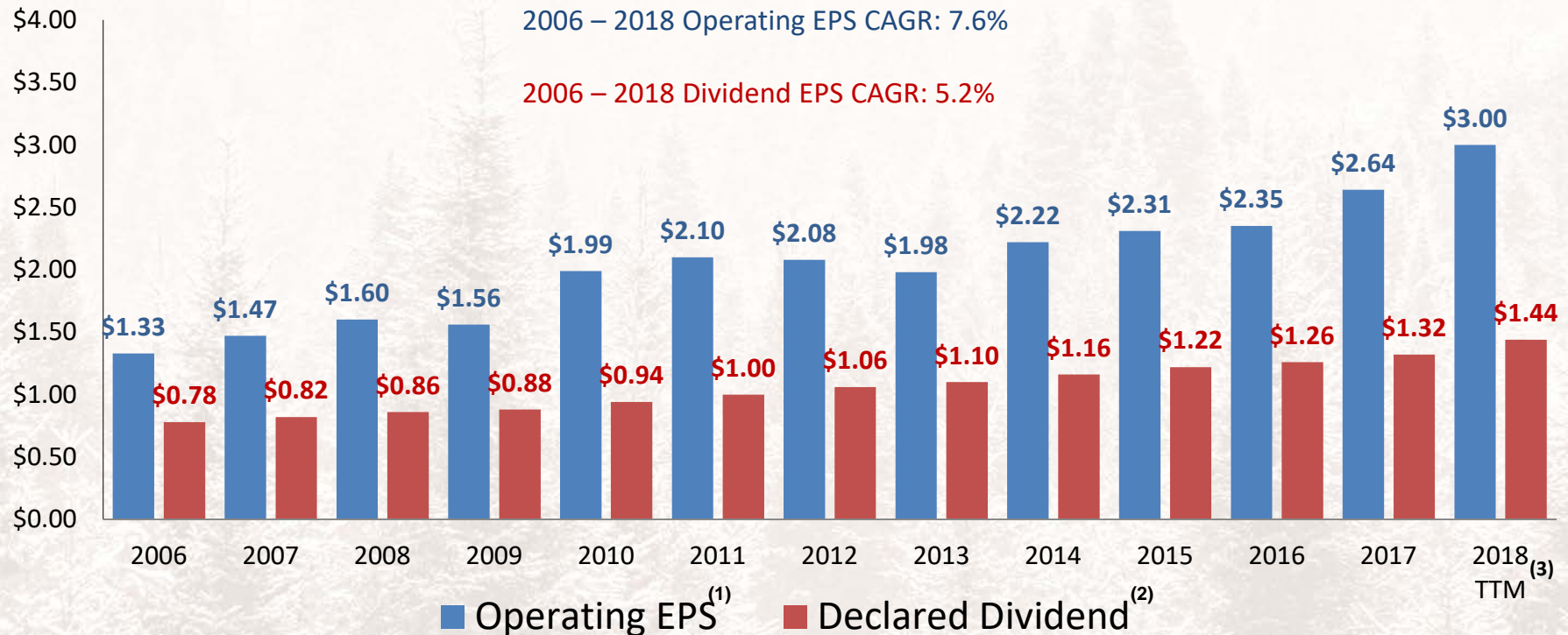
Note: ⁽¹⁾ Core ROAA shown excludes net income attributable to non controlling interest, realized gain on securities, non-recurring revenue/expense, amortization of intangible assets and goodwill impairment. Adjustments were made to the 2017 peer group results for the income statement impact of the Tax Cuts and Jobs Act. CBU's Core ROAA was 1.77% for FY2017, but 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.

⁽²⁾ Six-month period ended June 30, 2018.

Source: SNL Financial, Company filings.



High-Quality Earnings, Dividend Growth & Stable Dividend Policy



Notes: (1) Operating earnings excludes acquisition expense, net of tax effect, and the \$38.0 million positive adjustment to deferred tax expense in 2017 due to the passage of the Tax Cuts and Jobs Act.

(2) Per share dividend amounts equal total dividends declared in the corresponding calendar year.

(3) Earnings per share for 12-month period beginning July 1, 2017 and ended June 30, 2018. Dividend per share amount assumes \$0.38 is declared by CBU in the fourth quarter of 2018.

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



Investment Merits

- Community Bank has been a 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 26 years in a row).
- CBU's 10-year cumulative total return to shareholders of 282% (as of 7/31/18) is 2.2X greater than the median 10-year cumulative returns of its Peers of 126% (CAGR 8.5X).*
- 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 July 31, 2018 assuming dividend reinvestment.



Consistent Dividend Focus

- **Strong Dividend Payment**
 - \$1.52 per share annualized
 - Payout ratio of approximately 50%
- **Productive Dividend Yield:**
 - 2.34% at August 14, 2018
- **Outstanding Track Record of Payment Increases**
 - 12% increase in August 2018
 - 26 straight years



Shareholder Profile

- Strong liquidity approx. 250,000 shares traded daily
- Ownership
 - 70% Institutional
 - 65% Traditional Investment Managers and Index Funds/ETFs
 - 2% Government Pension Sponsors
 - 3% All other
 - 30% Retail
 - 28% Public
 - 2% Insiders

Source: SNL Financial, Most Recent Available Date.



Total Shareholder Returns (Annualized)

(Through July 31, 2018, or most recent available, Including Reinvestment of Dividends)

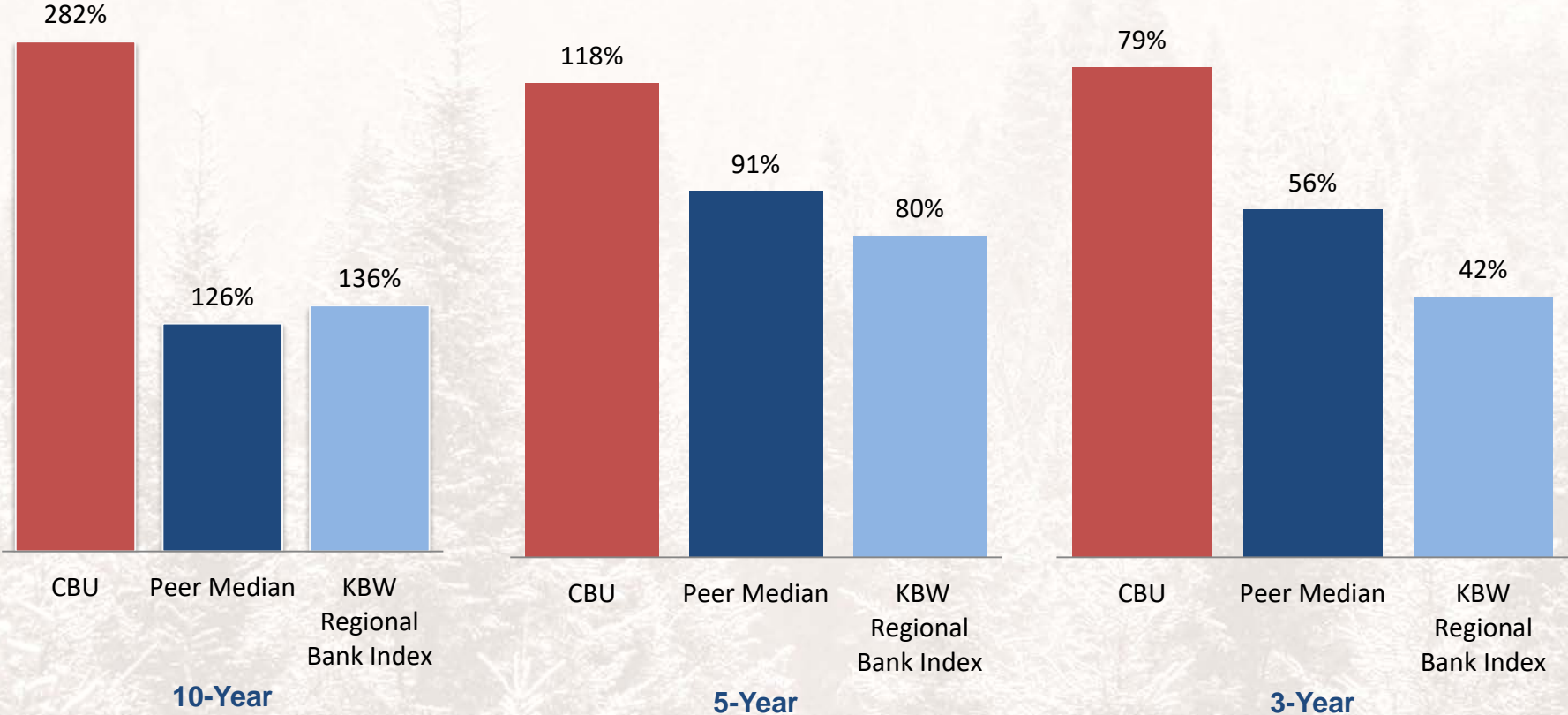
	1 Year	5 Years	10 Years	12 Years	15 Years
CBU	18.1%	16.8%	14.3%	13.5%	11.4%
S&P 600 Comm. Bank Index	14.4%	14.4%	9.4%	3.4%	4.6%
KBW Regional Bank Index	11.6%	12.5%	8.9%	3.9%	5.5%
S&P 500	16.2%	13.1%	10.7%	9.1%	9.4%
DJIA	18.7%	13.1%	11.2%	9.9%	9.7%

Source: Bloomberg



Driving Top Decile Shareholder Returns

Total Shareholder Return

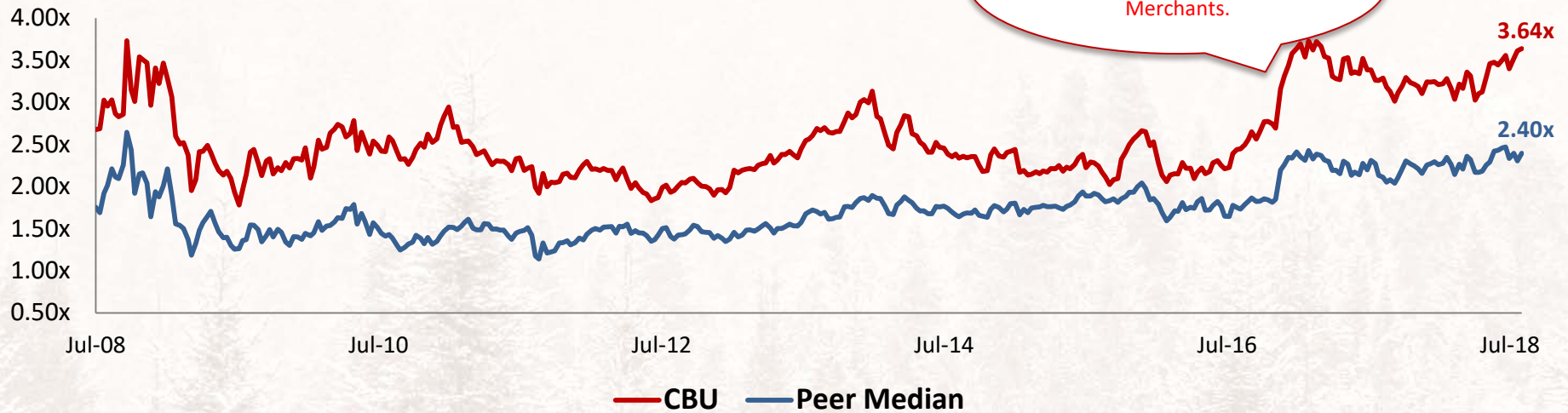


Source: FactSet. Market data as of 7/31/18.



Well-Deserved Valuation Premium

Price / TBV



Relative Premium



Source: SNL Financial, Company filings. Market data as of 7/31/18.



Appendix A

Peer Company Name	Ticker	Location	As of June 30, 2018	
			Total Assets (\$000)	Market Cap of Traded Common Equity (\$M)
Berkshire Hills Bancorp Inc.	BHLB	Boston, MA	11,901,963	1,848.6
Brookline Bancorp Inc.	BRKL	Boston, MA	7,285,710	1,419.3
Chemical Financial Corp.	CHFC	Detroit, MI	20,282,603	4,076.6
First Commonwealth Financial	FCF	Indiana, PA	7,648,755	1,679.0
First Financial Bancorp.	FFBC	Cincinnati, OH	13,920,167	3,025.1
Flushing Financial Corp.	FFIC	Uniondale, NY	6,467,616	708.2
First Midwest Bancorp Inc.	FMBI	Chicago, IL	14,818,076	2,737.1
F.N.B. Corp.	FNB	Pittsburgh, PA	32,257,563	4,208.9
First Merchants Corp.	FRME	Muncie, IN	9,734,715	2,364.0
Fulton Financial Corp.	FULT	Lancaster, PA	20,172,539	3,105.0
Independent Bank Corp.	INDB	Rockland, MA	8,381,002	2,402.7
MB Financial Inc.	MBFI	Chicago, IL	19,966,557	4,036.2
NBT Bancorp Inc.	NBTB	Norwich, NY	9,467,138	1,724.3
Old National Bancorp	ONB	Evansville, IN	17,482,990	2,948.0
Park National Corp.	PRK	Newark, OH	7,462,156	1,741.2
Signature Bank	SBNY	New York, NY	45,215,484	6,141.8
1st Source Corp.	SRCE	South Bend, IN	6,320,058	1,452.2
S&T Bancorp Inc.	STBA	Indiana, PA	7,097,346	1,553.7
Sterling Bancorp	STL	Montebello, NY	31,463,077	4,915.4
Tompkins Financial Corporation	TMP	Ithaca, NY	6,745,800	1,304.2
TrustCo Bank Corp NY	TRST	Glennville, NY	4,940,559	883.4
Union Bkshs Corp	UBSH	Richmond, VA	13,066,106	2,699.9
United Bankshares Inc.	UBSI	Charleston, WV	19,207,603	3,976.4
Valley National Bancorp	VLV	Wayne, NJ	30,182,979	3,848.4
Webster Financial Corp.	WBS	Waterbury, CT	27,036,737	6,128.6
WesBanco Inc.	WSBC	Wheeling, WV	10,946,584	2,289.7
Wintrust Financial Corp.	WTFC	Rosemont, IL	29,464,588	5,004.1
Minimum			4,940,559	708.2
Median			13,066,106	2,699.9
Average			16,256,906	2,897.1
Maximum			45,215,484	6,141.8
Community Bank System Inc.	CBU	De Witt, NY	10,633,094	3,245.3



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 recorded in the fourth quarter of 2017, as well as acquisition-related expenses, net of tax effect from the calculation of noninterest expenses.
- Operating cash flow adds back the amortization of intangibles, net of tax effect and subtracts purchased loan accretion, net of tax effect from Operating Earnings.



CBU Free Cash Flow

Consistent and Growing
Supports Growth in Dividends & Assets

	Six-Month Period Ended June 30 2018	Yrs Ended Dec. 31 (\$000s)				
		2017	2016	2015	2014	2013
Net income (GAAP)	\$ 84,712	\$ 150,717	\$ 103,812	\$ 91,230	\$ 91,353	\$ 78,829
Tax Cuts and Jobs Act deferred impact	-	(38,010)	-	-	-	-
Acquisition expenses	63	25,986	1,706	7,037	123	2,181
Tax effect of acquisition expenses	(11)	(7,677)	(560)	(2,182)	(36)	(633)
Operating Earnings	84,764	131,016	104,958	96,085	91,440	80,377
Amortization of intangibles	9,353	16,941	5,479	3,663	4,287	4,469
Tax effect of amortization of intangibles	(1,955)	(5,005)	(1,800)	(1,135)	(1,267)	(1,296)
Subtotal (non-GAAP)	92,162	142,952	108,637	98,613	94,460	83,550
Acquired non-impaired loan accretion	(4,103)	(5,888)	(2,868)	(2,256)	(3,338)	(3,720)
Tax effect of acquired non-impaired loan accretion	856	1,739	942	700	987	1,079
Operating Cash Flow	88,915	138,803	106,711	97,057	92,109	80,909
Cash Dividends Paid	34,611	62,305	55,048	49,273	46,178	43,482
Cash Div % of Operating Cash Flow	39%	45%	52%	51%	50%	54%



Tangible Equity Components & Trends

	June 30, 2018 (\$000s)				
Dec. 31 (\$000s)		2015	2012	2010	2008
Stock, APIC, Retained earnings	\$1,703,450	\$1,121,412	\$848,444	\$616,598	\$557,515
Accumulated other comprehensive gains (losses)	<u>(46,491)</u>	<u>19,235</u>	<u>54,334</u>	<u>(9,340)</u>	<u>(12,864)</u>
Total shareholders' equity	<u>1,656,959</u>	<u>1,140,647</u>	<u>902,778</u>	<u>607,258</u>	<u>544,651</u>
Intangible assets	816,127	484,146	387,134	311,714	328,624
Deferred tax liabilities from intangible assets	<u>47,334</u>	<u>39,724</u>	<u>27,947</u>	<u>20,765</u>	<u>14,216</u>
Net intangible assets	<u>768,793</u>	<u>444,422</u>	<u>359,187</u>	<u>290,949</u>	<u>314,408</u>
Tangible equity	888,166	696,225	543,591	316,309	230,243
Outstanding shares	<u>51,086</u>	<u>43,775</u>	<u>39,626</u>	<u>33,319</u>	<u>32,633</u>
Tangible equity per share	<u>17.39</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>9.00%</u>	<u>8.59%</u>	<u>7.62%</u>	<u>6.14%</u>	<u>4.74%</u>



AUGUST/SEPTEMBER 2018

 **Community**
BANK SYSTEM, INC.

Thank You

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