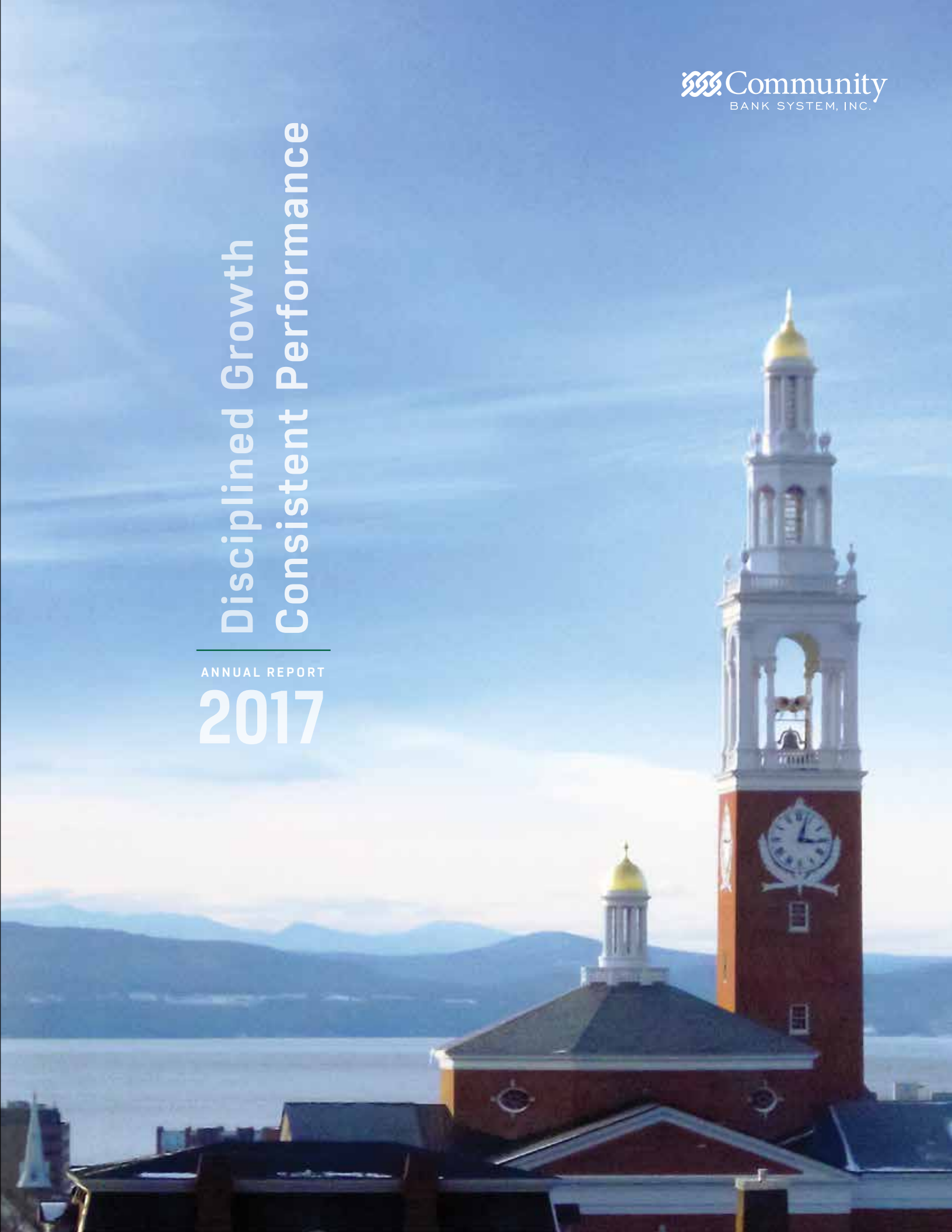


Disciplined Growth  
Consistent Performance

ANNUAL REPORT

2017



6

Ranked sixth best in Forbes® Magazine analysis of America's 100 largest publicly-traded banks for 2018

39

Noninterest income was 39% of the Company's total revenue

480

15-year cumulative total shareholder return of 480% at December 31, 2017

57

Acquired Merchants Bancshares, our fifth whole bank or significant branch acquisition since 2011

Total revenue of \$518 million, resulting in a 10-year CAGR of 10%

518

## 2017 FACTS

25

The cash dividend was increased for the 25<sup>th</sup> consecutive year

### TABLE OF CONTENTS

Investment Overview	1
Letter to Shareholders	2
Operations Review	8
Corporate Leadership	18
Executive Management	20
Administration	21
Branch Locations / Management	24
Financial Services Business Summary	27
Selected Financial Data	28
Corporate / Shareholder Information	29

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## **INVESTMENT CONSIDERATIONS: CBU**

The 15-year cumulative total return to shareholders of 480% (on 12/31/17), the eighth highest among the 100 largest publicly-traded US banks

Cash dividend payment raised every year for the past 25 years, providing a meaningful dividend and yield

Focus on revenue diversification, which has driven noninterest income to nearly 40% of revenue

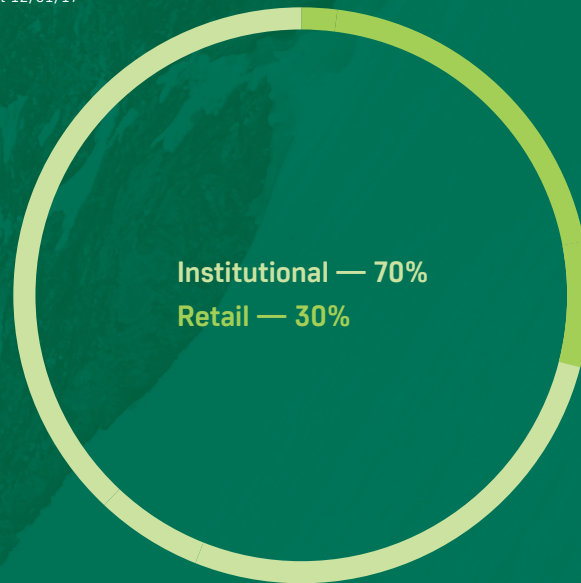
Successful and effective operating strategy

Strong fundamentals with excellent asset quality on a consistent basis

NYSE-listed company with significant liquidity

## **STOCK OWNERSHIP**

At 12/31/17



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## **INSTITUTIONAL OWNERSHIP SUMMARY**

50.7 MILLION SHARES  
OUTSTANDING

35.7 MILLION SHARES  
HELD BY INSTITUTIONS

70% OF SHARES  
OUTSTANDING

215 INSTITUTIONAL  
HOLDERS

310 PORTFOLIO  
POSITIONS

---

## To Our Shareholders, Customers and Employees:

2017 ranks among the most transformative years in Community Bank System's history. Record profits and meaningful expansion — both in size and geography — were the headlines to a remarkably productive year across virtually every aspect of our franchise. Operating earnings per share grew over 13 percent from 2016. We raised our dividend for the 25<sup>th</sup> consecutive year. We closed and swiftly integrated two significant acquisitions, including our largest-ever whole-bank deal, gaining entry to the attractive New England market and expanding our balance sheet by more than 20 percent.

In tandem, and as anticipated, we crossed the \$10 billion asset threshold, joining the ranks of the “big banks” from a regulatory standpoint, and assuming the significantly more complex requirements related to compliance, risk management and general regulatory oversight that comes with our new classification. We completed our first “dry run” of Dodd-Frank Act Stress Testing, or “DFAST,” in a smooth and satisfactory manner, exhibiting our team's solid execution toward implementing and building out DFAST systems and reporting capabilities over the past three years. We've long anticipated and prepared for this eventuality, and we were fully prepared to meet the higher organizational expectations of a \$10 billion institution.

Our record operating results and financial performance once again placed us among the best large U.S. banks, as evaluated by Forbes® Magazine in its ninth annual analysis of “America's Best Banks.” In its January 2018 list, Forbes® ranked Community Bank sixth among the 100 largest publicly-traded banks and thrifts, based on a comparison of ten different metrics related to asset quality, capital adequacy, growth and profitability, and which included financial institutions ranging in asset size from just under \$8.8 billion to \$2.6 trillion. At \$10.7 billion in assets, we are decidedly “small” amongst this cohort. Yet, we've ranked 12<sup>th</sup> or higher in every year Forbes® has produced this analysis, with top 10 rankings for seven of the annual reviews. We believe our record of regularly placing near the top of these rankings reflects our consistently strong operating performance over the long term. In parallel, our performance has yielded top-tier shareholder returns. Over the past ten years, an investment in Community Bank System provided a 288 percent cumulative total return to shareholders, seventh highest among the top 100 banks and meaningfully higher than the 112 percent median for this group.

## A DIVERSIFIED STRATEGY

Our history of double-digit growth exceeds the more modest growth characteristics of our geographic footprint. We attribute our success in achieving this outcome to consistent execution of a multi-layered strategy. We focus on disciplined capital deployment across a spectrum of organic growth, M&A and dividend opportunities. Maintaining a low-risk profile, a diverse revenue mix, above-average profitability, and a successful acquisition model are essential, and each year pulls upon these “levers” differently.

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## PERFORMANCE HIGHLIGHTS

GAAP earnings of \$3.03 per share, compared to \$2.32 for 2016

Operating earnings of \$2.64 per share, a 13.3% increase over 2016

Record net income of \$150.7 million

Total revenue exceeds \$518 million

Continuation of excellent asset quality metrics

Cash dividend raised for the 25<sup>th</sup> consecutive year to an annualized \$1.36

Acquired and integrated Merchants Bancshares, Inc.

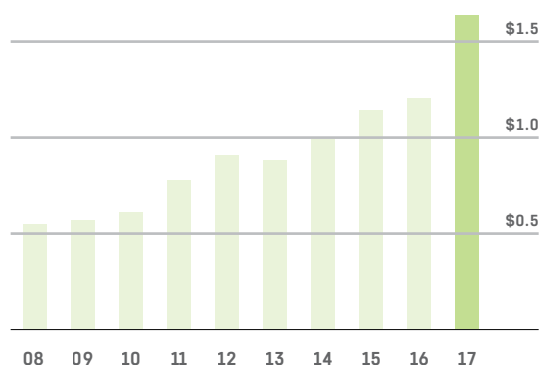
Completed acquisition and integration of Northeast Retirement Services, Inc.

Core non-time deposits increased \$1.3 billion to 90.8% of total deposits

Total cost of deposits ended 2017 at 0.10%

## SHAREHOLDERS' EQUITY

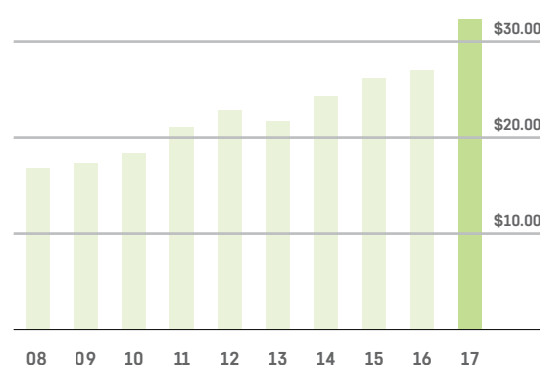
In billions at 12/31



10-year CAGR = 13.1%

## BOOK VALUE PER SHARE

At 12/31



10-year CAGR = 6.8%

Perhaps more than any year in recent history, 2017 delivered tangible and compelling outcomes from this well-articulated strategy. 2017 saw the deployment of capital to two highly accretive acquisitions, the expansion of our non-banking businesses, a continuation of our outstanding credit quality, disciplined protection of deposit funding costs despite multiple rate increases, conservative expense management and modest organic growth. We are immensely pleased with these results.

### EXPANSION AND EXECUTION

Acquisition growth was the most significant driver of 2017 performance. The May 2017 addition of Merchants Bancshares marked our largest-ever bank acquisition among our history of 22 transactions since 1989, adding assets of \$2.0 billion, total deposits of \$1.5 billion, 31 banking offices, and one of the strongest loan books in the country. Through Merchants, we gained the third largest deposit market share in Vermont, with a growing presence in Western Massachusetts, and an exceptionally strong and complementary culture. The integration has proceeded smoothly with cost synergies running ahead of plan.

We were equally pleased with the February 2017 acquisition of Northeast Retirement Services, Inc. ("NRS"), a leading provider of plan accounting, transfer agency, fund administration, and trust and retirement plans services to institutional clients. Investing in non-banking businesses is an important part of our strategy as these franchises tend to have very high return characteristics and are generally unconstrained by our branch footprint, allowing for stronger organic growth opportunities. Boston-based NRS, our 10<sup>th</sup> financial services acquisition, fit within this strategy perfectly. The combination of NRS with Benefit Plans Administrative Services, Inc. ("BPAS"), our existing benefits business, created a platform with over \$90 million of expected annual revenue, along with more than \$75 billion of trust assets under management in 3,800 retirement plans with more than 400,000 clients across the United States and Puerto Rico. As part of BPAS, NRS continued to grow both its top and bottom line performance at a double-digit pace, exceeding our initial expectations.

These transactions were immediately and are expected to be significantly accretive to both GAAP and cash earnings, supplementing modest organic growth and providing substantial support to our capital accumulation and dividend capacity.

### OUTSTANDING RESULTS

Community Bank produced GAAP-basis earnings per share totaling \$3.03 for 2017, up more than 30 percent compared to \$2.32 per share in 2016.

We strive to provide a clear picture of our Company's core business activities by customarily presenting results on an operating basis, which excludes the impact of acquisition-related expenses and other non-operating items.

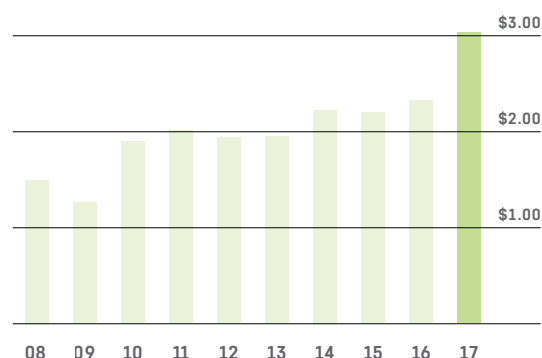
Acquisition expenses amounted to \$26.0 million in 2017, while a \$38.0 million one-time tax benefit resulted from the revaluation of our net deferred tax liability position following the late December 2017-enacted Tax Cuts and Jobs Act, which meaningfully lowers the corporate federal tax rate beginning in 2018.

Excluding these items, we produced operating earnings per share totaling \$2.64 in 2017, marking our eighth consecutive record annual performance. Earnings momentum was exceptional, with year-over-year growth in operating earnings per share exceeding 13 percent, our highest rate in seven years.

The addition of Merchants resulted in total loan balances rising to \$6.3 billion at year-end, 26 percent higher than 2016. Economic momentum fueled organic lending activity during the year, driving record commercial originations and positioning 2018 with a record pipeline. However, we also experienced a high level of unexpected payoff activity, which muted the impact of exceptional commercial origination growth, driving total legacy commercial balances down three percent from 2016. Residential mortgages and home equity instruments grew just under two percent, organically, while our consumer indirect portfolio declined by about three percent in 2017 as we continued to balance growth with our objective of improving returns on capital deployed in this portfolio.

## EARNINGS PER SHARE

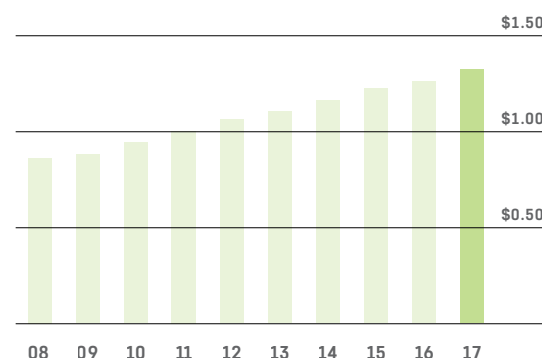
Diluted



10-year CAGR = 7.9%

## DIVIDEND GROWTH

Declared



10-year CAGR = 4.9%

Core deposits grew \$1.3 billion from 2016, also reflective of the Merchants transaction and continued success in our core deposit gathering. Notably, our cost of interest-bearing deposits was virtually unchanged in 2017, despite four federal funds rate target increases since December 2016. We do expect to experience modest rate pressure competitively in the market in 2018; however, the nature of our geographic markets has historically allowed us to lag industry deposit price increases. Our success has been aided by our near total lack of external debt - a rarity in our peer group. We will continue to be very judicious in optimizing our funding costs, and we expect the strength of our funding base will be highly additive to operating performance if rates continue to rise.

Net interest margin measured 3.69 percent for the year, compared to 3.71 percent for 2016, as proactive and disciplined management of funding costs in 2017 continued to help offset the modest decline in our average earning asset yields compared to the prior year.

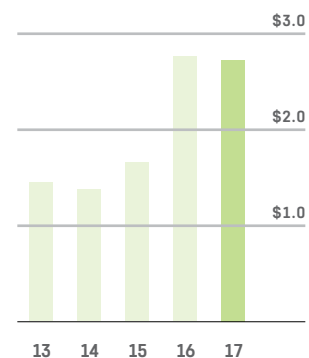
Overall revenue expansion was significant in 2017. Noninterest income grew 30 percent from 2016 and was meaningfully impacted by the two acquisitions. Our non-banking businesses — employee benefits administration, wealth management and insurance — posted an overall 44 percent increase in revenues, with a significant portion of the growth coming from NRS activities. Banking fee income expanded by 11 percent, also reflecting organic and acquisition growth. Total non-margin revenues grew to constitute over 39 percent of total revenues, up from 36 percent in 2016 and well above the 25 percent median for the top 100 banks by assets. Robust noninterest income continues to provide not just diversification but multiple points of opportunity for further growth.

## INVESTMENT PROFILE

Closing Price	<b>\$53.75</b> AT 12/31/17
Market Cap	<b>\$2.72 billion</b> AT 12/31/17
Price/Earnings (TTM)	<b>17.7</b>
Price/Tangible Book Value	<b>3.2</b>
Dividend	<b>\$1.36</b> ANNUALIZED FOR MOST RECENT QUARTER
Dividend Yield	<b>2.53%</b> BASED ON CLOSING PRICE OF \$53.75 ON 12/31/17
Dividend Payout Ratio	<b>44%</b>
Shares Outstanding	<b>50.7 million</b>
Average Trading Volume	<b>~242,000</b> 3-MONTH AVERAGE 12/31/17

## MARKET CAP

In billions at 12/31



5-year CAGR = 19.2%

Our operating performance also reflected improvements in core expenses. Likewise, our efficiency ratio improved from 59.5 percent to 58.3 percent, meeting our objective of operating with an efficiency ratio consistently below 60 percent. We continue to believe our efficient management of expenses is an important core competency.

The full year of 2017 was a continuation of the favorable overall asset quality results we've experienced for several years. Our year-end December 2017 reserve for loan losses represented more than four years of annualized net charge-offs, and full-year charge-offs were again manageable at 18 basis points of average loans. Nonperforming loans, comprised of both legacy and acquired loans, ended 2017 at \$27.4 million, or 0.44 percent of total loans, four basis points lower than the ratio reported at the end of 2016.

Outstanding 2017 results accelerated our trend of producing positive long-term returns for our shareholders. We moved from generating \$1.42 per share on an operating basis in 2007 to \$2.64 per share in 2017, growing 86 percent, or 9.5 percent per year. Over the same period, our dividend grew by 61 percent, or 6.8 percent per year, and we provided a 288 percent 10-year cumulative total return to shareholders.

### LEADERSHIP STRENGTH AND CHANGES

Central to our success in achieving these outcomes is the depth of talent, experience and commitment of our senior management team and Board of Directors.

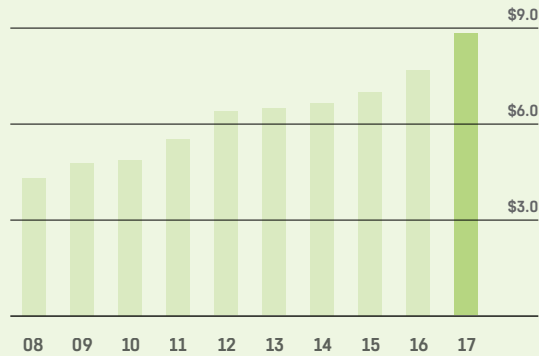
Among our senior leadership team, our pool of talent is as broad as it is deep. Our lean and collaborative culture naturally allows this team to learn from, challenge and inform business decisions across the franchise. Their exceptional competence is an invaluable asset, and one that permits outstanding succession planning opportunities.

Likewise, our Board is comprised of visionary and dedicated Directors who have been steady advocates for our model and strategy across major economic and industry changes, in some cases for decades. 2017 brought a number of notable changes to the group. Per our Board's policy, Nicholas A. DiCerbo, James A. Gabriel and Edward S. Mucenski retired in 2017 after reaching the mandatory retirement age of 70 during the year.

## Performance Profile

### AVERAGE INTEREST-EARNING ASSETS

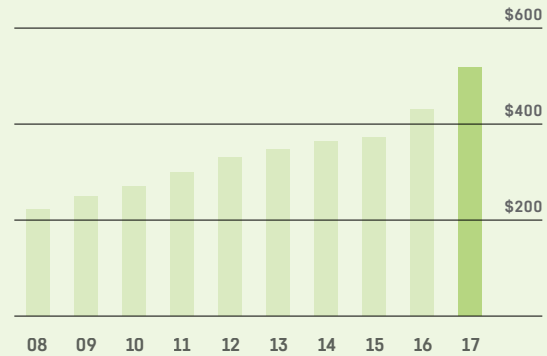
In billions at 12/31



10-year CAGR = 7.8%

### TOTAL REVENUE<sup>1</sup>

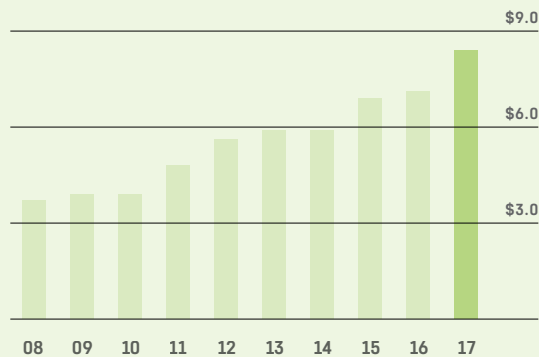
In millions



10-year CAGR = 10.0%

### TOTAL DEPOSITS

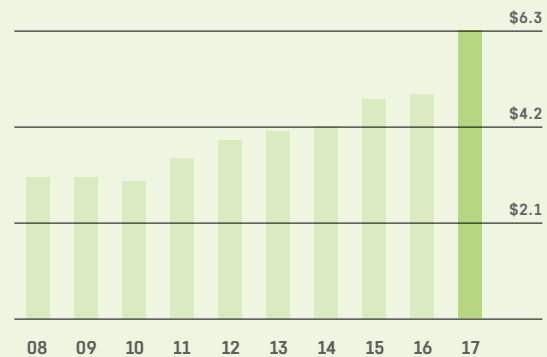
In billions at 12/31



10-year CAGR = 10.1%

### TOTAL LOANS

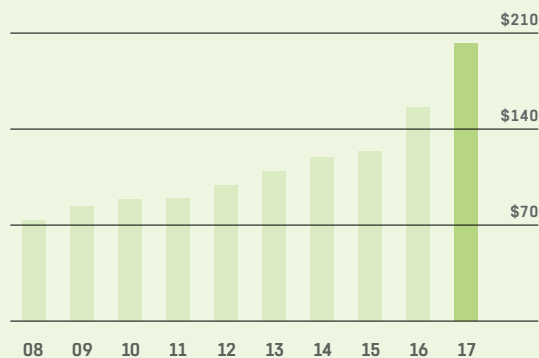
In billions at 12/31



10-year CAGR = 8.4%

### NONINTEREST INCOME<sup>1</sup>

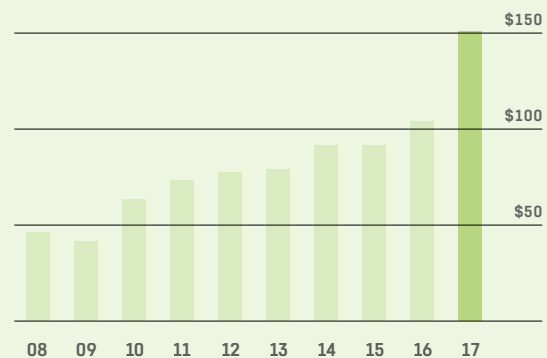
In millions



10-year CAGR = 12.4%

### NET INCOME

In millions



10-year CAGR = 13.4%

<sup>1</sup> Excluding securities gains/losses and debt extinguishment charges



Nick Dicerbo and Jim Gabriel each joined our Board in 1984. Both attorneys, their active and engaged leadership spanned many significant roles. Each served as Chairman of the Board — Jim from 1999 to 2006 and Nick from 2011 to 2016 — periods of vast and deep change in the industry. Jim most recently chaired the Trust and Financial Services Committee, served as Vice Chair on the Risk Committee, and served as a member of the Strategic/Executive Committee. Nick most recently chaired the Strategic/Executive Committee while also serving on the Trust and Financial Services Committee. Ed Mucenski, a Director since 2010, most recently served as Chair of the Audit/Compliance Committee, as well as on the Compensation Committee and the Stress Testing Subcommittee. As a Certified Public Accountant, Ed's financial expertise brought tremendous insight to our Board.

With deep gratitude we thank our retired Directors.

In 2017 we also welcomed two new Directors from Merchants, continuing our long history of benefiting from our acquired institutions' leaders' expertise and insights. Jeffrey L. Davis and Raymond C. Pecor, III joined the Board to support our ongoing efforts in our new markets.

We are grateful for the committed work of our leadership and Board teams, who remain ever-mindful of our obligations to manage with prudence and discipline, serve our customers with distinction, and deliver exceptional returns to shareholders.

#### **LOOKING AHEAD**

For several years we've communicated our strategy and efforts to position our company for the future. With characteristic discipline and consistent execution, our 2,800 team members completed transformational acquisitions and operational initiatives, and are today committed to achieving efficient and profitable growth as a "bigger bank" that operates a true community bank business model. The future is here.

Of course, as the saying goes, "The more things change, the more they stay the same." We are a community bank at heart and in history. This identity frames every lending decision and customer interaction, every Board discussion and management meeting, every community activity and employee experience at Community Bank. We know our customers and our communities, and we are pleased that the landscape today is favorable toward growth for us all.

As always, we look forward to creating incremental value from these relationships, driving meaningful capital generation and deploying it for the long-term benefit of our shareholders. We are grateful for your support of Community Bank System, Inc.



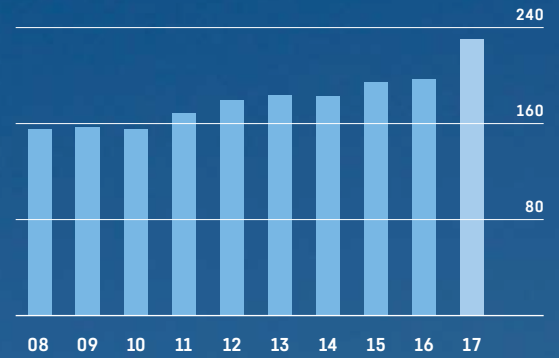
**Sally A. Steele** Chairman of the Board



**Mark E. Tryniski** President and Chief Executive Officer

## COMMUNITY BANK LOCATIONS

At 12/31



The Company's market-leading branch system serves predominantly non-metropolitan markets across Upstate New York, Northeastern Pennsylvania, Vermont, and Western Massachusetts.

The **Lake Champlain Bridge**, constructed in 2011, connects New York State and Vermont, a state that Community Bank System expanded operations into during 2017.

## Expanded Geographic Reach

Our operating philosophy has always been to serve the financial needs of customers in smaller towns and cities within areas where we could earn a leading deposit market share. This focus, combined with deep knowledge of our customers and their banking needs, a comprehensive menu of retail and business products and responsive local decision-making has enabled our team to compete effectively in our markets. We are confident this approach will work equally well in other markets with similar characteristics. Our 2017 acquisition of Merchants Bancshares (“Merchants”) extended our banking footprint into 12 Vermont counties and one additional county in Western Massachusetts, adding to an existing footprint that covered 35 counties in Upstate New York, and six counties in Northeastern Pennsylvania. Importantly, the markets we now serve in Vermont and Western Massachusetts are primarily smaller markets with similar characteristics to the areas where we already had a presence.

The Merchants transaction did more than just offer geographic expansion; it delivered an immediate elevated market presence with its 11 percent deposit share, the third highest for Vermont. Along with a statewide presence, we gained 30 banking offices, approximately \$2.1 billion of assets, and \$1.5 billion of deposits. The Merchants transaction is an example of our strategy of contiguous expansion of our franchise, our preferred method to grow and strengthen our service footprint. We have no interest in jumping across multiple states to add a banking franchise that would have little relevance to our existing service area. With the successful integration of Merchants we are well positioned to evaluate other potential New England partners with a similar philosophy and market demographics, along with expansion opportunities in Upstate New York, Pennsylvania and Ohio.

Our investment in a variety of financial services business units has had an even greater impact on the geographical reach of our businesses since they are essentially capable of offering services anywhere within the United States. We have made seven separate financial services acquisitions since 2007 which strengthened and expanded our benefits administration and insurance business units and added retirement plan administration, along with expanding the geographic reach for these activities.

We will continue to identify quality merger candidates that have the potential to grow our earnings and dividend capacity at sustainable levels, as well as to expand the service areas of our various business units.



## ACQUISITION CHARACTERISTICS

Manageable-sized acquisitions

Organizations that are a cultural fit

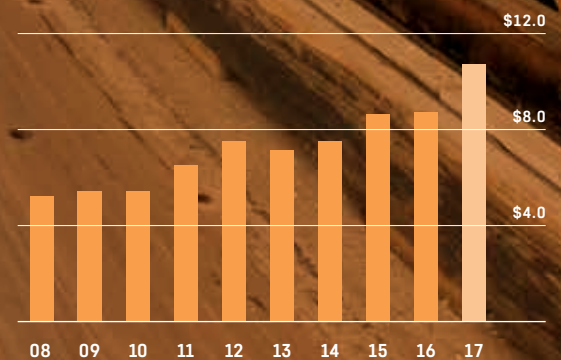
Largely in-market

Accretive to earnings and low risk

Vermont has the highest density of covered bridges in the United States, with more than 100 in total.

## TOTAL ASSETS

In billions at 12/31



10-year CAGR = 13.7%

## Growing Beyond \$10 Billion

Acquisitions have been and remain an important part of our Company's long-term strategic growth initiative. Since 2011 we have completed five whole bank or branch acquisitions, in addition to acquiring four high-value financial services businesses. Each of these transactions were manageable in size, accretive to earnings and importantly, low risk. Through our record of successful transactions, we have developed a reputation as an effective acquirer and our culture has made us a preferred merger partner. In May 2017 we successfully completed another whole bank transaction by adding Merchants Bancshares, Inc., expanding our retail banking footprint across Lake Champlain into New England. At \$2 billion in assets, Merchants was approximately 25 percent of our asset size at the time we announced this deal and the largest transaction completed by Community Bank.

Along with the usual complexity of integrating another institution into our franchise, we faced the added challenge of cresting \$10 billion in assets. Banks that exceed this asset threshold are subject to significantly more complex requirements related to compliance, risk management and general regulatory oversight, through what is referred to as Dodd-Frank Act Stress Testing, or "DFAST." Knowing that this day would come, we had previously established a plan which would provide for a mid-2017 DFAST reporting capability, regardless of whether we'd actually reached the threshold by that time. When our October 2016 agreement to acquire Merchants Bancshares, Inc. made exceeding the \$10 billion asset mark a certainty, we were well prepared. Along with completing our build-out of DFAST in 2017, we improved our risk management processes and systems and implemented improved customer channel technology. Simply put, 2017 was a highly transformative year for Community Bank System, which reflected the significant efforts of the Company's 2,800 team members.

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**5** Since 2011 we have completed five whole bank or branch acquisitions, in addition to acquiring four high-value financial services businesses.

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In addition to the Merchants transaction, we completed the acquisition of Northeast Retirement Services, Inc. as well as three small insurance agency acquisitions in 2017. Despite employing a meaningful amount of capital to complete these transactions during the year, our capital levels at year end continued to be very strong. Our Tier 1 leverage ratio was 10.00 percent and tangible equity to net tangible assets ended 2017 at 8.61 percent.

While our new classification as a "large bank" has changed our regulatory status, it has not altered our operating strategy. We remain focused on growing our earnings and dividends in a disciplined and sustainable fashion for the benefit of our shareholders. We will continue to pursue growth opportunities that support these ends, but we won't pursue growth for its own sake. We believe that the Merchants acquisition demonstrates that we can comfortably handle sizeable transactions, and we plan to continue identifying high-value targets and engaging in dialogue about potential merger opportunities.

## Leveraging Non-Banking Opportunities

An important element of the Company's long-term business strategy has been and remains investment in financial services businesses, which either complement the Bank's service offerings or can function independently of the Bank's activities. Over the past 10 years, we have made seven financial services acquisitions which bolstered and expanded our existing benefits administration, wealth management and insurance businesses. We have focused on identifying and acquiring businesses with very high return characteristics and then working to realize consistent organic growth. These businesses have consistently performed very well and the same is certainly true during 2017, when they generated \$129 million in revenue through acquired and organic growth activities. Operating both inside and outside of our bank branch service footprint, these business units are responsible for a large part of the growth in our noninterest income which has significantly reduced dependence on the Bank's net interest margin.

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**129** Our financial services businesses generated more than \$129 million in revenue in 2017, a 44% increase from the prior year.

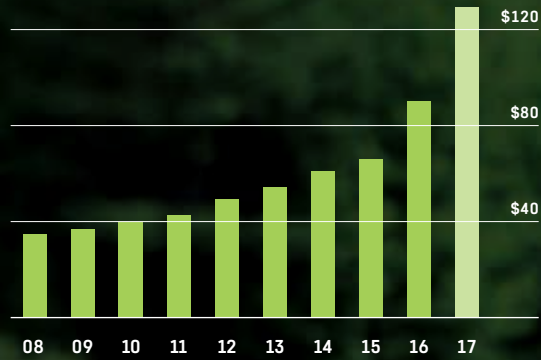
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During 2017, we completed the acquisition of another high-value financial services business adding Northeast Retirement Services ("NRS"), a leading provider of plan accounting, transfer agency, fund administration, trust and retirement plan services. With the addition of NRS in February 2017, Benefit Plans Administrative Services, Inc. ("BPAS"), increased in size to over \$90 million in annual revenue, over \$75 billion in trust assets under management and 3,800 retirement and other employee benefit plan administration clients throughout the United States and Puerto Rico. BPAS was originally acquired in 1996 and through acquisitions and organic expansion has evolved to a business that provides benefits administration and consulting services, including defined contribution plan benefit administration, actuarial services, health care and benefit plan consulting, collective investment fund administration, and VEBA/HRA administration. The \$80.8 million in revenues generated by BPAS in 2017 increased by \$34.2 million from 2016, largely as a result of the addition of NRS.

Through the Bank and its wealth management subsidiaries (collectively, the Community Bank Wealth Management Group), the Company provides retirement planning, higher educational planning, risk management, personal financial planning, and broker-dealer and investment advisory services. OneGroup NY, Inc. ("OneGroup") is a full-service insurance agency offering personal and commercial property and casualty insurance, employee benefits, and other risk management products and services which added three smaller insurance agencies during 2017 to expand its product offerings and geographic profile. Our wealth management and insurance businesses performed well in 2017, growing revenues by more than 12 percent to \$48.2 million.

## FINANCIAL SERVICES REVENUE

In millions



10-year CAGR = 16.5%

## FINANCIAL SERVICES REVENUE DIVERSITY

2017 Revenue = \$129.1 Million

Employee Benefit  
Service Revenues — 63%

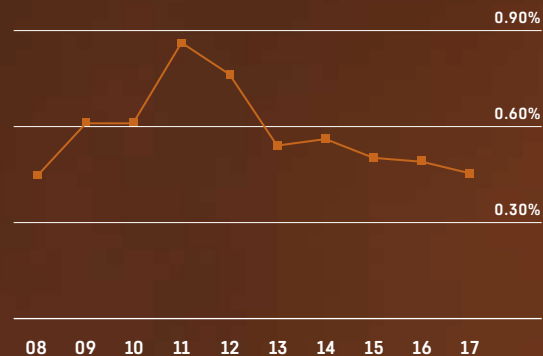
Wealth Management  
and Insurance Revenues — 37%

Our multi-state footprint is rich with lakes and rivers, providing ample opportunity for kayaking, canoeing, fishing and the like.

Vermont and New York lead the U.S. in maple syrup production. Together, they produced nearly 4.3 million gallons during the 2017 season, making up 64 percent of all maple syrup production for the entire country.

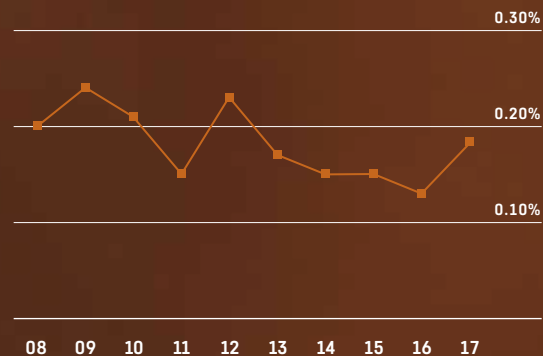
### NONPERFORMING LOANS / TOTAL LOANS

At 12/31

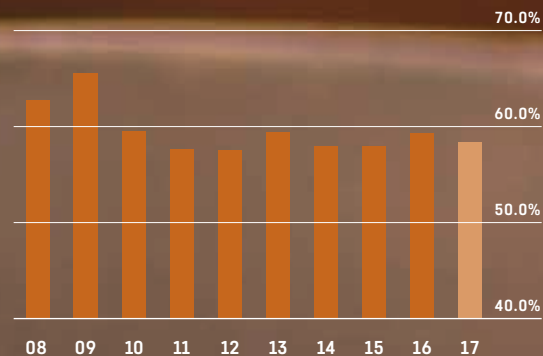


### NET CHARGE-OFFS / AVERAGE LOANS

At 12/31



### EFFICIENCY RATIO<sup>1</sup>



<sup>1</sup> Efficiency ratio provides a ratio of operating expenses to operating income. It excludes intangible amortization, acquisition expenses, and litigation settlement from expenses and gains and losses on investment securities and early retirement of long-term borrowings from income while adding a fully-taxable equivalent adjustment.



## Superior Operating Performance

Our business strategy was designed to produce consistent performance that builds value for our shareholders, regardless of economic conditions. We utilize a conservative and well-articulated strategy that pursues growth through organic and acquired opportunities. Acquisitions are structured to be accretive to earnings and low risk. We continue to invest in businesses that generate substantial noninterest revenues, reducing our dependence on net interest margin. We have focused our banking franchise in non-metropolitan areas of Upstate New York, Northeastern Pennsylvania, Vermont and Western Massachusetts with stable annual growth rates of two to five percent and limited economic cyclicality. We have a disciplined and consistent culture, a deep knowledge of our markets and an emphasis on profitable customer relationships across all business lines. As a result of this approach, we have assembled a low-risk balance sheet with exceptional asset quality, which consistently yields high-quality results, as it did again during 2017.

Operating earnings per share increased by more than 13 percent in 2017 to \$2.64, another record level for the company. These results reflect both acquired and organic growth, as well as a continued focus on expense management. We completed two significant acquisitions during the year, adding Northeast Retirement Services, Inc. in February, and Merchants Bancshares (“Merchants”) in May. Our benefit plans administration, wealth management and insurance businesses all delivered double-digit increases to revenue and profit, along with improved profit margins. Banking fee income also realized double-digit growth reflecting the addition of the Merchants franchise.

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**2.64** Operating earnings per share increased by more than 13 percent in 2017 to \$2.64, another record level for the company. These results reflect both acquired and organic growth.

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We have earned a reputation as a well-run institution with consistently strong credit metrics, as illustrated by net charge-off and delinquency rates that compare favorably to industry and peer averages. This trend continued through 2017 with net charge-offs of just 0.18 percent of total loans and year end nonperforming loans of 0.44 percent of total loans.

With a history of more than 20 whole bank or financial service business acquisitions since 1989, we have developed a core competency in merger integration that has served our shareholders well. Acquisitions remain an important and effective method for growing our earnings and dividends in a sustainable fashion. With the late December enactment of the Tax Cuts and Jobs Act, which reduced the corporate federal tax rate from 35 percent to 21 percent, the Company should accrete capital at a more rapid pace in 2018 than in prior years. While this change will provide more capital for potential opportunities, it won't impact the discipline and strategic thinking we apply to our merger and acquisition process. We will continue to seek opportunities which are high-value, both qualitatively and economically, and, importantly, a fit with our growing geographic service area.

# Forbes.com® 2018 Ranking of the Best Banks

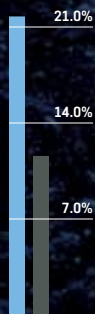


Community Bank System, Inc. ("CBU") once again ranked near the top in the annual Forbes.com® ranking of America's Best Banks. This is the ninth year that Forbes® has produced this analysis and the seventh time that CBU has been ranked among the top 10 of America's 100 largest banks and thrifts. The analysis includes a comparison of ten different metrics related to growth, asset quality, capital adequacy and profitability. The following charts display the financial metrics used in the 2018 analysis and compare CBU's to the median values of the 100 largest financial institutions.

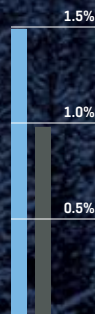
2017 COMPARISON CHARTS  
CBU VS TOP 100 BANKS



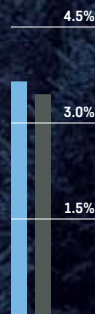
RETURN ON  
AVERAGE TANGIBLE  
COMMON EQUITY



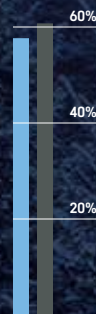
RETURN ON  
AVERAGE ASSETS



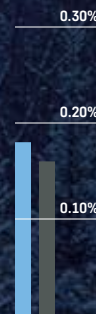
NET INTEREST  
MARGIN (FTE)



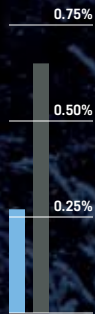
EFFICIENCY  
RATIO



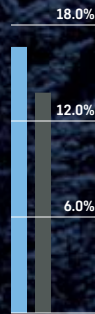
NET CHARGE-OFFS/  
AVERAGE LOANS



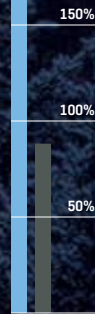
NONPERFORMING  
ASSETS / TOTAL  
ASSETS



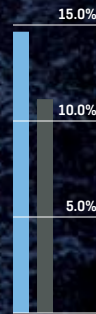
RISK-BASED  
CAPITAL RATIO



RESERVES/  
NONPERFORMING  
ASSETS



COMMON  
EQUITY TIER 1  
CAPITAL RATIO



OPERATING  
REVENUE GROWTH  
(LTM)



Note: Forbes® analysis ranked banks based on September 30, 2017 regulatory data. The graphs shown here compare CBU's full year 2017 metrics against those of the top 100 banks.

## Consistently Superior Returns

The Company's principal operating focus is building additional value into the enterprise through selective and strategic acquisitions, disciplined lending, revenue diversification and a consistent approach to business regardless of economic conditions. The Company's performance goal is to generate a more than 10 percent average annual total shareholder return over time. Our total cumulative return to shareholders over the past 10 years was 287.6 percent, as of December 31, 2017.

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**25** We have raised our cash dividend for 25 consecutive years, evidence of our belief that payment of a meaningful and growing dividend is an important component of providing favorable long-term returns to shareholders.

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Our 2017 financial performance was determined to be among the best for large U.S. banks by Forbes® Magazine, in its annual analysis of "America's Best Banks." Community Bank was ranked sixth among the 100 largest publicly-traded banks and thrifts, based on a comparison of ten different performance and financial strength metrics. We have ranked among the top 10 for seven of the nine years that Forbes® has published the analysis, and we've never been lower than twelfth.

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### TOTAL SHAREHOLDER RETURNS (ANNUALIZED)

Through December 31, 2017, or most recent available, including reinvestment of dividends.

	2 YEARS	5 YEARS	10 YEARS	15 YEARS
CBU	19.0%	17.9%	14.5%	12.4%
S&P 600 Commercial Bank	18.9%	18.7%	6.0%	5.1%
KBW Regional Bank	19.0%	17.7%	6.3%	6.0%
S&P 500	16.8%	15.8%	8.5%	9.9%
DJIA	22.1%	16.4%	9.3%	10.2%

Source: Bloomberg

Board of  
Directors



**Sally A. Steele**  
*Chairman of the Board*  
Attorney at Law  
**Director since 2003**



**Brian R. Ace**  
Retired Owner of Laceyville Hardware  
**COMMITTEES**  
Governance, *Chair*;  
Trust and Financial Services  
**Director since 2003**



**Mark J. Bolus**  
Bolus Motor Lines, Inc.,  
President and CEO  
**COMMITTEES**  
Compensation, *Vice Chair*;  
Risk, *Chair*; Strategic/Executive  
**Director since 2010**



**Jeffrey L. Davis**  
President of J.L. Davis, Inc.  
**COMMITTEES**  
Governance; Audit/Compliance  
**Director since 2017**



**Neil E. Fesette**  
Fesette Realty, LLC and Fesette  
Property Management, Owner,  
President and CEO  
**COMMITTEES**  
Compensation, *Chair*;  
Governance; Strategic/Executive  
**Director since 2010**



**Michael R. Kallet**  
Retired Chairman and CEO  
of Oneida Financial Corp.  
**COMMITTEES**  
Trust and Financial Services, *Chair*;  
Stress Testing Subcommittee  
**Director since 2015**



**John Parente**  
CP Media, LLC, CEO  
**COMMITTEES**  
Risk Committee, *Vice Chair*;  
Strategic/Executive, *Chair*;  
Audit/Compliance  
**Director since 2010**



**Raymond C. Pecor, III**  
President, Lake Champlain  
Transportation Company  
**COMMITTEES**  
Compensation; Trust and  
Financial Services  
**Director since 2017**



**Eric E. Stickels**  
Retired President, COO and  
Secretary of Oneida Financial Corp  
**COMMITTEES**  
Stress Testing Subcommittee, *Chair*;  
Trust and Financial Services;  
Strategic/Executive  
**Director since 2015**



**Mark E. Tryniski**  
Community Bank System, Inc.,  
President and CEO  
**Director since 2006**



**John F. Whipple**  
Buffamante Whipple Buttafaro,  
P.C., CEO  
**COMMITTEES**  
Audit/Compliance, *Chair*;  
Governance; Stress Testing  
Subcommittee  
**Director since 2010**

**T R I B U T E**

**James A. Gabriel,  
Nicholas A. DiCerbo and  
Edward S. Mucenski**

At the close of 2017, three directors who have made important contributions to Community Bank System's growth and transition to a regional community bank with more than \$10 billion in assets retired from the company's Board. The Board of Directors sincerely appreciates the service and valuable counsel provided by Nicholas A. DiCerbo, James A. Gabriel and Edward S. Mucenski during their tenures as Directors.

For more than 30 years, our Company benefited from the experience, talent and vision of Mr. DiCerbo and Mr. Gabriel. Both attorneys, they joined the Board in 1984, provided exceptional leadership as Chairmen of the Board and have been instrumental in shaping Community Bank System into the financial services company that it is today.

Mr. DiCerbo served as Chairman of the Board from 2011 until 2016. Most recently, he served as Chair of the Strategic/Executive Committee and a member of the Trust and Financial Services Committee and the Risk Committee. He served as long-time senior partner of the law firm of Dicerbo & Palumbo in Olean, New York.

Mr. Gabriel led the Board as Chairman from 1999 until 2006. Most recently, he served as Chair of the Trust and Financial Services Committee, Vice Chair of the Risk Committee and a member of the Strategic/Executive Committee. Mr. Gabriel is an Owner of Franklin & Gabriel in Ovid, New York.

Mr. Mucenski joined Community Bank System's Board in 2010 and most recently served as Chair of the Audit/Compliance Committee, as well as on the Compensation Committee and the Stress Testing Subcommittee. A Certified Public Accountant, he is a Partner and Managing Director of Pinto, Mucenski, Hooper, Van House & Company, P.C., which has multiple offices in Northern New York.

The Board of Directors and entire Community Bank System team would like to extend deep thanks and appreciation to Mr. DiCerbo, Mr. Gabriel and Mr. Mucenski for their years of service and commitment to this Company.



## Executive Management



**Mark Tryniski**  
President and  
Chief Executive Officer

Joined CBU in 2003 and has previously served as Chief Financial Officer and Chief Operating Officer. Prior to joining the company he was a partner with Pricewaterhouse Coopers.

**Scott Kingsley**  
Executive Vice President,  
Chief Financial Officer

Joined CBU in 2004. Prior to joining the Company, he served as CFO of Carlisle Engineered Products.

**Brian Donahue**  
Executive Vice President,  
Chief Banking Officer

Joined the Company in 1992. During his more than 25 years of service to the Company, he has served as Chief Credit Officer and Senior Loan Officer for the Bank's Southern Region.

**Joe Getman**  
Executive Vice President,  
General Counsel

Prior to joining the Company in 2008, he provided corporate counsel to CBU as a senior partner at Bond, Schoeneck & King, PLLC.

### COMMUNITY BANK, N.A. REGIONAL ADVISORY BOARDS

#### ADIRONDACK

Paul M. Cantwell, Jr.  
William M. Dempsey  
Alexander C. Edwards  
Joseph Vernon Lamb III  
James R. Langley, Jr.  
Carl J. Madonna  
Brian J. Monette  
Kim A. Murray

#### CENTRAL

Mary C. Albrecht  
Olon T. Archer  
Tom Harding  
Joseph P. Mirabito  
Benjamin C. Nesbitt  
James L. Seward  
Geoffrey A. Smith  
David F. Wilber III  
Brian R. Wright

#### PENNSYLVANIA

Edward Coach  
Colleen Doyle  
John Graham  
Scott Henry  
Gerard O'Donnell  
William Ruark  
Lissa Bryan-Smith  
James Shoemaker

## ADMINISTRATION

### EXECUTIVE

Mark E. Tryniski, President and Chief Executive Officer

Scott A. Kingsley, Executive Vice President, Chief Financial Officer

Brian D. Donahue, Executive Vice President, Chief Banking Officer

George J. (Joe) Getman, Executive Vice President, General Counsel

### RETAIL & BUSINESS BANKING

Joseph Serbun, Senior Vice President, Chief Credit Officer

Hal Wentworth, Senior Vice President, Retail Banking and Marketing

Scott Boser, Senior Vice President, Director of Consumer and Mortgage Lending

Geoffrey Hesslink, Regional President New England

Barbara Maculloch, Regional President Northeast Pennsylvania

Kent Backus, Regional Retail Banking Manager, Northern NY

Anita Bourgeois, Retail and Municipal Banking Manager, New England

Robert Cirko, Regional Retail Banking Manager, Pennsylvania

Eric M. Garvin, Regional Retail Banking Manager, Western NY

Paul Lepore, Regional Retail Banking Manager, Central NY

David Sloan, Regional Retail Banking Manager, Western NY

Rita J. Walldroff, Regional Retail Banking Manager, Northern NY

Lynne Wadsworth, Branch Services Administrator

Cynthia Lefko, Cash Management Product and Sales Manager

Deborah Baker, Collections Manager

### CREDIT ADMINISTRATION

Stephen Hardy, Senior Vice President, Chief Credit Administrator

John Keshavan, Special Assets Manager

Denise Rhoads, Commercial Appraisal Manager

Amanda Snook, Regional Credit Manager

Mark Warner, Regional Credit Manager

### FINANCE & TREASURY MANAGEMENT

Joseph Lemchak, Senior Vice President, Chief Investment Officer

Joseph Sutaris, Senior Vice President, Accounting and Finance

Deresa Durkee, Corporate Controller

Robert Frost, Vice President of Finance, Director of Capital Planning and Analysis

Sean Howard, Senior Treasury Officer

Randy Pray, Corporate Purchasing Manager

Brian Fancher, Assistant Corporate Controller

Laura Mattice, Accounting Operations and Regulatory Reporting Manager

Robert Pierce, Subsidiary Accounting and Financial Reporting Manager

Nicole Lannie, Employee Benefits Accounting Manager

Carlena Wallace, Financial Controls Manager

### ADMINISTRATIVE SERVICES

Bernadette Barber, Senior Vice President, Chief Human Resources Officer

Michael Abdo, Associate General Counsel

Danielle Cima, Associate General Counsel, Corporate Secretary

Brett Fisk, Director of Facilities

### INFORMATION TECHNOLOGY & OPERATIONS

Aaron Friot, Senior Vice President, Chief Technology Officer

Susan Fox, Senior Vice President, Chief Information Officer

Robin Dumas, Electronic Banking Manager

Barbara Snyder, Loan Operations Manager

Christina Sullivan, Director of Business Information Systems

Paula Demo, Deposit Operations Manager

### RISK MANAGEMENT

Paul Ward, Senior Vice President, Chief Risk Officer

Mark Houghtaling, Director of Loan Review

Dennelle Michalski, Director of Risk Management

Timothy Miller, Director of Information Security

Daniel O'Connell, Director of Internal Audit

Dorothy Quarltere, Chief Compliance Officer

Larry Witter, Bank Secrecy Officer

Richard (Chris) Simone, Corporate Security Officer

**ADMINISTRATION**

**COMMUNITY BANK  
COMMERCIAL BANKING OFFICERS**

**WESTERN REGION**

James Rahill, Commercial Banking  
Team Leader

David Alm, Senior Commercial Banking Officer

Mark Saglimben, Senior Commercial  
Banking Officer

Michael Boza, Agricultural Banking Officer

Scott Brechbuehl, Commercial Banking Officer

Gretchen Copella, Commercial Banking Officer

Richard Ferrari, Commercial Banking Officer

Patrick Gorman, Commercial Banking Officer

Christopher Humphrey, Commercial  
Banking Officer

David McKinley, Commercial Banking Officer

**NORTHERN REGION**

Nicholas Russell, Senior Vice President,  
Commercial Banking

Ronald Bacon, Senior Commercial  
Banking Officer

Paul Connelly, Commercial Banking Officer

Patricia Duffy, Agricultural Banking Officer

Aaron Kimmich, Agricultural Banking Officer

Duane Pelkey, Commercial Banking Officer

Michael Pierce, Commercial Banking Officer

Craig Stevens, Commercial Banking Officer

**SYRACUSE/ONEIDA REGION**

Luke Fagan, Commercial Banking  
Group Manager

Russell Brewer, Commercial Banking  
Team Leader

Trevor Bacon, Commercial Banking Officer

William Baldwin, Commercial Banking Officer

Thomas Lewin, Commercial Banking Officer

Steven Potter, Commercial Banking Officer

Dean Shlotzhauer, Commercial  
Banking Officer

Russell Sturtz, Commercial Banking Officer

**SOUTHERN REGION**

Stephen Rich, Commercial Banking  
Group Manager

Loren Herod, Agricultural Banking  
Team Leader

Mark Miller, Commercial Banking Officer

Arthur Sable, Commercial Banking Officer

Rebecca Snyder, Agricultural Banking Officer

Charles Van Hooft, Agricultural Banking Officer

D. James Vedora, Commercial Banking Officer

**CENTRAL REGION**

Jeffrey Lord, Commercial Banking  
Group Manager

John Connolly, Commercial Banking Officer

Edward Michalek, Commercial Banking Officer

Cody Miller, Commercial Banking Officer

Allison Mosher, Commercial Banking Officer

**CAPITAL REGION**

Jeffrey Levy, Commercial Banking  
Team Leader

Eric Magnano, Commercial Banking Officer

**SMALL BUSINESS UNDERWRITING**

Michael Austin, Small Business  
Loan Manager

Beth Robbins, Senior Underwriter

Richard Sisson, Underwriter

**PENNSYLVANIA REGION**

Richard Kazmerick, Commercial Banking  
Team Leader

Warren Rozelle, Commercial Banking  
Team Leader

Paul Baynum, Commercial Banking Officer

Mary Elizabeth D'Andrea, Commercial  
Banking Officer

Matthew Dougherty, Commercial  
Banking Officer

Neil King, Commercial Banking Officer

David McHale, Commercial Banking Officer

A. Edward Nork, Commercial Banking Officer

John Pekarovsky, Commercial  
Banking Officer

CJ Rinaldi, Commercial Banking Officer

Walter Sarafinko, Commercial  
Banking Officer

**NEW ENGLAND REGION**

Bruce Bernier, Commercial Banking  
Team Leader

Michael Breen, Commercial Banking  
Team Leader

Douglas Babbitt, Commercial  
Banking Officer

Sarah Bauer, Commercial Banking Officer

Michael Buckmaster, Commercial  
Banking Officer

Diane Dunkerley, Commercial Banking Officer

Benjamin George, Commercial  
Banking Officer

Bart Greenfield, Commercial Banking Officer

Keith Nesbitt, Commercial Banking Officer

Richard Nold, Commercial Banking Officer

Katherine Rendall, Commercial  
Banking Officer

Jameson Roberts, Commercial  
Banking Officer

Joyce Werzer, Commercial Banking Officer



**WEALTH MANAGEMENT GROUP**

Paul Restante, Managing Director

Theresa Kalil-Lennon, Senior Vice President,  
Sales Manager

David Coon, Senior Vice President,  
Regional Sales Manager, Western NY

Daniel Drappo, Senior Financial Consultant,  
Regional Sales Coordinator, Northern NY

Stephen McFadden, Financial Consultant,  
Regional Sales Coordinator, Northern NY

Angela Webster, Personal Investment Officer,  
Sarasota, Florida

**TRUST SERVICES**

Catherine Koebelin, Senior Vice President,  
Chief Trust Officer, Olean

Charles Perrillo, Senior Vice President,  
Chief Trust Investment Officer,  
South Burlington

Amy Allen, Senior Trust Officer, Oneonta

Patricia Barie, Senior Trust Officer, Olean

Yvonne Benson, Trust Operations Officer,  
Olean

David Bosworth, Trust Investment Officer,  
South Burlington

Holly Burbo, Trust Operations Officer,  
South Burlington

Jennifer Critti-Lebeau, Trust Officer, Oneonta

Patricia Crollly, Trust Officer, Scranton

Karen Dovey, Trust Officer, Elmira

Julia Goff, Trust Officer, Oneonta

Sean Houghton, Trust Officer,  
South Burlington

Shannon Hyzer, Trust Officer, Oneonta

John Jones, Trust Investment Officer, Oneonta

David LaForest, Senior Trust Officer,  
Manchester Center

Thomas LaPage, Trust Officer, Potsdam

Patricia Lowe, Trust Operations Officer,  
Oneonta

Ruth Lund, Trust Officer, Olean

Vincent Mastrucci, Corporate Trust Officer,  
Scranton

Linda Meyer Lambert, Trust Officer, Olean

Katherine Mosenthal, Trust Officer,  
Manchester Center

Adam Niebanck, Trust Investment Officer,  
Oneonta

Christine Petras, Trust Investment Officer,  
Oneonta

Paul Snodgrass, Trust Investment Officer,  
Potsdam

Matthew Vlasak, Trust Investment Officer,  
Oneonta

Paul Wood, Trust Officer, Oneonta

Brett Zielasko, Trust Officer, Oneida

**NOTTINGHAM ADVISORS, LLC**

100 Corporate Parkway, Suite 338,  
Amherst, NY

Thomas Quealy, Chief Executive Officer

Lawrence Whistler, President,  
Chief Investment Officer

Karen Mohn, Chief Compliance Officer

Nicholas Verbanic, Vice President,  
Portfolio Manager

**COMMUNITY INVESTMENT SERVICES, INC.**

Chasity Jaynes, Operations Manager

Laurel Pellettiere, Compliance Manager

Garry Payne, Carta Group

Jeremy Caza, Carta Group

**FINANCIAL CONSULTANTS**

Peter Albano, Wilkes-Barre

Charles Baracco, Syracuse

Eric Brunet, Ogdensburg

Joseph Butler, Jr., Watertown

Thomas Ciolek, Olean/Avon

Lloyd Cristman, Rome

Daniel Drappo, Watertown

Robert Eckermann, Cazenovia

Timothy Forman, Lake Placid

Zachary Groet, Avon

Joseph Hatfield, Oneida

Justin Hooper, Plattsburgh

Randall Hulick, Springville

Michael Kent, Syracuse

Rick Little, Jermyn

Andrew Mangano, Fulton

Jude McDonough, Scranton

Stephen McFadden, Plattsburgh

James Mersfelder, Syracuse

Chad Murray, Falconer

Charles Nicosia, Oneonta

James Nielsen, Elmira

David O'Neil, Jr., Boonville

Brent Patry, Oneonta/Norwich

Robert Stanley, Minooka

Michael Tisdell, Syracuse

Joseph Topichak, Corning

Michele Wilck, Newark/Palmyra

**INSURANCE****ONE GROUP**

706 North Clinton Street, Syracuse, NY

Pierre Morrisseau, Chief Executive Officer

Chris Mason, President

Alison Dunn, Senior Vice President,  
HR and Employee Benefits

**BENEFIT PLAN SERVICES****BPAS**

6 Rhoads Drive, Utica, NY

Barry Kublin, Chief Executive Officer

Paul M. Neveu, President, BPAS, LLC

Linda S. Pritchard, Senior Vice President,  
Recordkeeping Services

3501 Masons Mill Road, Suite 505,  
Huntingdon Valley, PA

Mary Anne Geary, Senior Vice President,  
DC Plan Services

Richard Schultz, Senior Vice President,  
Fiduciary Services

**BPAS ACTUARIAL AND PENSION SERVICES**

706 North Clinton Street, Syracuse, NY

Vincent F. Spina, President

Steven P. Chase, Senior Vice President

Sarah E. Dam, Senior Vice President

335 Lexington Ave., 5th Floor, New York, NY

Sheryl Gabriel, Senior Vice President

**HAND BENEFITS & TRUST**

820 Gessner, Suite 1250, Houston, TX

W. David Hand, Chief Executive Officer

Stephen Hand, President

James Goodwin, Vice President

**BPAS TRUST COMPANY OF PUERTO RICO**

644 Fernandez Juncos Ave, Suite 301,  
San Juan, PR

Alfredo Matheu, President

**NORTHEAST RETIREMENT SERVICES, INC. (NRS)**

12 Gill St., Suite 2600, Woburn, MA

Tom Forese, President

Chris Hulse, Chief Operating Officer

Ken Grant, Chief Corporate  
Development Officer

## BRANCH LOCATIONS

### COMMUNITY BANK NORTHERN NEW YORK MARKET

#### ADAMS

Christopher M. Castle, Manager

#### ALEXANDRIA BAY

Bethany Todd, Manager

#### AUSABLE FORKS

Valerie Daniels, Manager

#### BLACK RIVER

Margaret Farone, Manager

#### BOONVILLE

(101 MAIN STREET AND HEADWATERS PLAZA)

Debra Roberts, Manager

#### CANTON

Marsha Watson, Manager

#### CHAMPLAIN

Melissa M. Peryea, Manager

#### CHATEAUGAY

Sherry Langdon, Manager

#### CLAYTON

Lori Fearnside, Manager

#### FORT COVINGTON

Zeta Kuretz, Senior CSR

#### GOVERNEUR

Diane Easton, Manager

#### HARRISVILLE

Karen Pierce, Branch Supervisor

#### HERMON

Connie Green, Manager

#### HEUVELTON

Susan Patton, Senior CSR

#### INDIAN LAKE

Brenda Lanphear, Manager

#### LAKE PLACID

Katie Stephenson, Manager

#### LONG LAKE

Viccann Novak, Manager

#### LOWVILLE (STATE STREET)

Tina Paczkowski, District Manager

#### LOWVILLE (TURIN ROAD)

Stephen Allen, Manager

#### LYONS FALLS

Susan Krist, Manager

#### MADRID

Michelle Hollister, Manager

#### MALONE (ELM STREET)

Darcy King, District Manager

#### MALONE (WEST MAIN STREET)

Stacey Brunell, Manager

#### MASSENA

Sue Perkins, Manager

#### NORTH CREEK

Lori DeMars, Manager

#### NORWOOD

Emily Losey, Manager

#### OGDENSBURG (FORD STREET)

Denise Barse, Manager

#### OGDENSBURG (STATE STREET)

Matthew Honeywell, Manager

#### OLD FORGE

Barbara Criss, Manager

#### PLATTSBURGH (MARGARET STREET)

Kathryn Reynolds, Manager

#### PLATTSBURGH (ROUTE 3)

James Snook, Manager

#### PLATTSBURGH (WAL-MART)

Arlene Favreau, Branch Supervisor

#### POTSDAM (MARKET STREET AND MAY ROAD)

Victoria Strader, District Manager

#### SARANAC LAKE (BROADWAY AND LAKE FLOWER)

Brenda Darrah, District Manager

#### ST. REGIS FALLS

Sherrí Fleury, Manager

#### STAR LAKE

Connie Green, Manager

#### TICONDEROGA

Maria Beuerlein, Manager

#### TUPPER LAKE

John Salamy, Manager

#### WADDINGTON

Emily Losey, Manager

#### WATERTOWN (ARSENAL STREET)

Elizabeth Brown, Manager

#### WATERTOWN (216 WASHINGTON STREET)

Catherine Ward, Manager

#### WEST CARTHAGE

Naura L. Christman, Manager

#### WHITEHALL

Holly A. Rabideau, Manager

### COMMUNITY BANK

### SOUTHERN NEW YORK MARKET

#### ADDISON

Robin Knapp, Manager

#### ALFRED

Beth Plaisted, Manager

#### ALLEGANY

Stephanie Kolkowski, Manager

#### ANGELICA

Diana Grastorf, Branch Supervisor

#### AVON

Deborah Boisvert, Manager

#### BATH

Joel Brazie, District Manager

#### BELFAST

Brandy Burdick, Branch Supervisor

#### BOLIVAR

Judy Gilliland, Manager

#### CANANDAIGUA (COUNTY ROAD 10)

Ashley Braun, Branch Supervisor

#### CANANDAIGUA (SOUTH MAIN STREET)

Christopher Bross, Manager

#### CASSADAGA

Susan Sekuterski, Manager

#### CATO

Tiesha Combes, Manager

#### CLIFTON SPRINGS

(EAST MAIN STREET AND CLIFTON PLAZA)

Theresa Dorgan, Manager

#### CLYMER

Laurie Harvey, Manager

#### CORNING (WEST MARKET STREET)

Wendy Daines, Manager

#### CORNING NORTH

Angela Long, Manager

#### CUBA

Shavonne Henderson, Manager

#### DANVILLE

Jody Tonkery, District Manager

Melissa Ponticello, Manager

#### DUNKIRK (CENTRAL AVENUE)

Jean Coughlin, Manager

#### DUNKIRK (VINEYARD DRIVE)

Jason DeChard, Manager

#### ELMIRA

Denise Allen, District Manager

#### ERWIN/PAINTED POST

Todd Selander, Branch Supervisor

#### FALCONER

Joann Anderson, Manager

#### FILLMORE

Julie Hall, District Manager

#### FRANKLINVILLE

Sandra Wolfer, Manager

#### GENESEO

Lisa Kime, Manager

#### GENEVA (CANANDAIGUA ROAD)

Sharon Garofanello, Manager

#### GENEVA (SENECA STREET)

John Latanyshyn, Manager

#### GOWANDA

Ralph Swanson, Manager

#### HAMMONDSPORT

Kelly Bussmann, Manager

#### HORNELL

Sandra Aiken, Manager

#### HORSEHEADS (CONSUMER SQUARE)

Glenn Parsons, Manager

#### HOUGHTON COLLEGE

Julie Hall, District Manager

## BRANCH LOCATIONS

### INTERLAKEN

Denise Ector, Manager

### ITHACA

Michael MacDonald, Manager

### JAMESTOWN (BROOKLYN SQUARE)

Glori Taylor, Manager

### JAMESTOWN (NORTH MAIN STREET)

Kathleen Bemus, Manager

### LAKEWOOD

Lisa Allenson, District Manager

### LIVONIA

Ronda Howard, Manager

### MORAVIA

Michael Pizzola, Manager

### MOUNT MORRIS

Susan Neelin, Manager

### NAPLES

Joilette Pendleton, District Manager

### NEWARK (CHURCH STREET)

Phyllis A. Adriaansen, Manager

### NEWARK PLAZA

David Tyler, Manager

### NICHOLS

Kathleen Bowen, Manager

### NORTH COLLINS

Robin Hohman, Manager

### OLEAN (DELAWARE PARK)

Kelly Crandall, Manager

### OLEAN (NORTH UNION STREET)

Jody Spears, District Manager

### ORCHARD PARK

Kristen Woodarek, Manager

### OVIO

Jacqueline Robinson, Manager

### OWEGO

Elizabeth Morse, Manager

### PALMYRA

Ann Young, Manager

### PENN YAN (LAKE STREET)

Kelly Smith, Manager

### PENN YAN (MAIN STREET)

Thomas May, Manager

### PHELPS

Mary Niles, Manager

### PORTVILLE (EAST STATE ROAD)

Brenda Blackwell, Manager

### PORTVILLE (NORTH MAIN STREET)

Katrina Savitcheff, Manager

### RANDOLPH

Diane Lecceardone, Manager

### RIPLEY

Shara Post, Branch Supervisor

### RUSHVILLE

Christine Copper, Manager

### SALAMANCA

Robin Bowser, Manager

### SENECA FALLS

Christine Plate, Manager

### SHERMAN

Shannon Stevens, Manager

### SILVER CREEK

Mark Catalano, District Manager

### SPRINGVILLE (CASCADE DRIVE)

Mary Ann Lutz, Manager

### SPRINGVILLE (NORTH BUFFALO STREET)

Brooke Baker, Manager

### WATERLOO

Alexis Carlson-Spina, Manager

### WATKINS GLEN

Anthony Fraboni, Manager

### WELLSVILLE (BOLIVAR ROAD)

Lori Dzielski, Manager

### WELLSVILLE (MAIN STREET)

Virginia Elliott, Manager

### WESTFIELD

Carl Swan, Manager

### WOODHULL

Micki Stewart, Manager

### YORKSHIRE

Joseph Fore, Manager

## COMMUNITY BANK CENTRAL NEW YORK MARKET

### BOICEVILLE

Brad Bernard, Manager

### CAMDEN

Michelle Szkolnik, Manager

### CANASTOTA

Lori Torrey, Manager

### CAZENOVIA

Barbara Houghton, Manager

### CHITTENANGO

Roberta Button, Manager

### CICERO

Denise Cavallo, Manager

### COBLESKILL

Christy Roberts, Manager

### COOPERSTOWN

(MAIN STREET AND OTSEGO)  
Naomi Duncan, Manager

### DELHI

Tina Seguire, Manager

### DEWITT

Robert Liedka, Manager

### DOWNSVILLE

Carol Sutherland, Manager

### FLEISCHMANN'S

Ana Benjamin, Manager

### FULTON

Tina Stephens, Manager

### HAMILTON

Janet Briggs, District Manager

### HANNIBAL

Debra Davis, District Manager

### JOHNSON CITY

Michelle Carlsson, Manager

### MILFORD

Victoria Ellis, Branch Supervisor

### MORRIS

Emily Boss, Manager

### NORWICH (BROAD STREET)

Leigh Ann Odell, Manager

### NORWICH (STATE HIGHWAY)

Caryn Wake, Manager

### ONEIDA (182 MAIN STREET)

Cindy Lindauer, Manager

### ONEIDA (585 MAIN STREET)

Jackie Mowers, Manager

### ONEONTA (MAIN STREET)

Michael Walling, District Manager

Nancy Miller, Gold Club Manager

### ONEONTA (CHESTNUT STREET)

Paula Morell, Manager

### ONEONTA (SOUTHSIDE)

Kevin Moore, Manager

### ONEONTA (FOX CARE CENTER)

Lesley Bohacek, Manager

### OSWEGO

Fred Aldrich IV, Manager

### OTEGO

Beth Koncelik, Branch Supervisor

### PULASKI

Steven P. Gaffney, Manager

### ROME (GRIFFISS PARK AND TURIN ROAD)

Wendy Berg, Manager

### SCHENEVUS

Gerald V. Coombs, Jr., Manager

### SIDNEY

Bridget Fisk, District Manager

Sharon Cutting, Manager

### SKANEATELES

Elizabeth Silliman, Manager

### VERNON

Willis Corney, Manager

### WALTON

Donna A. Bundy, Manager

### WESTMORELAND

Carly Perham, Manager

**BRANCH LOCATIONS**

**COMMUNITY BANK  
PENNSYLVANIA MARKET**

**CARBONDALE**  
Bobbiann Davis, Manager

**CLARKS SUMMIT**  
David Griffin, Manager

**DALEVILLE**  
Susan Pitoniak, Manager

**DICKSON CITY**  
Lisa Rochinski, Manager

**EDWARDSVILLE**  
Denise Johnson, Manager

**FREELAND**  
Daniel Boote, Manager

**HAZLETON (AIRPORT ROAD)**  
Paula Palance, Manager

**HAZLETON (NORTH CHURCH STREET)**  
Lori Roth, Manager

**HAZLETON (SOUTH CHURCH STREET)**  
Emmanuel Marte, Manager

Carol Duran, Branch Supervisor

**JERMYN**  
John Peterson, Manager

**JESSUP**  
Mary Bieszczad, Manager

**KINGSTON**  
Karen Shuster, Manager

**LACEYVILLE**  
Greg Culver, Manager

**LANSFORD**  
John Greybosh, Manager

**LAWTON**  
Doug Jackson, Manager

**LEIGHTON**  
Dana Cannariato, Manager

**LITTLE MEADOWS**  
Doug Jackson, Manager

**MESHOPPEN**  
Jennifer Ramey, Manager

**MONTROSE**  
Steven Stranburg, Manager

**NOXEN/BOWMAN'S CREEK**  
Colleen Bullock, Manager

**OLYPHANT**  
Theresa Collins, District Manager

**PITTSTON**  
Gary Missal, Manager

**SCRANTON (KEYSER AVENUE)**  
Lisa Browning, Manager

**SCRANTON (MINOOKA)**  
David Lencicki, Manager

**SCRANTON (NORTH WASHINGTON AVENUE)**  
Suzanne Kennedy, Manager

**SCRANTON (WYOMING AVENUE)**  
Michelle Cook, Manager

**TOWANDA**  
Lori Smith, Manager

**TUNKHANNOCK**  
Brigitte Meskers, Manager

**TRUCKSVILLE/BACK MOUNTAIN**  
Susanne M. Mullin, Manager

**WILKES BARRE (NORTH FRANKLIN STREET)**  
David Dobbs, District Manager

Susan Russick, Manager

**WILKES BARRE (SOUTH MAIN STREET)**  
Sandra Wheeler, Manager

**WYALUSING**  
Karen Fuller, District Manager

**COMMUNITY BANK  
NEW ENGLAND MARKET**

**BARRE**  
Matthew Villemaire, Manager

**BENNINGTON**  
Bette Smith, Manager

**BRADFORD**  
Colleen Page, Manager

**BRATTLEBORO**  
Ryan Jennings, Branch Supervisor

**BRISTOL**  
Denise Johnson, Manager

**BURLINGTON (COLLEGE STREET)**  
Erin Pond, Manager

**BURLINGTON (NORTH AVENUE)**  
Darcy Allard, Manager

**ENOSBURG**  
Jodi Tallman, Manager

**ESSEX JUNCTION**  
Geoffrey Germann, Manager

**FAIR HAVEN**  
Jill Miller, Manager

**HARDWICK**  
Patricia Lemay, Manager

**HINESBURG**  
Peter Crapo, Manager

**JERICHO**  
Kelly Kimball, Manager

**JOHNSON**  
Jodi Tallman, Manager

**MANCHESTER**  
George Araskiewicz, District Manager

**NORTHFIELD**  
Matthew Villemaire, Manager

**RUTLAND**  
(GREEN MOUNTAIN PLAZA  
AND WOODSTOCK AVENUE)  
Michelle LaMoria, Manager

**SOUTH BURLINGTON (KENNEDY DRIVE)**  
Jonathan Roddy, Manager

Erika Baldasaro, District Manager

**SOUTH BURLINGTON (SHELBURNE ROAD)**  
Maryann Russell, Manager

**SOUTH BURLINGTON (WILLISTON ROAD)**  
Christine Auriemma, Manager

**SOUTH HERO**  
Barry Fauteux, Manager

**SPRINGFIELD, VT**  
Kenneth Davis, Manager

**SPRINGFIELD, MA**  
Jackalyn Guenette, Manager

**ST. ALBANS**  
Barry Fauteux, Manager

**ST. JOHNSBURY**  
Martha Davis, Manager

**THETFORD**  
George Araskiewicz, District Manager

**VERGENNES**  
Stepheni Newton, Manager

**WATERBURY**  
Donald Bedard, Manager

**WHITE RIVER JUNCTION**  
George Araskiewicz, District Manager

**WILMINGTON**  
Kaci Howes, Manager

**WINDOOSKI**  
Darcy Allard, Manager

## FINANCIAL SERVICES BUSINESS SUMMARY

### EMPLOYEE BENEFIT SERVICES

**\$80.8M**  
2017 REVENUE

BPAS, Inc. is a national provider with 10 offices located in New York, New Jersey, Pennsylvania, Massachusetts, Texas and Puerto Rico.

#### SERVICES

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

#### CUSTOMER PROFILE

Supports 3,800 retirement plans  
400,000 + participants  
\$75 billion in trust assets

### WEALTH MANAGEMENT AND INSURANCE SERVICES

**\$48.2M**  
2017 REVENUE

#### INVESTMENT ADVISORY and ASSET MANAGEMENT SERVICES

Community Bank Wealth Management Group  
*individuals, corporations, corporate pension  
and profit sharing plans, and foundations*

Community Investment Services, Inc.

The Carta Group, Inc.

Nottingham Advisors, Inc.

Personal Trust Services

#### INSURANCE

*personal and commercial property  
insurance and other risk management  
products and services*

OneGroup NY, Inc.

### FINANCIAL SERVICES ACQUISITIONS

2017	Northeast Retirement Services	Retirement plan administration
2015	OneGroup	Insurance and benefits (Oneida Financial Corp.)
2014	Lifetime Benefit Solutions	Benefits administration
2011	CAI Benefits, Inc.	Benefits administration
2008	Alliance Benefit Group MidAtlantic	Benefits administration
2007	CBNA Insurance Agency, Inc.	Insurance (TLNB Financial)
2007	Hand Benefits & Trust, Inc.	Benefits administration
2003	BPAS-APS (Harbridge Consulting)	Benefits administration

## SELECTED FINANCIAL HIGHLIGHTS

Income Statement In millions	2017	2007	CAGR (10-year)
Net interest income	\$ 315.7	\$ 136.0	8.8%
Noninterest income	202.4	63.3	12.3%
Total revenue	518.1	199.3	10.0%
Operating expenses <sup>1</sup>	258.5	141.7	6.2%
Net income	\$ 150.7	\$ 42.9	13.4%
Net interest margin	3.69%	3.64%	N/A

### Per Share Data (diluted)

Diluted earnings per share	\$ 3.03	\$ 1.42	7.9%
Operating earnings per share <sup>2</sup>	2.64	1.40	6.6%
Cash dividends declared	1.32	0.82	4.9%
Book value	32.26	16.16	7.2%
Tangible book value	\$ 16.94	\$ 7.51	8.5%

### Balance Sheet Data

End of period, In millions			
Assets	\$ 10,746	\$ 4,697	8.6%
Loans, net	6,209	2,821	8.2%
Deposits	8,444	3,228	10.1%
Shareholders' equity	\$ 1,635	\$ 479	13.1%

<sup>1</sup> Excluding acquisition expense

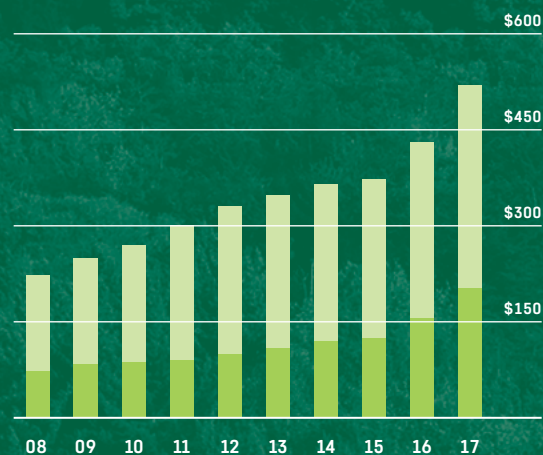
<sup>2</sup> Operating earnings per share excludes the tax-effected impact of any gains or losses on sales of investment securities and debt extinguishments, acquisition expenses, litigation settlements, and other special charges.

## COMMUNITY BANK FRANCHISE OVERVIEW

Total Branch Locations	225
Total ATMs	242
Total Counties Served	
New York	35
Pennsylvania	6
Vermont	12
Massachusetts	1
Counties with Top Three Deposit Share	25
Average Deposits per Branch	\$36.7 million

## TOTAL REVENUE<sup>1</sup>

In millions



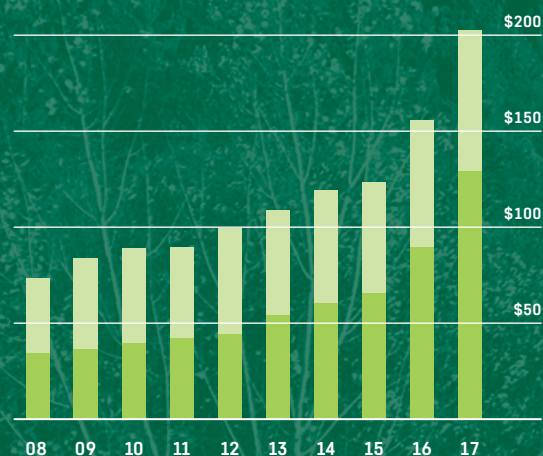
■ Net Interest Income  
■ Noninterest Income

10-year CAGR = 10.0%

<sup>1</sup> Excluding securities gains/losses and debt extinguishment charges

## NONINTEREST INCOME

In millions



■ Banking Services  
■ Financial Services

10-year CAGR = 12.3%

## CORPORATE AND SHAREHOLDER INFORMATION

### CORPORATE HEADQUARTERS

Community Bank System, Inc.  
5790 Widewaters Parkway  
DeWitt, NY 13214-1883  
Phone: 315.445.2282 or 800.724.2262  
Fax: 315.445.7347  
communitybankna.com

### STOCK LISTING

Common stock of Community Bank System, Inc. is listed on the New York Stock Exchange (NYSE) under the symbol: CBU. Newspaper listing for common stock: CmntyBkSys.

### ANNUAL MEETING

Wednesday, May 16, 2018  
1:00 p.m. EST  
Main Street Landing Performing Arts Center  
60 Lake Street  
Burlington, VT 05401

### TRANSFER AGENT AND REGISTRANT OF STOCK

Shareholders requiring a change of name, address or ownership of stock, or information about shareholder records, lost or stolen certificates, and dividend checks, direct deposit and reinvestment should contact:

AST  
Operations Center  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219  
astfinancial.com  
General questions: 877.253.6847

### INVESTOR INFORMATION

Investor and shareholder information regarding Community Bank System, Inc., including all filings with the Securities and Exchange Commission, is available through the company's website: communitybankna.com

Copies may also be obtained without charge upon written request to:

Ms. Josephine Anne E. Rurka  
Investor Relations Department  
Community Bank System, Inc.  
5790 Widewaters Parkway  
DeWitt, NY 13214-1883  
315.445.7300  
josie.rurka@communitybankna.com

### INDEPENDENT AUDITORS

The Board of Directors appointed PricewaterhouseCoopers, LLP as auditor for the company for the year ended December 31, 2017.

### ANALYST COVERAGE

The following analysts published research about Community Bank System in 2017:

American Capital Partners  
Anthony Polini / 908.625.1931  
apolini@acpweb.com

Boenning & Scattergood  
Matthew Schultheis / 610.832.5290  
mschultheis@boenninginc.com

D.A. Davidson & Co.  
Russell E. T. Gunther / 212.223.5403  
rgunther@dadco.com

Hovde Group LLC  
Joseph A. Fenech / 646.281.4946  
jfenech@hovdegrou.com

Keefe, Bruyette & Woods Inc.  
Collyn B. Gilbert / 973.549.4092  
collyn.gilbert@kbw.com

Piper Jaffray Companies  
Matthew M. Breese / 617.654.0728  
matthew.m.breese@pjc.com

Raymond James Financial Inc.  
William J. Wallace IV / 703.749.1485  
william.wallace@raymondjames.com

RBC Capital Markets  
Jake Civiello / 617.725.2152  
jake.civiello@rbccm.com

Sandler O'Neill  
Alexander Twerdahl / 212.466.7916  
atwerdahl@sandleroneill.com

### INVESTOR'S CHOICE PROGRAM

CBU offers convenient, low-cost options for investors wishing to steadily buy shares. For information, contact:

AST  
Operations Center  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219  
astfinancial.com  
General questions: 877.253.6847

## SAFE HARBOR STATEMENT

The Community Bank System, Inc. Annual Report contains forward-looking statements, within the provisions of the Private Security 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.

bank happy<sup>®</sup>



**COMMUNITY BANK SYSTEM, INC.**

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DeWitt, NY 13214-1883

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315.445.7347 fax

[communitybankna.com](http://communitybankna.com)

**CBU**  

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**LISTED**  

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**NYSE**