

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Please see attached.

Blank lines for listing applicable Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ Please see attached.

Blank lines for providing information regarding resulting loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ The Merger and the resulting stock exchange was effective on June 12, 2020. For Steuben stockholders whose taxable year is the calendar year, the reportable tax year is 2020.

Blank lines for providing other information necessary to implement the adjustment.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
 Signature ▶ Joseph E. Sutaris Date ▶ June 23, 2020
 Print your name ▶ Joseph E. Sutaris Title ▶ EVP & CFO

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

Form 8937

Community Bank System, Inc. (NYSE: CBU)

Posted on Community Bank System, Inc.'s website on June 23, 2020

EIN: 16-1213679

The information contained herein is being provided pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended (the "Code"). It contains a general summary regarding the application of certain U.S. federal income tax laws and regulations relating to the effects of the Merger (as defined below) on the tax basis of the merger consideration received by former Steuben Trust Corporation ("Steuben") stockholders in connection with the Merger.

Community Bank System, Inc. (NYSE: CBU; "Community Bank System") does not provide tax advice to its stockholders. The examples below are provided pursuant to Section 6045B of the Code and are illustrative in nature for the convenience of the former stockholders of Steuben and their tax advisors to use in connection with establishing their specific tax position. You should consult your own tax advisor regarding the particular consequences of the Merger to you, including the applicability and effect of all U.S. federal, state and local and foreign tax laws.

THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE TAX ADVICE AND DOES NOT PURPORT TO BE COMPLETE OR TO DESCRIBE THE CONSEQUENCES THAT MAY APPLY TO PARTICULAR CATEGORIES OF STOCKHOLDERS, NOR IS IT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSES OF AVOIDING PENALTIES UNDER THE CODE OR PROMOTING, MARKETING OR RECOMMENDING ANY TRANSACTION OR MATTER ADDRESSED HEREIN.

Part II

Question 14

On June 12, 2020, Community Bank System completed its acquisition of Steuben pursuant to the Agreement and Plan of Merger, dated as of October 18, 2019 (the "Merger Agreement"), by and between Community Bank System and Steuben. Under the terms of the Merger Agreement, Steuben merged with and into Community Bank System, with Community Bank System being the surviving corporation of the Merger.

Under the terms of the Merger Agreement, Steuben stockholders were entitled to receive for each share of Steuben common stock a combination of \$12.60 in cash and 0.8054 shares of Community Bank System common stock, and cash in lieu of fractional shares, if any (the "Merger Consideration").

No fractional shares of Community Bank System common stock were issued in the Merger and

any fractional share of Community Bank System common stock was paid at the rate of \$58.53 per share.

Question 15

A transaction in which a stockholder exchanged his or her shares of Steuben common stock for a combination of Community Bank System common stock and cash affects such stockholder's tax basis. Generally, the aggregate tax basis of Community Bank System common stock received by the Steuben stockholder in the Merger will be equal to the aggregate adjusted tax basis of the shares of Steuben common stock exchanged, reduced by the amount of cash received pursuant to the Merger (excluding any cash received in lieu of a fractional share of Community Bank System common stock) and increased by the amount of gain (excluding gain or loss resulting from any fractional share deemed received and exchanged for cash), if any, recognized by the Steuben stockholder on the exchange. The amount of gain recognized is the lesser of (A) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of Community Bank System common stock received pursuant to the Merger over the stockholder's aggregate tax basis in the shares of Steuben common stock surrendered) and (B) the amount of cash received pursuant to the Merger (excluding any cash received in lieu of a fractional share of Community Bank System common stock).

Treatment of Cash in Lieu of Fractional Shares. The receipt of cash in lieu of a fractional share of Community Bank System common stock generally will be treated as if the fractional share had been distributed to the Steuben stockholder in connection with the Merger and then sold for cash in a taxable transaction. Gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the stockholder's aggregate adjusted tax basis in the shares of Community Bank System common stock received in the Merger that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period of the corresponding Steuben common stock surrendered is more than one year at the effective time of the Merger. The deductibility of capital losses is subject to limitations.

Fair Market Value of the Stock Received. U.S. federal income tax law does not specifically prescribe how you should determine the fair market value of Community Bank System common stock for purposes of allocating your tax basis in connection with the Merger. Generally, fair market value is defined as the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the facts. One possible approach to the various methods for determining the fair market value of Community Bank System common stock is to use the closing price of Community Bank System's common stock on June 12, 2020, the day of Merger, which was \$56.44 per share as reported on the New York Stock Exchange. Other approaches to determine the fair market value may also be possible. *You should consult your tax advisor to determine what measure of fair market value is appropriate.*

Question 16

The following example illustrates the method by which a former Steuben stockholder would determine his or her basis in the Community Bank System stock received in the Merger. The example assumes that the stockholder is an individual U.S. citizen or resident who acquired his or her Steuben stock in one block at the same price for cash and holds such shares as capital assets. The example does not address any special rules that may apply to a particular stockholder (including shares received as compensation), nor do they address the consequences of any state, local or foreign tax laws.

The following is an illustrative example of the basis determination for a hypothetical stockholder who:

Shares of Steuben common stock owned: 100

Assumed tax basis in each share of Steuben common stock: \$10.00 per share

Fair market value of each share of Community Bank System common stock received in the Merger: \$56.44 (closing price of Community Bank System's common stock on June 12, 2020, the day of the Merger)

No fractional shares of Community Bank System common stock were issued in the Merger and any fractional share of Community Bank System common stock was paid at the rate of \$58.53 per share.

1.	Cost basis in Steuben Common Stock:	\$1,000.00
	(100 shares of Steuben common stock multiplied by \$10.00 per share)	
2.	Total Merger Consideration:	
	Common stock received in Merger (80 shares of Community Bank System common stock multiplied by \$56.44)	\$4,515.20
	<u>Number of shares determined as follows:</u> <i>Each share of Steuben common stock was exchanged for 0.8054 shares of Community Bank System common stock (0.8054 multiplied by 100 shares):</i> 80.54 shares	
	<i>Whole shares of Community Bank System common stock received in the Merger:</i> 80 (rounded down from 80.54)	
	Cash consideration received in the Merger (100 shares of Steuben common stock multiplied by \$12.60 in cash per share)	+ 1,260.00
	Value of fractional share of Community Bank System share received (0.54 shares of Community Bank System common stock multiplied by \$58.53 in cash per share)	+ 31.61
	Total Merger Consideration	<hr/> \$5,806.81

3.	Realized Gain	
	Total Consideration	\$5,806.81
	Less: Cost basis in Steuben common stock	-1,000.00
	Realized Gain:	\$4,806.81
4.	Recognized Gain	\$1,260.00
	Determined as lesser of Realized Gain or Cash Received (not including cash in lieu of the fractional shares)	
5.	Tax Basis in Community Bank System shares received in the Merger	
	Basis in Steuben Shares	\$1,000.00
	Less: Cash Amount Received	-1,260.00
	Plus: Recognized Gain	+1,260.00
	Basis in Community Bank System shares	\$1,000.00
6.	Taxable Gain on Fractional Share	
	Cash paid in lieu of fraction shares (0.54 multiplied by \$58.53)	\$31.61
	Less: Basis attributable to fractional shares (0.54 multiplied by \$12.42)	-6.70
	<u>Basis of fractional share determined as follows:</u>	
	<i>Total basis in Community Bank System stock divided by the amount of Community Bank System shares received, including fractional shares (\$1,000/80.54): \$12.42</i>	
	Taxable Gain	\$24.91
7.	Final Adjusted Tax Basis in Community Bank System Shares	
	Basis in shares received (including fractional shares)	\$1,000.00
	Less: Basis attributable to fractional share	- 6.70
	Basis in Community Bank System shares	\$993.30
	Per Share Basis (\$993.30 divided by 80)	\$12.42

Questions 17 & 18

The Merger was intended to qualify as a “reorganization” within the meaning of Section 368(a) of the Code. In general, the federal income tax consequences to the former Steuben stockholders are determined under Sections 356, 358 and 1221 of the Code. Generally, Steuben stockholders must recognize gain (but not loss), pursuant to Section 356 of the Code, in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and fair market value of the Community Bank System common stock received in the Merger over the stockholder’s adjusted basis in its shares of Steuben common stock surrendered, as determined pursuant to Sections 1001 and 1011 of the Code) and (2) the amount of cash received pursuant to the Merger (excluding any cash received in lieu of a fractional share of Community Bank System common stock).