

Core Strength, Exceptional Performance 2008 Annual Report



Community Bank System, Inc.





## 2008 Performance Highlights

- Net income grew by 7.1% to \$45.9 million
- Earnings per share were \$1.49, an increase of 4.9%
- Net interest income of \$148.5 million was up 9.2%
- 18-basis point improvement in net interest margin to 3.82%
- Noninterest income<sup>1</sup> growth of 15.8% to \$73.2 million
- Noninterest income<sup>1</sup> to total revenue ratio was 33.0%, up from 31.8% in 2007
- Exceptional asset quality at year end:
  - Nonperforming loans to total loans of 0.40%
  - Delinquency ratio of 1.43%
  - Net charge-offs to average loans of 0.20%
  - Loan loss allowance to nonperforming loans of 312%
- Raised \$52.5 million by issuing 2.53 million shares of common stock
- Acquired 18 branch-banking centers in Northern New York State
- Acquired the Philadelphia division of Alliance Benefit Group MidAtlantic
- Increased quarterly cash dividend by 4.8% to \$0.22 per share, 16th consecutive year of increased dividends

(1) excluding securities gains/losses and debt extinguishment charges

## Selected Financial Highlights

<b>Income Statement</b> (in millions)	<b>2008</b>	<b>2007</b>
Net interest income	\$ 148.5	\$ 136.0
Noninterest income <sup>1</sup>	73.2	63.3
Financial services revenue	34.4	28.0
Operating expense	158.6	142.1
Provision for loan loss	6.7	2.0
Net income	\$ 45.9	\$ 42.9

### Per Share Data (diluted)

Earnings per share	\$ 1.49	\$ 1.42
Earnings per share – cash	1.73	1.62
Cash dividends declared	0.86	0.82
Book value	16.69	16.16
Tangible book value	\$ 6.62	\$ 7.51

### Balance Sheet Data

(end of period, in millions)

Assets	\$ 5,175	\$ 4,698
Loans	3,136	2,821
Deposits	3,701	3,228
Shareholders' Equity	\$ 545	\$ 479

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

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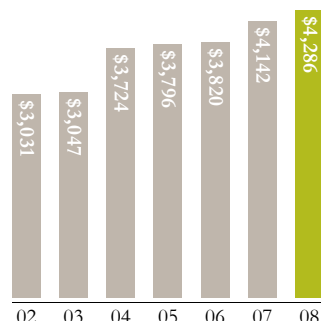
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## 7-Year Performance Summary

### Interest-Earning Assets

(\$ in billions)

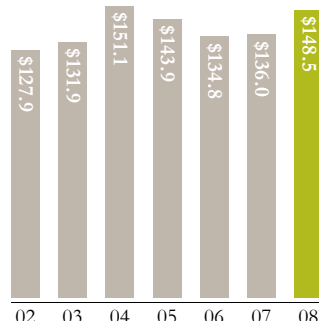
7-Year CAGR = 6.0%



### Net Interest Income

(\$ in millions)

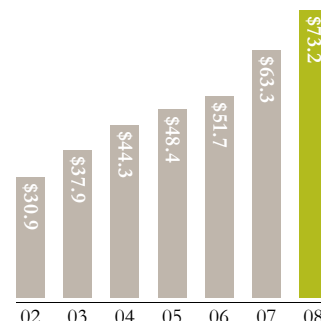
7-Year CAGR = 6.3%



### Noninterest Income<sup>1</sup>

(\$ in millions)

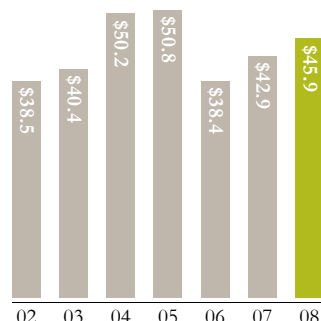
7-Year CAGR = 15.6%



### Net Income

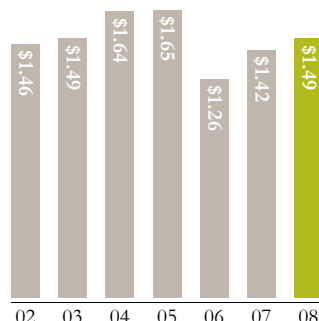
(\$ in millions)

7-Year CAGR = 13.3%



### Earnings Per Share (diluted)

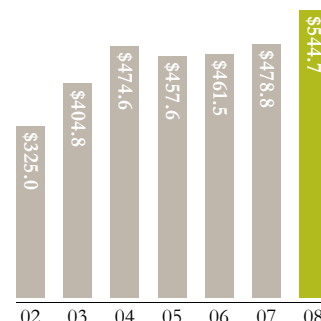
7-Year CAGR = 9.1%



### Shareholders Equity

(\$ in millions)

7-Year CAGR = 10.6%



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

## Profile

Community Bank System, Inc. (NYSE: CBU) is a registered bank holding company based in DeWitt, N.Y., with \$5.2 billion in assets and 147 customer facilities across Upstate New York, where it operates as Community Bank, N.A., and Northeastern Pennsylvania, where it is known as First Liberty Bank & Trust. Its other subsidiaries include: BPAS, Inc., an employee benefits administration and consulting firm with offices in Upstate New York, Pennsylvania and Houston; the CBNA Insurance Agency, with offices in three Northern New York communities; Community Investment Services, Inc., a broker-dealer delivering financial products throughout the Company's branch network; and Nottingham Advisors, Inc., a wealth management and advisory firm with offices in Buffalo, NY and North Palm Beach, FL. For more information, visit: [www.communitybankna.com](http://www.communitybankna.com) or [www.firstlibertybank.com](http://www.firstlibertybank.com).



## Dear Shareholders, Customers and Employees:

In last year's message we discussed the difficulty of the 2007 operating and economic environment, with little sense that it would evolve in 2008 into cessation of capital markets, a deepening recession, and the obliteration of many of the world's largest financial firms. Indeed, what a difference a year does make. We were not tempted by opportunities that would have taken us afield from our disciplined operating model, which, quite simply, is gathering deposits and making quality loans to customers within our branch markets. The financial strength of your Company has never been greater. Our capital levels are strong, and we declined bailout funds from the U.S. Treasury. We believe our 2008 results bear that out, in particular when compared to the banking industry at large.

A discussion of operating results typically begins with earnings; however, in the context of the current environment, asset quality may be a more relevant and consequential starting point. Bad loans and bad investments have been the root cause of virtually every financial institution failure; the principal duty of bank leadership should be ensuring a strong balance sheet. We have never originated subprime or other high-risk loans, and have meaningfully strengthened our credit disciplines over the past several years. Our net loan charge-off's of 20 basis points in 2008 compares to 90 basis points for our peers (as defined by the FDIC). Said another way, our loan losses in 2008 were only 27% of the losses incurred by our peers. Our non-performing loans at year-end 2008 were 40 basis points, compared to 229 basis points for our peers. Again, said differently, our peers had five times more non-performing loans than does Community Bank. Our investment portfolio is similarly strong, consisting almost entirely of treasury, government agency and municipal securities. We held no Fannie Mae or Freddie Mac preferred stock and incurred no realized losses in 2008 in our investment portfolio. The most fundamental strength of your company remains the quality of its loan and investment portfolios.

Earnings results for 2008 reflected this asset strength, despite the broad-based credit and economic difficulties of the later half of the year. Earnings per share increased 8% in 2008, excluding the effect of non-recurring tax gains, acquisition expenses and similar items. These results were driven by contributions from across the Company, including organic and acquired balance sheet growth, improvement in the net-interest margin, double-digit expansion of non-interest revenues, the accretive impact of our 2007 acquisitions, and exceptional loan quality that resulted in a low level of credit costs.

Any organization's long-term success is dependent upon its ability to grow and retain customer relationships, and 2008 was a good year for your Company in two important ways. First, for the second year in a row, J.D. Power & Associates has named Community Bank as one of the top 10 banks in the nation in customer satisfaction. We are very proud of all our employees for this continued distinction, and most thankful to our customers





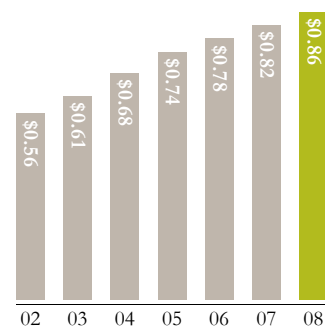


## Investment Considerations

- Balanced and appropriate strategy for growth within targeted markets
- Disciplined and effective approach to growing revenue and profitability
- Dominant market share – 1st or 2nd in 74% of our markets
- Noninterest income was 33% of operating revenues in 2008
- Diversified financial services businesses – \$34.4 million in 2008 revenues
- Record of successfully integrating acquisitions
- Strong dividend and yield
- Effective capital management strategies
- NYSE listed with significant liquidity

## Dividends Declared

7-Year CAGR = 7.0%



## Total Shareholder Return

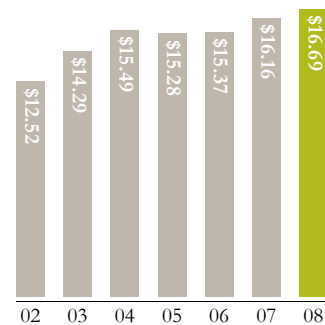
Through December 31, 2008, Including Reinvestment of Dividends

	1 Year	5 Years	10 Years	15 Years
<b>CBU</b>	<b>27.5%</b>	<b>3.5%</b>	<b>9.1%</b>	<b>12.6%</b>
S&P 600 Comm. Bank	(19.9%)	(6.7%)	3.5%	NA
NASDAQ Bank	(21.5%)	(4.4%)	3.5%	7.5%
S&P 500	(36.9%)	(2.2%)	(1.4%)	6.5%
Dow Jones Ind. Ave.	(31.9%)	(1.1%)	1.7%	8.1%

Source: Bloomberg

## Book Value Per Share

7-Year CAGR = 7.0%



for their trust and loyalty. Second, this confidence of our customers and communities in Community Bank generated an increase in our total customer base of 14%, or, nearly 40,000 new households upon which to develop and grow. Both of these points serve as a continuing validation of the effectiveness of our localized, community-oriented business model.

This growth in relationships and continued confidence in the strength of Community Bank likewise resulted in exceptional growth in 2008 of both deposits and loans. Excluding acquisitions, core deposits grew 7% in 2008. That represents 12,000 new account relationships and \$123 million of new customer balances, and continues to be one of our most significant strategic objectives. Loans also grew at a 7% pace in 2008, or \$190 million, with gains in all 3 of our portfolios—business loans, home mortgages, and consumer installment lending. Beyond financial results, we made important investments in our business banking capabilities in 2008 that will provide a stronger foundation for continued growth, including technology, business development capabilities, and efficiencies in our underwriting and credit administration processes.



*“We were not tempted by opportunities that would have taken us afield from our disciplined operating model, which, quite simply, is gathering deposits and making quality loans to customers within our branch markets. The financial strength of your Company has never been greater. Our capital levels are strong, and we declined bailout funds from the U.S. Treasury.”*

Paul M. Cantwell, Jr. *Chairman of the Board* (LEFT)  
Mark E. Tryniski *President and Chief Executive Officer* (RIGHT)

Our non-banking businesses, including (i) benefits administration and actuarial consulting, and (ii) wealth management, had a mixed year. The benefits administration and consulting group grew revenues at a 30% pace (about 10% of which related to an acquisition), with earnings contribution growing 12%. Despite a very difficult investment market in 2008, revenues of the wealth management group grew by 3%, but earnings contribution was down \$2.3 million including a \$1.7 million non-operating goodwill impairment charge. These non-banking businesses have been, and we expect will continue to be, a source of strong earnings growth and remain an important element of our long-term strategic objectives.

In November 2008 we completed our acquisition of 18 branch-banking centers in northern New York from Citizens Financial Group, representing \$565 million of deposit relationships and \$109 million of loans. To provide capital support for the acquisition, we issued \$50 million of common stock in October 2008 in an oversubscribed offering. This high-value transaction fulfilled our objective of expanding our northern region franchise into the greater Adirondack and Champlain Valley markets, and secured a leading market share in Plattsburgh and Clinton County while broadening our presence across three additional counties. The present and future opportunities in these markets are attractive, and we’ve committed highly capable resources to support our efforts in the form of regional leadership and an exceptional Advisory Board. Results to-date are encouraging, with both loans and deposits growing from the date of acquisition.

Despite a very difficult market for bank stocks in 2008, Community Bank System, Inc. delivered a total return to shareholders of +27%. This compares to -37% for S&P 500, -22% for the NASDAQ Bank Index, and -20% for the S&P



Commercial Banks Index. 2008 was a year in which investors differentiated between those banks deemed to be safe and sound, and those deemed otherwise. Lest we take too much comfort in this outcome, our stock price has declined over 20% from January 1, 2009 through the date of this letter as the deepening financial crisis and response from the federal government precipitated indiscriminate panic selling of all bank stocks. We remain in a market environment of extraordinary uncertainty and volatility. It is the job of your Company's Board and management, however, to remain focused on creating sustainable, growing, earnings—that, ultimately, is the determinative factor in creating value for shareholders over time.

The Board of Directors expresses its gratitude to Bill Dempsey, who retired from the Board after over 20 years of distinguished service to shareholders. His selfless leadership was instrumental to the growth and success of Community Bank, particularly in the northern New York region where he will continue to serve as Chairman of our Adirondack Advisory Board. The Board is most thankful to Bill for his contributions to the Company and to our shareholders.

During 2008 the Board of Directors appointed James W. Gibson Jr., CPA, from Syracuse, New York, and James A. Wilson, CPA, from Scranton, PA, to the Board of Community Bank System, Inc. Both are independent directors who bring extensive financial expertise and banking industry experience to the company. In addition, in 2008, the company appointed five new directors to the Board of Community Bank, N.A. The new Directors include Mark Bolus (Scranton, PA), Neil E. Fessette (Plattsburgh, NY), Edward S. Mucenski (Potsdam, NY), John Parente (Wilkes-Barre PA), and John F. Whipple (Olean, NY). The Board welcomes the appointment and active participation of our new Directors as we continue to position the Company for long-term, profitable growth.

As our nation manages through the challenges of the most difficult economy of our time, the strength and soundness of your Company has never been greater. Neither has the opportunity for us to capitalize on that strength, across our markets, as the broader credit crisis has adversely impacted the ability of many financial institutions to respond to the needs of customers. Community Bank System, Inc. is well-positioned to capitalize on the opportunities that lie before us, and your Company's Board of Directors, management, and employees remain focused on continuing to deliver growing returns to shareholders.



Paul M. Cantwell, Jr.  
*Chairman of the Board*



Mark E. Tryniski  
*President and Chief Executive Officer*







## Our Core Strength

Few think of Upstate New York or Northeastern Pennsylvania as vibrant economic regions, in particular when compared to the higher growth areas of the south and west. However, a study released by the Federal Reserve Bank of New York in December 2008, estimated the size of the Upstate New York economy at more than \$200 billion in goods and services for 2006, a figure rivaling the output of many states.

Our Company has focused on assembling a strong retail banking franchise located primarily in the smaller, non-metropolitan markets of Upstate New York and Northeastern Pennsylvania. Consolidation of small to medium-sized financial institutions, along with de-emphasis of retail branch banking by larger institutions within our markets has created an opportunity for a community-focused bank to provide a full range of financial services to small and middle-market commercial and retail customers. Our goal is to establish a leading market share position in each of these smaller, stable regions, where we provide comprehensive retail and small business products, as well as responsive, decentralized decision-making; both reflective of our detailed knowledge of the local markets and customers. Our focus on these stable lower-growth markets has been a core strength which has resulted in dependable earnings growth, regular dividend increases and annual shareholder returns of more than 12% over the last 15 years.

While the larger financial institutions have focused their attention on the urban markets and chased market share in regions where population growth and property values seemed to be soaring continuously, we have remained consistent in our approach and have stayed committed to markets where growth is more measured. In the current period of severe economic turmoil our markets remain solid and stable and property values, which never really benefitted from the real estate bubble, have remained consistent.

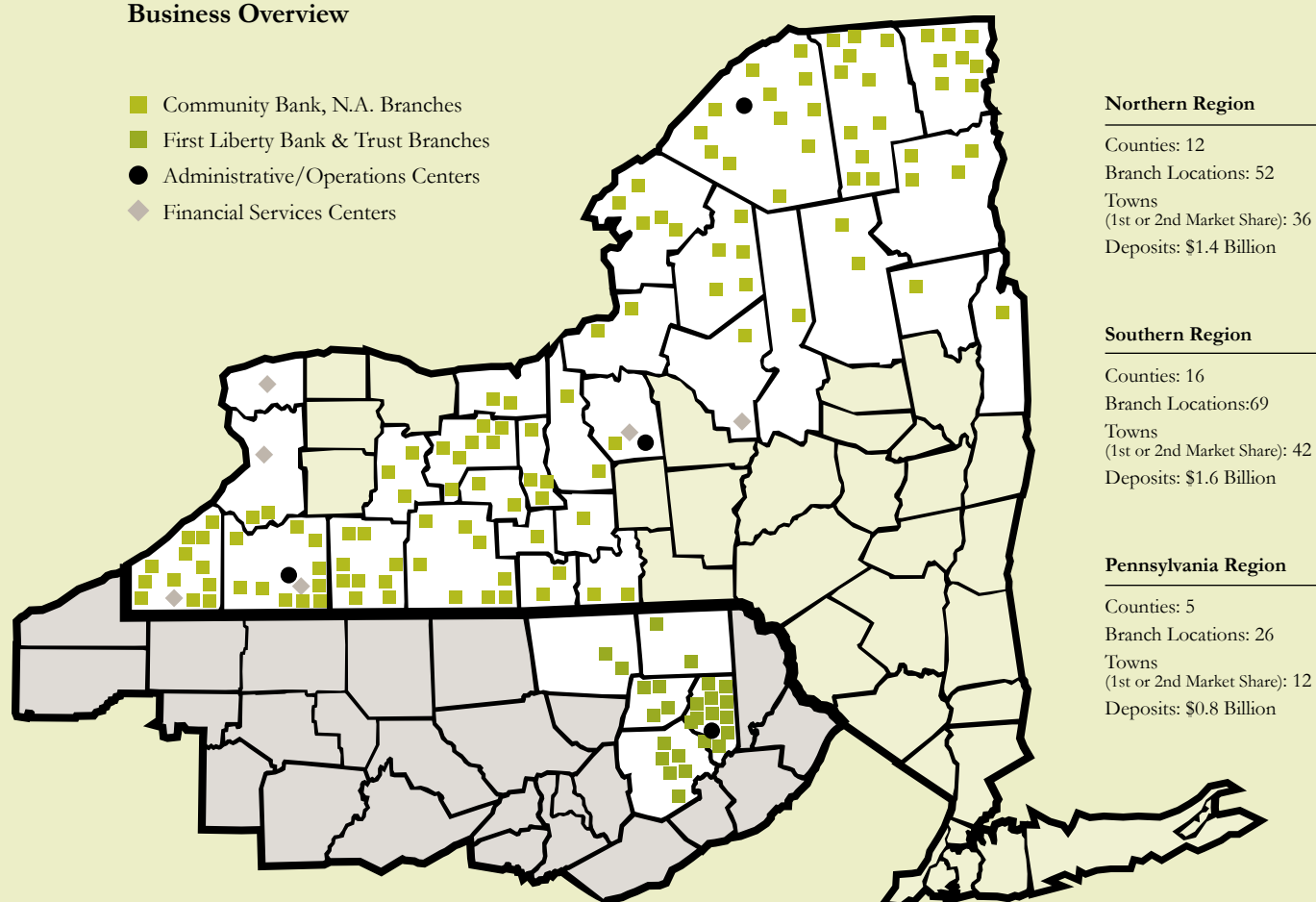
### Strength Within Our Markets

We have assembled a very strong market presence in the 12 counties which make up our Northern New York region. This region stretches north from Syracuse to the Canadian and Vermont borders, and covers an area of more than 17,000 square miles. Our 52 branch locations are focused in communities like Canton, Potsdam, Plattsburgh, and Watertown.

Over the past two years we have made two acquisitions which strengthened our market-leading service footprint in the region, and also provided a highly attractive base of core funding relationships. We acquired TLNB Financial Corporation and its five locations in June 2007. In late 2008, we acquired an additional 18 branch-banking centers in Clinton, Franklin, Essex, Lewis, Hamilton, Warren, and Washington counties, from RBS Citizens. Approximately one in every six retail bank locations in the region is now ours. These transactions strengthened our presence in the Adirondacks and the Champlain Valley, two areas of Upstate New York experiencing meaningful economic growth opportunities.



## Business Overview



*Our retail banking franchise is located primarily in the smaller non-urban markets of Upstate New York and Northeastern Pennsylvania where we seek a leading market share position. Our retail banking operation ranks first or second in deposit market share in more than 74% of the communities where we do business. Our retail banking business operates in stable markets which have not been subjected to the volatility currently impacting the housing and mortgage lending industries.*

As we have done in Northern New York, we have assembled a strong retail franchise in the 16 counties which form our Southern New York region. We have a solid, and expanding, market presence with 69 retail branch locations, which hold more than \$1.6 billion in deposits. For the Southern New York region, we occupy the number one or two market position in six of the counties, as well as 42 local communities.

The Southern Region has a mix of rural and small urban areas stretching from Jamestown to Elmira and reaching up to Wayne County on the shore of Lake Ontario. The “Finger Lakes and Southern Tier” share the farming and small-manufacturing characteristics of other areas of Upstate New York, along with a slow but steady growth profile. This is reflected in recent New York Fed job growth data, which confirmed Upstate New York performed noticeably better than the results experienced nationwide.

Northeastern Pennsylvania also shares many demographic characteristics with the nearby Upstate New York region. In 2001, Community Bank System established a presence in the region by purchasing the well-established First Liberty Bank & Trust franchise. In 2003 and 2004 we expanded that presence with the acquisitions of the Grange National Bank and First Heritage Bank, respectively. First Liberty continues its strong market presence throughout the region, primarily in locations in and around Scranton and Wilkes-Barre. We are particularly strong in Wyoming and Lackawanna counties where we have deposit markets shares of approximately 21% and 10%, respectively.

The Northeastern Pennsylvania region is also weathering the economic storm better than most areas of the country. The region's unemployment rate has risen at nearly half the pace of the US over the last year, now standing a full point below the national average.



### **A Stable Banking Environment**

Unlike many of the high-growth Sunbelt areas which are experiencing volatility in current real estate values, Upstate New York and Northeastern Pennsylvania remain affordable and property valuations have remained consistent. Community Bank continues to produce solid results in this environment by remaining focused on a balanced and appropriate strategy for growth within these markets.

Unlike many large banks which are currently having asset quality problems, because of a willingness to originate higher-risk mortgage products, we have remained consistent with our underwriting standards. Our nonperforming assets as a percentage of outstanding assets was 0.27% at year end, compared to a national average for all commercial banks of 1.82% at December 31, 2008.

We continue to produce respectable growth across all lending lines and most importantly we remain free of exposure to the mortgage lending crisis that has affected many of the nation's markets, as we have no subprime or other higher-risk mortgage products within our real estate or investment portfolios. Our mortgage delinquency ratio of 1.07% is significantly below the industry-wide ratio, which remains above 6%.



## The Strength of Diversification

Another of our core strengths has been the Company's focus on increasing noninterest income through development of banking-related fee income, growth in existing financial services business units, and the acquisition of additional financial services and banking businesses.

Our banking services income comes from loans, deposits and other core customer activities, which are typically provided through the branch network and electronic banking channels. We also generate noninterest income from wealth management services performed by the Bank's personal trust unit, as well as income from investment and insurance products provided through Community Investment Services, Inc. or CISI, and the CBNA Insurance Agency, Inc. In addition, Nottingham Advisors provides diversified asset management services from locations in Buffalo, New York and North Palm Beach, Florida.

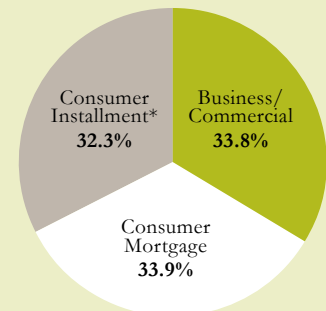
In addition to revenues which are generated in through our retail branch system, we have acquired and grown several financial services businesses which generate revenues outside of our branch-banking network. Benefit Plans Administrative Services, Inc. (BPAS) offers employee benefit plan administration, actuarial and consulting services from locations in Upstate New York, Pennsylvania, and Texas.

The expansion of our financial services businesses, both organically and through the use of targeted acquisitions, has enabled us to significantly expand our capabilities. BPAS has grown into a national provider of administrative, actuarial and consulting services to a diverse array of clients spanning the United States and Puerto Rico. Servicing over 2,000 retirement plans through partnerships with over 160 financial intermediaries nationwide, BPAS leverages its highly skilled staff and an innovative organizational structure to solve traditional challenges in new ways. Our wealth management capabilities have grown to include broker-dealer and investment advisory services, asset management services to individuals, corporate pension and profit sharing plans, trust services and insurance products and services.

Along with expanding our service capabilities, the strategy of developing strong financial services options has provided a strong revenue source unaffected by the variability of interest rate movements. Financial services revenues now represent 47% of our total noninterest income, and noninterest income was 33% of total revenue for 2008, up from 22% of total revenue in 2003.

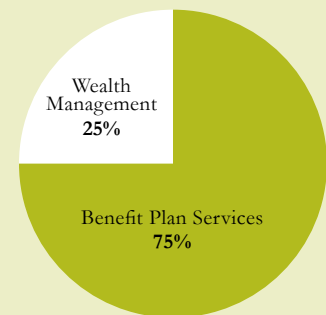
## Loan Portfolio Composition

Total Loans = \$3.1 Billion  
(at 12/31/08)



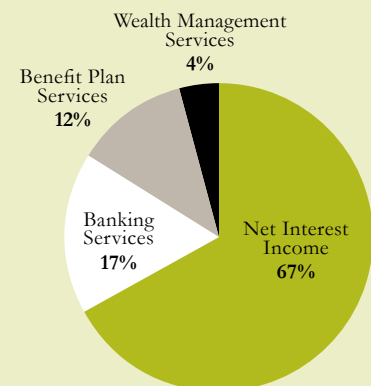
## Financial Services Revenue Composition

2008 Financial Services Revenue = \$34.4 Million



## Total Revenue Composition

2008 Total Revenue = \$222 Million



\*including home equity

## Deep Community Roots Support Continued Growth

The challenging economic conditions of 2008 impacted all financial institutions, however it's apparent that some banks were far less affected than others. Our full year net interest income of \$148.5 million was up 9.2% over 2007, and reflected strong organic loan growth from our markets of \$193.5 million, as well as an 18-basis point improvement in our net interest margin. Our noninterest income of \$73.2 million (excluding securities gains/losses and debt extinguishment charges) increased by \$10.0 million, or 15.8% over 2007. Our long-term commitment to growing non-interest revenue is evident over the last 7 years, a period during which we realized a nearly three-fold increase in non-interest income, resulting in a compound annual growth rate of more than 15%, since 2001.

Locating and successfully executing high-value acquisitions remains a core operating strategy of Community Bank System. We have significantly enhanced and grown our banking franchise by making 11 successful acquisitions since 2001. As a result we have grown our assets by more than 250%, as well as adding 75 new markets.

We have also been an active acquirer of financial services businesses, which started with our acquisition of Benefit Plans Administrators in 1996. We have made five additional financial services acquisitions which added an investment advisory firm, and an insurance agency, as well as expanded our benefit plan administrative, consulting and actuarial services.

A number of potential opportunities were evaluated during 2008 and we proceeded with two solid "bolt-on" acquisitions which helped to strengthen the market position of Benefit Plan Administrative Services (BPAS), as well solidifying our leadership position in our Northern New York banking region.

In July 2008, BPAS acquired the Philadelphia division of Alliance Benefit Group MidAtlantic (ABG) from BenefitStreet, Inc., adding strength and enhanced capability in retirement plan consulting, daily valuation administration, actuarial and ancillary support services. This transaction also added approximately \$5 million in annualized revenues, as well as valuable capacity to support the Company's growing customer base of more than 300 actuarial engagements, administration of over 200,000 defined contribution and flexible spending participant accounts, and custody of nearly \$4 billion in retirement plan assets.

Our financial services revenues have more than tripled since 2000, growing to more than \$34 million, or 15.5% of total revenue in 2008. BPAS was the primary driver behind the increase during 2008. The mid-year acquisition of ABG was responsible for a substantial portion of the increase, however we also realized organic growth from new clients and enhanced product offerings during the year.

In November 2008, our wholly-owned banking subsidiary, Community Bank, N.A. (CBNA) closed on the acquisition of 18 branch-banking centers in northern New York from Citizens Financial Group, Inc., adding approximately \$565 million in deposits and \$109 million in loans

This transaction strengthened our already leading market position in Northern New York. The addition of four branches in Plattsburgh and one in Champlain, established a strong market presence for Clinton County with a deposit market share of more than 20%. It broadened our presence in Franklin, Essex, and Lewis counties, with branches in Malone, Fort Covington, Tupper Lake, Saranac Lake, Lake Placid, Ausable Forks, Newcomb, Ticonderoga, and Lyons Falls. In addition, we gained access to new markets in Hamilton, Warren, and Washington counties with branch locations in Long Lake, Indian Lake, North Creek, and Whitehall. Our Northern New York Region customers now have access to 52 branches and 30 ATMs across the region.

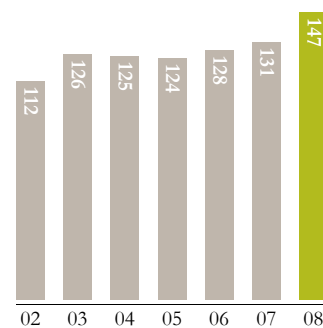
The decision to acquire these branches presented a very attractive opportunity for us to grow our market-leading northern New York footprint in economically sound markets, while at the same time adding a highly attractive base of core funding relationships. The core deposit base we acquired was simply exceptional with time deposits representing less than one-third of total deposit balances. The acquisition provided the opportunity to increase our business substantially, without a





*"Our Company produced another strong year by remaining focused on our disciplined business model through very challenging market conditions."*

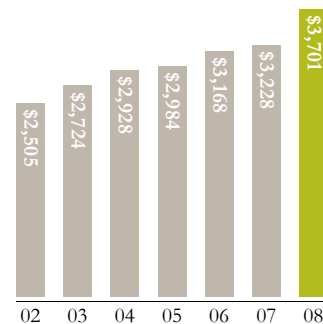
### Retail Branch Locations



### Deposit Growth

(\$ in millions)

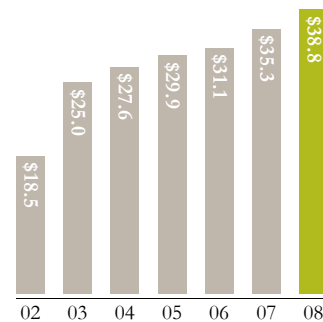
7-Year CAGR = 5.5%



### Banking Services Revenue

(\$ in millions)

7-Year CAGR = 14.8%





significant increase in corporate administrative overhead costs. We expect to continue to make similar strategic acquisitions which expand and enhance the strength of our franchise and create additional shareholder value.

Another core growth strategy of our Company involves organically building high-quality, profitable loan and deposit portfolios. We generated 7% organic growth of core deposits through the end of 2008, reflecting both the Company's objective of lowering overall funding costs by reducing higher-cost time deposits and our focus on expanding core account relationships. Total deposits also grew by more than 14% during 2008, driven primarily by our branch acquisition in Northern New York, as well as aggressive business development efforts targeted at creating opportunities which expand the Company's share of the market, and drive productive growth to our portfolios.

Organic loan growth was also up by 7% in 2008 reflecting solid growth across all portfolios and across all of our geographic regions as well. Total loans at year end of \$3.1 billion were up \$315 million, or 11.2% from the end of 2007.

We realized business lending growth of \$74.0 million, or 7.5% in 2008, reflecting our investment in additional personnel, technology and business development resources, along with our focus on small and moderate-size businesses. The intensity of competition for lending in 2008, appeared to ease in some of our markets as certain of our larger competitors reduced their lending participation, principally because of liquidity and capital restraints. We remain committed to growing our business lending portfolio, however only in a manner consistent with our goals of strong asset quality and profitable margins.

Our consumer mortgage portfolio was up a strong \$85.4 million, or 8.7%, during 2008, despite softening demand in the overall market. More importantly, unlike the larger banks currently struggling with significant asset quality problems, we remained consistent with our approach of not offering subprime loans, no down payment loans, or loans to borrowers without a verifiable source of income. Our consumer mortgage portfolio has a stable, low-risk profile with no exposure to subprime, Alt-A, or other higher-risk mortgage products, which is reflected in our very strong asset quality metrics.

Consumer installment lending growth was particularly strong in 2008, growing by more than \$155 million, or 18.1%, from the end of 2007. The weakness that existed in the new vehicle market for much of 2008 created demand for late model used and program car inventories, two segments in which we are active in our markets.





## CBU's Banking Acquisition History

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- 2008** Acquired 18 branches from Citizens Financial Group, Inc. in Northern New York
- 2007** Acquired Tupper Lake National Bank in Northeast New York
- 2006** Acquired Ontario National Bank in Ontario and Wayne counties, N.Y.  
Acquired Elmira Savings & Loan in Elmira and Ithaca, N.Y.
- 2004** Acquired First Heritage Bank in greater Wilkes-Barre, Pa.  
Acquired an HSBC Bank branch in Dansville, N.Y.
- 2003** Acquired Peoples Bankcorp in Ogdensburg, N.Y.  
Acquired Grange National Banc Corp., in Northeast Pa.
- 2001** Acquired Citizens' National Bank of Malone, N.Y.  
Acquired First Liberty Bank & Trust, based in Scranton, Pa.  
Acquired 36 branches in Western and Central New York from FleetBoston

## CBU's Financial Services Acquisition History

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- 2008** Acquired Alliance Benefit Group MidAtlantic from BenefitStreet, Inc.
- 2007** Acquired CBNA Insurance Agency, Inc. as part of the TLNB Financial acquisition  
Acquired Hand Benefits & Trust of Houston, Texas
- 2003** Acquired Harbridge Consulting Group in Syracuse, N.Y.
- 2000** Acquired Nottingham Advisors, a nationally recognized investment advisory firm, based in Buffalo, N.Y.
- 1996** Acquired Benefit Plans Administrators, Inc., a benefits administration and recordkeeping business, based in Utica, N.Y.



*"We have greatly strengthened and grown the company over the past several years through a disciplined operating model that, quite simply, remained focused on gathering deposits and making quality loans to customers within our branch markets. We expect also to continue making high-value acquisitions, which remains an important element of our strategic growth plan."*

### FROM LEFT TO RIGHT

#### (BACK)

Scott Kingsley Executive Vice President & Chief Financial Officer,  
Brian Donahue Executive Vice President & Chief Banking Officer

#### (FRONT)

Mark Tryniski President & Chief Executive Officer  
George Getman Executive Vice President & General Counsel

## A Time for Exceptional Performance

During 2008 the banking industry struggled through the most severe economic environment its faced in more than 60 years. FDIC-insured institutions reported net income of \$16.1 billion, a decline of nearly 84% from 2007, and the lowest annual total in almost 20 years. Higher loan loss provisions and securities losses were primarily responsible for the significant drop in industry profits during the year. While a large portion of the losses were concentrated in larger institutions, nearly one out of every three institutions reported a net loss in the fourth quarter, and approximately 64% of insured institutions reported lower net income for the year.

Our 2008 performance included expansion of net interest income, organic growth of both loans and core deposits and improvement in our net interest margin, double-digit growth in non-interest income sources, and sound asset quality. We achieved exceptional performance in a very challenging business environment. The Company's net earnings for 2008 were \$45.9 million, or \$1.49 per share, up 7.0% and 4.9%, respectively, compared with 2007. Our 2008 cash earnings per share (excluding the after-tax effect of the amortization of intangible assets, acquisition-related market value adjustments, and goodwill impairment charges) were \$1.73, a meaningful 16% above GAAP-reported results.

### Exceptional Asset Quality

(all ratio's at December 31, 2008)

	Community Bank System, Inc. (CBU)	All Commercial Banks National (ACBN)	ACBN Assets < \$100M	ACBN Assets \$100M to \$1B	ACBN Assets > \$1B
Loan loss allowance/nonperforming loans	312%	78.56%	73.28%	60.19%	80.59%
Nonperforming loans/loans outstanding	0.40%	2.91%	1.97%	2.45%	2.89%
Nonperforming assets/total assets <sup>2</sup>	0.27%	1.82%	1.66%	2.54%	1.78%
Net charge-offs/average loans <sup>1</sup>	0.20%	1.31%	0.47%	0.68%	1.40%

<sup>1</sup> FDIC Statistics - Net Charge-Offs to Loans

<sup>2</sup> FDIC Statistics - Noncurrent assets plus other real estate owned/assets

Troubled assets continued to grow at FDIC-insured institutions in 2008 increasing the burden on banking industry earnings. Credit losses exceeded \$50 billion in both the second and third quarters and absorbed one-third of the industry's net operating revenue. Net charge-offs for FDIC-insured institutions were \$27.9 billion in third quarter 2008, an increase of \$17.0 billion, or 156%, from a year earlier, and the seventh consecutive quarter of year-over-year growth.

We understand that asset quality is now the predominant focus across the banking industry, however for Community Bank the commitment to exceptional asset quality was not a recent revelation. We continue to experience superior asset quality metrics while many large financial institutions are taking sizable charge offs, reflective of their decisions to participate in higher risk lending products. With a mortgage delinquency ratio of 1.07%, we are significantly below the industry-wide ratio, which remains above 7%. Overall, our nonperforming loans were 0.40% of total loans at December 31, 2008, up eight basis points from the very favorable 0.32% at the end of 2007. Our 2008 delinquency ratio of 1.43% remained below long-term historical levels, and although net charge-offs of \$5.7 million were \$3.1 million above a historically low level of \$2.6 million in 2007, they remained favorable by historical standards. These favorable and stable asset quality metrics illustrate the continued effectiveness of the Company's disciplined risk management and underwriting standards.

The credit crisis has spread more broadly to the consumer along with expectations of a lengthy recessionary environment. Although our markets remain relatively stable, Upstate New York and Northeastern Pennsylvania are certainly not immune to a broad-based recession, and we are sensitive to the need to remain disciplined in our credit administration and operating decisions.



## Service is Rooted in Our Culture

Community banks have typically viewed personal service as their most important competitive advantage in competing with larger institutions, as well as with other community banks. Although advances in information technology, such as the Internet, have enabled many customers to transact banking business without having to visit a bank's premises, many customers prefer face-to-face contact. Our business model continues to recognize this customer preference and embraces it as a competitive opportunity.

It's one thing to claim that you excel at providing an exceptional customer experience, it's quite another to be able to demonstrate this. In 2007, Community Bank was recognized as the second best bank in the nation in a customer satisfaction survey by J.D. Power & Associates.

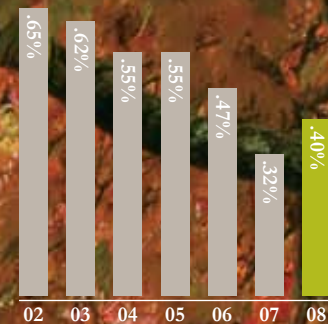
In 2008, J.D. Power & Associates again conducted their study of overall satisfaction with the retail banking experience and concluded that retail banks that provide high levels of customer satisfaction have more highly committed customers, which are essential to financial growth. Once again Community Bank System finished in the top ten nationally, with the third highest score in the mid-Atlantic region, along with being one of only 15 banks nationwide to place in their top two service categories. We believe that this provides additional validation of our localized approach, as well as our commitment to focus our people, products, and process on superior customer service. We couldn't be more proud of our employees, nor more appreciative of our customers.

## Building Market Interest

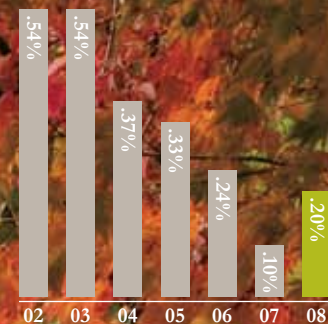
It's broadly accepted that the public issuance market in 2008 was the worst in more than 30 years. Despite the very difficult environment for new equity issues, Community Bank System completed a public stock offering in early October 2008, raising approximately \$50 million through the issuance of 2.53 million shares of common stock. The proceeds of the offering were used to support our acquisition of the RBS Citizens branches in our Northern New York Region. We believe that it's interesting to note that the offering was oversubscribed despite the difficult and challenging conditions existing in the global capital markets.

Considering the significant economic challenges facing our industry in 2008, Community Bank System had exceptional performance completing two high-value acquisitions, raising \$50 million in new capital, maintaining superior asset quality ratios and growing revenue and net income. We expect even greater economic and cost structure challenges in 2009, however we believe that our many core strengths including, operating momentum across the company, a strong balance sheet, growing market share in core deposits and lending and rising non-interest revenues positions our Company for continued strong performance.

Nonperforming Loans to Total Loans



Net Charge-Offs to Average Loans



*"Community Bank System again finished near the top of the J.D. Power & Associates banking satisfaction survey, with the third highest score in the mid-Atlantic region for 2008."*

## Board of Directors

**Paul M. Cantwell, Jr.** was named Chairman of the Board in 2006. He is the former Chairman and President of the Citizens National Bank of Malone. He is presently the owner of the Cantwell & Cantwell Law Offices in Malone, NY.

**Brian R. Ace** has served as a Director since 2003, following the acquisition of Grange National Banc Corp. He is Chairman of the Compensation Committee, and a member of the Audit/Compliance/Risk Management and Loan/ALCO committees. He served on the Board of Grange National Banc Corp. from 1992-2003, and was Vice Chairman from 2001-2003. He is the owner of Laceyville Hardware in Laceyville, PA.

**Nicholas A. DiCerbo** is a partner of the law firm of DiCerbo & Palumbo of Olean, NY. He has been a Director since 1984. He is Chairman of the Strategic/Executive Committee and a member of the Loan/ALCO and Trust committees.

**James A. Gabriel** served as Chairman of the Board from 1999 to 2006. He is Chairman of the Trust Committee and a member of the Loan/ALCO, Nominating/Corporate Governance, Compensation and Strategic/Executive committees. He has served as a Director since 1984, and is the owner of the law firm of Franklin & Gabriel, located in Ovid, NY.

**Charles E. Parente** has served as a Director since 2004, following the acquisition of First Heritage Bank. Mr. Parente currently serves as Chief Executive Officer of Pagnotti Enterprises. His career also includes positions as President/CEO/Principal within a telecommunications company, a leading independent accounting and consulting firm, and a public accounting firm. He is Chairman of the Audit/Compliance/Risk Management Committee and a member of the Strategic/Executive, Compensation, and Loan/ALCO committees.

**David C. Patterson** is President and owner of Wight and Patterson, Inc., a manufacturer and seller of livestock feed located in Canton, NY. He has served as a Director since 1991. He is Chairman of the Loan/ALCO Committee and a member of the Compensation, Nominating/Corporate Governance, and Strategic/Executive committees.

**James W. Gibson, Jr.** was appointed to the Board January 1, 2009. Mr. Gibson recently served as a Partner in KPMG, LLC, a global network of professional services firms providing audit, tax and advisory services, in New York City. He is a member of the Audit/Compliance/Risk Management Compensation and Loan/ALCO committees.



*On December 31, 2008, **William M. Dempsey** retired as a member of Community Bank System, Inc.'s Board of Directors, following 24 years of service. A Director since 1984, he was Chairman of the Audit/Compliance/Risk Management Committee and a member of the Loan/ALCO and Nominating/Corporate Governance committees. The Board of Directors sincerely appreciates his commitment and guidance which will be missed.*

**FROM LEFT TO RIGHT**  
**(FRONT)** James Gabriel, Paul Cantwell, Mark Tryniski, David Patterson  
**(BACK)** Sally Steele, Nicholas DiCerbo, James Wilson, Charles Parente, James Gibson, Brian Ace

**Sally A. Steele** has served as a Director since 2003, following the acquisition of Grange National Banc Corp. She is Chairwoman of the Nominating/Corporate Governance Committee and a member of the Loan/ALCO, Strategic/Executive, and Compensation committees. Ms. Steele operates her own law practice in Tunkhannock, PA.

**Mark E. Tryniski** has served as President and Chief Executive Officer of Community Bank System since 2006, at which time he was also elected to the Board. He was formerly the company's Executive Vice President and Chief Operating Officer from 2004-2006 and, prior to that, its Chief Financial Officer beginning in 2003. Before joining the company in 2003, Mr. Tryniski was a partner within the Syracuse office of PricewaterhouseCoopers.

**James A. Wilson** was appointed to the Board on January 1, 2009. He served as a Partner for Parente Randolph, LLC, one of the top 35 accounting and consulting firms in the United States, in its Wilkes-Barre, PA office through April 2008. He also previously served as Director for the School of Accounting for the International Correspondence School in Scranton, PA. He serves as a member of the Audit/Compliance/Risk Management and Loan/ALCO committees.



## Bank and Advisory Boards

### Board of Directors – Community Bank, N.A.

Paul M. Cantwell Jr., Chairman <sup>1</sup>	Brian R. Ace <sup>2</sup>
Nicholas A. DiCerbo <sup>2</sup>	James A. Gabriel <sup>2</sup>
David C. Patterson <sup>2</sup>	Sally A. Steele <sup>2</sup>
Mark E. Tryniski <sup>2,3</sup>	

<sup>1</sup>Also Chairman of the Community Bank System, Inc. Board

<sup>2</sup>Also a member of the Community Bank System, Inc. Board

<sup>3</sup>President and Chief Executive Officer

**Mark J. Bolus** President and majority owner of Bolus Motor Lines, Inc. and Bolus Freight Systems, Inc. of Scranton, PA., was appointed to the Community Bank, N.A. Board in January 2009.

**Neil E. Fesette** Owner, President and Chief Executive Officer of Fesette Realty, LLC and Fesette Property Management, both located in Plattsburgh, N.Y., was appointed to the Community Bank, N.A. Board in January 2009.

**Edward S. Mucenski** a Certified Public Accountant and a partner and Managing Director of the Pinto, Mucenski & Watson, P.C. accounting firm in Potsdam, N.Y., was appointed to the Community Bank, N.A. Board in January 2009.

**John Parente** Chief Executive Officer of CP Media, LLC of Wilkes-Barre, PA, an owner and operator of broadcast television stations, was appointed to the Community Bank, N.A. Board in January 2009.

**John F. Whipple** a Certified Public Accountant and the Chief Executive Officer of Buffamante Whipple Buttafaro, P.C., a certified public accounting and business advisory firm with offices in Olean, Jamestown and Orchard Park, New York, was appointed to the Community Bank, N.A. Board in January 2009.

### First Liberty Advisory Board

Ed Coach	Thomas McCullough
Michael Coleman	William Nasser
William M. Davis	Russell Newell
Charles Flack	Frank Niemiec
John Graham	James O'Brien
Scott Henry	Harold Snowdon
Gary Lamont	Robert Wheeler

### Adirondack/Plattsburgh Advisory Board

Martin Bier	Peter Lynch
William Dempsey	Camil G. Maroun, Jr.
Alexander Edwards	William Maroun
Neil Fasette	James Murnane III
Jeremiah Hayes	Kim Murray
Morrison J. Hosley	Stuart P. Nichols
Thomas Hyde	Trey Pecor
James Langley	Leroy B. Pickering
Kevin Littlefield	

## Administration and Lenders

### 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. Getman, Executive Vice President, General Counsel

### Lending, Credit and Branch Administration

J. David Clark, Senior Vice President, Chief Credit Officer  
Stephen G. Hardy, Senior Vice President, Chief Credit Administrator  
Richard M. Heidrick, Senior Vice President, Retail Banking Administrator  
Claire F. LaGarry, Senior Vice President, Branch Service Administration  
NY/PA, Director of Consumer Banking  
Scott J. Boser, Vice President, Indirect/Consumer Loan Manager  
Nancy Mastrucci, Vice President, Senior Credit Manager  
Michael J. Stacey, Vice President, Collections Manager  
Earl R. Withers, Jr., Vice President, Director of Mortgage Banking  
Nancy A. Aiello, Assistant Vice President, Credit Administration  
Support Officer  
Pamela S. Dent, Assistant Vice President, Bankruptcy Recovery Specialist  
Stephen B. Dupree, Assistant Vice President, Reports Analyst  
Jennifer Hernandez, Assistant Vice President, Mortgage Processing Manager

### Finance and Treasury Management

Joseph J. Lemchak, Senior Vice President, Chief Investment Officer  
Charles M. Ertel, Vice President, Director of Taxation and Capital Planning  
Susan S. Fox, Vice President, Corporate Controller  
Robert R. Frost, Vice President, Financial Analysis Manager  
Sean M. Howard, Vice President, Investment Officer  
Pamela J. Taylor, Vice President, Data Warehousing Manager  
Shannon M. Davis, Assistant Vice President, Asset Liability Manager  
Laura J. Mattice, Assistant Vice President, General Accounting Manager  
Dennelle T. Michalski, Assistant Vice President, Financial Controls Manager  
Ann M. Moneypenny, Assistant Vice President, Asset Liability Analyst  
Robert E. Pierce, Assistant Vice President, Financial Reporting Manager  
Randy Pray, Assistant Vice President, Corporate Purchasing Manager

### Administration

Timothy J. Baker, Senior Vice President, Director of Special Projects  
Bernadette R. Barber, Senior Vice President, Chief Human Resources Officer  
Harold M. Wentworth, Senior Vice President, Director of Sales and Marketing  
Kristine M. Besaw, Vice President, Senior Regional Human Resources Manager NY  
Diane C. Seaman, Vice President, HR Manager/Organizational Development  
Michelle L. Cring, Assistant Vice President, Benefits Manager  
Donna J. Drengel, Assistant Vice President, Corporate Secretary,  
Board and Shareholder Relations  
Michael F. Joyce, Assistant Vice President, Facilities Manager  
John A. Puchir, Assistant Vice President, Sales Manager  
Lorie M. Semmel, Assistant Vice President, HRIS/Projects Manager

### Technology & Operations

J. Michael Wilson, Senior Vice President, Chief Technology Officer  
George Joseph (Jerry) Burke, Vice President, Director of Technology Services  
Robin E. Dumas, Vice President, Electronic Banking Manager  
Brian R. Gaffney, Vice President, Manager of Technology Projects  
Patricia A. Hayes, Vice President, Operations Project Manager  
Nancy M. Lewis, Vice President, Item Processing Manager  
Barbara L. Snyder, Vice President, Loan Operations Manager  
Christina E. Sullivan, Vice President, Deposit Operations Manager  
Tracie M. Clayson, Assistant Vice President, System Administrator  
Loan Operations  
Aaron S. Friot, Assistant Vice President, Information Technology  
Manager – Technical Support & Security  
Allyson B. Houston, Assistant Vice President, Technical Project Administrator  
Frank A. Palmisano, Assistant Vice President,  
Manager Network Administration  
Johnathan V. Whitton, Assistant Vice President,  
Technical Project Administrator

## Risk Management

Paul J. Ward, Senior Vice President, Chief Risk Officer  
Mark J. Houghtaling, Vice President, Credit Risk Manager  
Dianne L. Parks, Vice President, Corporate Compliance Officer  
Stuart A. Smith, Vice President, Security Officer  
Lynne M. Wadsworth, CIA, CFSA, Vice President, Corporate Auditor  
Anthony A. Antonello, Assistant Vice President, Security Investigator  
Melissa R. Cloce, Assistant Vice President, Compliance Manager  
William McLaughlin, Assistant Vice President, Loan Review

## Community Bank

### Branch Services

Judith A. Meyer, Vice President, Branch Coordinator

### Business Banking

#### Canton

Robert F. Zehr, Vice President, Senior Indirect Market Manager

#### Clifton Springs (Main Street)

David Gooding, Vice President, Commercial Loan Officer  
Tina Bounds, Assistant Vice President, Mortgage Specialist

#### DeWitt/Syracuse

Joseph F. Serbun, Vice President, Commercial Banking Officer

#### Elmira

Christopher Mekos, Vice President, Commercial Loan Officer  
Richard R. Sisson, Vice President, Commercial Loan Officer

#### Erwin/Painted Post

Michael G. Austin, Vice President, Small Business Loan Manager  
Thomas F. Beers, Vice President, Commercial Loan Officer

#### Geneva

Stephen H. Rich, Vice President, Commercial Lending Team Leader  
James M. King, Vice President, Senior Agricultural Loan Officer  
Loren C. Herod, Vice President, Agricultural Loan Officer  
Andrew B. Rice, Assistant Vice President, Agricultural Loan Officer  
Dominick (Jim) Vedora, Assistant Vice President, Commercial Loan Officer

#### Ithaca

David Reaske, Vice President, Commercial Loan Officer

#### Lakewood

Roger E. Dickinson, Vice President, Commercial Lending Team Leader  
Linda Tampe, Assistant Vice President, Commercial Loan Officer

#### Lowville

Kevin J. Kent, Vice President, Commercial Loan Officer  
Joseph A. Monnat, Assistant Vice President, Agricultural Loan Officer  
Richard E. Roes, Assistant Vice President, Agricultural Loan Officer

#### Malone

Thomas F. MacDonald, Vice President, Sr. Agricultural Loan Officer  
Michael J. McDonald, Assistant Vice President, Commercial Loan Officer

#### North Creek

Eugene M. Arsenault, Vice President, Commercial Loan Officer

#### Olean

Mark P. Saglimben, Vice President, Commercial Loan Team Leader  
Scott P. Brechbuehl, Vice President, Commercial Loan Officer  
Eric M. Garvin, Assistant Vice President, Commercial Loan Officer

#### Plattsburgh (Margaret Street)

Craig Cashman, Vice President, Commercial Loan Officer  
Paul Connelly, Vice President, Commercial Loan Officer  
Tracy Clark, Assistant Vice President, Commercial Loan Officer

#### Potsdam

Nicholas S. Russell, Senior Vice President of Commercial Banking  
Northern Region

Ronald J. Bacon, Vice President, Commercial Loan Team Leader  
Duane M. Pelkey, Vice President, Commercial Loan Officer

#### Saranac Lake

Craig Stevens, Vice President, Commercial Loan Officer

#### Watertown

Jennifer Hutteman-Kall, Vice President, Commercial Loan Officer  
Michelle D. Pfaff, Vice President, Commercial Loan Officer  
Timothy D. Tallmadge, Vice President, Manager Special Assets  
Michael J. Brassard, Vice President, Loan Workout Officer  
Edward C. Ward, Vice President, Senior Agricultural Loan Officer

#### Wellsville



Douglas O. Frank, Vice President, Commercial Loan Officer  
James M. Knapp, Assistant Vice President, Business Development Officer

## First Liberty Bank & Trust

Robert P. Matley, Executive Vice President, President Pennsylvania Banking  
Robert A. Cirko, Senior Vice President, Regional Retail Banking Manager  
Donna Skechus, Vice President, Special Projects Manager  
Debbie Dunleavy, Assistant Vice President, Marketing Coordinator  
Carol A. Scriven, Assistant Vice President, Human Resources Manager

### Branch Services

J. Randall Palko, Vice President, Regional Branch Administrator, Olyphant

### Business Banking

#### Hazleton

Arthur A. Tarone, Senior Vice President, Commercial Loan Officer  
John Spevak, Senior Vice President, Commercial Loan Officer

#### Olyphant

Barry J. Westington, Vice President, Loan Workout Officer

#### Scranton, Keyser Avenue

Warren C. Rozelle, Senior Vice President, Commercial Lending Team Leader  
Mary Elizabeth D'Andrea, Senior Vice President, Commercial Loan Officer  
Samuel DeStefano, Vice President, Senior Indirect Market Manager  
Joseph S. Tomko, Senior Vice President, Commercial Loan Officer

#### Tunkhannock

Matthew Dougherty, Vice President, Commercial Loan Officer  
Walter Sarafinko, Assistant Vice President, Commercial Loan Officer

#### Wilkes-Barre, Franklin St.

Richard D. Krokos, Senior Vice President, Commercial Lending Team Leader  
Joseph D. Angelella, Senior Vice President, Commercial Loan Officer  
Edward E. Nork, Senior Vice President, Commercial Loan Officer  
Cynthia L. Lefko, Vice President, Cash Management Product and Sales Manager  
David M. McHale, Vice President, Commercial Loan Officer  
Douglas E. Klinger, Vice President, Commercial Loan Officer  
Carmela D. Yanora, Assistant Vice President, Commercial Loan Officer

## Financial Services and Subsidiaries

### Trust Services

Catherine B. Koebelin, CTFA, Vice President,  
Trust Administration Manager, Olean  
Vincent L. Mastrucci, Vice President, Trust Officer, Scranton PA  
Richard A. Siarniak, Vice President, Employee Benefits Trust Officer,  
Scranton PA  
Patricia E. Barie, CTFA, Trust Officer, Olean  
Charlotte S. Carlson, CTFA, Trust Officer, Lakewood  
Patricia A. Croll, Trust Officer, Scranton PA  
Robert P. Jewell, CFP®, Trust Officer, Elmira  
Paul J. Snodgrass, AIF, Trust Investment Officer, Canton

### Benefit Plans Administrative Services, LLC

6 Rhoads Drive, Utica, NY 13502  
Barry S. Kublin, President  
Paul M. Neveu, Senior Vice President, Sales & Marketing  
Maryanne Geary, Senior Vice President, Plan Administration Services  
Linda S. Pritchard, Senior Vice President, Recordkeeping Services  
John Van Buren, Regional President, Philadelphia

### Hand Benefits & Trust Company

5700 Northwest Central Dr., Suite 400, Houston, TX 77092  
W. David Hand, Chief Executive Officer  
Stephen Hand, President

### Harbridge Consulting Group, LLC

1 Lincoln Center, Syracuse, NY 13201  
Vincent F. Spina, President  
Steven P. Chase, Vice President  
Sarah E. Dam, Vice President  
Kenneth M. Prell, Vice President  
Sheila L. Yoensky, Vice President

### Nottingham Advisors, Inc.

500 Essjay Road, Suite 220, Williamsville, NY 14221  
Thomas S. Quealy, President, Chief Operating Officer  
Nicholas Verbanic, Vice President, Portfolio Manager  
Lawrence V. Whistler, Vice President, Portfolio Manager  
Kathleen E. Strohmeier, Compliance Officer, Operations Manager

### CBNA Insurance Agency

117 Park Street, Tupper Lake, NY 12986  
173 Margaret Street, Plattsburgh, NY 12901  
6 Clinton Street, Heuvelton, NY 13654  
Mark J. Moeller, President

### Community Investment Services, Inc.

53 Walnut Street, Lockport, NY 14094  
Charles E. Kopp, President  
Audrey Pound, Operations Manager  
Patricia L. Schneider, Vice President, Sales Manager

### Financial Consultants

David E. Bierwiler, Corning  
Christian Brown, Elmira  
Eric E. Brunet, Canton  
Joseph M. Butler, Jr., Watertown  
Thomas J. Ciolek, Olean  
Chad E. Colbert, Gouverneur  
Gerald T. Coyne, Scranton  
Daniel P. Drappo, CFP, Black River  
James G. Durso, Waterloo  
Timothy Forman, Tupper Lake  
Kevin C. Gildner, CFP®, Wellsville  
Justin P. Hooper, Plattsburgh  
Randall J. Hulick, Springville  
Jessica A. Keller, Wellsville  
Paul A. LaPointe, Potsdam  
Rick P. Little, Tunkhannock  
John B. McCarthy, Clifton Springs  
Stephen V. Modrovsky, Wilkes-Barre  
Albert F. Nitto, Dansville  
Kyle J. Sorensen, Malone  
Deborah W. Their, Scranton  
Helen M. Willman, Lakewood

## Branch Locations

### Community Bank Northern Market

Ausable Forks  
Valerie A. Daniels, Manager  
Black River  
Christina S. Meagher, Assistant Vice President, Manager  
Boonville (101 Main Street and Headwaters Plaza)  
Tina M. Paczkowski, Assistant Vice President, Manager  
Brushton  
James H. McElwain, Manager  
Canton  
David R. Peggs, Vice President, Manager  
Champlain  
Melissa M. Peryea, Manager  
Chateaugay  
Barbara J. LaVoie, Manager  
Clayton  
Rita J. Walldroff, Assistant Vice President, District Manager  
Fort Covington  
Kathryn E. Reynolds, Branch Supervisor  
Gouverneur  
Kenneth W. Snyder, Vice President, District Manager  
Harrisville  
Susan M. Smith, Branch Supervisor  
Hermon  
Connie J. Green, Branch Supervisor

Heuvelton  
     Jewel M. LaComb, Manager  
 Indian Lake  
     Brenda K. Lanphear, Manager  
 Lake Placid  
     Katie R. Stephenson, Manager  
 Long Lake  
     Lynn L. Bly, Manager  
 Lowville (7605 State Street and 7395 Turin Road)  
     Adam J. Smykla, Vice President, District Manager  
     Mary L. Peters, Assistant Vice President, Retail Service Officer  
 Lyons Falls  
     Nancy J. Fruin, Manager  
 Madrid  
     Marsha L. Watson, Manager  
 Malone (Elm Street)  
     Shawn T. McNerney, Vice President, District Manager  
     Lawrence P. Fleury, Assistant Vice President, Senior Indirect Loan/  
         Business Developer  
 Malone (West End)  
     Gayle Miner, Branch Supervisor  
 Malone (West Main St.)  
     Stacey Brunell, Manager  
 Massena  
     Joy Graves, Manager  
 Newcomb  
     Lynn L. Bly, Manager  
 North Creek  
     Lori A. DeMars, Manager  
 Norwood  
     Susanne Perkins, Branch Supervisor  
 Ogdensburg (825 State Street)  
     Robert L. Seymour, Vice President, District Manager  
 Ogdensburg (320 Ford Street)  
     Sandra M. Kendall, Vice President, Manager  
 Old Forge  
     Barbara B. Criss, Vice President, Manager  
 Plattsburgh (Margaret Street)  
     Kent G. Backus, Vice President, District Manager  
     Bryon Tuthill, Vice President, Manager  
 Plattsburgh (In-store – Price Chopper)  
     Arlene Favreau, Branch Supervisor  
 Plattsburgh (Route 3)  
     James E. Snook, Vice President, Manager  
 Plattsburgh (In-store – Wal-Mart)  
     Sybil Kirov, Manager  
 Port Leyden  
     Debra S. Roberts, Branch Supervisor  
 Potsdam (64-70 Market Street and May Road)  
     Joyce E. Lalonde, Vice President, District Manager  
     Helen M. Hollinger, Assistant Vice President, Retail Service Officer  
 Pulaski  
     Steven P. Gaffney, Vice President, Manager  
 Saranac Lake (Broadway)  
     Brenda Darrah, Branch Supervisor  
 Saranac Lake (Lake Flower)  
     Susan Goetz, Manager  
 St. Regis Falls  
     Cynthia M. Murphy, Manager  
 Star Lake  
     Keitha Kerr, Manager  
 Ticonderoga  
     Maria E. Beuerlein, Manager  
 Tupper Lake (Hosely)  
     John W. Salamy, Manager  
 Tupper Lake (Main Street & Park Street)  
     Gail Auclair, Manager  
 Waddington  
     Brenda L. Matthie, Branch Supervisor

Watertown (1125 Arsenal Street)  
     Elizabeth A. Brown, Assistant Vice President, Manager  
 Watertown (216 Washington Street)  
     Catherine Ward, Vice President, Manager  
 West Carthage  
     Shirley E. Bloss, Assistant Vice President, Manager  
 Whitehall  
     Holly A. Lachapelle, Manager

### **Community Bank Southern Market**

Addison  
     Robin K. Knapp, Assistant Vice President, Manager  
 Alfred  
     Beth L. Plaisted, Manager  
 Allegany  
     Stephanie L. Kolkowski, Assistant Vice President, Manager  
 Angelica  
     Diana L. Guilford, Branch Supervisor  
 Bath  
     Joel P. Brazie, Assistant Vice President, Manager  
 Belfast  
     Sandra K. Taber, Branch Supervisor  
 Bolivar  
     Susan M. Jordan, Branch Supervisor  
 Brocton  
     Phyllis A. Crockett, Manager  
 Canandaigua  
     Paul E. Lepore, Vice President, Manager  
 Cassadaga  
     Susan C. Sekuterski, Manager  
 Cato  
     Linda A. Schmidtgal, Assistant Vice President, Manager  
 Clifton Springs (26 East Main Street)  
     Debra A. Murphy, Vice President, District Manager  
     Theresa P. Dorgan, Vice President, Manager  
 Clifton Springs (One Clifton Plaza)  
     Deanna L. Nissen, Branch Supervisor  
 Clymer  
     Laurie L. Harvey, Manager  
 Corning West Market Street  
     Wendy B. Daines, Vice President, Manager  
 Corning North  
     Michael Procopio, Vice President, Manager  
 Cuba  
     Mary M. Quigley, Vice President, Manager  
 Dansville  
     Jody R. Tonkery, Vice President, District Manager  
     Susan M. Colegrove, Manager  
     Carolyn M. Scoppa, Assistant Vice President, Retail Service Officer  
 Dunkirk (3909 Vineyard Drive)  
     Daniel L. Drozdiel, Vice President, District Manager  
 Dunkirk (345 Central Avenue)  
     Jean M. Coughlin, Assistant Vice President, Manager  
 Elmira  
     Denise E. Allen, Vice President, District Manager  
 Erwin/Painted Post  
     Michelle Robinson-McGill, Branch Supervisor  
 Falconer  
     Joann W. Anderson, Assistant Vice President, Manager  
 Fillmore  
     Julie A. Hall, Manager  
 Franklinville  
     Sandra S. Wolfer, Manager  
 Geneva  
     Edward L. (Ned) Clark, Vice President, Manager  
     Ronald J. Telarico, Assistant Vice President, Retail Service Officer  
 Gowanda  
     Sandra T. Gaylord, Vice President, Manager  
 Hammondsport  
     Kelly L. Bussman, Assistant Vice President, Manager



Hannibal  
Debra A. Davis, Assistant Vice President, District Manager

Hornell  
Melissa M. Ponticello, Manager

Horseheads-Consumer Square  
Cynthia A. Welliver, Manager

Houghton College  
Julie Hall, Manager

Interlaken  
Jacqueline M. Robinson, Manager

Ithaca  
Evelyn Caron, Manager

Jamestown (1281 N. Main Street)  
Kathleen S. Bemus, Assistant Vice President, Manager

Jamestown (25 Main Street - Brooklyn Square)  
Lee R. Johnson, Retail Service Officer

Lakewood  
Lisa R. Anson, Assistant Vice President, District Manager

Livonia  
Deborah Fitch, Manager

Moravia  
Kathleen M. Longyear, Manager

Mount Morris  
Klaas W. deWaard, Manager

Naples  
Jill S. Ripley, Manager

Newark Plaza  
Brenda K. Westcott, Manager

Nichols  
Kathleen M. Bowen, Assistant Vice President, Manager

North Collins  
Ellen M. Pavlovic, Assistant Vice President, Manager

Olean (201 North Union Street)  
Jody L. Collins, Vice President, District Manager

Olean (Delaware Park)  
Theresa M. Raftis, Assistant Vice President, Retail Service Officer

Olean (Delaware Park)  
Robin K. Bowser, Branch Supervisor

Ovid  
Joyce A. Tavelli, Assistant Vice President, Manager

Owego  
Florence Rossi, Assistant Vice President, Manager

Palmyra  
Cheryl A. Ford, Manager

Penn Yan (151 Main Street)  
Thomas R. May, Vice President, Manager

Penn Yan (272 Lake Street)  
Connie C. West, Assistant Vice President, Retail Service Officer

Penn Yan (272 Lake Street)  
Teresa A. Vivier, Manager

Phelps  
Susan J. Lanse, Manager

Portville (1471 E. State Road)  
Beverly J. Geise, Manager

Portville (7 North Main Street)  
Kelly A. Crandall, Branch Supervisor

Randolph  
Diane M. Lecceardone, Branch Supervisor

Ripley  
Patricia J. Knight, Manager

Rushville  
Joilette M. Pendleton, Branch Supervisor

Salamanca  
Marilyn J. Harvey, Manager

Seneca Falls  
David W. Sloan, Vice President, District Manager

Betty A. Verzillo, Assistant Vice President, Manager

Sherman  
Denise G. Carlson, Assistant Vice President, Manager

Silver Creek  
Mark J. Catalano, Assistant Vice President, District Manager

Skaneateles  
Desiree R. Murphy, Manager

Waterloo  
Larry D. Ledgerwood, Vice President, Manager

Watkins Glen  
Laurel M. Fox, Manager

Wellsville (4196 Bolivar Road)  
Virginia L. Elliott, Assistant Vice President, Manager

Wellsville (113 Main Street)  
David E. Newton, Vice President, District Manager

Woodhull  
Lynn S. Vitale, Branch Supervisor

Yorkshire  
Joseph D. Fore, Assistant Vice President, Manager

**First Liberty Bank & Trust**

Carbondale  
Bobbi Ann Davis, Branch Supervisor

Clarks Summit (100 Old Lackawanna Trail & 931 S. State St.)  
David C. Griffin, Vice President, Manager

Daleville  
Susan Pitoniak, Manager

Dickson City  
Lisa Kennedy, Manager

Edwardsville  
Denise M. Johnson, Manager

Hazleton (Airport Road)  
Paula Palance, Vice President, Manager

Jermyn  
Lisa Browning, Assistant Vice President, Manager

Jessup  
Mary Z. Bieszczad, Vice President, Manager

Kingston (Wyoming Avenue)  
Susan Russick, Assistant Vice President, Manager

Laceyville  
Kevin W. Huyck, Assistant Vice President, Manager

Lawton  
Douglas M. Jackson, Manager

Little Meadows  
Douglas M. Jackson, Manager

Meshoppen  
Greg M. Culver, Manager

Noxen/Bowman's Creek  
Mary T. Kern, Manager

Olyphant  
Theresa A. Collins, Assistant Vice President, District Manager

Pittston  
Nolan Ayres, Assistant Vice President, Manager

Scranton - Keyser Avenue  
John Peterson, Vice President, District Manager

Scranton - Minooka - Davis Street  
David H. Lencicki, Vice President, Manager

Scranton - N. Washington Ave.  
Lee B. Walter, Vice President, Manager

Charlotte M. Menago, Assistant Vice President, Branch Assistant

Scranton - Wyoming Avenue  
Patricia M. Calabro, Vice President, Manager

Towanda  
Karen O. Glosenger, Manager

Tunkhannock  
Karen M. Fuller, Vice President, District Manager

Paula L. Coleman, Assistant Vice President, Retail Service Officer

Trucksville/Back Mountain  
Susanne M. Mullin, Vice President, Manager

Wilkes Barre (Franklin Street)  
David P. Dobbs, Vice President, District Manager

Gary J. Missal, Assistant Vice President, Manager

Wyalusing  
Sandy L. Wentovich, Manager

# Glossary

The following terms are particular to our industry and appear throughout this Annual Report. A more detailed explanation of certain terms is found in the Notes to the company's Financial statements contained on Form 10-K within this Annual Report.

## **Consumer direct lending**

Direct lending to consumers through the bank's branches, largely on an installment basis, for the purchase of automobiles and durable (long-lasting) goods for the home, and for educational and general purposes. Also includes loans secured by the equity in a borrower's home.

## **Consumer indirect lending**

Loans originated through applications taken on the premises of automobile, boat, and other dealers selling substantially priced goods, electronically submitted to the bank, and approved within a very short time period while the consumer remains on premises.

## **Core deposits**

The total of checking, interest checking, savings and money market deposits, and certificates of deposit less than \$100,000. Generally considered a bank's most stable and affordable source of funds.

## **Coverage ratio**

The ratio of loan loss allowance to nonperforming loans (loans for which payment is delinquent 90 days or more and loans for which interest is not being accrued) or nonperforming assets (additionally includes collateral acquired by a bank after a loan has defaulted). Considered an indicator of the strength of a financial institution's allowance for loan losses.

## **Diluted shares (or fully diluted)**

A calculation which includes those shares issued and outstanding or issuable upon the exercise of in-the-money stock options held by employees or Directors, offset by the number of shares which the company could repurchase on the open market with the cash received upon exercise. Shares held in treasury are excluded.

## **Efficiency ratio**

A measure of a bank's operating leverage or productivity, derived by dividing overhead expense by revenues (net interest income (FTE) plus noninterest income), excluding the effect of gains or losses on the sale of securities or the extinguishment of debt, amortization of intangibles, and acquisition-related expenses. The lower the ratio, the better the efficiency.

## **Fully tax equivalent (FTE)**

Restatement of tax-exempt interest income as if it were fully taxable. Enables tax-exempt interest income to be compared to taxable interest income on a consistent basis.

## **IPC deposits**

Deposits from individuals, partnerships and corporations (i.e., all consumer and commercial deposits). Excludes deposits from local governments/municipalities. Constitutes the major component of core deposits (see above).

## **Loan loss provision**

The charge against earnings to increase the allowance for loan losses (net of current period charge-offs) sufficient to absorb probable future charge-offs.

## **Net interest income**

Banking revenues generated from standard lending and investment activities, equaling the difference between interest income on loans and investments and interest expense on deposits and borrowings. The primary source of earnings before expenses for most banks.

## **Net interest margin**

A performance measure or ratio which is calculated by dividing net interest income by average interest-earning assets. The most basic indicator of the relative return on loan and investing activities before overhead and loan loss provision. Interest rate spread is a component of the net interest margin.

## **Noninterest income**

Revenues generated from fee-based depositor and borrowing services (including ATMs and overdrafts), the sale of financial services products, and gains or losses from the sale of securities and extinguishment of debt, if any.

## **Nonperforming assets**

Represent loans delinquent as to interest or principal for a period of 90 days or more, loans for which interest is not being accrued (no payments expected), restructured loans, and real estate acquired through foreclosure.

## **Tangible equity/assets**

Shareholders' equity net of goodwill and other intangible assets, divided by the assets of the company, net of goodwill and intangible assets.

## **Troubled Asset Relief Program (TARP)**

TARP is a program of the United States government to purchase assets from, and provide capital to financial institutions in order to strengthen the financial sector. It is the largest component of the government's measures to address the subprime mortgage crisis. TARP allows the Treasury Department to purchase or insure up to \$700 billion of "troubled" assets. "Troubled assets" are defined as "(A) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008.

## **Tier 1 capital**

Shareholders' equity, adjusted for the unrealized gain or loss on securities held for sale and for certain assets such as goodwill and other intangibles. The primary measure of a bank's capital as defined by various bank regulatory agencies.



## 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  
[www.communitybankna.com](http://www.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 20, 2009  
1:00 p.m.  
Yokum Hall  
State University of New York College at Plattsburgh  
101 Broad Street, Plattsburgh, NY 12901

### 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:  
American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038  
800-937-5449  
[www.amstock.com](http://www.amstock.com)

### 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: [www.communitybankna.com](http://www.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](mailto:josie.rurka@communitybankna.com)

### Independent Auditors

The Board of Directors appointed PricewaterhouseCoopers LLP as auditor for the company for the year ended December 31, 2008.

### Analyst Coverage

The following analysts published research about Community Bank System in 2008:

Boenning & Scattergood  
Jason O'Donnell  
Phone: 610-832-5258  
[jodonnell@boenninginc.com](mailto:jodonnell@boenninginc.com)

FTN Midwest Research  
David Darst  
Phone: 615-734-6162  
[david.darst@ftnmidwest.com](mailto:david.darst@ftnmidwest.com)

Janney Montgomery Scott  
Richard Weiss  
Phone: 215-665-6224  
[rweiss@jmsonline.com](mailto:rweiss@jmsonline.com)

Keefe, Bruyette & Woods  
Damon Del Monte  
Phone: 860-722-5908  
[ddelmonte@kbw.com](mailto:ddelmonte@kbw.com)

Raymond James & Associates  
Whitney Young  
Phone: 212-856-4885  
[whitney.young@RaymondJames.com](mailto:whitney.young@RaymondJames.com)

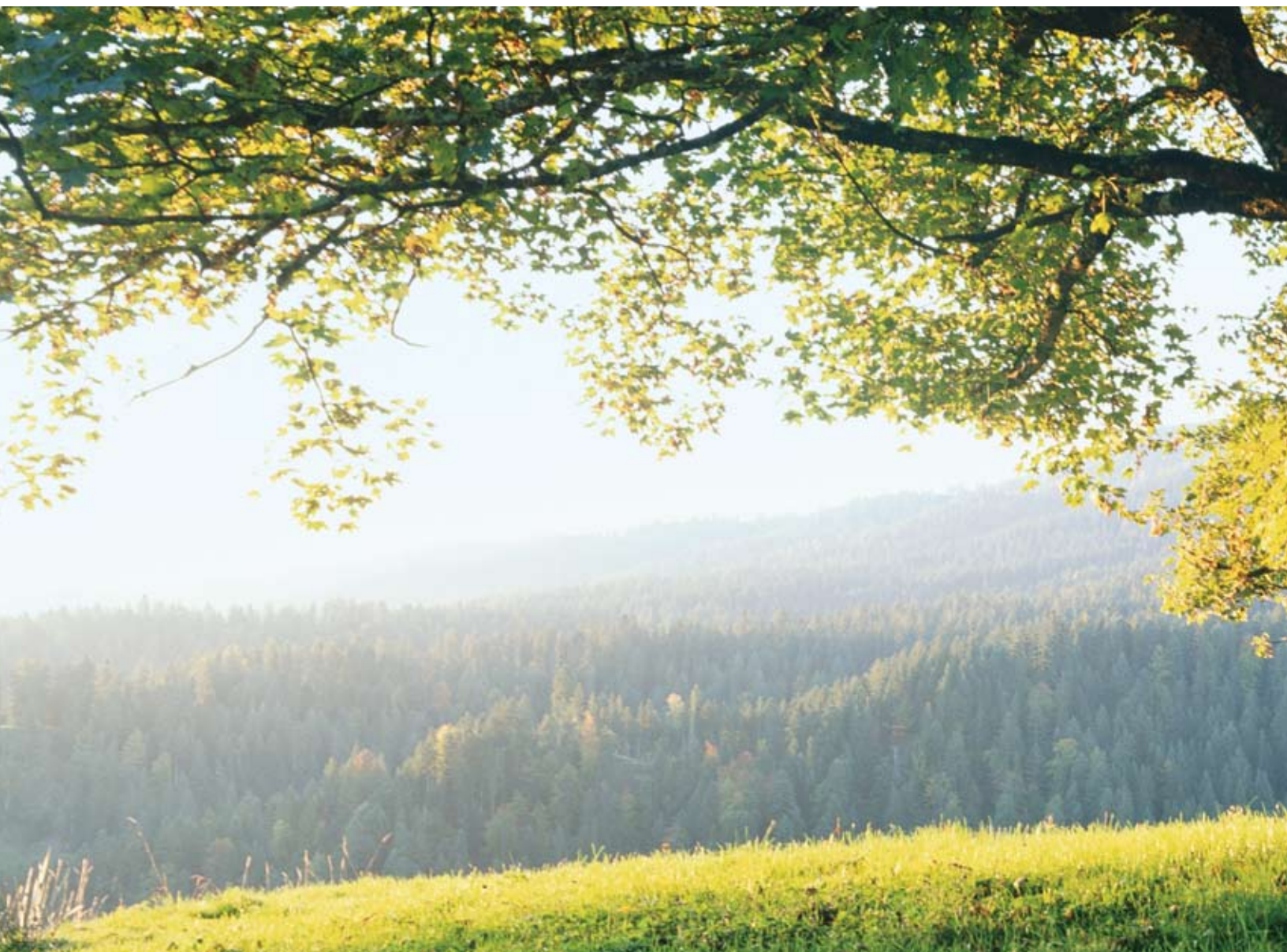
### Investor's Choice Program

CBU offers convenient, low-cost options for investors wishing to steadily buy shares. For information, contact:  
Ms. Donna J. Drengel  
Shareholder Relations Department  
Community Bank System, Inc.  
5790 Widewaters Parkway  
DeWitt, NY 13214-1883  
Phone: 315-445-7313  
[donna.drengel@communitybankna.com](mailto:donna.drengel@communitybankna.com)  
or  
American Stock Transfer & Trust Co.  
59 Maiden Lane  
New York, NY 10038  
800-278-4353  
[www.amstock.com](http://www.amstock.com)

### 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.





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