

Balanced Approach and Consistent Performance



2009 Annual Report

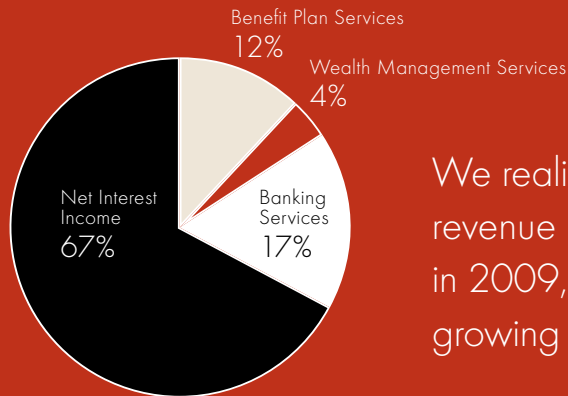


Community Bank System, Inc.

Business Balance

Total Revenue Composition

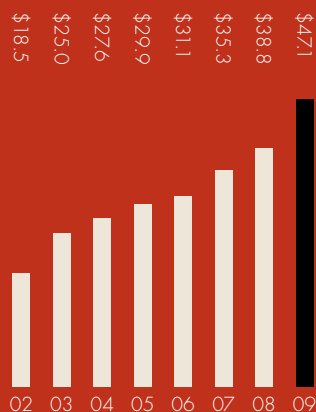
2009 Total Revenue = \$249.0 Million



We realized strong total revenue growth of more than **12%** in 2009, with non-interest income growing to \$83.5 million

Banking Services Revenue (\$ in millions)

8-year CAGR = 16.6%



Financial Services Revenue (\$ in millions)

8-year CAGR = 15.6%

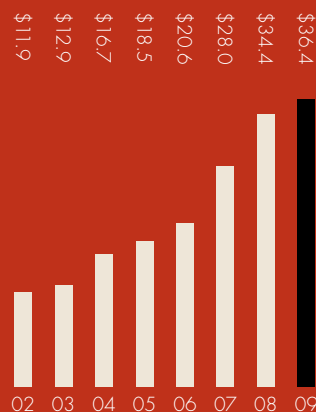
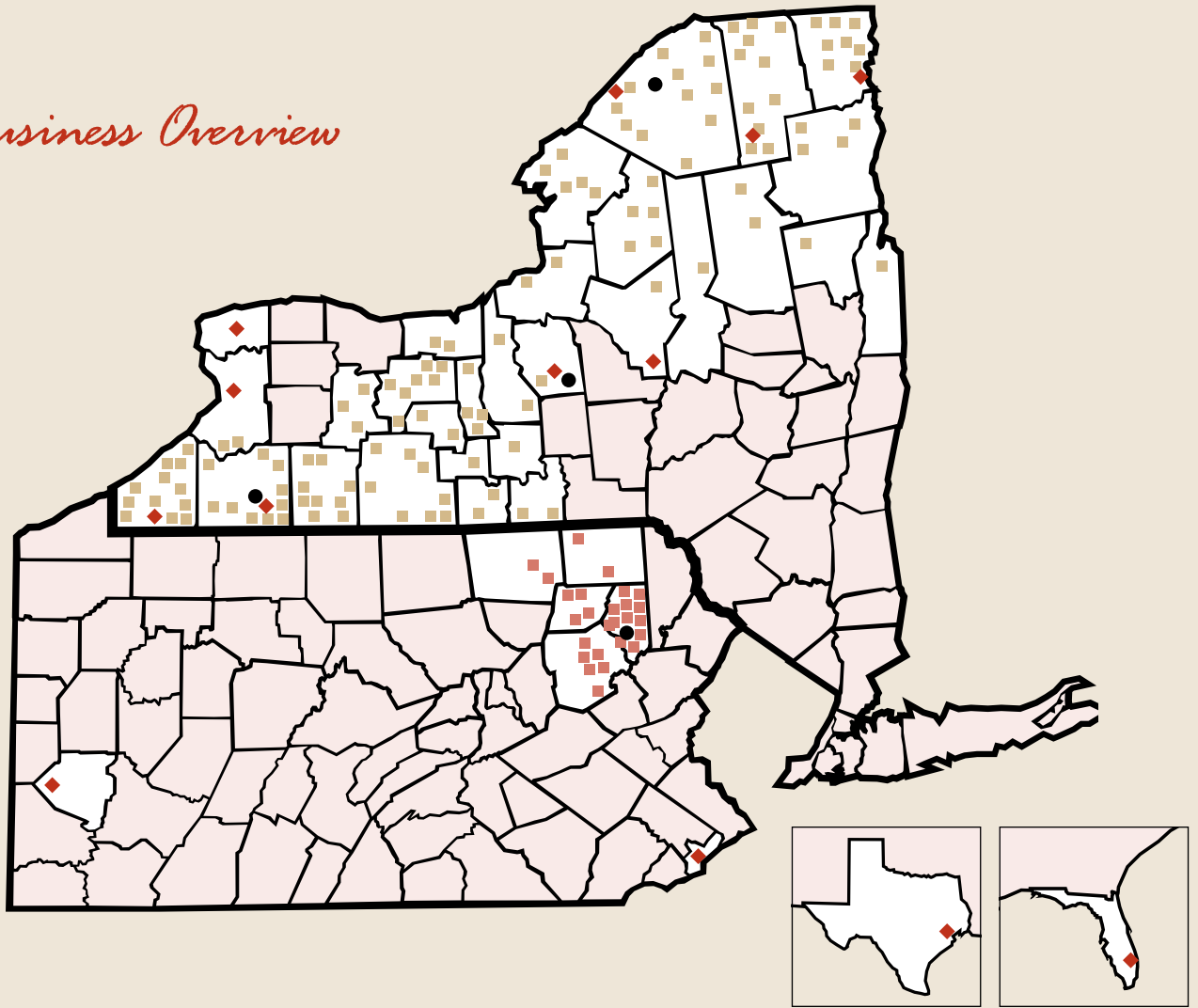


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Like many of our customers and shareholders we know the importance of balance and consistent performance.

Business Overview



- Community Bank, N.A. Branches
- First Liberty Bank & Trust Branches
- Administrative/Operations Centers
- ◆ Financial Services Centers

Region	Northern	Southern	Pennsylvania
Counties	12	16	5
Branch Locations	52	69	26
Towns (1st or 2nd Market Share)	36	40	13
Deposits (in Billions)	\$1.6	\$1.5	\$0.8

Our retail banking franchise operates primarily in the smaller cities and towns of Upstate New York and Northeastern Pennsylvania, stable markets which have not been subjected to the volatility currently impacting the housing and mortgage lending industries. Our retail banking operation ranks first or second in deposit market share in more than 70% of the communities where we do business.



It takes a disciplined approach to perform well across all economic environments and we continue to stick the landing.

Company Profile

Headquartered in DeWitt, NY, a suburb of Syracuse, **Community Bank, N.A. (CBNA)** is a wholly-owned subsidiary of Community Bank System, Inc., with \$5.4 billion in assets and over 150 customer facilities across Upstate New York and Northeastern Pennsylvania. In New York, its branch offices stretch diagonally from Northern New York to the Southern Tier and west to Lake Erie. In Pennsylvania, Community Bank, N.A. operates as First Liberty Bank and Trust and has branch offices located in Lackawanna, Luzerne, Bradford, Susquehanna, and Wyoming counties. For more information, visit: www.communitybankna.com or www.firstlibertybank.com.

Other subsidiaries within the CBU family include:

Benefit Plans Administrative Services, Inc

Benefit Plans Administrative Services, Inc. provides administrative, actuarial, and consulting services to a diverse array of clients throughout the United States and Puerto Rico. BPAS (which includes BPA, LLC, the Harbridge Consulting Group, and Hand Benefits & Trust) services over 2,000 retirement plans and 200,000 plan participants, through partnerships with over 160 financial intermediaries nationwide. Based in Utica, NY, BPAS also has primary offices in Syracuse, NY; Pittsburgh and Philadelphia, PA; and Houston, TX.

CBNA Insurance

The CBNA Insurance Agency, Inc. is a full service auto, home, business, and life insurance agency, with offices in Tupper Lake, Plattsburgh, and Heuvelton, NY. The agency was founded in 1974 to serve the North Country of New York State.

Nottingham Advisors

Nottingham Advisors is an SEC-registered investment advisory firm with over 25 years of experience managing assets for private investors and institutions. Headquartered in Buffalo, NY, with a satellite office in North Palm Beach, FL, Nottingham Advisors currently manages and advises on over \$400 million for individuals, trusts, corporations, foundations, endowments and pension funds.

Community Investment Services, Inc. (CISI)

Community Investment Services, Inc. is a broker-dealer delivering financial products, including mutual funds, annuities, individual stocks and bonds, long-term health care, and other selected insurance products, custom tailored for each client, from various locations within the Community Bank and First Liberty branch system. In Pennsylvania, CISI does business under the name of First Liberty Investment Services.

Dear Shareholders, Customers and Employees:

Community Bank System, Inc. has never been stronger. Our earnings, capital levels, liquidity, credit quality, and the strength and safety of our dividend are amongst the best in the banking industry. Discipline will always be a virtue.

However, as we write this the banking industry as a whole continues to be very much stressed, with failures, credit losses and capital deficiencies dominating industry headlines. These difficulties reflect the declining economic environment that began in 2007 and continued into the first half of 2009, with marginal moderation in the last half of the year.

The positive takeaway from this environment is that our disciplined operating and credit model has distinguished itself across all economic environments and further positions your company for growth and the continued creation of shareholder value. While many banks have been plagued by credit problems that have necessitated TARP participation, additional capital raises, loan reductions, the suspension of dividends and other actions that have materially diluted the interests of shareholders, we have remained focused on achieving consistent results. To quote Warren Buffet, you don't know who's swimming naked until the tide goes out. Well, the tide has been out for some time now and Community Bank has performed with distinction.

Appropriately, we began last year's overview of our operating results with a discussion of our credit quality, which continues to be of foremost significance in the current operating environment. Our loan portfolio continues to be well-balanced across business lines, consisting of one-third consumer mortgages, one-third business lending, and one-third retail consumer lending. Asset quality metrics remain very strong, with a non-performing loan ratio of 61 basis points, compared to 494 basis points for the banking industry as a whole. Our net loan charge-offs in 2009 were 24 basis points, compared to 271 basis points for the industry as a whole. Our continued focus on credit quality, as a fundamental element of our operating philosophy, serves the interests of our shareholders well.

Core deposits were up **22%** in 2009
reflecting strong acceptance of our branch
acquisition in our Northern New York market

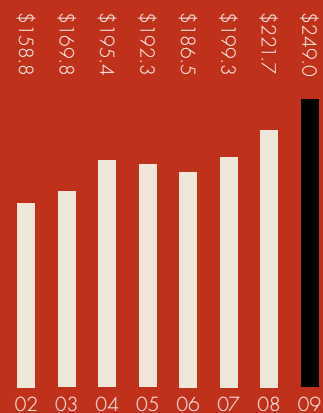
Our 2009 earnings reflected this credit strength, although earnings per share were down compared to 2008 due to increased FDIC insurance costs and non-operating charges. FDIC insurance costs increased from approximately \$2 million in 2008 to \$9 million in 2009. In addition, we recognized a total of \$4.5 million of charges related to the goodwill impairment of a 2000 wealth management acquisition and the early termination of a contract for our core bank processing system. Excluding these impacts, core earnings results in 2009 were up \$0.01 per share over the prior year. Average earning assets were up 11% over 2008, and non-interest income rose 14%. These results were delivered despite a higher cost structure resulting from the 2008 acquisition of 18 branches in our Northern New York region, and higher pension, health-care, technology, and credit costs.

A major initiative during 2009 was our goal of significantly reducing operating costs, which resulted in the identification of over \$6 million of cost savings opportunities. We performed a thorough analysis of our entire cost structure to identify these opportunities, which come from technology, operations, marketing, vendor contracts, occupancy, benefits programs, our financial services businesses as well as from other areas. A majority of these actions have already been put into place and we expect will result in improvements to our cost structure in 2010 and beyond. One of our fastest rising costs over the past several years has been technology systems

Performance Summary

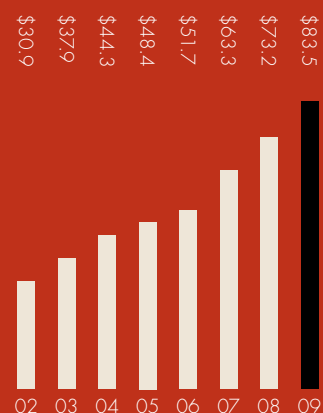
Total Revenue (\$ in millions)

8-year CAGR = 9.2%



Noninterest Income¹ (\$ in millions)

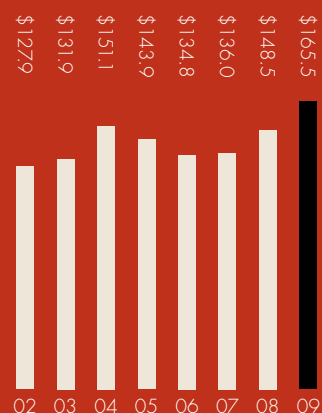
8-year CAGR = 15.7%



¹excluding securities gains/losses and debt extinguishment charges

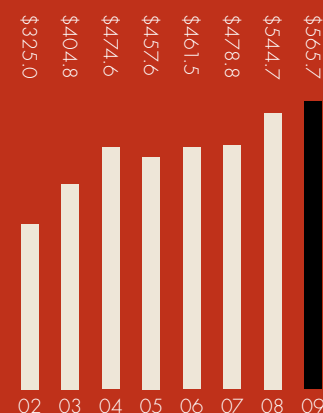
Net Interest Income (\$ in millions)

8-year CAGR = 7.0%



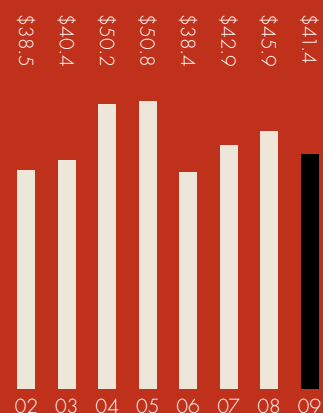
Shareholders Equity (\$ in millions)

8-year CAGR = 9.8%



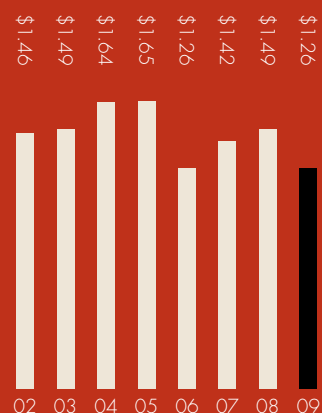
Net Income (\$ in millions)

8-year CAGR = 10.2%



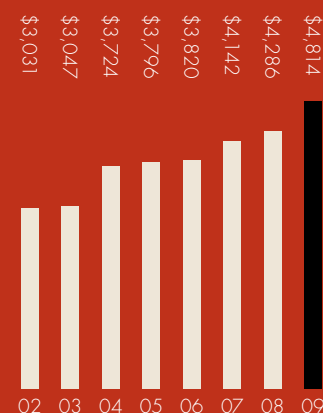
Earnings Per Share (diluted)

8-year CAGR = 5.7%



Interest-Earning Assets (\$ in millions)

8-year CAGR = 6.7%



expense. During 2009, we decided to change our core banking platform in 2010 to achieve both qualitative and quantitative improvements. The new system will provide significant enhancements to the functionality, integration and costs of our technology systems. Within five years of implementation, we estimate these cost-savings to approximate \$4 million to \$5 million annually.

Success in community banking is arguably less about products and pricing than it is about trust, and no more so than in the current environment. There is perhaps no better measure of trust in a bank than its depository relationships. Our core deposits in 2009 grew at an 18% rate, following 7% growth in 2008. That represents \$480 million of new and growing relationships over the past two years. Some of this growth is certainly due to a higher consumer savings rate, the volatility of the equity markets, and the low interest rate environment. In addition, the Marcellus Shale gas formation in the northern tier of Pennsylvania resulted in rapid deposit growth in that market and represents an unprecedented growth opportunity into the future. We are pleased with this core deposit performance, the customer confidence it reflects, and its long-term earnings implications for our shareholders.

The results for our lending businesses were also relatively strong this year, despite the recessionary economy and the overall weakness of demand from both households and businesses. Consumer mortgage originations were a record for the Company in 2009, aided by historically low interest rates in the first quarter of the year. Most of this long-term, low-rate production was sold into the secondary market at a significant gain. Business lending was surprisingly strong, with growth of 2.3% over 2008. This is a very good performance in a year where the banking industry as a whole reported a 15% decline in business lending through just the first nine months of the year. Consumer installment lending, principally auto lending, was down about 2% for the year. However, this is a solid performance in a year when new auto sales were down 22% over 2008. Our lending businesses have shown continual performance improvement over the past several years and are well positioned to provide further growth and opportunity into the future.

An important objective for the Company in 2009 was the successful integration of the 18 branches acquired in late 2008 in Northern New York, which added \$565 million of deposits and \$110 million of loans. 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. We're pleased to report the integration of these markets has exceeded our expectations, with core deposits growing \$48 million, consumer mortgage originations growing \$24 million, and business lending growing \$11 million in 2009. The strength of our bankers in these markets will continue to be a source of much opportunity.

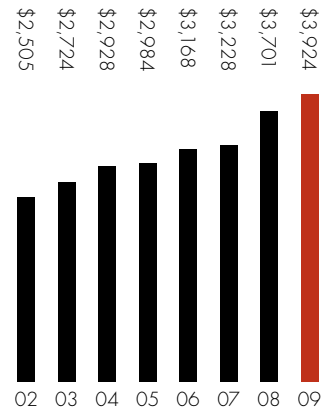
Most high performers start small, practice their craft and stay focused on what they do best—at Community Bank we know a little something about this approach.



When your approach to business is balanced and your performance is consistent the view always looks pretty good.

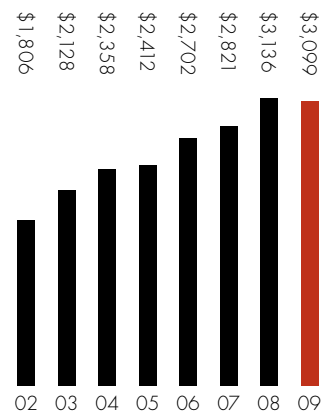
Deposit Growth (\$ in millions)

8-year CAGR = 5.8%



Lending Growth (\$ in millions)

8-year CAGR = 7.0%



Total Shareholder Return

Through December 31, 2009, Including Reinvestment of Dividends

	2 Year	7 Years	10 Years	15 Years
CBU	3.1%	6.9%	9.3%	11.5%
S&P 600 Community Bank	(25.5%)	(5.8%)	1.1%	8.3%
NASDAQ Bank	(18.9%)	(1.7%)	2.3%	8.5%
S&P 500	(10.7%)	5.5%	(1.0%)	8.0%
Dow Jones Ind. Ave.	(8.6%)	5.8%	1.3%	9.2%

Source: Bloomberg



Paul M. Cantwell (left)
Chairman of the Board

Mark E. Tryniski (right)
President and Chief Executive Officer

Our non-banking businesses, including benefits administration and actuarial consulting, and our wealth management group, had a mixed year. Despite a very volatile year for the investment markets, revenues grew by 6% in 2009, but earnings contribution was down \$3.1 million, including a goodwill impairment charge related to a wealth management business acquired in 2000. The improvement in investment markets throughout the last three quarters of the year resulted in a very strong fourth quarter performance that we hope continues into 2010. These non-banking businesses represent nearly 10% of the earnings strength of the Company and will continue to be an important element of our long-term strategic objectives.

The very challenging business environment for banking in 2009 also made for a highly volatile market for bank stocks. Although our operating performance was significantly better than the average for our industry, our valuation reflected the concern many investors had for the health of banks in general. Although a negative return is not consistent with the steadiness of our performance in 2009 and throughout the credit and economic crisis of the past two years, the strength of our returns over this difficult period are solid in comparison to our peers and industry averages. Shareholder returns over the past two years for CBU stand at +3 %, compared to -19% for the NASDAQ Bank Index and -26 % for the S&P Commercial Banks Index. Our disciplined operating philosophy has certainly made a difference for our shareholders.

Our bottom line performance in 2009 improved
upon an already solid 2008, excluding the more than **400%**
increase in FDIC deposit insurance assessments

As a point of summation on 2009 as well as our future opportunity, we refer to two independent, outside perspectives on the performance of your company. For the third year in a row Community Bank System ranked among the top 10 banks in the nation in customer satisfaction as measured by the J.D. Power Retail Banking Satisfaction StudySM. We remain very proud of all our employees for this distinction, and are most thankful to our customers for their continued trust and loyalty. In addition, at year end *Forbes Magazine* published an analysis of the 100 Best and Worst Large Banks, which concluded that Community Bank is the 7th best performing bank in the nation based on a variety of measures of financial strength including earnings, capital levels, and asset quality. Our opinion is that this recognition of the strength of the Company's customer satisfaction levels, and its financial performance, are directly correlated. Your Company remains exceptionally well positioned for the future, and the Board of Directors, management and each of our employees remain committed to building on this operating and financial strength to deliver growing earnings and shareholder returns.

A handwritten signature in black ink that reads "Paul M. Cantwell, Jr." with a stylized flourish at the end.

Paul M. Cantwell, Jr.
Chairman of the Board

A handwritten signature in black ink that reads "Mark E. Tryniski" in a cursive style.

Mark E. Tryniski
President and Chief Executive Officer

Diversification

Building a diverse geographic footprint across Upstate New York and Northeastern Pennsylvania, along with assembling a broad range of financial product and service offerings, are the cornerstones to Community Bank's balanced business model. Our strategic approach has provided competitive strength and significant market share, along with providing consistent financial performance and solid shareholder returns.

Our focus has been, and remains, primarily on the non-urban markets within these regions which, while growing at a slower pace, have experienced far less exposure to the boom and bust cycles which enveloped higher growth regions of the country in recent years. Our commitment to these smaller towns and cities has enabled us to build a dominant market position across our service area with a first or second market share in more than 70% of the communities we serve.

The bank's New York service area encompasses a majority of the Upstate region reaching from the Canadian and Vermont borders to the northwest corner of Pennsylvania. Our Northern Region includes 52 retail service centers across 12 counties with a majority of the branches concentrated in Jefferson, St. Lawrence, Franklin, and Clinton counties, creating a strong market presence from Lake Ontario to Plattsburgh. Northern Region deposits of more than \$1.6 billion are approximately 40% of our total, and we have the leading combined market share for the four counties described above with nearly 25% of available deposits.

Non-interest income grew by **13.7%** during 2009

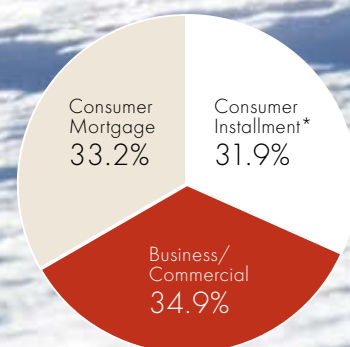
We further strengthened an already strong market position in the region with the acquisition of 18 branch-banking centers in the Fall of 2008. Our solid loan and deposit growth in the region during 2009 demonstrates that our new customers have embraced our expanded presence.

Our Southern New York region includes 16 geographically and economically diverse counties, extending from the southwest corner of the state along the northern border of Pennsylvania through the Finger Lakes region to Syracuse. Our strong market presence includes 69 retail banking locations which hold \$1.5 billion in deposits. We are particularly strong in the Southern Tier counties of Chautauqua, Cattaraugus, Allegany, and Steuben, which have a combined deposit market share of approximately 25% of total deposits. Our very strong market position in this region – with deposit share that is approximately twice our closest competitor – reflects our history in the area which dates back to the 1869 establishment of Exchange National Bank in Olean, a predecessor to Community Bank System.

To further diversify and expand our retail service area, we established a presence in Northeastern Pennsylvania by acquiring an existing institution in 2001. Additional acquisitions in 2003 and 2004 have combined to form a solid

Our lending composition remains balanced with over 30% of our total loan value in each of three portfolios

Loan Portfolio Composition
2009 Total Loans = \$3.1 Billion



*including home equity

The Adirondacks provides a surprising balance of natural beauty and economic vitality that provided a foundation for Community Bank's growth in 2009.



competitive franchise of 26 retail bank locations with total deposits in excess of \$800 million. Our First Liberty Bank and Trust subsidiary has retail branch locations in Bradford, Susquehanna, Wyoming, Lackawanna, and Luzerne counties, which have proven to be a good fit with our retail banking strategy because of demographics which are similar to our Upstate New York market area.

We remain interested in additional acquisitions which would strengthen or expand our market coverage in all three regions. Although Upstate New York and Northeastern Pennsylvania have traditionally been slower growth markets, we believe that relatively recent developments in the methods used for extracting natural gas from shale formations could have a positive impact on the economies of many towns throughout Northeast Pennsylvania and our Southern New York region. The Marcellus Shale, which is quickly becoming a significant source of our domestic natural gas supply, underlies much of Pennsylvania and south-central New York including significant portions of our market area. It is estimated to contain about 50 trillion cubic feet of natural gas and have a wellhead value of one trillion dollars. Hundreds of millions of dollars in lease payments and royalties are expected to be paid to land owners in these areas, with the impact on many local economies expected to be profound.

The Marcellus Shale is believed to contain **50** trillion cubic feet of natural gas much of which underlies our retail service area

Beyond establishing a strong retail banking franchise, Community Bank has acquired and developed a diversified and complimentary suite of financial services products, creating additional non-interest based revenue opportunities. This was accomplished through six different acquisitions between 1996 and 2008, combined with the subsequent generation of meaningful organic growth. Our wealth management and benefit plans administration and consulting products increase our ability to drive higher non-interest income and complement our retail banking products and services. Another distinct advantage is that services are able to generate revenue outside of our contiguous retail banking service footprint.

The income provided by our financial services products offer a stable source of revenue that remains largely unaffected by the variability of interest rate movements. The Bank's financial services revenues now represent 44% of our total noninterest income which in turn is now more than 33% of our total revenues.

Execution

Over the last 24 months a substantial and unprecedented decline in the worldwide economy has tested the capabilities of management teams in every industry. During 2009, high unemployment and declining real estate values in many markets created performance challenges for the banking industry, illustrated by the losses experienced from more than a quarter of the insured institutions during the third quarter. The 140 FDIC bank closings in 2009 was the highest total in 17 years and a harsh reminder of the challenges presented by the ongoing business environment.

Despite these challenges, Community Bank once again demonstrated its capacity for consistent performance, realizing meaningful growth across our deposit and lending portfolios during 2009. Our commercial lending portfolio grew by more than \$20 million, and residential mortgage originations were at record levels for the year. At year end, the composition of our loan portfolio remained very well balanced, with business and commercial loans, residential mortgages, and consumer installment lending all representing around a third of the total loans outstanding. We continue to believe that maintaining this level of balance among our major lending categories provides long-term performance benefits and reflects our commitment to providing a full scope of products and services in our markets.

Community Bank has ranked among the top 10 nationally in the JD Power Retail Banking StudySM for three years running.

Company	Ratings Factors					
	Overall Satisfaction	Convenience	Account Initiation/Prod Offerings	Fees	Account Statements	Transactions
Sort ▲	▼	▼	▼	▼	▼	▼
Citibank	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
Citizens Bank	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
Community Bank	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
First Commonwealth Bank	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
First NB of Pennsylvania	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●

Our loan portfolio has been, and remains, free of exposure to subprime and other high-risk mortgage products. While many financial institutions have struggled with deteriorating asset quality over the past two years, Community Bank's various asset quality matrices have remained very strong.

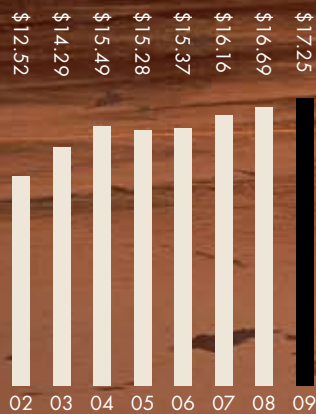
At year-end, our loan loss reserves of \$41.9 million were 2.22 times greater than our non-performing loans, a ratio more than three and a half times higher than the average for all commercial banks. The 5% commercial bank average for nonperforming loans (to total loans) at September 30, 2009, was more than eight times higher than our year end ratio of 0.61%. Our stable, and significantly better-than-industry, asset quality metrics illustrate the continued effectiveness of our disciplined risk management and underwriting standards.

We generated deposit growth across all three banking regions of \$223.7 million, an increase of 6%; however, we were particularly strong in Northern New York, reflecting the positive response of area residents to our purchase of 18 retail banking locations in November 2008. Our focus remains on expanding core "non-time" deposit relationships,

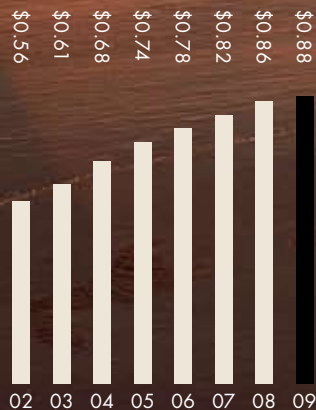
Community Bank has
raised its cash dividend
every year for the past

16 years

Book Value Per Share (\$ in millions)
8-year CAGR = 6.6%



Dividends Declared
8-year CAGR = 6.3%



as evidenced by our 22% increase in core deposits in 2009, which grew to 70% of total deposits at year end.

Our success at loan and deposit generation is reflective of the strong market position we have built in our markets across Upstate New York and in Northeastern Pennsylvania, as well as our strategy of pushing decision-making down to the branch level to provide responsive and locally relevant banking services for our customers.

Our disciplined and effective approach to growing revenue and profitability also includes the investments made in a diversified group of financial services businesses. Benefit Plan Administrative Services, Inc. (BPAS) was acquired in 1996 and has generated strong and steady organic growth, while also completing a series of strategic “bolt-on” acquisitions expanding its product and service offerings. With locations in Syracuse and Utica, New York; Pittsburgh and Philadelphia, Pennsylvania; and Houston, Texas, BPAS is a national provider of administrative, actuarial, and consulting services to over 2,000 retirement plans and 200,000 plan participants. BPAS revenue increased to \$27.8 million in 2009, as a result of new client generation and enhanced product offerings.

Along with driving revenue growth, we remain focused on controlling our expense line as another path to maintaining solid consistent performance regardless of the economic climate. During 2009, we began an initiative to reduce operating expenses, and identified between \$5 million and \$6 million in cost reduction opportunities for 2010. During the second half of 2009, we took steps to expand and improve our customer service capabilities, despite the fact that our service is already highly ranked in industry surveys, by investing in a new integrated core processing system, which we expect to become operational in the second half of 2010.

Our belief in the quality of our customer service was reinforced once again in 2009 as Community Bank was recognized as a top performer in the J.D. Power and Associates’ annual Retail Banking Satisfaction Study. For the third consecutive year, we were ranked among the nation’s top ten financial institutions for customer service, placing seventh overall and second in the Mid-Atlantic region. These results remind us that the quality of a bank’s performance is not solely tied to the strength of its balance sheet.

Selected Financial Highlights

	2009	2008
Income Statement (in millions)		
Net interest income	\$ 165.5	\$ 148.5
Noninterest income	83.5	73.2
Financial services revenue	36.4	34.4
Operating expenses	\$ 186.2	\$ 158.6
FDIC assessments	8.6	1.7
Provision for loan loss	9.8	6.7
Net income	\$ 41.4	\$ 45.9
Per Share Data (diluted)		
Earnings per share	\$ 1.26	\$ 1.49
Cash dividends declared	0.88	0.86
Book value	17.25	16.69
Tangible book value	\$ 8.09	\$ 7.06
Balance Sheet Data (end of period, in millions)		
Assets	\$ 5,402	\$ 5,175
Loans	3,099	3,136
Deposits	3,924	3,701
Shareholders’ Equity	\$ 566	\$ 545



Strength

The critical importance of a sound operating strategy, a disciplined approach to management, and a solid capital foundation has never been more apparent than during the past 24 months. Community Bank has leveraged these strengths to provide solid consistent performance during a period when scores of financial institutions fell under regulatory control and many larger banks were forced to seek capital infusions from the federal government.

Our operating strategy has remained relatively unchanged over the past ten years as we continued to focus on strengthening and expanding a market-leading branch system where we enjoy high deposit share in the vast majority of our markets. Our strong market position has enabled a disciplined approach to deposit generation and loan origination which is reflected in our net interest margin and asset quality ratios.

We searched for, and continue to seek, potential "high-value" acquisition opportunities which will expand or strengthen our regional footprint across Upstate New York, Northeastern Pennsylvania and certain other contiguous markets. We have completed 11 of these transactions since 2001, which more than doubled the number of communities we serve and vastly expanded our account relationships. We also continue to look for opportunities to expand our noninterest revenues through acquisitions which complement our existing financial or banking services.

Over the last eight years, Community Bank System has produced a record of consistent and respectable growth, operating in markets which are generally recognized as slow growth areas. During that period, net interest income has grown by 7.0% annually, noninterest income has more than doubled to \$83.5 million, and net income reached \$41.4 million in 2009, for an 8-year compound annual growth rate of 10.1%. This stable record of performance has strengthened our balance sheet, added capital for growth opportunities, and provided access to the capital markets when it was advantageous for

the Company to do so. With our continued strong capital base, we could find no compelling reason to seek access to the \$700 billion in bailout funds offered by the U.S. Treasury Department's Troubled Asset Relief Program, more commonly referred to as TARP. Since we



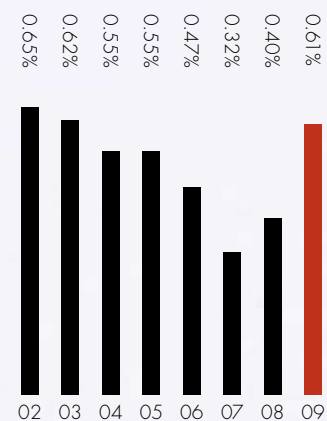
Community Bank ranked **7th** Best in an analysis of America's best and worst large banks in an article published in *Forbes Magazine*

OVERALL RANK	COMPANY	TOTAL ASSETS (\$BIL)	NPLS/ LOANS %	RESERVES/ NPLS %	TIER 1 RATIO %
1	Bank of Hawaii	12	1.2	209	13.4
2	UMB Financial	10	0.7	210	13.5
3	Commerce Bancshares	18	1.6	114	12.8
4	Prosperity Bancshares	9	0.3	537	11.9
5	SVB Financial	13	1.6	120	14.6
6	CVB Financial	7	1.6	150	15.3
7	Community Bank System	5	0.5	249	12.1
8	Central Banccompany	9	1.7	110	13.1

Community Bank's
nonperforming loans
to total loans at
year end equaled

0.61%

Nonperforming Loans
to Total Loans



Exceptional Asset Quality (December 31, 2009)

	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	222%	59%	66%	52%	60%
Nonperforming loans/loans outstanding	0.61%	5.53%	2.51%	3.62%	5.83%
Nonperforming assets/total assets ²	0.38%	3.36%	2.23%	3.36%	3.38%
Net charge-offs/average loans ¹	0.24%	2.57%	0.89%	1.27%	2.76%

¹ FDIC Statistics - Net Charge-Offs to Loans

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

elected not to participate in TARP, we were free from any charges associated with the repayment of such funds, including the write-off of capitalized issuance costs and the negotiation and termination of highly dilutive warrants.

The Company's loan loss allowance to nonperforming loans equaled **222%** at year end

In the wake of the severe global economic downturn and credit crisis, the banking industry has come under intense scrutiny from regulators, as well as from the media. In December 2009, *Forbes Magazine* decided to drill a little deeper into the health of the 100 largest banks and thrifts in the U.S. by analyzing a variety of performance, asset quality, and capital strength ratios. *Forbes* enlisted the help of SNL Financial, a company that aggregates, analyzes, and distributes information on the banking industry. SNL ranked the 100 banks, including Community Bank System, on each metric and added up the individual rankings. The eight financial measures included in the analysis were return on average equity, net interest margin, non-performing loans (NPLs) as a percentage of loans, non-performing assets as percentage of assets, reserves as a percentage of NPLs, two capital ratios (Tier 1 and risk-based), and leverage ratio. Community Bank had the seventh highest total ranking of the 100 banks analyzed, and the highest ranking of any bank operating in New York and Pennsylvania, or for that matter any bank operating east of the Mississippi. We were humbled, but not surprised, by this favorable comparison to our peers and we believe that this further validates our operating strategy and our ability to execute this strategy regardless of the business climate.

The strength of our balance sheet has been, and remains, a significant factor as we compete with other financial institutions for high quality customer relationships across our service area. However, just as important as having the financial strength is having the never-wavering commitment to support our customers and communities, through good times and during periods of economic turmoil. Our 1,600 employees live and work in the communities we serve and have consistently supported local civic and community organizations by donating their time and energy, as well as their money. We have a significant stake in helping these communities grow and prosper, and we continue to "walk-the-walk" by lending to individuals and businesses during this period of economic uncertainty and tighter credit. It is good for the communities we serve and good business for Community Bank System.

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

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, April 28, 2010
1:00 p.m.
Shadowbrook Inn & Resort
615 SR 6E
Tunkhannock, PA 18657

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

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

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

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.

Community Bank, N.A. Advisory Boards

First Liberty Advisory Board

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

Adirondack/Plattsburgh Advisory Board

William Dempsey
Alexander Edwards
James Langley
Kim Murray

Independent Auditors

The Board of Directors appointed PricewaterhouseCoopers LLP as auditor for the company for the year ended December 31, 2009.

Analyst Coverage

The following analysts published research about Community Bank System in 2009:

Boenning & Scattergood

Jason O'Donnell
Phone: 610-832-5258
jodonnell@boenninginc.com

Janney Montgomery Scott

Richard Weiss
Phone: 215-665-6224
rweiss@jmsonline.com

Keefe, Bruyette & Woods

Damon Del Monte
Phone: 860-722-5908
ddelmonte@kbw.com

Macquerie Securities Group

Adam Klauber
Phone: 312-425-4087
adam.klauber@macquerie.com

Raymond James & Associates

Whitney Young
Phone: 212-856-4885
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
or

American Stock Transfer & Trust Co.

59 Maiden Lane
New York, NY 10038
800-278-4353
www.amstock.com

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, Director of Consumer Banking
Scott J. Boser, Vice President, Indirect/Consumer Loan Manager
Mark A. Guenther, Vice President, Special Assets 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
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, Manager of Financial Analysis
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
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 J. (Jerry) Burke, Vice President, Director of Technology Services
Robin E. Dumas, Vice President, Electronic Banking Manager
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, Loan Operations Unit Manager
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 Reviewer

Community Bank

Branch Services

Judith A. Meyer, Vice President, Branch Coordinator, Olean

Business Banking

Canton

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

Clifton Springs

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

DeWitt/Syracuse

Joseph F. Serbun, Vice President, Commercial Banking Officer
David Reaske, Vice President, Commercial Loan 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

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

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

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

Michael J. Brassard, Vice President,
Loan Workout 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

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

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

Patricia E. Barie, CTFA, Trust Officer,
Olean

Charlotte S. Carlson, CTFA, Trust Officer,
Lakewood

Patricia A. Crolly, Trust Officer, Scranton PA

Brien Gardner, Trust Officer, Geneva

Robert P. Jewell, CFP, Trust Officer,
Horseheads

Thomas LaPage, Trust Officer, Canton

Paul J. Snodgrass, AIF,
Trust Investment Officer

Benefit Plans Administrative Services, LLC

6 Rhoads Drive, Utica, NY 13502

Barry S. Kublin, President

Maryanne Geary, Senior Vice President,
Plan Administration Services

Paul M. Neveu, Senior Vice President,
Sales and Marketing

Linda S. Pritchard, Senior Vice President,
Recordkeeping Services

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

Paul A. Restante, Executive Vice President

Financial Consultants

George Awad, DeWitt

David E. Bierwiler, Corning

Christian Brown, Elmira

Eric E. Brunet, Canton

Joseph M. Butler, Jr., Watertown

Thomas J. Ciolek, Olean

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

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

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

Kevin J. Wade, Vice President

Sheila L. Yoensky, Vice President

Nottingham Advisors, Inc.

500 Essay Road, Suite 220,
Williamsville, NY 14221

Thomas S. Quealy, Chief Executive Officer

Lawrence V. Whistler, President,
Chief Investment Officer

Branch Locations

Community Bank Northern Market

Addison
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, Branch Supervisor

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

Heron
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
Debra Roberts, Manager

Madrid
Marsha L. Watson, Manager

Malone (Elm Street)
Byron Tuthill, Vice President, Branch 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
Mary McKenna, Senior CSR

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
Mary Gibbs, 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 Houghton, Manager

Potsdam (64-70 Market Street and May Road)
Victoria G. Strader, Branch 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. Salmay, Manager

Tupper Lake (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
Tiesha Coombs, Branch Supervisor

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
 Debra A. Murphy, Vice President,
 District Manager
 Edward L. (Ned) Clark, Vice President,
 Manager
 Ronald J. Telarico, Assistant Vice
 President, Retail Service Officer
 Gowanda
 Brooke Baker, 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
 Denise Ector, Manager
 Ithaca
 Evelyne Caron, Manager
 Jamestown (1281 N. Main Street)
 Kathleen S. Bemus, Assistant Vice
 President, Manager
 Jamestown (25 Main Street -
 Brooklyn Square)
 Glori Taylor, Branch Manager
 Lakewood
 Lisa R. Allenson, Assistant Vice President,
 District Manager
 Livonia
 Deborah Fitch, Manager
 Moravia
 Kathleen M. Longyear, Manager
 Mount Morris
 Klaas W. deWaard, Manager
 Naples
 Beth A. Robbins, 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
 Theresa M. Raftis, Assistant Vice
 President, Retail Service Officer
 Olean (Delaware Park)
 Robin K. Bowser, Branch Supervisor
 Ovid
 Jackie Robinson, Manager
 Owego
 Florence Rossi, Assistant Vice President,
 Manager
 Palmyra
 Cheryl A. Ford, Manager
 Penn Yan (151 Main Street)
 Thomas R. May, Vice President,
 Manager
 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)
 Brenda Blackwell, 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
 Springville
 Mary Ann Lutz, Manager
 Waterloo
 Larry D. Ledgerwood, Vice President,
 Manager
 Watkins Glen
 Laurel M. Fox, Manager
 Wellsville (4196 Bolivar Road)
 Lori Dzielski, Manager
 Wellsville (113 Main Street)
 David E. Newton, Vice President,
 District Manager
 Virginia L. Elliott, Assistant Vice President,
 Manager
 Woodhull
 Lynn S. Vitale, Branch Supervisor
 Yorkshire
 Joseph D. Fore, Assistant Vice President,
 Manager
First Liberty Bank & Trust
 Carbondale
 Bobbi Ann Davis, Manager
 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
 Sandra Wheeler, Retail Services Officer
 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 Fuller, Vice President, District
 Manager
 Jennifer Chesner, Manager
 Paula L. Coleman, Assistant Vice
 President, Retail Service Officer
 Trucksville/Back Mountain
 Susanne M. Mullin, Assistant Vice
 President, Manager
 Wilkes Barre (Franklin Street)
 David P. Dobbs, Vice President,
 District Manager
 Gary J. Missal, Manager
 Wyalusing
 Open Position, 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. 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.

FDIC Special Assessment

Action taken by the FDIC, as part of its efforts to rebuild the Deposit Insurance Fund (DIF), whereas it collected an amount equal to five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital and capped at 10 basis points of an institution's domestic deposits, as of June 30, 2009. The special assessment was collected September 30, 2009.

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 interchange and overdraft fees), 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.

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 Committee. 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.

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

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 Trust Committee.

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

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 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.

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 Committee.

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

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, and a leading independent accounting and consulting firm. He is Chairman of the Audit/Compliance/Risk Management Committee and a member of the Strategic/Executive, and Compensation committees.

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

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 a member of the Compensation, Nominating/Corporate Governance, and Strategic/Executive committees.

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 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.

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, NY, was appointed to the Community Bank, N.A. Board in January 2009.

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 Committee.





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