



A CLEAR VISION

COMMUNITY BANK SYSTEM, INC.
2012 ANNUAL REPORT



COMMUNITY BANK SYSTEM, INC.

(NYSE:CBU)

Our principal business focus is building additional value into our enterprise through organic growth in core relationships, disciplined lending, selective and strategic acquisitions and a consistent approach to business regardless of economic conditions.

Marc Lichtenfeld, author of *Get Rich With Dividends*, had this to say about CBU in a Bloomberg Radio interview recorded in July 2012:

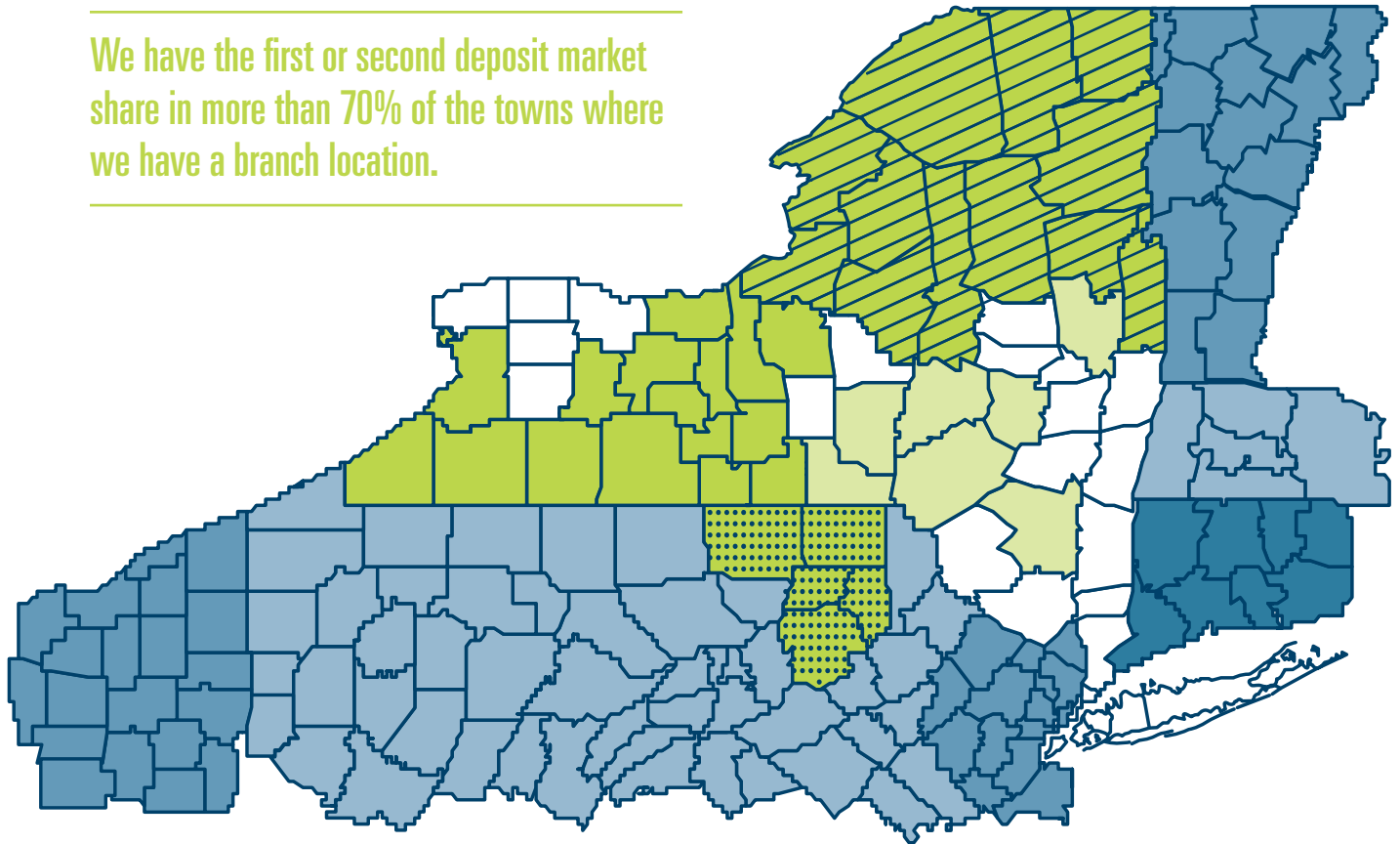
They did not take a dime of TARP money, so right off the bat, that's a good sign. They basically bank the way banks used to conduct business. They know their customers, they didn't get into trouble with mortgages. They have a dividend yield just under 4% and they've been raising the dividend every year for 19 years. Excellent management.

Approximately 30% of our revenue is derived from non-interest sources with nearly half attributable to our benefits administration and wealth management businesses. Our asset quality metrics have remained consistently and significantly better than industry and peer group averages. This approach has contributed to our being named one of the nation's best large banks in each of the last four years, ranking 7th in 2009 and 2010, 4th in 2011 and 11th in 2012 in the annual Forbes.com analysis of America's 100 largest financial institutions. As a result of our history of consistently improving performance, we've increased our cash dividend for 20 consecutive years, a significant milestone and evidence of our belief that payment of a meaningful and growing dividend is an important component of providing favorable long-term returns to our shareholders. As of December 31, 2012, our 5-year cumulative total return to shareholders of 69.7% was the 3rd best among the current 100 largest US banks by asset size.

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We have the first or second deposit market share in more than 70% of the towns where we have a branch location.



REGIONAL MARKETS

REGIONAL SUMMARIES

	 NORTHERN NEW YORK	 SOUTHERN NEW YORK	 CENTRAL NEW YORK	 PENNSYLVANIA
Branches	55	77	21	26
Deposits	\$2.0 billion	\$2.1 billion	\$0.7 billion	\$0.8 billion
Towns 1 st /2 nd Market Share	36	39	13	13
Financial Service Centers	5	5	1	1
Administrative/Operations Centers	1	2	-	1
Counties in Region	12	16	7	5
Total Market Population*	1.0 million	2.6 million	0.8 million	0.7 million

*US Census estimate - 2011

BE ONE OF AMERICA'S BEST BANKS

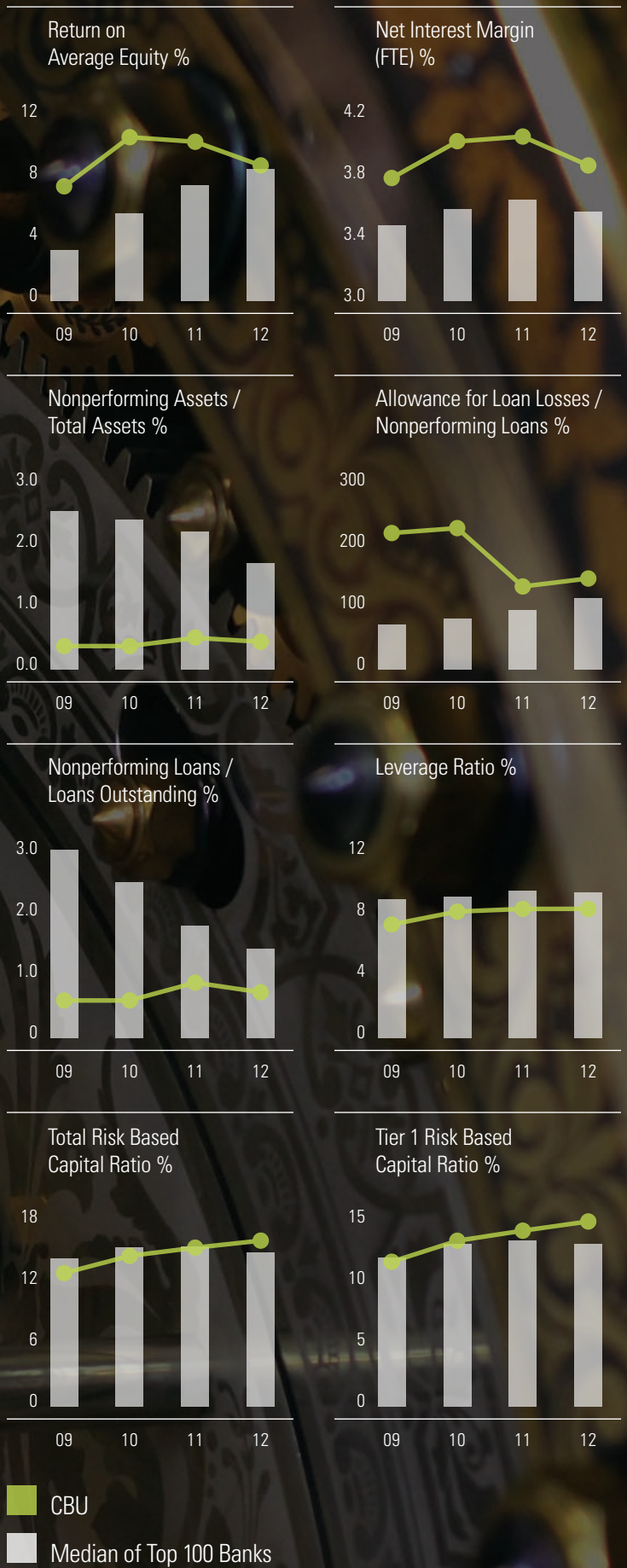
Community Bank operates with a clear vision of being the best bank our customers, employees, shareholders and regulators do business with. It is a vision which drives us to deliver exceptional service, products, relationships, and – above all – shareholder returns.

CBU's five-year cumulative total return to shareholders was 70% – third highest among America's 100 largest banks.

In 2012 Forbes.com once again recognized our success in achieving this vision. In its fourth annual ranking of "America's Best and Worst Banks," Forbes® ranked Community Bank 11th best among America's 100 largest banks and thrifts. We have ranked 11th or higher in each of the past four years, reflecting a consistent ability to deliver superior performance across important financial health metrics.



These charts display the eight financial metrics used in the annual Forbes® analysis of the "Best and Worst Banks." Comparing CBU to the median values of the institutions included in the Forbes® analysis illustrates why we've ranked among the country's best performing banks during the four years this comparison has been published.



SHAREHOLDER LETTER — A CLEAR VISION OF SUCCESS

In 2012 we achieved what Community Bank aims to accomplish each and every year: growing and sustainable returns to our shareholders. It was with a clear vision of success that we set out to meet the challenges we knew would be in store for 2012 – persistently low interest rates, margin compression, ultra-competitive lending markets and a low-growth economy. The vision of success which steered every decision and strategy in 2012 is the same we've looked to for direction year-in and year-out. It focuses on just four key principles: achieve market leadership, foster local decision making, continually diversify our revenue streams and prudently pursue acquired and organic growth. Strategies change with the times, but our guiding vision of success remains clear and consistent.

Success means being a leader in each of the markets we serve. It means promoting local decision making within our markets, empowering our bankers to make decisions in the best interest of both their customers and our bank, on the ground and in person. It means ensuring we have growing and varied sources of revenue, in order to maintain stable earnings streams while also providing services and products of distinct value to our customers. And, it means pursuing balanced and measured growth, simultaneously executing toward both organic expansion and value-adding acquisitions.

This year our success in executing on our vision was once again nationally recognized by Forbes.com. In January 2013, Forbes named Community Bank the 11th best bank in 2012, as measured across eight financial health metrics, among the largest 100 U.S. banks and thrifts by assets. Among 2012's top 100 banks, Community Bank ranked third for cumulative total return to shareholders over the last five years ending December 31, 2012. Since the end of 2007 – across the entire downturn, over the course of cataclysmic shifts in regulation, and in a period when 465 banks and thrifts failed – Community Bank delivered a five-year 70% cumulative return to shareholders. Not only is this higher than all but two of the largest 100 banks in the nation, but it measures in stark contrast to the negative 6% cumulative return for the group median. We also find it powerful to see that of the top twenty banks ranked by 5-year total return, three-quarters have less than \$15 billion in assets. This reality affirms our longstanding belief that bigger is not necessarily better. It's how you extract value from the balance sheet you have which truly determines success.

For that reason, we have always remained committed to a long-term growth strategy which focuses first and foremost on the potential for increased shareholder returns.

Celebrating 20 Consecutive Years of Dividend Growth

Dividends, of course, are a critical component of growing shareholder returns. Therefore, in 2012 we were very excited to celebrate our 20th consecutive year of increasing dividends. Once again, our success in executing on our vision did not go unnoticed. In July 2012 Community Bank was added to the "S&P 1500 Dividend Aristocrats," an index comprised of just 105 companies – and only five banks – that have increased their annual regular cash dividend payments for at least 20 consecutive years. Our annual common stock dividend has increased at a rate of 8.1% per year over the last 20 years. There is no question that our enduring vision of success paved the way for this wonderful achievement.

Considering that there are more than 1,000 publicly traded banks and thrifts in the US, 91 of which are in the S&P 1500, and only five of those are "Dividend Aristocrats," we are delighted that our vision of success continues to benefit our loyal shareholders. What's more: of the five "Dividend Aristocrat" banks, CBU had the highest annual total return to shareholders (12.1%) over the 20 years ended December 31, 2012. We've done so without boasting the highest annual dividend growth rate among the banks on the list. In fact, we maintain a conservative dividend payout ratio of just over 50%. Rather, we've achieved superior total return by ensuring we've always maintained considerable capital retention to continue funding ongoing organic and acquired growth, which in turn grows the earnings power of our franchise.

*Mark E. Tryniski,
President & Chief Executive Officer (left)*
*Nicholas A. DiCerbo,
Chairman of the Board (right)*



The success of that approach can be seen in our results over that same period: we have delivered 12.4% compound annual growth in net income over the last 20 years. Such tremendous long-term value creation is no mistake. While we are committed to a long-term approach to value creation, we of course also aim to grow in a disciplined manner over the short term; this is evidenced perhaps best in the recently concluded year.

2012 Results

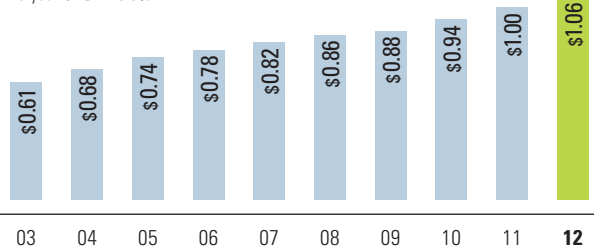
To execute on our clear and consistent vision, in 2012 we strategically focused on expanding our balance sheet, growing non-interest revenues, managing expenses, and integrating and extracting value from our HSBC and First Niagara branch transaction. In this productive year we accomplished each of these goals.

Community Bank System earned \$77.1 million in 2012, an increase of more than 5% from 2011. Improved efficiency and meaningful growth in net interest income and non-interest income helped mitigate the impact of margin compression and acquisition costs related to the HSBC and First Niagara branch transactions. Excluding nonrecurring acquisition and litigation costs in 2012, earnings per share of \$2.08 compared very well to \$2.10 earned in 2011, particularly after considering that the industry-wide decline in net interest margin lowered our 2012 earnings by \$0.21 per share. Like all of our banking peers, we are experiencing substantial earnings headwinds due to the low-interest rate environment. Our net interest margin declined to 3.88% in 2012 from 4.07% in 2011. However, we effectively worked to combat this compression by expanding our average balance sheet by more than 15%.

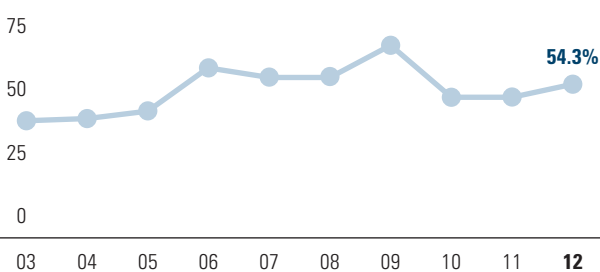
Balance sheet expansion stemmed from both organic efforts and acquisition growth. Excluding the impact of loans acquired from the branch transactions this year and last year's addition of Wilber

DIVIDEND GROWTH

10-year CAGR = 6.6%



DIVIDEND PAYOUT RATIO%



National Bank, organic loan growth totaled 7%, or over \$200 million, in 2012. We saw increases across all portfolios, once again led by consumer lending with particular strength in residential mortgage and auto lending. Our strong and sustainable core deposit base and capital position allowed us to successfully compete for and fund our retail customers' borrowing needs in a time of historically low rates. With funding costs averaging just 83 basis points for the year, we were well-positioned to compete for quality credit opportunities.

Mortgage originations reached record levels in 2012, growing 36% compared to 2011. With pristine asset quality (losses have averaged less than seven basis points of average loans over the last nine quarters) and new yields averaging around 4.1%, we are very pleased with the growth of this portfolio and continue to hold the production on our balance sheet as a high quality, low risk earning asset. Likewise, auto loan originations reached record levels in 2012, growing our total portfolio to \$650 million at December 31, 2012. We primarily provide customers with financing for used car purchases, and valuations on these autos have been stable and favorable.

Business loan demand was muted again in 2012 as the economic environment remains weak in our "Main Street" markets and across the country. Nevertheless, business lending continues to be an important component of our business model, particularly as a source of critical deposit funding and complementary fee-generating products

TOTAL AVERAGE SHAREHOLDER RETURN

Through December 31, 2012, Including Reinvestment of Dividends

	3 Years	5 Years	10 Years	15 Years
CBU	16.9 %	11.1 %	9.8 %	7.8 %
S&P 600 Commercial Bank	11.0 %	(5.4 %)	(1.1 %)	1.6 %
NASDAQ Bank	6.6 %	(4.4 %)	0.7 %	1.7 %
S&P 500	10.9 %	1.7 %	7.1 %	4.5 %
Dow Jones Ind. Avg.	10.9 %	2.6 %	7.3 %	5.8 %

SOURCE: Bloomberg

and services. Of course, we continue to support those credit-worthy customers in our markets who meet our unwavering risk-adjusted return requirements. Regardless of whether they seek credit in this challenging environment, business customers continue to value Community Bank as a trusted partner to support all their financial services needs and safeguard their deposits.

Community Bank System was one of only 14 companies to become a new member of the S&P 1500 Dividend Aristocrats Index in 2012, signifying that the Company has raised its annual regular cash dividend payment for at least 20 consecutive years.

Core deposits grew more than 7%, or \$268.4 million, on an organic basis in 2012. Including those we acquired, our total deposit base at December 31, 2012 was \$5.6 billion, with core deposits comprising 82% compared to 77% at the end of 2011. Total core deposits, which exclude certificates of deposit, grew 26% from the end of 2011 to the end of 2012, reflecting one of the many benefits of the First Niagara and HSBC branch transactions completed in the third quarter of 2012.

Of course, deposit growth and lower funding costs could not match the significant decline in earning asset yields we and the industry experienced in 2012. Average loan yields fell 44 basis points, while average funding costs declined 31 basis points. We expect our principal challenge in 2013 will be to continue defending and growing our earnings power in a prolonged declining margin environment.

Revenue Growth a Key Factor of 2012 Success

Efforts to grow our balance sheet and revenue sources were very successful in achieving revenue expansion this year. Even as net interest margin declined 19 basis points in 2012, net interest income grew \$21.0 million, or 10%, to \$230.4 million. Non-interest income, or fee income, grew \$10.0 million, or 11%, to \$99.2 million. Fee income growth was an important component of our strategy in 2012, with focused investment in our financial services offerings providing key momentum.

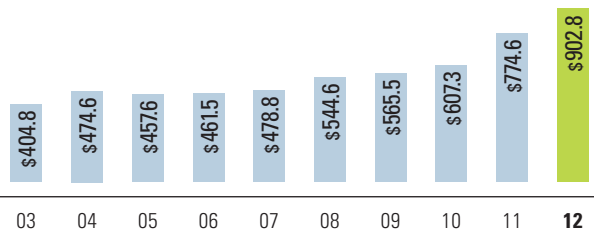
Our benefits administration and consulting businesses posted a 14% increase in revenues, principally from the CAI Benefits acquisition

completed in December 2011. Reaching \$35.9 million in revenues in 2012, we are pleased with the growth potential our businesses in this field offers. We reach a national client base with our diverse offerings, and our highly skilled and experienced teams continuously develop our product and skill sets in response to marketplace needs and regulatory changes. Likewise, our wealth management business generated 20% revenue improvement from 2011, reflecting solid organic growth in trust and asset management services. Combined, our financial services revenue grew more than 15% to \$48.8 million in 2012 from \$42.3 million in 2011. Over the last 10 years this revenue grew at a compound annual rate of over 15%, clearly demonstrating our ability to execute on our vision of diverse fee income growth. Perhaps most advantageously, these businesses require very little capital to operate because of their balance sheet, and so we continue to seek opportunities to grow this area both organically and through acquisitions.

We are particularly pleased to report that our solid revenue growth outpaced core expense growth in 2012, driving an improvement in our core recurring efficiency ratio to 57.4% from 57.6% in 2011. One-time costs in 2012 were principally attributable to our acquisition of 19 branches from First Niagara and HSBC in the third quarter – a terrific transaction which deepened our market presence in Upstate New York and met all our key criteria for acquisition success.

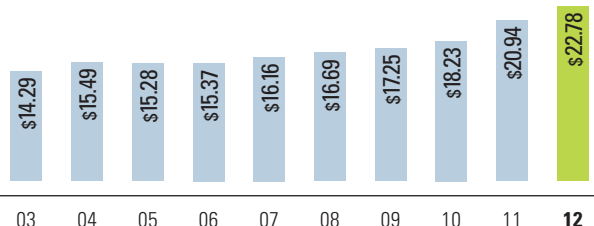
SHAREHOLDERS' EQUITY in millions

10-Year CAGR = 10.8%



BOOK VALUE PER SHARE

10-year CAGR = 6.2%



Acquisition Growth Remains a Key Component of Success


One of the key elements to our growth strategy is high value acquisitions. We take a disciplined approach to identifying and evaluating opportunities that arise, and we continue to have an ongoing appetite for acquisition prospects which will first and foremost create value for our shareholders.

We evaluate whether we can generate earnings in a fashion that's commensurate with the risk associated with the transaction, and whether the transaction will enable us to grow and sustain our earnings and dividend. Essentially, we appraise each opportunity to ensure its ability to create solid accretive value for our shareholders.

Our 2012 acquisition of 19 branches from First Niagara and HSBC fully met these qualifications. In the third quarter we successfully completed the deal, announced in the first quarter, consisting of 16 branches from HSBC and three branches from First Niagara. We added a total of \$800 million in deposits and \$160 million in loans while welcoming 145 new employees to Community Bank. By proactively raising \$55 million in net proceeds from a common stock offering in January, we also improved our capital position going into this transaction.

CBU is a component company in more than 20 U.S. stock indices including: Russell 3,000; Russell 2,000; NYSE Financial; S&P 1500; S&P 1500 Dividend Aristocrats.

With this acquisition, we were pleased to strengthen our ability to provide exceptional service to consumer, business banking and private banking clients in Upstate New York while growing our presence and acquiring new customers. We deepened our market leadership, executed an efficient and timely conversion, and subsequently consolidated five acquired branches into existing Community Bank branches to further enhance the economic and operating efficiency of the transaction. Marking our 13th whole-bank or branch acquisition since 2000, the First Niagara and HSBC deal allowed us to once again leverage strong acquisition competencies developed over the course of our growth in size and shareholder value.



Our longstanding vision for success remains unclouded; we are focused on achieving market leadership, preserving our decentralized decision-making process, investing in non-interest revenues and seeking advantageous growth opportunities, both organic and acquired.

INVESTMENT RATIONALE

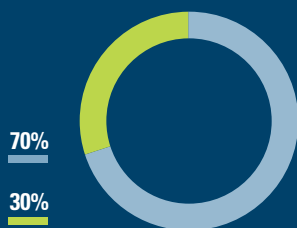
- Disciplined approach to revenue and profitability growth
- Successful and effective operating strategy
- Excellent asset quality metrics
- Dominant market share — 1st or 2nd in more than 70% of our markets
- Substantial non-interest income — approximately 30% of operating revenues
- Diversified financial services businesses with \$48.8 million in 2012 revenues
- Record of successful and accretive acquisitions
- Meaningful dividend with 20 year history of increased payouts
- Effective capital management strategies
- NYSE listed with significant liquidity

2012 TOTAL REVENUE

Grew by 10.4% in 2012
Total Revenue = \$329.7 million

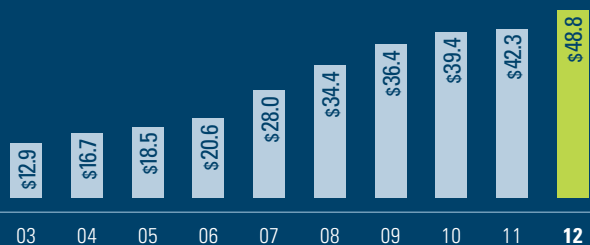
Net Interest Income
\$230.4 million

Non-interest Income
\$99.2 million



FINANCIAL SERVICES REVENUE in millions

10-year CAGR = 15.2%



A Clear Vision for Success in 2013

Community Bank's success in achieving solid shareholder value creation is the outcome of daily efforts to enhance our value proposition to customers and deepen engagement within our communities. It is a proven model built on discipline and framed from the beginning with a clear vision of what constitutes success for Community Bank.

Our vision for success was unclouded by the economic challenges of 2012, and it remains so as we look ahead in 2013. We expect our operating strength to continue with solid earnings, a larger balance sheet, operating efficiency, plentiful and growing capital levels and sound asset quality. With our expanded service footprint and growing investment in non-banking businesses, we are well-equipped to defend Community Bank's earnings power in challenging economic times. Most importantly, we maintain our clear vision of value creation and will execute the necessary strategies to pursue its growth. We're proud of our consistent track record of growing shareholder returns, and we thank you for your continued support of Community Bank System, Inc.

Nicholas A. DiCerbo

Nicholas A. DiCerbo
Chairman of the Board

Mark E. Tryniski

Mark E. Tryniski
President and Chief Executive Officer

OUR FOCUS – MARKET LEADERSHIP

Operating as a community bank with local decision-making, principally in non-urban markets, and offering a broad array of banking and financial services to retail, commercial, and municipal customers – this describes our business philosophy. Following this approach, Community Bank System has grown into not only one of the largest community banks based in Upstate New York, but one of the 100 largest banks in North America, with \$7.5 billion in assets and \$5.6 billion in deposits. We operate more than 180 customer facilities throughout 35 counties of Upstate New York and in five counties of Northeastern Pennsylvania. We focus on mostly non-urban markets, where leadership positions can be earned. This focus has produced a market leading branch system in which we have the first or second deposit market share in more than 70% of the towns where we have a retail customer location.

Our branch locations dominate the financial landscape of the non-urban communities across Upstate New York.

Expanding Our Northern Leadership Position

Our position as a formidable banking competitor in the North Country of Upstate New York was further cemented by acquiring 18 branch-banking centers from Citizens Financial Group, Inc. in November 2008 and six additional branches from HSBC in July of 2012. We have built a very strong market presence in the 12 counties which reach from Oswego north to the Vermont and Quebec borders and cover nearly 18,000 square miles. Our 55 branch locations dominate the financial landscape in the communities of the Northern Tier where approximately one in every seven retail bank locations in the region proudly displays the Community Bank, N.A. logo.

Our Solid Southern Tier

We also dominate the banking landscape across the Finger Lakes to the southwest corner of Upstate New York in the area stretching from Jamestown to Elmira and north to Lake Ontario. With our strong retail franchise of 77 branch locations, we hold the number one or number two market position in eight of the 16 counties in this region, as well as in 39 local communities. Our 2012 branch acquisitions from First Niagara and HSBC further strengthened our Southern New York Region market position.

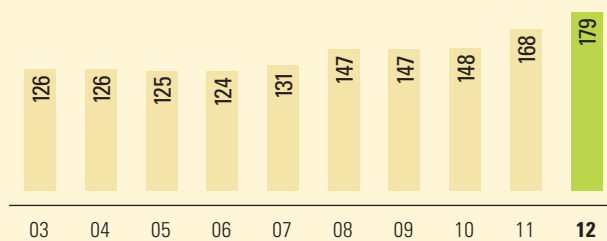
Establishing a Strong Presence in Central New York

In 2011 we entered the Central New York region by acquiring the former Wilber National Bank to extend our service area in the Central, Greater Capital District and Catskill regions. This transaction provided a significant retail presence, as well as attractive deposit share in markets contiguous to our existing service area with demographic characteristics very similar to our existing markets. With 13 Central Region branches now located in towns where we have the first or second ranked deposit market share, and with over 40% of the total deposits for Otsego County, we have a substantial presence in our newest region.

Our Growing Presence in Northeast Pennsylvania

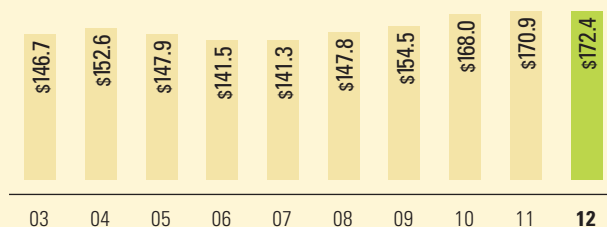
We took our successful community banking philosophy to Northeast Pennsylvania by acquiring First Liberty Bank & Trust in 2001. We expanded our market position by acquiring Grange National Bank and First Heritage Bank, both becoming part of First Liberty. The recent development of more efficient methods for extracting natural gas from the Marcellus Shale have had a positive economic impact on many small towns throughout Northeast Pennsylvania. Rents and royalty payments to land owners have become a source of substantial deposit growth for banks in the region, including First Liberty.

BRANCH LOCATIONS



REVENUE PER EMPLOYEE¹ in thousands

10-year CAGR = 2.0%



¹ Per average full time equivalent employee



Our indirect auto lending portfolio continues to be a strong contributor to balance sheet expansion. In 2012, our record level auto loan originations led year-over-year organic loan growth of over \$200 million, or 7%. Pictured above, Community Bank's Robert Zehr (left), Vice President, Senior Indirect Marketing Manager, reviews product offerings with long-time Northern New York client John Barstow, Chairman of the Board and President of Barstow Motors, Inc.

RESPONSIVE LOCAL DECISION-MAKING

We emphasize responsive, local decision-making and customer support, and we're committed to the philosophy of serving the financial needs of customers within our local markets. Our branches are located primarily in smaller towns and cities within Upstate New York and Northeastern Pennsylvania where we have built meaningful market presence. We're firmly convinced that the local character of our business, knowledge of our customers and their needs, and a comprehensive line of retail and business products enable us to compete effectively in our markets. With the addition of 14 branches (after consolidations) from HSBC and First Niagara, we continue working to solidify and expand the service relationship with our new customers.

Focused on the Right Relationships

We have always been an in-footprint lender, to customers we know in the communities we serve.

Our focus on identifying and satisfying the needs of our customers continues to yield solid results, as we ended 2012 with total loans of \$3.9 billion, up \$394 million or 11% from year-end 2011 reflecting both our branch acquisitions and strong organic growth in our consumer mortgage and consumer indirect installment portfolios. Business lending, which represents approximately one-third of our portfolio, and includes commercial and industrial loans and mortgages on commercial properties, increased modestly during 2012 reflecting the continued soft demand and conservative growth characteristics that exist across most markets. While we remain focused on growing our business portfolio, we are committed to doing so in a manner that adheres to our strong asset quality standards and produces acceptable margins. We continuously invest in personnel, technology and business development resources which further strengthen our competitive capabilities.

A Core Deposit Focus

Our deposit mix has been steadily evolving over the last several years reflecting the success of our focus on growing core deposit relationships through a combination of proactive marketing efforts, competitive product offerings and high quality customer service. Core deposit "non-time" accounts were 82% of our total deposits of \$5.6 billion at the end of 2012. Core deposits have grown by \$2.8 billion, a compound annual growth rate of 20.3%, from the end of 2007 through our 2012 year-end. This increase was a reflection of

We recently expanded our Operations Center in Canton, NY to ensure we have the capacity to accommodate future growth.



strong organic growth during this period, as well as the branch and whole-bank acquisitions completed over the past five years.

A Consistent Focus on Asset Quality

Prudent credit management has been, and continues to be, a foundational strength of this institution.

Our credit quality continues to rank among the strongest in the banking industry, as it has consistently throughout the credit crisis and economic downturn. During 2012, our net charge-offs were 23 basis points, compared to 111 basis points for the banking industry, and our non-performing loans to total loans at year-end were 75 basis points, compared to the industry average of 362 basis points. Our success at keeping non-performing and delinquency ratios at manageable levels reflects our continued focus on maintaining strict underwriting standards, as well as our extensive knowledge of our local markets, economic factors and most importantly, our customers.

EXCEPTIONAL ASSET QUALITY

At or for the twelve months ended December 31, 2012

	CBU	ACBN ¹	ACBN ¹ Assets > \$1 B
Loan loss allowance/ NPLs ²	148%	60%	58%
NPLs ² / loans outstanding	0.75%	3.62%	3.76%
Net charge- offs/ average loans ³	0.23%	1.11%	1.17%

¹ ACBN = All Commercial Banks, National ² NPLs = Nonperforming loans

³ FDIC Statistics - Net charge-off to loans



Our local character, extensive customer knowledge, and comprehensive product menu, along with responsive decision-making at the branch and regional levels make us a very effective competitor within our markets.

INVESTMENT IN NON-INTEREST REVENUES

Non-interest income growth has long been a key component of our strategy to create value for our shareholders and customers alike. We aim to continually diversify into new service areas while growing our existing revenue sources. Our focused investment on financial services offerings has expanded our revenue sources beyond traditional banking services. With this diversification, we've successfully developed stable earnings streams which are less dependent on interest rate cycles or capital resources. Most importantly, non-interest income is a meaningful driver of earnings power derived from services and products of distinct value to our customers.

This includes the traditional products such as ATM service, debit cards and risk protection programs offered throughout the Community Bank, NA and First Liberty Bank and Trust branch network, as well as additional specialized service offerings available beyond our branch banking footprint.

Employee Benefit Trust, Administration, Actuarial and Consulting Services

We entered this business in 1996 by acquiring a small benefits administration firm in Central New York. Since then, we've expanded through solid organic growth and four subsequent acquisitions which increased our services and product offerings and added meaningful expertise and structural support.

Our Benefit Plans Administrative Services, Inc. (BPAS) is truly a nationwide business with wide-ranging capabilities including: defined contribution plan benefit administration; health care and benefit plan consulting; flexible benefit plan administration; actuarial services; and collective investment fund administration.

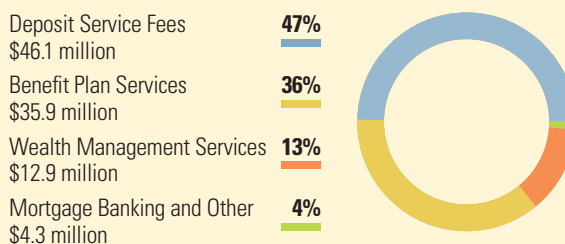
Our recent acquisition of CAI Benefits in December 2011 contributed to the growing revenue prospects and strong operating returns of our



Our wealth management professionals are focused on the needs and goals of our clients.

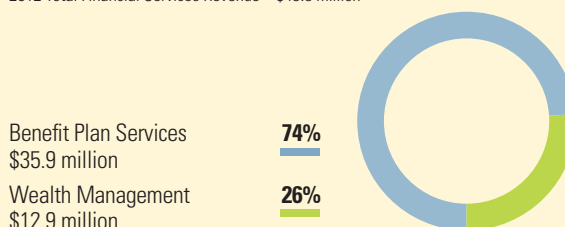
MIX OF NON-INTEREST INCOME

2012 Total Non-interest Income = \$99.2 million



FINANCIAL SERVICES REVENUE COMPOSITION

2012 Total Financial Services Revenue = \$48.8 million



benefits administration offerings, which generated \$35.9 million in revenue in 2012, up 14% from 2011.

Wealth Management, Investments, Insurance and Asset Advisory Services

As with BPAS, the success of our wealth management group is a result of consistent organic growth mixed with productive acquisitions. Our wealth management services are offered across our service footprint, primarily utilizing our branch system, and include: personal trust services; investment advisory and brokerage services; auto, homeowners, commercial and life insurance programs; and asset management. In 2012, our wealth management group continued to grow principally through organic means, and generated \$12.9 million of revenues, up 20% from 2011.

Over the last 10 years our financial services revenue grew at a compound annual rate of over 15%, clearly demonstrating our ability to execute on our vision of diverse fee income growth. These non-capital intensive businesses provide key earnings momentum through economic cycles and across an expanded service area beyond our branch network footprint. We're confident that we'll continue to realize success in these non-banking arenas as a result of continued new client generation and expanded service offerings.



Community Bank's subsidiary BPAS is a national provider of benefit administration, actuarial, consulting and institutional trust services. BPAS services over 3,500 retirement plans and more than 250,000 plan participants across the United States and Puerto Rico.

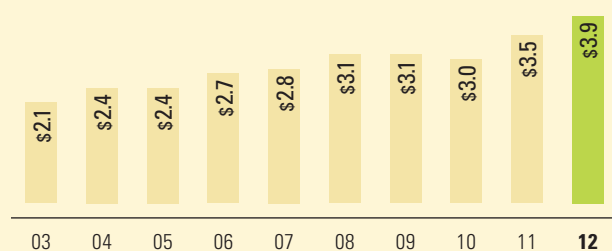
LEVERAGE ORGANIC AND ACQUIRED GROWTH OPPORTUNITIES

One of Community Bank's greatest strengths is our discipline in pursuing balanced and measured growth. Our vision of success has always pointed clearly to both organic expansion and value-adding acquisitions. We operate a growth model which leverages all opportunities and directs capital to those which offer the strongest prospects for sustainable value creation.

We believe that acquisition growth sets the stage for organic growth. As we've expanded and deepened our presence across our footprint, and as we've invested in non-banking businesses as a core revenue driver, we've gained access to new customers, geographies, products and services. With each acquisition we elevate our platforms and profile, allowing us to provide a wider range of products, enhanced service and improved convenience to our existing customers. It is a virtuous cycle with results that are illustrated by our loan and deposit growth over the last 10 years.

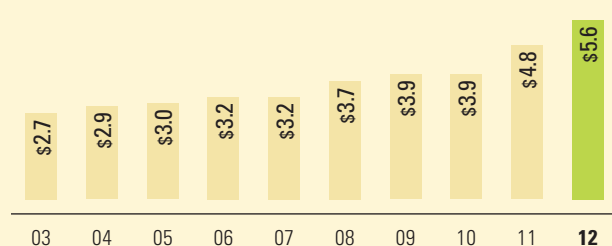
TOTAL LOANS in billions

10-year CAGR = 7.9%



TOTAL DEPOSITS in billions

10-year CAGR = 8.4%



Our vision of success clearly focuses on value-creating growth opportunities, and we have an ongoing appetite for acquisitions which make strategic and financial sense. We have a proven core competency for both whole-bank transactions and for multi-branch acquisitions within or adjacent to our existing geographic footprint. Our focus has been and remains primarily on non-urban markets which offer the potential to earn meaningful deposit market share.

The First Niagara and HSBC branch acquisition marked our 13th whole-bank or branch acquisition since 2000.

We also continue to seek financial services opportunities with the potential to contribute meaningfully to our fee income growth, and which are scalable businesses that can operate both within and outside our banking network. The relatively small amounts of capital required to acquire and operate these businesses, as well as the stable earnings streams makes them a compelling alternative.

For all opportunities, we evaluate the potential to generate earnings commensurate with the risk associated with the transaction, as well as whether the transaction will enable us to grow and sustain our earnings and dividend.

Recent Strategic Acquisitions

2008

Acquired Philadelphia based Alliance Benefit Group MidAtlantic

Acquired 18 branches from Citizens Financial Group, Inc. in Northern New York

2011

Acquired Wilber Corporation, parent company of Wilber National Bank, in Central New York

Acquired CAI Benefits, Inc., a New York City and New Jersey based actuarial and retirement benefits firm

2012

Acquired 19 branches from First Niagara and HSBC in Upstate New York



We have expanded and deepened our presence across our footprint with acquisition growth, which sets the stage for organic growth. Acquisitions have accelerated the development of banking-related fee income, increased the diversity of non-interest income from new financial services businesses, and spurred incremental growth of existing revenue sources.

CORPORATE GOVERNANCE



FROM TOP TO BOTTOM
Mark Tryniski, Scott Kingsley, Brian Donahue and Joe Getman

The strongest champions of Community Bank System's vision for the future are the members of its executive management team. Led by President and Chief Executive Officer Mark Tryniski, the executive leadership includes: Scott Kingsley, Executive Vice President and Chief Financial Officer; Brian Donahue, Executive Vice President and Chief Banking Officer; and Joe Getman, Executive Vice President and General Counsel. With over 40 years of collective experience at Community Bank, the executive leadership understand and execute on the bank's sound strategy year in and year out.

Mark Tryniski has been President and Chief Executive Officer of CBU since 2006. Mark first joined the company in 2003, serving as the company's Chief Financial Officer and later as its Executive Vice President and Chief Operating Officer. Prior to joining Community Bank, Mark was a partner with PricewaterhouseCoopers.

Scott Kingsley has held his current role as Chief Financial Officer since 2004. Prior to joining CBU, Scott was Vice President and Chief Financial Officer of Ohio-based Carlisle Engineered Products, Inc.

The Company's Chief Banking Officer, **Brian Donahue**, has helped to develop the company's banking operations over the past 20 years. During that time, he has held the positions of Chief Credit Officer and Senior Loan Officer of the Southern Region.

Joe Getman has served as Executive Vice President and General Counsel of our company since 2008. Before joining the executive management team, Joe was a senior partner at Bond, Schoeneck & King, PLLC, during which time he provided corporate counsel to the company.

COMMUNITY BANK, N.A. REGIONAL ADVISORY BOARDS

First Liberty (Pa.)

Edward A. Coach
Michael J. Coleman
John H. Graham
Scott E. Henry
Edward I. Johnson, Jr.
Thomas A. McCullough
William K. Nasser, Jr.
Russell G. Newell
Frank J. Niemiec
James M. O'Brien

Adirondack

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

Central

Mary C. Albrecht
Olon T. Archer
Thomas J. Davis
Joseph P. Mirabito
Benjamin C. Nesbitt
James L. Seward
Geoffrey A. Smith
David F. Wilber III

Our advisory boards provide important guidance to CBU's leadership and Board, bringing insight into the unique needs of the bank's different regions and customers.

BOARD OF DIRECTORS



Nicholas A. DiCerbo
Chairman of the Board;
DiCerbo & Palumbo, Partner;
Director since 1984



James A. Wilson
Lead Director of the Board;
Retired, Parente Randolph, LLC, Principal Partner;
Nominating/ Corporate Governance Committee;
Audit/ Compliance/ Risk Management Committee, Chair;
Director since 2009



Brian R. Ace
Laceyville Hardware, Owner;
Compensation Committee, Vice Chair;
Nominating/ Corporate Governance Committee;
Director since 2003



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



Neil E. Fesette
Fesette Realty, LLC and Fesette Property Management,
Owner, President and CEO;
Nominating/ Corporate Governance Committee, Chair;
Trust Committee;
Director since 2010



James A. Gabriel
Franklin & Gabriel, Owner;
Strategic/ Executive Committee;
Loan/ ALCO Committee, Chair;
Director since 1984



James W. Gibson
Retired, KPMG, LLP, Partner;
Compensation Committee;
Director since 2009



Edward S. Mucenski
Pinto, Mucenski, Hooper, Van House & Company, P.C.,
Partner and Managing Director;
Compensation Committee;
Audit/ Compliance/ Risk Management Committee, Vice Chair;
Director since 2010



John Parente
CP Media, LLC, CEO;
Strategic/ Executive Committee;
Loan/ ALCO Committee, Vice Chair;
Director since 2010



Sally A. Steele
Attorney at Law;
Strategic/ Executive Committee, Chair;
Director since 2003



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



John F. Whipple
Buffamante Whipple Buttafaro, P.C., CEO;
Nominating/ Corporate Governance Committee;
Audit/ Compliance/ Risk Management Committee;
Director since 2010



Alfred S. Whittet
Retired, The Wilber Corporation, CEO;
Trust Committee, Chair;
Director since 2011



Brian R. Wright
Hinman, Howard & Kattell, LLP, Attorney, Special Counsel;
Nominating/ Corporate Governance Committee;
Strategic/ Executive Committee;
Director since 2011

All bank board members participate in the Loan/ ALCO Committee



The Board of Directors sincerely thanks Paul M. Cantwell, Jr. for the dedicated service he has provided to Community Bank System over the past 12 years. Paul became a director in 2001 and served as Chairman of the Board from 2006 to 2010. Following his 2012 retirement, he will continue to provide guidance to the bank as a member of its Adirondack Advisory Board.

ADMINISTRATION

Executive

Mark E. Tryniski, President and
Chief Executive Officer
Scott A. Kingsley, Executive Vice President,
Chief Financial Officer
Brian D. Donahue, Executive Vice President,
Chief Banking Officer
George J. (Joe) Getman, Executive Vice President,
General Counsel

Credit & Branch Administration

Joseph F. Serbun, Senior Vice President,
Chief Credit Officer
Stephen G. Hardy, Senior Vice President,
Chief Credit Administrator
Richard M. Heidrick, Senior Vice President,
Consumer Banking
Joseph E. Sutaris, Senior Vice President,
Regional Banking Executive
Scott J. Boser, Vice President,
Retail Lending Manager
George J. Burke, Vice President,
Director of Mortgage Banking
Mark A. Guenther, Vice President,
Special Assets Manager
Noel I. Donnelly, Vice President,
Special Assets Officer
Cynthia L. Lefko, Vice President,
Cash Management Product and
Sales Manager
Nancy Mastrucci, Vice President,
Senior Credit Manager
Judith A. Meyer, Vice President,
Branch Services Administrator
Tammy R. Neumann, Vice President,
Regional Branch Coordinator
J. Randall Palko, Vice President,
Regional Branch Administrator
Denise Rhoads, Vice President,
Commercial Appraisal Manager
Michael J. Stacey, Vice President,
Collections Manager
Robert Zehr, Vice President,
Senior Indirect Market Manager
Pamela S. Dent, Recovery Specialist
Stephen B. Dupree, Reports Analyst
Jennifer Hernandez, Mortgage
Processing Manager
Sherry Stone, Branch Services
Regional Administrator

Finance & Treasury Management

Joseph J. Lemchak, Senior Vice President,
Chief Investment Officer
Shannon M. Davis, Vice President,
Asset Liability Manager
Susan S. Fox, Vice President,
Corporate Controller

Robert R. Frost, Vice President,
Manager of Financial Analysis & Planning
Sean M. Howard, Vice President,
Portfolio Investment Officer
Randy Pray, Vice President,
Corporate Purchasing Manager
Pamela J. Taylor, Vice President,
Data Warehousing Manager
Brian Fancher, Benefits Accounting Manager
Laura J. Mattice, General Accounting Manager
Dennelle T. Michalski, Financial Controls Manager
Robert E. Pierce, Financial Reporting 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,
Retail Banking and Marketing
Kristine M. Besaw, Vice President,
Senior Regional Human Resources Manager
Danielle M. Cima, Associate General Counsel,
Corporate Secretary
Brett C. Fisk, Vice President,
Director of Real Estate & Facilities
Robert D. Harder, Vice President,
Senior Regional Human Resources Manager
Michael F. Joyce, Vice President,
Director of Real Estate
Diane C. Seaman, Vice President,
Human Resources Manager/
Organizational Development
Lorie M. Semmel, Vice President,
HR Operations Manager
Donna Skechus, Vice President,
Special Projects Manager
Donna J. Drengel, Board Secretary and
Shareholder Relations
John A. Puchir, Sales Manager

Technology & Operations

J. Michael Wilson, Senior Vice President,
Chief Technology Officer
Aaron S. Friot, Vice President,
Director of Information Technology
Robin E. Dumas, Vice President,
Electronic Banking 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, Loan Operations Unit Manager
Deanna L. Foster, Loan Operations Unit Manager
Allyson B. Krieger, Technical Project Administrator
Tami L. Ozogar, Loan Operations Unit Manager
Frank A. Palmisano, Manager Network Administration

Dale Pike, Senior Imaging Supervisor
Julie A. Rhodes, Deposit Operations Unit Leader

Risk Management

Paul J. Ward, Senior Vice President,
Chief Risk Officer
Mark S. Ackerly, Vice President,
Director of Information Security
Melissa R. Cloce, Vice President,
Compliance Manager
Mark J. Houghtaling, Vice President,
Credit Risk Manager
Daniel P. O'Connell, Vice President,
Director of Internal Audit
Dorothy A. Quarltre, Vice President,
Compliance Manager
Stuart A. Smith, Vice President, Security Officer
Lynne M. Wadsworth, Vice President,
Asst. Director of Internal Audit
Anthony A. Antonello, Senior Security Investigator
Teresa Bower, Loan Review Team Leader

COMMUNITY BANK

Business Banking

Buffalo

David McKinley, Vice President,
Commercial Banking

Canton

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

Clifton Springs

Tina Bounds, Assistant Vice President,
Mortgage Specialist

DeWitt/Syracuse

Luke Fagan, Vice President,
Commercial Banking Team Leader
William D. McIncrow, Vice President,
Commercial Banking Officer
Russell E. Sturtz, Assistant Vice President,
Commercial Banking Officer

Elmira

Arthur J. Sable, Vice President,
Commercial Banking Officer

Erwin/Painted Post

Michael G. Austin, Vice President,
Small Business Banking Manager
John D. Clark, Vice President,
Commercial Banking Officer
Richard R. Sisson, Vice President,
Credit Underwriter
Jill R. Staats, Small Business Banking,
Senior Underwriter

Geneva

David Gooding, Vice President,
Commercial Banking Officer
Loren C. Herod, Vice President,
Agricultural Banking Team Leader
Charles Van Hoof, Vice President,
Agricultural Banking Officer

Stephen H. Rich, Vice President,
Commercial Banking Team Leader

Johnson City

Edward P. Michalek, Vice President,
Commercial Banking Officer

Lakewood

Roger E. Dickinson, Vice President,
Senior Commercial Banking Officer

Lowville

Kevin J. Kent, Vice President,
Commercial Banking Officer

Malone

Lawrence P. Fleury, Assistant Vice President,
Senior Business Development Officer

North Creek

Eugene M. Arsenault, Vice President,
Commercial Banking Officer

Olean

Mark P. Saglimben, Vice President,
Senior Commercial Banking Officer

Scott P. Brechbuehl, Vice President,
Commercial Banking Officer

Gretchen Copella, Assistant Vice President,
Commercial Banking Officer

Eric M. Garvin, Assistant Vice President,
Commercial Banking Officer

Oneonta

Jeffrey T. Lord, Vice President,
Commercial Banking Team Leader

John M. Connolly, Vice President,
Commercial Banking Officer

Jonathan M. Luce, Assistant Vice President,
Commercial Banking Officer

Allison M. Mosher, Assistant Vice President,
Commercial Banking Officer

Orchard Park

Patrick M. Gorman, Vice President,
Commercial Banking Officer

Plattsburgh

Paul Connelly, Vice President,
Commercial Banking Officer

Tracy Clark, Assistant Vice President,
Commercial Banking Officer

Potsdam

Ronald J. Bacon, Vice President,
Senior Commercial Banking Officer

Matthew J. Rollins, Assistant Vice President,
Commercial Banking Officer

Saranac Lake

Craig Stevens, Vice President,
Commercial Banking Officer

Watertown

Duane M. Pelkey, Vice President,
Senior Commercial Banking Officer

Michael J. Brassard, Vice President,
Loan Workout Officer

Jeffrey T. Fallon, Vice President,
Commercial Banking Officer

Andrew Rice, Assistant Vice President,
Agricultural Banking Officer

Robert Zehr, Vice President,
Senior Indirect Market Manager

Wellsville

Douglas O. Frank, Vice President,
Commercial Banking Officer

James M. Knapp, 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

Business Banking

Hazleton

Paul Baynum, Assistant Vice President,
Commercial Banking Officer

Olyphant

Barry J. Westington, Vice President,
Special Assets Officer

Scranton

Warren C. Rozelle, Senior Vice President,
Commercial Banking Team Leader

Matthew Dougherty, Senior Vice President,
Commercial Banking Officer

Mary Elizabeth D'Andrea, Senior Vice President,
Commercial Banking Officer

Samuel DeStefano, Vice President,
Senior Indirect Market Manager

Joseph S. Tomko, Senior Vice President,
Commercial Banking Officer

Tunkhannock

Walter Sarafinko, Assistant Vice President,
Commercial Banking Officer

Wilkes-Barre

Francis R. Doyle, Senior Vice President,
Commercial Banking Team Leader

David M. McHale, Senior Vice President,
Commercial Banking Officer

A. Edward Nork, Senior Vice President,
Commercial Banking Officer

Stacia L. Arnaud, Assistant Vice President,
Commercial Banking Officer

Neil D. King, Assistant Vice President,
Commercial Banking Officer

WEALTH MANAGEMENT GROUP

Charles E. Kopp, Managing Director

Trust and Investment Services

Catherine B. Koebelin, Vice President,
Chief Trust Officer Olean

Charles J. Perrillo, Vice President,
Trust Chief Investment Officer, Oneonta

Herbert A. Simerly, Vice President,
Senior Trust Officer, Oneonta

Vincent L. Mastrucci, Vice President,
Trust Officer, Scranton PA

Paul J. Snodgrass, Vice President,
Trust Officer, Canton

Priscilla R. Welch, Vice President,
Senior Trust Officer, Oneonta

Patricia E. Barie, Trust Officer, Olean

Michael Byrne, Trust Officer, Geneva

Charlotte S. Carlson, Trust Officer, Lakewood

Lauren Carlson, Trust Officer, Oneonta

Patricia A. Crolly, Trust Officer, Scranton PA

Robert P. Jewell, Trust Officer, Elmira

Thomas LaPage, Trust Officer, Canton

Patricia A. Lowe, Trust Operations Officer

Adam C. Niebanck, Trust Officer, Oneonta

Amy B. Schlee, Trust Officer, Oneonta

Nottingham Advisors, LLC

**500 Essay Road, Suite 220,
Williamsville, NY**

Thomas S. Quealy, Chief Executive Officer

Lawrence V. Whistler, President,
Chief Investment Officer

Karen A. Mohn, Chief Compliance Officer,
Operations Manager

Nicholas Verbanic, Vice President,
Portfolio Manager

Community Investment Services, Inc.

Paul A. Restante, President

Barbara Toczko-Maculloch, Sr. Vice President,
Regional Sales Mgr.

Audrey Pound, Operations Manager

Financial Consultants

Peter Albano, Wilkes-Barre PA

Jonathan Bartholomew, Watertown

Robert Bittner, Geneva

Eric E. Brunet, Canton

Lucas A. Burton, Olean

Joseph M. Butler, Jr., Watertown

Thomas Ciolek, Avon

Daniel P. Drappo, Black River

James G. Durso, Waterloo

John F. Fabrizio, Skaneateles

Timothy Forman, Tupper Lake

Kevin C. Gildner, Wellsville

Jason Grover, Canandaigua

Justin P. Hooper, Plattsburgh

Randall J. Hulick, Springville

Kyle A. Leikam, Dunkirk

Rick P. Little, Tunkhannock PA

Andrew Lomanto, Plattsburgh/Malone

David Long, Elmira

Jude R. McDonough, Scranton PA

Chad J. Murray, Jamestown

Charles A. Nicosia, Oneonta

David H. O'Neil, Jr., Boonville

Joseph Topchak, Corning

Michele Wilck, Newark/Palmyra

CBNA Insurance Agency

Mark J. Moeller, President
117 Park Street, Tupper Lake, NY
173 Margaret Street, Plattsburgh, NY
6 Clinton Street, Heuvelton, NY
8242 Route 3, Harrisville, NY
217 West Main Street, Malone, NY

BENEFIT PLAN SERVICES

Barry S. Kublin, President

Benefit Plans Administrative Services, LLC

6 Rhoads Drive, Utica, NY
Paul M. Neveu, Senior Vice President, Sales
Robert A. Malczyk, Vice President, Sales
Linda S. Pritchard, Vice President, Operations
3501 Masons Mill Road, Suite 505,
Huntingdon Valley, PA
Mary Anne Geary, Vice President
Richard Schultz, Vice President

Harbridge Consulting Group, LLC

One Lincoln Center, Syracuse, NY
Vincent F. Spina, President
Steven P. Chase, Vice President
Sarah E. Dam, Vice President
Kenneth M. Prell, Vice President
Sheila L. Yoensky, Vice President
Kevin J. Wade, Vice President
335 Lexington Ave., 5th Floor, New York, NY
Burton Sivin, Senior Vice President
Sheryl Gabriel, Vice President
George Gomez, Vice President
William Nusblat, Vice President
Jeffrey Schreiber, Vice President

Hand Benefits & Trust

820 Gessner, Suite 1250, Houston, TX
W. David Hand, Chief Executive Officer
Stephen Hand, President
James Goodwin, Vice President
Kathy Harvey, Vice President

BRANCH LOCATIONS

Community Bank Northern New York Market

Adams

Christopher M. Castle, Manager

Alexandria Bay

Matthew Honeywell, Manager

Ausable Forks

Valerie A. Daniels, Assistant Vice President,
Manager

Black River

Christina S. Meagher, Assistant
Vice President, Manager

Boonville

(101 Main Street and Headwaters Plaza)

Debra Roberts, Assistant Vice President,
Manager

Brushton

James H. McElwain, Branch Supervisor

Canton

David R. Peggs, Vice President, Manager

Champlain

Melissa M. Peryea, Assistant Vice President,
Manager

Chateaugay

Barbara J. LaVoie, Manager

Clayton

Lori E. Fearnside, Manager

Fort Covington

Gayle E. Miner, Branch Supervisor

Gouverneur

Diane Easton, Vice President, Manager

Harrisville

Karen Pierce, Branch Supervisor

Hermon

Connie J. Green, Branch Manager

Heuvelton

Carol Peacock, Branch Supervisor

Indian Lake

Brenda K. Lanphear, Manager

Lake Placid

Katie R. Stephenson, Assistant Vice President,
Manager

Long Lake

Viccann Novak, Manager

Lowville (7605 State Street)

Tina M. Paczkowski, Vice President,
District Manager

Mary L. Peters, Assistant Vice President,
Retail Service Officer

Joseph Monnat, Assistant Vice President,
Retail Service Officer

Lowville (7395 Turin Road)

Stephen H. Allen, Manager

Lyons Falls

Nancy Fruin, Assistant Vice President, Manager

Madrid

Marsha L. Watson, Manager

Malone (Elm Street)

Byron Tuthill, Vice President, District Manager

Malone (West Main Street)

Stacey Brunell, Assistant Vice President,
Manager

Massena

Joy Graves, Assistant Vice President,
Manager

Newcomb

Viccann Novak, Manager

North Creek

Lori A. DeMars, Assistant Vice President,
Manager

Norwood

Victoria Strader, Vice President, Manager

Ogdensburg (825 State Street)

Robert L. Seymour, Vice President,
District Manager

Ogdensburg (320 Ford Street)

Sandra C. Kendall, Vice President, Manager

Old Forge

Barbara B. Criss, Vice President, Manager

Plattsburgh (Margaret Street)

Mary Gibbs, Vice President, Manager

Plattsburgh (Route 3)

James E. Snook, Vice President, Manager

Plattsburgh (468 Route 3)

Kent G. Backus Vice President,
Regional Retail Banking Manager

Plattsburgh (In-store – Wal-Mart)

Arlene Favreau, Branch Supervisor

Potsdam (64-70 Market Street and May Road)

Victoria G. Strader, Vice President,
Branch Manager

Helen M. Hollinger, Assistant Vice President,
Retail Service Officer

Pulaski

Steven P. Gaffney, Vice President, Manager

Saranac Lake (Broadway)

Brenda Darrah, Assistant Vice President, Manager

Saranac Lake (Lake Flower)

Renee L. Darrah, Manager

St. Regis Falls

Cynthia M. Murphy, Assistant Vice President,
Manager

Star Lake

Connie Green, Branch Manager

Ticonderoga

Maria E. Beuerlein, Assistant Vice President,
Manager

Tupper Lake (Hosely)

John W. Salamy, Vice President, Manager

Tupper Lake (Park Street)

Gail Auclair, Vice President, Manager
Clair Brown, Retail Service Officer

Waddington

Marsha Watson, Manager

Watertown (1125 Arsenal Street)

Elizabeth A. Brown, Assistant Vice President,
Manager

Watertown (1218 Arsenal Street)

Margaret Farone, Manager

Watertown (216 Washington Street)

Rita J. Walldroff, Vice President,
Regional Retail Banking Mgr
Catherine Ward, Vice President, Manager

West Carthage

Naura L. Christman, Manager

Whitehall

Holly A. Rabideau, Manager

Community Bank Southern New York Market

Addison

Robin K. Knapp, Assistant Vice President, Manager

Alfred

Beth L. Plaisted, Manager

Allegany

Stephanie L. Kolkowski, Assistant Vice President, Manager

Avon

Deborah K. Fitch, Branch Manager

Angelica

Diana L. Grastorf, Branch Supervisor

Bath

Joel P. Brazie, Assistant Vice President, Manager

Belfast

Lisa Perry, Branch Supervisor

Bolivar

Judy Gilliland, Manager

Brocton

Phyllis A. Crockett, Manager

Canandaigua (County Road 10)

Paul E. Lepore, Vice President, District Manager
Deanna Nissen, Branch Supervisor

Canandaigua (South Main Street)

Christopher Bross, Manager

Cassadaga

Susan C. Sekuterski, Manager

Cato

Tiesha Combes, Manager

Cicero

Robert M. Liedka, Jr., Manager

Clifton Springs

(26 East Main Street and Clifton Plaza)

Theresa P. Dorgan, Vice President, Manager

Clymer

Laurie L. Harvey, Manager

Corning (West Market Street)

Wendy B. Daines, Vice President, Manager

Corning North

Beth A. Robins, Manager

Cuba

Mary M. Quigley, Vice President, Manager

Dansville

Jody R. Tonkery, Vice President, District Manager
Carolyn M. Scoppa, Vice President, Retail Service Officer

Dunkirk (3909 Vineyard Drive)

Jason DeChard, Manager

Dunkirk (345 Central Avenue)

Jean M. Coughlin, Assistant Vice President, Manager

Elmira

Denise E. Allen, Vice President, District Manager
Robert J. Avvampato, Retail Service Officer
Courtney Shaw, Retail Service Officer
Vicki Weller, Retail Service Officer

Erwin/Painted Post

Laura Noonan, Branch Supervisor

Falconer

Joann W. Anderson, Assistant Vice President, Manager

Fillmore

Julie A. Hall, Manager

Franklinville

Sandra S. Wolfer, Manager

Fulton

Tina Stephens, Assistant Vice President, Manager

Geneva

Robert Sollenne, Vice President, Manager

Gowanda

Daniel L. Drozdiel, Vice President, District Manager
Ralph Swanson, Vice President, Manager
Nathan Pleakis, Retail Service Officer

Hammondsport

Kelly L. Bussmann, Assistant Vice President, Manager

Hannibal

Debra A. Davis, Assistant Vice President, District Manager

Hornell

Melissa M. Ponticello, Manager

Horseheads-Consumer Square

Cynthia A. Welliver, Assistant Vice President, Manager

Houghton College

Julie Hall, Manager

Interlaken

Denise Ector, Manager

Ithaca

Michael MacDonald, Manager

Jamestown (1281 North Main Street)

Kathleen S. Bemus, Assistant Vice President, Manager

Jamestown (25 Main Street - Brooklyn Square)

Glori A. Taylor, Manager

Lakewood

Lisa R. Allenson, Vice President, District Manager

Livonia

Ronda Howard, Manager

Moravia

Kathleen M. Longyear, Manager

Mount Morris

Stacey Lewis, Manager

Naples

Joilette M. Pendleton, 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. Spears, Vice President, District Manager

Theresa M. Raftis, Assistant Vice President, Retail Service Officer

Olean (Delaware Park)

Kelly Crandall, Manager

Oswego

Fred Aldrich IV, Vice President, Manager

Ovid

Jacqueline M. 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
Dana L. Crans, Retail Service Officer

Penn Yan (272 Lake Street)

Teresa A. Vivier, Manager

Phelps

Susan J. Lanse, Manager

Portville (1471 East State Road)

Brenda Blackwell, Manager

Portville (7 North Main Street)

Christine P. Boser, Branch Supervisor

Randolph

Diane M. Lecceardone, Manager

Ripley

Patricia J. Knight, Manager

Rushville

Christine M. Copper, Branch Supervisor

Salamanca

Robin K. Bowser, Manager

Seneca Falls

David W. Sloan, Vice President, Regional Retail Banking Manager
Christine Plate, Manager

Sherman

Shannon R. Stevens, Manager

Silver Creek

Mark J. Catalano, Assistant Vice President, District Manager

Skaneateles

Desiree R. Murphy, Assistant Vice President,
Manager

Springville (Cascade Drive)

Mary Ann Lutz, Manager
Jason Mongillo, Retail Service Officer

Springville (North Buffalo Street)

Brooke Baker, Manager
Kristen Woodarek, Retail Service Officer

Waterloo

Larry D. Ledgerwood, Vice President,
Manager

Watkins Glen

Anthony Fraboni, Vice President, Manager
Laurel M. Fox, Assistant Vice President,
Retail Service Officer

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

Westfield

Carl Swan, Manager

Woodhull

Lynn S. Vitale, Manager

Yorkshire

Joseph D. Fore, Assistant Vice President,
Manager

Community Bank Central New York Market

Boiceville

Roy S. Todd, Manager

Cobleskill

Arthur C. Lafleur, III, District Manager

Cooperstown (Main Street)

Janice E. Eichler, Manager

Cooperstown Otsego (State Highway)

Wende Ebberts, Manager

Delhi

Tina A. Seguire, Manager

Downsville

Jean M. Lacey, Manager

Fleischmanns

Marilee A. Asher, Manager

Halfmoon

Richard A. Griesche, District Manager

Johnson City

Michelle Carlsson, Manager

Milford

Rosemary Aborn, Manager

Morris

Michael Walling, District Manager

Norwich (State Highway)

Caryn M. Wake, Manager

Norwich (Broad Street)

Jason C. Yager, Manager

Oneonta (Main Street)

Susan M. DelCostello, Manager
Nancy Miller, Gold Club

Oneonta (Chestnut Street)

Paula M. Morell, Manager

Oneonta (Southside)

Sean A. Hall, Manager

Oneonta (FoxCare Center)

Richard J. Follett, Assistant Vice President,
District Manager

Lesley A. Bohacek, Manager

Otego

Dorothy J. Kelley, Manager

Schenevus

Gerald V. Coombs, Jr., Manager

Sidney

Bridget Fisk, Assistant Vice President,
District Manager
Sharon D. Cutting, Manager

Walton

Donna A. Bundy, Manager

First Liberty Bank & Trust

Carbondale

Bobbiann Davis, Manager

Clarks Summit

David C. Griffin, Vice President, Manager

Daleville

Susan M. Pitoniak, Manager

Dickson City

Lisa Rochinski, 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 M. Russick, Assistant Vice President,
Manager

Laceyville

Kevin W. Huyck, Assistant Vice President,
Manager

Lawton

Greg M. Culver, Manager

Little Meadows

Mary A. Sivers, Branch Manager

Meshoppen

Jennifer Ramey, Branch Manager

Montrose

Steven Stranburg, Vice President, Manager

Noxen/Bowman's Creek

Colleen M. Bullock, Manager

Olyphant

Theresa A. Collins, 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 (North Washington Avenue)

Karen E. Sweeney, Manager

Scranton (Wyoming Avenue)

Patricia M. Calabro, Vice President,
Manager

Towanda

Lori A. Smith, Manager
Sue McClary, Business Development Officer

Tunkhannock

Karen Fuller, Vice President,
District Manager
Jennifer Chesner, Manager
Brigitte S. Meskers, 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, Assistant Vice President,
Manager
Sandra A. Wheeler, Retail Service Officer

Wyalusing

Douglas M. Jackson, Manager



SELECTED FINANCIAL HIGHLIGHTS

Income Statement (in millions)	2012	2006	CAGR (6-year)
Net interest income	\$ 230.4	\$ 134.8	9.3%
Non-interest income	99.0	51.7	11.4%
Operating expenses	203.5	126.6	8.2%
Provision for loan loss	9.1	6.6	5.5%
Net income	\$ 77.1	\$ 38.4	12.3%
Net interest margin	3.88%	3.91%	
Per Share Data (diluted)			
Earnings per share	\$ 1.93	\$ 1.26	7.4%
Cash dividends declared	1.06	0.78	5.3%
Book value	22.78	15.37	6.8%
Tangible book value	\$ 13.72	\$ 7.17	11.4%
Balance Sheet Data (end of period, in millions)			
Assets	\$ 7,497	\$ 4,498	8.9%
Loans, net	3,866	2,702	6.2%
Deposits	5,628	3,168	10.1%
Shareholders' equity	\$ 903	\$ 462	11.8%

GLOSSARY

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) is 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 non-interest 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 was 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 losses inherent in the company's loan portfolios.

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 lending, investing, and depository activities before overhead and loan loss provision. Interest rate spread is a component of the net interest margin.

Non-interest 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)

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 was the largest component of the government's measures to address the crisis in the financial services industry over the past few years. The company chose not to participate in this program.

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

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 8, 2013
1:00 P.M. EST
Riveredge Resort
17 Holland Street
Alexandria Bay, NY 13607

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
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
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

Independent Auditors

The Board of Directors appointed PricewaterhouseCoopers, LLP as auditor for the company for the year ended December 31, 2012

Analyst Coverage

The following analysts published research about Community Bank System in 2012:

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

Guggenheim Partners
David Darst / 615.208.1224
david.darst@guggenheimpartners.com

Keefe, Bruyette & Woods Inc.
Damon DelMonte / 860.722.5908
ddelmonte@kbw.com

Macquarie Securities Group
John Moran / 212.231.0662
john.moran@macquarie.com

Raymond James & Associates
Anthony Polini / 212.856.4897
anthony.polini@raymondjames.com

RBC Capital Markets
Gerard Cassidy / 207.780.1554
gerard.cassidy@rbccm.com

Sandler O'Neill & Partners LP
Joseph Fenech / 212.466.7938
jfenech@sandleroneill.com

Investor's Choice Program

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

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SAFE HARBOR STATEMENT The Community Bank System, Inc. Annual Report contains forward-looking statements, within the provisions of the Private Security Litigation Reform Act of 1995, that are based on current expectations, estimates, and projections about the industry, markets and economic environment in which the company operates. Such statements involve risks and uncertainties that could cause actual results to differ materially from the results discussed in these statements. These risks are detailed in the company's periodic reports filed with the Securities and Exchange Commission.

bank happy®



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