



INVESTING IN THE FUTURE



COMMUNITY BANK SYSTEM, INC.

2016 ANNUAL REPORT

OPPORTUNITY
PROFILE

The Bank operates more than 200 customer facilities across Upstate New York and Northeastern Pennsylvania through its banking subsidiary, Community Bank, N.A. At year-end 2016 the Company had assets of approximately \$8.7 billion, placing the DeWitt, N.Y. headquartered company among the country's 150 largest financial institutions. In October 2016 the Company entered into a definitive agreement to acquire Merchants Bancshares, Inc., Vermont's largest statewide independent bank, with total assets of nearly \$1.9 billion, deposits of \$1.5 billion and 32 banking offices. In December 2016, the Company entered into an agreement to acquire Northeast Retirement Services, Inc. ("NRS"), a leading provider of plan accounting, transfer agency, fund administration, trust and retirement plan services. NRS became a subsidiary of Benefit Plans Administrative Services, Inc., a wholly-owned subsidiary of Community Bank System, in February 2017 when the transaction was completed.

The Company's principal business focus is building additional value into the enterprise through disciplined organic growth combined with selective and strategic acquisitions, and a consistent approach to business regardless of economic conditions. The Company's performance goal is to generate more than 10 percent average annual total shareholder return over time.

Community Bank's market-leading branch system serves predominantly non-urban markets where it has earned the first or second deposit market share in 75 percent of the towns where it operates.

Approximately 36 percent of the Company's 2016 revenue came from noninterest sources, with nearly 60 percent of that from its benefits administration, wealth management and insurance services businesses. In 2016, the Company's financial services businesses generated just under \$90 million in revenue, an increase of 37 percent from \$65 million in 2015.

The Company's disciplined approach to lending has provided an enviable risk profile for the Bank, where asset quality metrics have remained consistently better than industry and peer group averages.

The Company's consistent approach to business has resulted in it being named one of the nation's best large banks each of the last eight years in the annual Forbes.com® analysis of America's 100 largest financial institutions.

Community Bank System has raised its cash dividend for 24 consecutive years, a significant milestone and evidence of the Company's belief that payment of a meaningful and growing dividend is an important component of providing favorable long-term returns to its shareholders.

CBU has raised its cash dividend
for 24 consecutive years.

INVESTMENT
CONSIDERATIONS: CBU

NYSE-listed company with
significant liquidity

Payment of a cash
dividend that has been
raised every year for
the past 24 years, providing
a meaningful return

The 9-year cumulative
total return to shareholders
of 335% (on 12/31/16),
the fourth highest among
the top 100 largest
US banks by asset size

Focus on revenue
diversification which has
driven substantive noninterest
income expansion

Successful and effective
operating strategy

Strong fundamentals
with excellent asset quality
on a consistent basis

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INVESTMENT
PROFILE

LISTING

New York Stock Exchange

TICKER SYMBOL

CBU

MARKET CAP

\$2.76 billion

At 12/31/16

DIVIDEND

\$1.28

Annualized for most recent quarter

DIVIDEND YIELD

2.07%

Based on closing price of \$61.79 on 12/31/16

DIVIDEND PAYOUT RATIO

54%

SHARES OUTSTANDING

44.4 million

AV. TRADING VOLUME

~180,000

3-month average 12/31/16

Community Bank has increased its cash dividend by 60% over the past 10 years.

CBU was ranked 3rd best for 2017 in an analysis of America's best and worst large banks by Forbes[®] Magazine.

Total Shareholder Returns (Annualized)

Through December 31, 2016, or Most Recent Available, Including Reinvestment of Dividends

| | 1 YEAR | 5 YEARS | 10 YEARS | 15 YEARS |
|-------------------------|--------|---------|----------|----------|
| CBU | 59.0% | 21.2% | 14.6% | 14.9% |
| S&P 600 Commercial Bank | 44.7% | 22.6% | 3.1% | 5.8% |
| KBW Regional Bank | 40.4% | 20.5% | 5.6% | 8.6% |
| S&P 500 | 12.0% | 14.6% | 6.9% | 6.7% |
| DJIA | 16.5% | 12.9% | 7.5% | 7.3% |

Source: Bloomberg

Stock Ownership 12/31/16



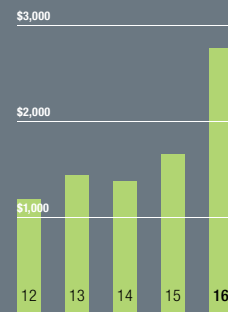
| | |
|---|-----|
| Institutional – Active Managed | 40% |
| Institutional – Passive / Index Managed | 25% |
| Retail | 25% |
| Officers / Directors | 4% |
| Pension / Dividend Reinvestment / 401K | 6% |

Dividend Growth



Market Cap: CBU

In millions at 12/31



TO OUR SHAREHOLDERS,
CUSTOMERS AND EMPLOYEES:

INVESTING IN THE FUTURE

2016 marked Community Bank's 150th anniversary, a milestone we've proudly celebrated across our communities. From our humble beginnings in 1866 as St. Lawrence County National Bank, we've grown to nearly \$8.7 billion in assets across the Adirondacks, the North Country, the Southern Tier, Western New York and Northeastern Pennsylvania. In 2017, we'll cross the \$10 billion asset threshold as we expand into New England with the acquisition of Vermont-based Merchants Bancshares, Inc. We believe our growth as a bank and success as a community partner over these 150 years is a direct result of our custom to always invest in — and embrace — the future.

The future energizes us. Each day and each year, we challenge ourselves to deliver more. How can we better serve our customers, engage our employees and reward our shareholders? How can we be a better financial partner, employer and investment? The answer in every one of our 150 years has been the same: be consistent, stick to what we know, do right by our communities, and do it better than anyone else.

We did well by this mission in 2016. Our record operating results and financial performance once again placed us among the best large U.S. banks, as evaluated by Forbes® Magazine in its eighth annual analysis of "America's Best Banks." In its January 2017 list, Forbes® ranked Community Bank third among the 100 largest publicly-traded banks and thrifts, based on a comparison of ten different metrics related to asset quality, capital adequacy, growth and profitability, and which included financial institutions ranging in asset size from just under \$8 billion to \$2.5 trillion. This marks Community Bank's highest ranking in the eight years that Forbes® has produced this analysis. In fact, we've ranked 12th or higher in every year, with top 10 rankings for six of the annual reviews. We believe that our record of regularly placing near the top of these rankings reflects our consistently strong operating performance.

Likewise, in 2016 we raised our cash dividend for the 24th consecutive year, maintaining our place among the select group of "dividend achievers" that populate the S&P High Yield Dividend Aristocrats® Index. This index measures the performance of companies within the S&P Composite 1500® that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 years. We are pleased to note that even among this elite group of investment peers, Community Bank again outperformed the index as a whole on the basis of a one-year total return to shareholders, returning 59.0 percent for the year ended December 31, 2016, compared to the index average of 20.7 percent. We outperformed the index average for the three-, five- and ten-year periods ended December 31, 2016 as well.

Our pride in this history is exceeded only by our optimism for the future.

We believe 2017 will rank among the most transformative years in Community Bank's history — a year when our geography and operations will grow in meaningful ways, and our earnings power in tandem.



Mark E. Tryniski, President
and Chief Executive Officer, and
Sally A. Steele, Chairman of
the Board

A RECORD 150TH YEAR

2016 was a solid year in nearly every respect. Record operating results for our 150th year reflect the ongoing core strength and operating trends across our franchise. The Oneida Financial transaction was successfully integrated throughout 2016, with strong loan growth, a highly positive level of deposit retention and significant growth in wealth management, insurance and employee benefit services revenues.

Overall, our consumer mortgage and consumer installment products demonstrated strength through the year, and our total loan portfolio grew at a modest but healthy pace of 3.1 percent and over \$147 million from 2015. Loan growth was matched with core deposit expansion of 5.0 percent, which is a highly productive performance in our markets. Commercial lending activity was fairly consistent throughout 2016, reflecting the highly competitive nature of this business in our markets.

Revenue expansion was significant as well. Noninterest income grew 26.5 percent from 2015 and was meaningfully impacted by the Oneida acquisition, which brought on a significant insurance business in addition to traditional banking relationships. Our employee benefits administration, wealth management and insurance businesses posted an overall 37 percent increase in revenues, with a significant portion of the growth coming from Oneida activities. Total non-margin revenues grew to constitute over 36 percent of total revenues, providing not just diversification but multiple points of opportunity for further growth.

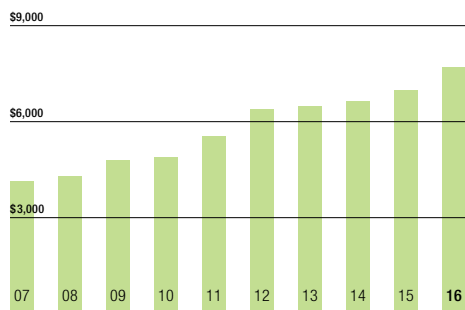
Net interest margin measured 3.71 percent for the year, down slightly from 3.73 percent for 2015, as proactive and disciplined management of funding costs in 2016 continued to help offset the interest-rate-driven decline in our average earning asset yields.

Operating expenses continued to be managed in a disciplined fashion. Our efficiency ratio — the measure of costs incurred to generate revenue — rose modestly to 59.1 percent, from 57.9 percent in 2015, largely reflecting infrastructure investments in operations, capital planning, Dodd-Frank Act stress testing, and investments to strengthen risk management and compliance to be fully prepared to meet the higher organizational expectations of a \$10 billion institution. We are proud to have operated with an efficiency ratio consistently below 60 percent since 2010, and we continue to believe our efficient management is a core competency which differentiates Community Bank from other banks. Over this same period, publicly traded U.S. banks reported efficiency ratios ranging from 70 percent to 73 percent, on average.

2016 was also a continuation of the favorable overall asset quality results that are part of our credit DNA. Our reserves represented over seven years of annualized net charge-offs at December 31st. Our 2016 net charge-off results were again favorable at just 13 basis points, and nonperforming loans, comprised of both legacy and acquired loans, ended the year at \$23.7 million, or 0.48 percent of total loans. Although we don't see signs of asset quality headwinds on the horizon, it would be unlikely that we will see significant improvements to current asset quality results.

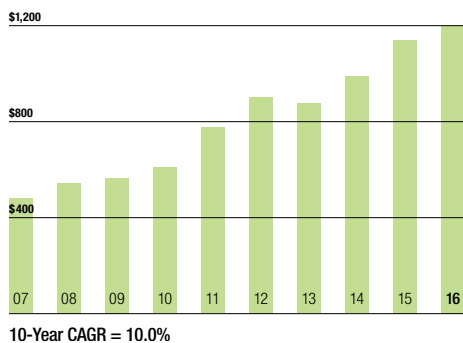
Likewise, we are pleased with the ability of our strong and growing business to offset a significant increase in our New York State tax rate. The \$0.07 earnings per share impact from incremental state income taxes was absorbed by franchise growth, as total EPS for 2016 reached \$2.32, up 6 percent from \$2.19 in 2015.

Average Interest-Earning Assets In millions



10-Year CAGR = 7.2%

Shareholders' Equity In millions



CBU shareholders' equity has more than doubled since 2009.

TRANSFORMATIONAL CHANGE

In recent years our industry has been stratified into the "big" and the "small." A community bank at heart and in history, up until now we have been characterized as "small." But, with the economic events of recent years, banking regulators have lowered the key threshold of "big bank" size to just \$10 billion in assets. Banks that exceed this size bear significantly more complex requirements related to compliance, risk management and general regulatory oversight, through what is referred to as Dodd-Frank Act Stress Testing, or "DFAST."

We've been transparent in the efforts and costs we've undertaken to prepare for approaching this threshold. As we grew in 2015 and 2016, we established and communicated a road map that would provide for a mid-2017 DFAST reporting capability, regardless of whether we'd actually reached the \$10 billion threshold by that time. We proceeded with our plans, implementing and building out DFAST systems and reporting capabilities. When our October 2016 agreement to acquire Merchants Bancshares, Inc. made crossing the \$10 billion asset mark imminent, we were well prepared.

The DFAST threshold is near. But — once crossed, our strategy remains the same. We'll be focused on growing our earnings and dividends in a disciplined and sustainable fashion for the benefit of our shareholders — and not growth for its own sake.

Asset growth aside, the Merchants acquisition brings truly exciting opportunities to Community Bank. The largest statewide independent bank in Vermont, Merchants has the third largest deposit market share in the state, with a growing presence in Western Massachusetts. In addition to assets of nearly \$1.9 billion, it brings total deposits of \$1.5 billion, 32 banking offices, and one of the strongest loan books in the country. Merchants' cumulative credit losses over the past 10 years, including through the credit crisis, is just 27 basis points — total. Their high-quality balance sheet is funded by an attractive, low-cost core deposit base very similar to ours. And most importantly, the culture of Merchants and Community Bank are identical. Above all, we each value humility, work ethic, respect for others, and a commitment to excellence and achievement.

We believe Merchants is an exceptionally strong and attractive institution in every respect, including its board and governance, its leadership, its people, its markets, its performance, and its balance sheet. We are very judicious with our capital and very judicious with our business partners, and believe we have chosen wisely.

We are progressing through the regulatory review and approval process, and we believe that the acquisition will be completed around mid-year 2017. We're very pleased that Merchants' President and CEO Geoffrey Hesslink will be remaining with the Company, serving as our New England Regional President.

Additionally, in December 2016 we entered into an agreement to acquire Northeast Retirement Services, Inc. ("NRS"), a leading provider of plan accounting, transfer agency, fund administration, trust and retirement plan services. NRS officially joined our Benefit Plans Administrative Services, Inc. ("BPAS") subsidiary upon deal closing in February 2017. The combination of NRS and BPAS creates a subsidiary with over \$80 million in annual fee revenue, over \$50 billion in trust assets and 3,800 retirement and other employee benefit plan administration clients throughout the United States and Puerto Rico. The NRS deal nicely represents the kind of non-banking growth opportunities that we believe build tremendous value into our franchise, without necessarily adding to the balance sheet in the way bank transactions do.

In both Merchants and NRS, we found low-risk, high-quality partners with whom we expect to create above-average returns for our shareholders.

EXCITEMENT AHEAD

Central to our success is the dedicated work of our outstanding Board of Directors, and 2017 brings a number of changes.

Per our Board's policy regarding term limits for the chairs and committees, Nicholas DiCerbo's term as Board Chair expired at the close of 2016. Nick has served as Board Chair since 2011 and as a Director since 1984, and has been an integral part of the decision-making that has elevated Community Bank System to a four-state market presence and more than 200 banking locations. Nick will now serve as Chair of the Strategic/Executive Committee, and will also serve on both the Risk and Trust and Financial Services Committees.

We are thrilled that Sally A. Steele, Esq., will ably assume Nick's role as Chair of the Board. A Director of the Company since the acquisition of Grange National Banc Corp. in 2003, Sally is an outstanding leader with significant knowledge of our institution which she will apply in guiding the governance activities of the Company in the coming years.

With deep gratitude we thank Jim Gibson, whose mandatory retirement at age 70 culminated seven years of service to Community Bank's Board. Jim joined the Board in 2009, following his retirement from partnership as a public accountant with KPMG, and his financial expertise brought tremendous insight to our Audit and Compensation Committees.

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

We are confident that the meaningful changes on the horizon for Community Bank in 2017 set the stage for an abundant future for our Company. We intend to continue delivering on our duty to manage and grow our organization in a disciplined fashion, including crossing the \$10 billion threshold in a manner that optimizes the economic outcome for our shareholders.

We're grateful for your continued support of Community Bank System, Inc. in an era of great industry change. It is an honor to look ahead to a future of shared successes with our customers, shareholders and employees in 2017 and beyond. The future is exciting, and we cannot wait to embrace it.

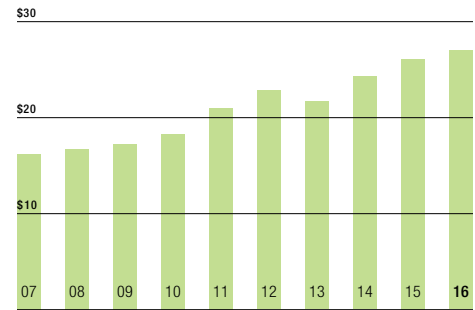


Sally A. Steele Chairman of the Board



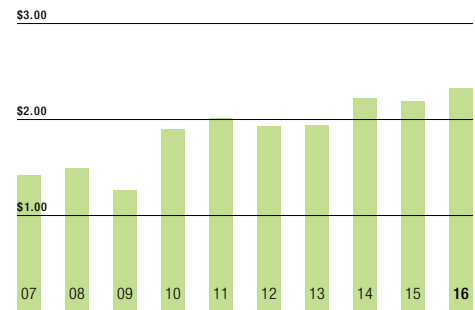
Mark E. Tryniski President and Chief Executive Officer

Book Value per Share



10-Year CAGR = 5.8%

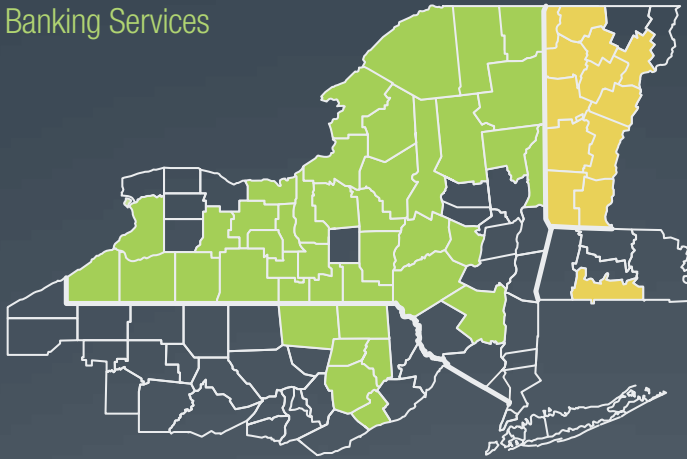
Earnings Per Share Diluted



10-Year CAGR = 6.3%

BUSINESS SUMMARY

Banking Services



- Counties with Community Bank Retail Banking Locations
- Counties with Merchants Bank Retail Banking Locations

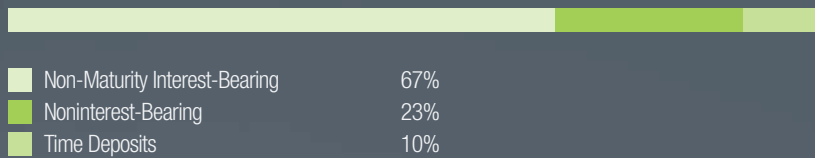
Community Bank Franchise Overview

| | |
|-----------------------------|----------------|
| Total Branch Locations | 194 |
| Total ATMs | 202 |
| Total Counties Served | |
| New York | 36 |
| Pennsylvania | 6 |
| Average Deposits per Branch | \$34.5 million |

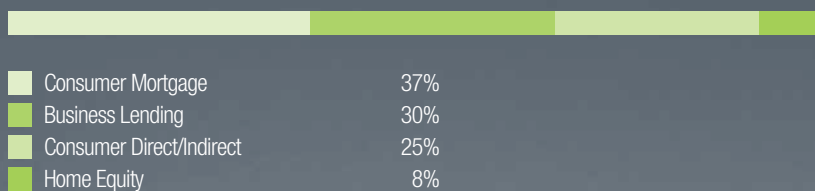
Merchants Bank Franchise Overview

| | |
|-----------------------------|----------------|
| Total Branch Locations | 32 |
| Total ATMs | 33 |
| Total Counties Served | |
| Vermont | 12 |
| Massachusetts | 1 |
| Average Deposits per Branch | \$47.2 million |

Focus on Core Deposit Funding Total Deposits at 12/31/16 = \$7.08 billion

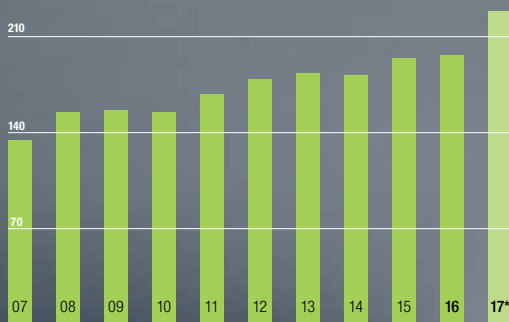


Diverse Loan Portfolio Total Loans at 12/31/16 = \$4.95 billion



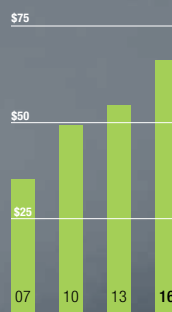
Expanding Service Footprint

Number of total offices



*at conclusion of Merchants acquisition

Banking Services (noninterest income)
In millions



Noninterest-bearing deposits represent nearly a quarter of CBU's total deposits.

Noninterest income derived from general banking services totaled more than \$66 million in 2016.

The Company's financial services businesses have grown at a 13% compounded annual growth rate (CAGR) over the past 10 years.

In 2016, employee benefit, wealth management, and insurance services accounted for 58% of total noninterest income.

Employee Benefit Services

BPAS, Inc., and its subsidiaries, provides on a national basis: employee benefit trust services; collective investment fund, retirement plan and VEBA & HRA/HSA plan administration services; actuarial services; and healthcare consulting services.

In 2016 BPAS served approximately 400,000 plan participants, held \$19 billion in assets under custody, employed 270 professionals, and operated from 10 offices located in New York, New Jersey, Pennsylvania, Texas and Puerto Rico.

In December 2016, the Company announced an agreement to acquire Northeast Retirement Services, Inc. ("NRS"), a leading provider of plan accounting, transfer agency, fund administration, trust and retirement plan services. The combination of BPAS and NRS creates a platform with over \$80 million of annual revenue, more than \$50 billion of trust assets, and 3,800 clients across the United States and Puerto Rico.

Wealth Management and Insurance Services

INVESTMENT ADVISORY/ASSET MANAGEMENT

Community Investment Services, Inc., The Carta Group, Inc., Nottingham Advisors, Inc., and the Trust Department of Community Bank, NA provide investment advisory and asset management services to individuals, corporations, corporate pension and profit sharing plans, and charitable foundations.

INSURANCE

The OneGroup NY, Inc. is a full-service insurance agency offering personal and commercial property insurance and other risk management products and services to individuals, corporations, not-for-profits and municipalities.

Financial Services Revenue Diversity 2016 Revenue = \$89.9 million



| | |
|-------------------------------------|-----|
| Employee Benefit Service Revenues | 52% |
| Insurance Revenues | 26% |
| Wealth Management Services Revenues | 22% |

Community Bank System ranked third in the eighth annual Forbes.com® ranking of “America’s Best Banks 2017.”

This marks the sixth time that CBU has been ranked among the top 10 best banks in Forbes® analysis of America’s 100 largest banks and thrifts. This year’s analysis was based on a comparison of ten different metrics related to growth, asset quality, capital adequacy and profitability. The following charts display the financial metrics used in the 2017 analysis and compare CBU’s results to the median values of the 100 largest financial institutions.



After placing among the top 12 banks for eight consecutive years, Forbes® ranked CBU third this year, its best placement yet.

2016 COMPARISON CHARTS CBU VS TOP 100 BANKS



Forbes® analysis ranked banks based on September 30, 2016 regulatory data.

Over the past 10 years, CBU has grown revenue at a compound annual growth rate of 8.7%, outpacing operating expense growth of 7.5%.

Community Bank System's book value per share has grown by more than 75% since the end of 2006.

FINANCIAL PERFORMANCE

Selected Financial Highlights

| Income Statement In millions | 2016 | | 2006 | | CAGR (10-year) |
|--|-------------|-------|-------------|-------|--------------------------|
| Net interest income | \$ | 273.9 | \$ | 134.8 | 7.4% |
| Noninterest income | | 155.6 | | 51.7 | 11.7% |
| Total revenue | | 429.5 | | 186.5 | 8.7% |
| Operating expenses | | 266.8 | | 129.6 | 7.5% |
| Provision for loan loss | | 8.1 | | 6.6 | 2.1% |
| Net income | \$ | 103.8 | \$ | 38.4 | 10.5% |
| Net interest margin | | 3.71% | | 3.91% | N/A |

Per Share Data

| | | | | | |
|---|----|-------|----|-------|------|
| Diluted earnings per share | \$ | 2.32 | \$ | 1.26 | 6.3% |
| Operating earnings per share ¹ | | 2.33 | | 1.33 | 5.8% |
| Cash dividends declared | | 1.26 | | 0.78 | 4.9% |
| Book value | | 26.96 | | 15.37 | 5.8% |
| Tangible book value | \$ | 17.12 | \$ | 7.17 | 9.1% |

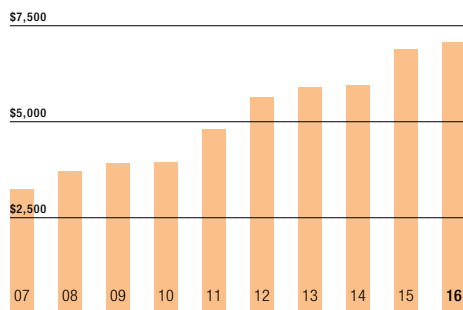
Balance Sheet Data

| End of period, In millions | | | | | |
|----------------------------|----|-------|----|-------|-------|
| Assets | \$ | 8,668 | \$ | 4,498 | 6.8% |
| Loans, net | | 4,949 | | 2,702 | 6.4% |
| Deposits | | 7,076 | | 3,168 | 8.4% |
| Shareholders' equity | \$ | 1,198 | \$ | 462 | 10.0% |

¹ Operating earnings per share excludes the tax-effected impact of any gains or losses on sales of investment securities and debt extinguishments, acquisition expenses, litigation settlements, and other special charges.

Core deposits make up 90% of our funding and are a strength and a focus at CBU.

Deposit Growth In millions



10-Year CAGR = 8.4%

Community Bank System's success has been the result of a consistent strategy that we have followed for more than 20 years. We have invested in and grown a market-leading branch system which serves predominantly non-urban markets.

Simply put, we operate as a community bank with local decision-making, provide a broad array of banking and financial services to retail, commercial and municipal customers, and leverage our deep knowledge of these markets to build strong core account relationships.

Using this approach, we have earned a dominant market share in much of Upstate New York where there is rational and modest growth, but where we have achieved solid performance over time. Throughout our Upstate New York and Northeast Pennsylvania service area we have the 1st or 2nd deposit market share in 75 percent of the towns where we do business.

Our operating objective is to continue to grow our branch network, primarily through a disciplined acquisition strategy, and with an occasional de novo location. At the 2016 year end, we were one of the largest community banks based in Upstate New York with approximately \$8.7 billion in assets and more than 200 customer facilities. In the coming months we will complete the acquisition of Merchants Bancshares, Inc. and gain entry to the Vermont marketplace, with a partner that has the number three market position for the entire state. At that time we'll crest the \$10 billion asset threshold, which will subject the Company to additional regulation and increased supervision, an outcome for which we have been carefully preparing.

Despite our increased size — our total assets have more than quadrupled since 2000 — we continue to operate like a \$1 billion bank, with decentralized decision-making and a focus on the smaller customers within our service footprint who don't seem to interest our larger competitors. We focus on generating and retaining core deposit accounts which is illustrated by our modest percentage of time deposits in relation to total deposits. We are adept at functioning in a non-urban environment where growth is stable and typically within a range of two to five percent.

Along with being an efficient and effective gatherer of deposits, our understanding of our market area enables us to function particularly effectively as an in-footprint lender. Our disciplined approach to lending has resulted in exceptional asset quality, even through the worst recession since the Great Depression, and our conservative approach to risk management makes our returns particularly robust relative to risk taken.

Importantly, we have never retreated from our markets or customers during economic downturns, nor do we see that as a possibility in the future. Our banking strategy has been sound and as such, we haven't needed to significantly change it. We continue to seek to grow through disciplined organic and acquired opportunities and we remain focused on cultivating profitable customer relationships.

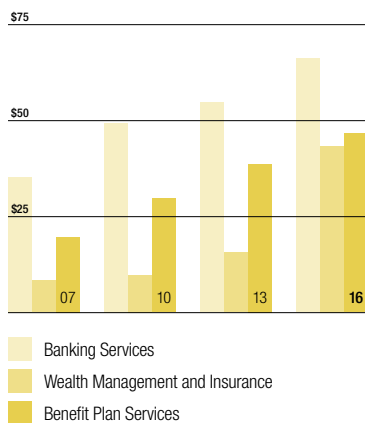


**INVESTING IN A SUCCESSFUL
GROWING COMMUNITY BANK**

A core operating objective is to grow noninterest revenues by developing banking-related fee income and by growing existing financial services business units.

Noninterest Income Growth

In millions



An important component of the Company's long-term business strategy has been to invest in and to substantially grow noninterest revenue to reduce dependence on net interest margin. This is particularly important during periods when the margin narrows as has been the case in recent years. Our success at meeting this objective is illustrated by both the longer-term trends and the near-term growth that has been realized for these businesses. Over the past 10 years noninterest income has more than tripled from \$51.7 million in 2006, to \$156.0 million for 2016. Compared to 2015, fee income increased by \$32.7 million, an increase of 26.5 percent, reflecting both organic growth in these businesses and a full year of revenue from the Oneida Financial acquisition. Along with growth in relation to the 2015 revenue, noninterest income as a percentage of total revenue increased from 33 percent to 36 percent in 2016.

Banking service fees, which are more than 42 percent of noninterest income for 2016, were up 14.5 percent to \$66 million, both a result of the Oneida acquisition and as a result of organic growth.

Starting in 1996, with the acquisition of Benefit Plan Administrators ("BPAS"), the Company has made a strong commitment to acquire and build financial services businesses that can complement the banks service offerings, or that can function independently of the Bank's activities.

BPAS has the capability of being both a complementary service for the Banks customers, and of building a high-performing business which services customers from all over the United States as well as Puerto Rico. BPAS provides benefits administration and consulting services, including: defined contribution plan benefit administration; actuarial services; health care and benefit plan consulting, collective investment fund administration; and VEBA/HRA administration.

BPAS services its nationwide clientele from several offices that are located in Upstate New York, Metropolitan New York, Philadelphia, Pittsburgh, Houston, Boston and Puerto Rico. During the past eight years BPAS has grown revenues at a compound annual growth rate of just under 11 percent, and with the completion of the acquisition of Northeast Retirement Services in February, BPAS is expected to realize a significant increase in revenue during 2017.

The Company's wealth management and insurance business also realized significant growth in 2016 as it more than doubled from \$20.2 million in 2015 to \$43.3 million. This strong growth was a reflection of the 2016 integration of the insurance and wealth management businesses acquired as part of the Oneida Financial transaction.

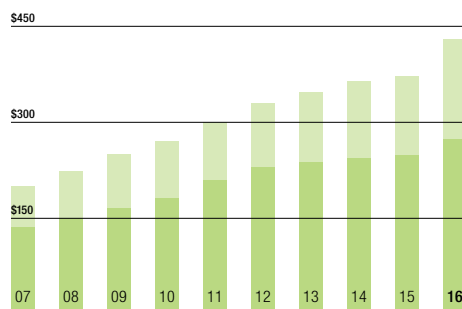
The Company's wealth management and insurance businesses are focused primarily on the Bank's service areas of Upstate New York and Northeast Pennsylvania and provide trust services, asset management and advisory as well as insurance agency services. These businesses have realized an eight-year compound annual growth rate of more than 12 percent, and finished 2016 with nearly \$5 billion in assets under management.



**INVESTING IN GENERATING
DIVERSIFIED REVENUE STREAMS**

CBU noninterest income was 35.9% of total revenue in 2016, up from 27.7% in 2006.

Total Revenue¹ In millions



10-Year CAGR = 8.7%

¹ excluding securities gains/losses and debt extinguishment charges

■ Noninterest Income
■ Net Interest Income

Community Bank's roots reach back 150 years to the North Country of Upstate New York, and into many of towns and villages that are the antithesis of the state's urban centers. As we have grown and expanded our service area, we have continued to seek out similar markets across Upstate New York and into Northeastern Pennsylvania, where we are a strong competitor. These regions are not known for their dynamic growth prospects, but they are known to be stable low-growth markets that aren't subject to boom and bust cycles. While we have successfully grown organically, it has always made sense to explore opportunities to supplement that growth in other ways.

Acquisitions have been an important part of the Company's long-term strategic growth initiative and we have consistently invested in the growth of noninterest revenues, as well as banking acquisitions that strengthen our market position or expand our service area. The Company has earned a reputation for being an effective acquirer by focusing on transactions that are manageable in size, accretive to earnings and importantly, low risk. Since 1985, we have expanded our banking franchise through 18 successful whole bank or branch acquisitions. In 1996, we made our first investment in non-bank fee revenue by acquiring Benefit Plan Administrators. Since that time we have made nine acquisitions which have grown our financial services revenues to just under \$90 million for 2016.

Other recent transactions have included the acquisition of Oneida Financial Corp. in early December 2015, adding 12 branches, \$699 million in deposits and improving our market share in the Syracuse and Utica-Rome metropolitan areas. The Oneida transaction also added product and service offerings in benefit administration, wealth management and insurance which complemented our financial services offerings. In the fourth quarter of 2013, we effectively integrated eight branches that we acquired in Northeast Pennsylvania from Bank of America, which added \$303 million in deposits, as well as scale to our Pennsylvania banking operations. We completed another branch transaction during the third quarter of 2012, when we acquired 19 branches (12 after consolidations) from HSBC and First Niagara. This transaction expanded our presence in a variety of Upstate New York markets and added \$800 million in deposits. And in the second quarter of 2011, we completed the acquisition Wilber Corporation adding 22 Central New York locations, \$870 million in assets and \$772 million in deposits.

In October 2016, we announced a definitive agreement to acquire Merchants Bancshares, with total assets of nearly \$1.9 billion, deposits of \$1.5 billion and 32 banking offices. Merchants is the largest statewide independent bank in Vermont with 11 percent market share and is ranked third in deposits.

This transaction offered an opportunity to further diversify our geographical markets and customer base by expanding into Vermont and Western Massachusetts. It offered a natural expansion of our existing footprint in Upstate New York, into smaller markets similar to those in which we currently operate. Merchants is a very high-quality franchise including its people, its markets, its performance, and its balance sheet, and provides an exceptionally strong and attractive transaction in every respect.

In February 2017, we completed the acquisition of Northeast Retirement Services ("NRS"), a leading provider of plan accounting, transfer agency, fund administration, trust and retirement plan services. NRS, which is located just outside of Boston, Massachusetts, became a subsidiary of Benefit Plans Administrative Services, Inc. ("BPAS"), creating an organization with over \$80 million in annual revenue, over \$50 billion in trust assets and 3,800 retirement and other employee benefit plan administration clients throughout the United States and Puerto Rico.

A photograph of a woman and a young girl climbing a wooden ladder outdoors. The woman, on the left, has blonde hair and is wearing a green patterned top, smiling and looking upwards. The girl, on the right, has brown hair with bangs and is wearing a white top, also looking upwards with an open mouth as if shouting or cheering. The ladder is made of dark wood and is set against a bright, blurred background of trees and sky.

INVESTING IN ACQUISITIONS
THAT SUPPLEMENT GROWTH



Mark Tryniski
President and Chief Executive Officer

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



Scott Kingsley
Executive Vice President, Chief Financial Officer

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



Joe Getman
Executive Vice President, General Counsel

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



Brian Donahue
Executive Vice President, Chief Banking Officer

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

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

ADIRONDACK

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

CENTRAL

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

PENNSYLVANIA

Edward A. Coach
Michael J. Coleman
John H. Graham
Scott E. Henry
Edward I. Johnson, Jr.
Kathleen M. Lambert
Thomas A. McCullough
William K. Nasser, Jr.
Russell G. Newell
Frank J. Niemiec
James M. O'Brien
Gerard T. O'Donnell
James T. Shoemaker
Lissa Bryan Smith

Board of Directors



Sally A. Steele

Chairman of the Board
Attorney at Law;
Director since 2003



Brian R. Ace

Laceyville Hardware, Owner;
Governance, Chair;
Trust and Financial Services Committee;
Director since 2003



Mark J. Bolus

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



Nicholas A. DiCerbo

DiCerbo & Palumbo, Partner;
Strategic/ Executive Committee, Chair;
Trust and Financial Services Committee;
Director since 1984



Neil E. Fesette

Fesette Realty, LLC and Fesette Property
Management, Owner, President and CEO;
Compensation Committee, Chair;
Governance Committee;
Strategic/ Executive Committee;
Director since 2010



James A. Gabriel

Franklin & Gabriel, Owner;
Trust and Financial Services Committee, Chair;
Risk Committee, Vice Chair;
Strategic/Executive Committee;
Director since 1984



James W. Gibson, Jr.

The Board of Directors is deeply grateful to Jim Gibson for his important guidance to Community Bank System Inc. during his seven years of service as a Director. Mr. Wilson, who joined the Company's Board in 2009, has served on the Audit/Compliance/Risk Management and Compensation Committees. Prior to joining the Board, he was a partner at KPMG, LLP.



Michael R. Kallet

Retired Chairman and CEO
of Oneida Financial Corp.
Trust and Financial Services Committee;
Director since 2015



Edward S. Mucenski

Pinto, Mucenski, Hooper, Van House & Company, P.C.,
Partner and Managing Director;
Audit / Compliance Committee, Chair;
Compensation Committee;
Stress Testing Subcommittee;
Director since 2010



John Parente

CP Media, LLC, CEO;
Risk Committee, Chair;
Strategic/ Executive Committee;
Audit / Compliance Committee;
Director since 2010



Eric E. Stickels

Retired President, COO and Secretary
of Oneida Financial Corp.
Stress Testing Subcommittee, Chair;
Trust and Financial Services Committee;
Director since 2015



Mark E. Tryniski

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



John F. Whipple

Buffamante Whipple Buttafaro, P.C., CEO;
Audit/ Compliance Committee, Vice Chair;
Governance Committee;
Stress Testing Subcommittee;
Director since 2010

ADMINISTRATION

EXECUTIVE

Mark E. Tryniski, President and
Chief Executive Officer

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

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

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

RETAIL & BUSINESS BANKING

Joseph Serbun, Senior Vice President,
Chief Credit Officer

Hal Wentworth, Senior Vice President,
Retail Banking and Marketing

Richard Heidrick, Senior Vice President,
Consumer Banking

George Burke, Senior Vice President,
Mortgage Banking

Joseph Sutaris, Senior Vice President,
Municipal Banking Director

Barbara Maculloch, Regional President
Northeast Pennsylvania

Robert Cirko, Senior Vice President,
Regional Retail Banking Manager

Scott Boser, Vice President,
Director of Mortgage Banking

Lynne Wadsworth, Branch Services Administrator

Cynthia Lefko, Cash Management Product
and Sales Manager

Deborah Baker, Collections Manager

CREDIT ADMINISTRATION

Stephen Hardy, Senior Vice President,
Chief Credit Administrator

Nancy Mastrucci, Senior Credit Manager

Mark Guenther, Special Assets Manager

Denise Rhoads, Commercial Appraisal Manager

FINANCE & TREASURY MANAGEMENT

Joseph Lemchak, Senior Vice President,
Chief Investment Officer

Deresa Durkee, Vice President, Corporate Controller

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

Sean Howard, Senior Treasury Officer

Randy Pray, Corporate Purchasing Manager

Brian Fancher, Assistant Corporate Controller

Laura Mattice, Accounting Operations
and Regulatory Reporting Manager

Dennelle Michalski, Financial Controls Manager

Robert Pierce, Subsidiary Accounting
and Financial Reporting Manager

ADMINISTRATIVE SERVICES

Bernadette Barber, Senior Vice President,
Chief Human Resources Officer

Danielle Cima, Associate General Counsel,
Corporate Secretary

Michael Abdo, Associate General Counsel

Brett Fisk, Director of Facilities

Donna Drengel, Board Secretary
and Shareholder Relations

INFORMATION TECHNOLOGY & OPERATIONS

J. Michael Wilson, Senior Vice President,
Chief Technology Officer

Susan Fox, Senior Vice President,
Chief Information Officer

Aaron Friot, Director of Information Technology

Robin Dumas, Electronic Banking Manager

Barbara Snyder, Loan Operations Manager

Christina Sullivan, Director of Business
Information Systems

Paula Demo, Deposit Operations Manager

Tyanna Moseman, Corporate Projects Manager

RISK MANAGEMENT

Paul Ward, Senior Vice President, Chief Risk Officer

Mark Houghtaling, Director of Loan Review

Daniel O'Connell, Director of Internal Audit

Dorothy Quarltiere, Chief Compliance Officer

Timothy Miller, Director of Information Security

COMMUNITY BANK COMMERCIAL BANKING OFFICERS

WESTERN REGION

James Rahill, Senior Commercial Bank Officer

David Alm, Senior Commercial Banking Officer

Mark Saglimben, Senior Commercial
Banking Officer

David McKinley, Commercial Banking Officer

Scott Brechbuehl, Commercial Banking Officer

Gretchen Copella, Commercial Banking Officer

Patrick Gorman, Commercial Banking Officer

Michael Boza, Agricultural Banking Officer

NORTHERN REGION

Nicholas Russell, Senior Vice President,
Commercial Banking

Ronald Bacon, Senior Commercial
Banking Officer

Kevin Kent, Commercial Banking Officer

Paul Connelly, Commercial Banking Officer

Craig Stevens, Commercial Banking Officer

Jeffrey Fallon, Commercial Banking Officer

Patricia Duffy, Agricultural Banking Officer

Duane Pelkey, Commercial Banking Officer

Aaron Kimmich, Agricultural Banking Officer

SYRACUSE/ONEIDA REGION

Luke Fagan, Commercial Banking
Team Leader

Russell Brewer, Commercial Banking
Team Leader

Russell Sturtz, Commercial Banking Officer

Joseph Pedrotti, Commercial Banking Officer

William Baldwin, Commercial Banking Officer

Steven Potter, Commercial Banking Officer

Thomas Lewin, Commercial Banking Officer

Dean Shlotzhauer, Commercial Banking Officer

Trevor Bacon, Commercial Banking Associate

SOUTHERN REGION

Stephen Rich, Commercial Banking
Team Leader

Loren Herod, Agricultural Banking
Team Leader

Arthur Sable, Commercial Banking Officer

D. James Vedora, Commercial Banking Officer

Mark Miller, Commercial Banking Officer

Charles Van Hoof, Agricultural Banking Officer

Rebecca Snyder, Agricultural Banking Officer

CENTRAL REGION

Jeffrey Lord, Commercial Banking
Team Leader

Edward Michalek, Commercial Banking Officer

John Connolly, Commercial Banking Officer

Allison Mosher, Commercial Banking Officer

SMALL BUSINESS UNDERWRITING

Michael Austin, Small Business
Loan Manager

Richard Sisson, Underwriter

Beth Robbins, Underwriter

PENNSYLVANIA REGION

Warren Rozelle, Commercial Banking
Team Leader

Richard Kazmerick, Commercial Banking
Team Leader

Paul Baynum, Commercial Banking Officer

Matthew Dougherty, Commercial Banking Officer

Mary Elizabeth D'Andrea, Commercial
Banking Officer

Neil King, Commercial Banking Officer

Walter Sarafinko, Commercial Banking Officer

David McHale, Commercial Banking Officer

A. Edward Nork, Commercial Banking Officer

Stacia Arnaud, Commercial Banking Officer

John Pekarovsky, Commercial Banking Officer

WEALTH MANAGEMENT GROUP

Paul Restante, Managing Director

Theresa Kalil-Lennon, Senior Vice President,
Regional Sales Manager, Central/East

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

Daniel Drappo, Senior Financial Consultant,
Regional Sales Coordinator, St. Lawrence

Stephen McFadden, Financial Consultant,
Regional Sales Coordinator, Adirondack

TRUST SERVICES

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

Charles Perrillo, Senior Vice President,
Chief Trust Investment Officer, Oneonta

Amy Schlee, Senior Trust Officer, Oneonta

Patricia Barie, Senior Trust Officer, Olean

Jennifer Critti-Lebeau, Trust Officer, Oneonta

Patricia Croll, Trust Officer, Scranton

Shannon Hyzer, Trust Officer, Oneonta

Robert Jewell, Senior Trust Officer, Elmira

John Jones, Trust Officer, Oneonta

Linda Meyer Lambert, Trust Officer, Olean

Thomas LaPage, Trust Officer, Canton

Patricia Lowe, Trust Operations Officer, Oneonta

Vincent Mastrucci, Corporate Trust Officer, Scranton

Adam Niebanck, Trust Investment Officer, Oneonta

Christine Petras, Trust Investment Officer, Oneonta

Paul Snodgrass, Trust Investment Officer, Canton

Brett Zielasko, Trust Officer, Oneida

NOTTINGHAM ADVISORS, LLC

100 Corporate Parkway, Suite 338, Amherst, NY

Thomas Quealy, Chief Executive Officer

Lawrence Whistler, President,
Chief Investment Officer

Karen Mohn, Chief Compliance Officer

Nicholas Verbanic, Vice President,
Portfolio Manager

ONE GROUP

706 North Clinton Street, Syracuse, NY

Pierre Morrisseau, Chief Executive Officer

John Catanzarita, Chief Operating Officer

Alison Dunn, Senior Vice President,
HR and Employee Benefits

Chris Mason, Executive Vice President,
Commercial Lines

Ron Heath, Chief Sales and Marketing Officer

COMMUNITY INVESTMENT SERVICES, INC.

Paul Restante, President

Theresa Kalil-Lennon, Senior Vice President,
Sales Manager

Chasity Jaynes, Operations Manager

Laurel Pelletiere, Compliance Manager

Garry Payne, Carta Group

Jeremy Caza, Carta Group

FINANCIAL CONSULTANTS

Peter Albano, Wilkes-Barre

Charles Baracco, Syracuse

Donald Bower III, Elmira

Eric Brunet, Ogdensburg

Joseph Butler, Jr., Watertown

Thomas Ciolek, Olean/Avon

Shawn Derrick, Wellsville

Daniel Drappo, Watertown

James Durso, Waterloo

Robert Eckermann, Cazenovia

Timothy Forman, Lake Placid

Kevin Gildner, Wellsville

Joseph Hatfield, Oneida

Justin Hooper, Plattsburgh

Randall Hulick, Springville

Kathy Kaffenberger, Chittenango

Rick Little, Jermyn

Andrew Mangano, Fulton

Jude McDonough, Scranton PA

Stephen McFadden, Plattsburgh

James Mersfelder, Syracuse

Chad Murray, Falconer

Charles Nicosia, Oneonta

David O'Neil, Jr., Boonville

Brent Patry, Oneonta/Norwich

Robert Stanley, Minooka

Joseph Topichak, Corning

Michele Wilck, Newark/Palmyra

BENEFIT PLAN SERVICES

Barry Kublin, Chief Executive Officer

BPAS

6 Rhoads Drive, Ultica, NY

Paul M. Neveu, President, BPAS, LLC

Robert A. Malczyk, Vice President,
Director of Sales

Linda S. Pritchard, Senior Vice President,
Recordkeeping Services

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

Mary Anne Geary, Senior Vice President,
DC Plan Services

Richard Schultz, Senior Vice President,
Fiduciary Services

BPAS ACTUARIAL AND PENSION SERVICES

706 North Clinton Street, Syracuse, NY

Vincent F. Spina, President

Steven P. Chase, Senior Vice President

Sarah E. Dam, Senior Vice President

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

Sheryl Gabriel, Senior Vice President

HAND BENEFITS & TRUST

820 Gessner, Suite 1250, Houston, TX

W. David Hand, Chief Executive Officer

Stephen Hand, President

James Goodwin, Vice President

BPAS TRUST COMPANY PUERTO RICO

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

Alfredo Matheu, BPAS President, Puerto Rico

BRANCH LOCATIONS

COMMUNITY BANK NORTHERN NEW YORK MARKET

ADAMS

Christopher M. Castle, Manager

ALEXANDRIA BAY

Bethany Todd, Manager

AUSABLE FORKS

Valerie Daniels, Manager

BLACK RIVER

Margaret Farone, Manager

BOONVILLE

(101 MAIN STREET AND HEADWATERS PLAZA)
Debra Roberts, Manager

CANTON

Marsha Watson, Manager

CHAMPLAIN

Melissa M. Peryea, Manager

CHATEAUGAY

Sherry Langdon, Branch Supervisor

CLAYTON

Lori Fearnside, Manager

FORT COVINGTON

Gayle Miner, Branch Supervisor

GOVERNEUR

Diane Easton, Manager

HARRISVILLE

Karen Pierce, Branch Supervisor

HERMON

Connie Green, Manager

HEUVELTON

Richard Tacchino, Branch Supervisor

INDIAN LAKE

Brenda Lanphear, Manager

LAKE PLACID

Katie Stephenson, Manager

LONG LAKE

Viccann Novak, Manager

LOWVILLE (STATE STREET)

Tina Paczkowski, District Manager

LOWVILLE (TURIN ROAD)

Stephen Allen, Manager

LYONS FALLS

Susan Krist, Manager

MADRID

Michelle Hollister, Manager

MALONE (ELM STREET)

Darcy King, District Manager

MALONE (WEST MAIN STREET)

Stacey Brunell, Manager

MASSENA

Sue Perkins, Manager

NORTH CREEK

Lori DeMars, Manager

NORWOOD

Emily Losey, Manager

OGDENSBURG (STATE STREET)

Matthew Honeywell, Manager

OGDENSBURG (FORD STREET)

Denise Barse, Manager

OLD FORGE

Barbara Criss, Manager

PLATTSBURGH (MARGARET STREET)

Kathryn Reynolds, Manager

PLATTSBURGH (ROUTE 3)

Kent Backus, Regional Retail
Banking Manager

James Snook, Manager

PLATTSBURGH (IN-STORE – WAL-MART)

Arlene Favreau, Branch Supervisor

POTSDAM (MARKET STREET AND MAY ROAD)

Victoria Strader, Manager

SARANAC LAKE (BROADWAY AND LAKE FLOWER)

Brenda Darrah, District Manager

ST. REGIS FALLS

Sherri Fleury, Manager

STAR LAKE

Connie Green, Manager

TICONDEROGA

Maria Beuerlein, Manager

TUPPER LAKE

John Salamy, Manager

WADDINGTON

Emily Losey, Manager

WATERTOWN (ARSENAL STREET)

Elizabeth Brown, Manager

WATERTOWN (216 WASHINGTON STREET)

Rita J. Walldroff, Regional Retail
Banking Manager

Catherine Ward, Manager

WEST CARTHAGE

Naura L. Christman, Manager

WHITEHALL

Holly A. Rabideau, Manager

COMMUNITY BANK SOUTHERN NEW YORK MARKET

ADDISON

Robin Knapp, Manager

ALFRED

Beth Plaisted, Manager

ALLEGANY

Stephanie Kolkowski, Manager

AVON

Deborah Fitch, Manager

ANGELICA

Diana Grastorf, Branch Supervisor

BATH

Joel Brazie, District Manager

BELFAST

Brandy Burdick, Branch Supervisor

BOLIVAR

Judy Gilliland, Manager

CANANDAIGUA (COUNTY ROAD 10)

Ashley Braun, Branch Supervisor

CANANDAIGUA (SOUTH MAIN STREET)

Christopher Bross, Manager

CASSADAGA

Susan Sekuterski, Manager

CATO

Tiesha Combes, Manager

CLIFTON SPRINGS

(EAST MAIN STREET AND CLIFTON PLAZA)
Theresa Dorgan, Manager

CLYMER

Laurie Harvey, Manager

CORNING (WEST MARKET STREET)

Wendy Daines, Manager

CORNING NORTH

Robert Awampato, Manager

CUBA

Shavonne Henderson, Manager

DANSVILLE

Jody Tonkery, District Manager

Melissa Ponticello, Manager

DUNKIRK (VINEYARD DRIVE)

Jason DeChard, Manager

DUNKIRK (CENTRAL AVENUE)

Jean Coughlin, Manager

ELMIRA

Denise Allen, District Manager

ERWIN/PAINTED POST

Todd Selander, Branch Supervisor

FALCONER

Joann Anderson, Manager

FILLMORE

Julie Hall, District Manager

FRANKLINVILLE

Sandra Wolfer, Manager

GENESEO

Lisa Kime, Manager

GENEVA (CANANDAIGUA ROAD)

Tina Jackson, Manager

GENEVA (SENECA STREET)

John Latanyshyn, Manager

GOWANDA

Ralph Swanson, Manager

HAMMONDSPORT

Kelly Bussmann, Manager

HORNELL

Sandra Aiken, Manager

HORSEHEADS (CONSUMER SQUARE)

Glenn Parsons, Manager

HOUGHTON COLLEGE

Julie Hall, District Manager

INTERLAKEN

Denise Ector, Manager

ITHACA

Michael MacDonald, Manager

JAMESTOWN (NORTH MAIN STREET)

Kathleen Bemus, Manager

JAMESTOWN (MAIN STREET - BROOKLYN SQUARE)

Glori Taylor, Manager

LAKEWOOD

Lisa Allenson, District Manager

LIVONIA

Ronda Howard, Manager

MORAVIA

Michael Pizzola, Manager

MOUNT MORRIS

Susan Neelin, Manager

NAPLES

Joilette Pendleton, District Manager

NEWARK (CHURCH STREET)

Phyllis A. Adriaansen, Manager

NEWARK PLAZA

Ann Young, Manager

NICHOLS

Kathleen Bowen, Manager

NORTH COLLINS

Robin Hohman, Manager

OLEAN (NORTH UNION STREET)

Eric M. Garvin, Regional Retail
Banking Manager

Jody Spears, District Manager

OLEAN (DELAWARE PARK)

Kelly Crandall, Manager

ORCHARD PARK

Kristen Woodarek, Manager

OVID

Jacqueline Robinson, Manager

OWEGO

Florence Rossi, Manager

PALMYRA

Cheryl Ford, Manager

PENN YAN (MAIN STREET)

Thomas May, Manager

PENN YAN (LAKE STREET)

Kelly Smith, Manager

PHELPS

Mary Niles, Manager

PORTVILLE (EAST STATE ROAD)

Brenda Blackwell, Manager

PORTVILLE (NORTH MAIN STREET)

Katrina Savitcheff, Branch Supervisor

RANDOLPH

Diane Lecceardone, Manager

RIPLEY

Shara Post, Branch Supervisor

RUSHVILLE

Christine Copper, Manager

SALAMANCA

Robin Bowser, Manager

SENECA FALLS

David Sloan, Regional Retail
Banking Manager

Christine Plate, Manager

SHERMAN

Shannon Stevens, Manager

SILVER CREEK

Mark Catalano, District Manager

SPRINGVILLE (CASCADE DRIVE)

Mary Ann Lutz, Manager

SPRINGVILLE (NORTH BUFFALO STREET)

Brooke Baker, Manager

WATERLOO

Alexis Carlson-Spina, Manager

WATKINS GLEN

Anthony Fraboni, Manager

WELLSVILLE (BOLIVAR ROAD)

Lori Dzielski, Manager

WELLSVILLE (MAIN STREET)

Virginia Elliott, Manager

WESTFIELD

Carl Swan, Manager

WOODHULL

Ashley Quick, Manager

YORKSHIRE

Joseph Fore, Manager

BRANCH LOCATIONS

COMMUNITY BANK CENTRAL NEW YORK/ONEIDA MARKET

BOICEVILLE

Brad Bernard, Manager

CAMDEN

Michelle Szkolnik, Manager

CANASTOTA

Lori Torrey, Manager

CAZENOVIA

Robin Gallup, Manager

CHITTENANGO

Roberta Button, Manager

CICERO

Denise Cavallo, Manager

COBLESKILL

Christy Roberts, Manager

COOPERSTOWN

(MAIN STREET AND OTSEGO, STATE HIGHWAY)
Naomi Duncan, Manager

DELHI

Tina Seguire, Manager

DEWITT

Robert Liedka, Manager

DOWNSVILLE

Jean M. Lacey, Manager

FLEISCHMANN'S

Ana Benjamin, Manager

FULTON

Tina Stephens, Manager

HAMILTON

Janet Briggs, District Manager

HANNIBAL

Debra Davis, District Manager

JOHNSON CITY

Michelle Carlsson, Manager

MILFORD

Kevin Moore, Branch Supervisor

MORRIS

Emily Boss, Manager

NORWICH (STATE HIGHWAY)

Caryn Wake, Manager

NORWICH (BROAD STREET)

Leigh Ann Odell, Manager

ONEIDA (CONVENIENCE)

Jackie Mowers, Manager

ONEIDA (MAIN)

Paul Lepore, Regional Retail
Banking Manager

Cindy Lindauer, Manager

ONEONTA (MAIN STREET)

Michael Walling, District Manager

Nancy Miller, Gold Club Manager

ONEONTA (CHESTNUT STREET)

Paula Morell, Manager

ONEONTA (SOUTHSIDE)

Mike Walling, District Manager

ONEONTA (FOX CARE CENTER)

Lesley Bohacek, Manager

OSWEGO

Fred Aldrich IV, Manager

OTEGO

Beth Koncelik, Branch Supervisor

PULASKI

Steven P. Gaffney, Manager

ROME (GRIFFISS PARK)

Wendy Berg, Manager

ROME (TURIN ROAD)

Wendy Berg, Manager

SCHENEVUS

Gerald V. Coombs, Jr., Manager

SIDNEY

Bridget Fisk, District Manager

Sharon Cutting, Manager

SKANEATELES

Elizabeth Silliman, Manager

VERNON

Mollie Foster, Manager

WALTON

Donna A. Bundy, Manager

WESTMORELAND

Tina Paczkowski, District Manager

COMMUNITY BANK PENNSYLVANIA MARKET

CARBONDALE

Bobbiann Davis, Manager

CLARK'S SUMMIT

David Griffin, Manager

DALEVILLE

Susan Pitoniak, Manager

DICKSON CITY

Lisa Rochinski, Manager

EDWARDSVILLE

Denise Johnson, Manager

FREELAND

Daniel Boote, Manager

HAZLETON (AIRPORT ROAD)

Paula Palance, Manager

HAZLETON (NORTH CHURCH STREET)

Lori Roth, Manager

HAZLETON (WEST BROAD STREET)

Emmanuel Marte, Manager

JERMYN

John Peterson, Manager

JESSUP

Mary Bieszczad, Manager

KINGSTON (JAMES STREET)

Karen Shuster, Manager

LACEYVILLE

Greg Culver, Manager

LANSFORD

John Greybosh, Manager

LAWTON

Doug Jackson, Manager

LEIGHTON

Dana Cannariato, Manager

LITTLE MEADOWS

Doug Jackson, Manager

MESHOPPEN

Jennifer Ramey, Manager

MONTROSE

Steven Stranburg, Manager

NOXEN/BOWMAN'S CREEK

Colleen Bullock, Manager

OLYPHANT

Theresa Collins, District Manager

PITTSTON

Gary Missal, Manager

SCRANTON (KEYSER AVENUE)

Lisa Browning, Manager

SCRANTON (MINOOKA - DAVIS STREET)

David Lencicki, Manager

SCRANTON (NORTH WASHINGTON AVENUE)

Suzanne Kennedy, Manager

SCRANTON (WYOMING AVENUE)

Michelle Cook, Manager

TOWANDA

Lori Smith, Manager

TUNKHANNOCK

Brigitte Meskers, Manager

TRUCKSVILLE/BACK MOUNTAIN

Susanne M. Mullin, Manager

WILKES BARRE (FRANKLIN STREET)

David Dobbs, District Manager

Susan Russick, Manager

WILKES BARRE (SOUTH MAIN STREET)

Sandra Wheeler, Manager

WYALUSING

Karen Fuller, District Manager

**A HISTORY OF
INVESTING IN THE FUTURE**

Community Bank has significantly enhanced and grown its banking franchise through 18 successful acquisitions since 1995. Since 2006, the Company has added a net of more than 80 retail locations through eight branch or whole-bank acquisitions. In October 2016, Community Bank announced an agreement to acquire Merchants Bancshares – its largest transaction to date – which will add 32 banking locations in Vermont and Western Massachusetts and \$1.9 billion in assets.

**ACQUISITION
CHARACTERISTICS**

- Manageable-sized acquisitions
- Largely in-market
- Accretive to earnings and low risk
- Organizations that are a cultural fit

**BANK
ACQUISITIONS**

SINCE 2006

| | | |
|---|-------------|--------------------|
| 2017 Merchants Bancshares, Inc. (Pending) | Whole Bank | VT and Western MA |
| 2015 Oneida Financial Corp. | Whole Bank | Central Upstate NY |
| 2013 Bank of America | 8 branches | Northeast PA |
| 2012 HSBC/First Niagara Financial Group, Inc. | 19 branches | Upstate NY |
| 2011 Wilber Corporation | Whole Bank | Central Upstate NY |
| 2008 Citizens Financial Group, Inc. | 18 branches | Northern NY |
| 2007 TLNB Financial Corp. | Whole Bank | Northern NY |
| 2006 ES&L Bancorp, Inc. | Whole Bank | Upstate NY |
| 2006 ONB Corporation | Whole Bank | Upstate NY |

PRIOR TO 2006

| | | |
|--|-------------|--|
| 2000 to 2004 (\$1.4 billion in assets) | Whole Bank | Upstate NY, Northeast PA (5 transactions) |
| 1989 to 2004 (\$1.3 billion in deposits) | 75 branches | Upstate NY (8 transactions) |

Another element of the Company's strategic profile is the continuous investment in and growth of noninterest revenues. In 2006, the company had noninterest income of \$51.7 million which represented 28 percent of total revenue. For 2016, noninterest income more than tripled to \$156 million and grew to 36 percent of total revenue. The Company remains an active acquirer of high-value financial services businesses as demonstrated by the December 2016 agreement to acquire Northeast Retirement Services, a leading provider of customized institutional trust services.

**FINANCIAL SERVICES
ACQUISITIONS**

SINCE 2006

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

PRIOR TO 2006

| | |
|--|-------------------------|
| 2003 BPAS-APS (Harbridge Consulting) | Benefits administration |
| 2000 Nottingham Advisors | Asset management |
| 1996 Benefit Plans Administrators (BPAS) | Benefits administration |

CORPORATE AND SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
Phone: 315.445.2282 or 800.724.2262
Fax: 315.445.7347
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 17, 2017
1:00 P.M. EST
Ventosa Vineyards
3440 State Route 96A
Geneva, New York 14456

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, 2016.

ANALYST COVERAGE

The following analysts published research about Community Bank System in 2016:

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

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

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

Hovde Group LLC
Joseph Fenech / 646.281.4946
jfenech@hovdegroup.com

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

Piper Jaffray Companies
Matthew Breese / 617.654-0728
matthew.m.breese@pjc.com

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

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

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

INVESTOR'S CHOICE PROGRAM

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

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Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
Phone: 315.445.7313
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or

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6201 15th Avenue
Brooklyn, NY 11219
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www.amstock.com

SAFE HARBOR STATEMENT

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

bank happy[®]



COMMUNITY BANK SYSTEM, INC.

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NYSE