



1999 Annual Report

Community Bank System, Inc.

Exceptional Value In Community Banking

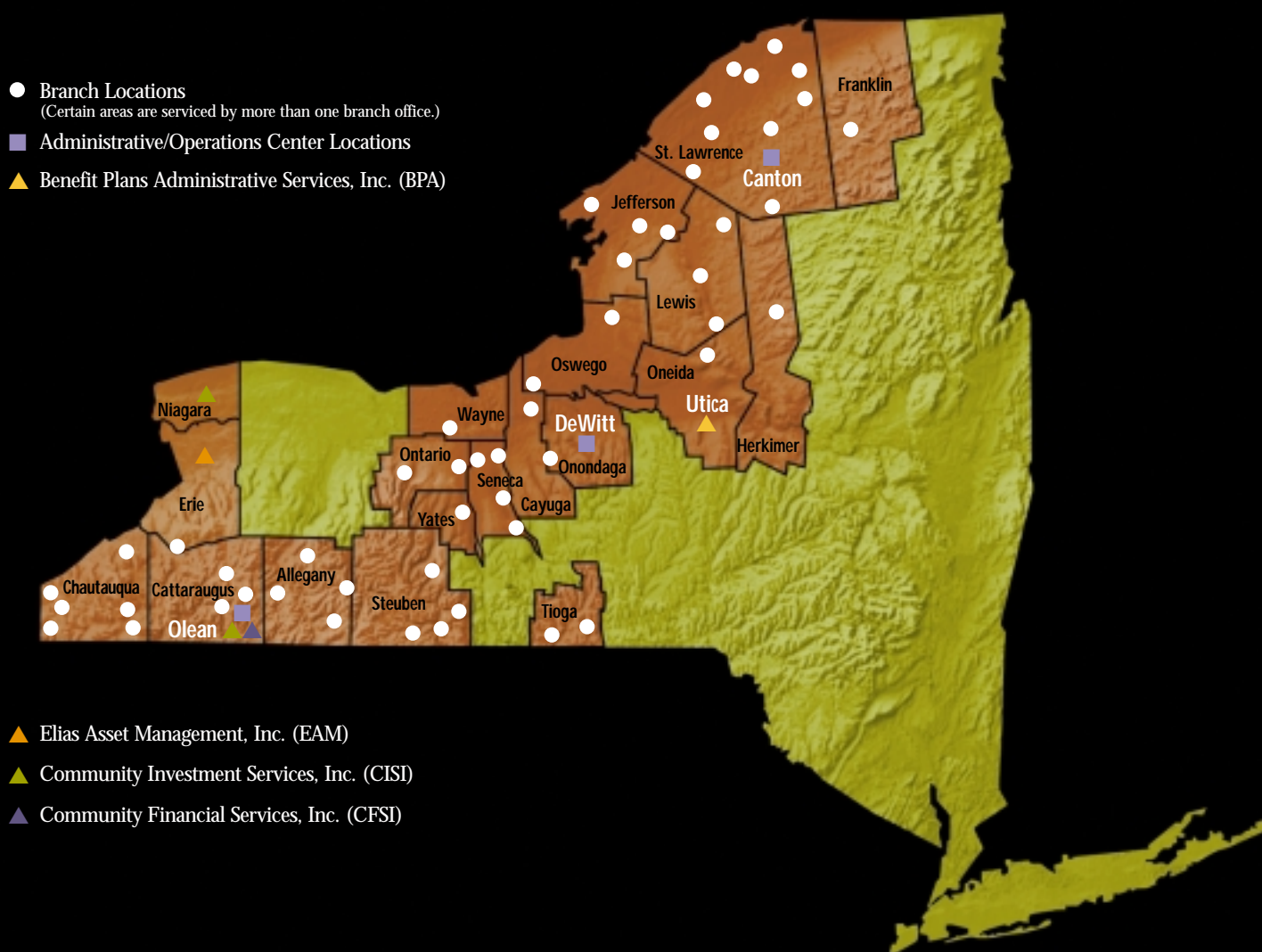
Mission Statement

CBU's mission is to be valued by its customers, employees, shareholders, and regulators as a well managed, profitable, independent bank committed to providing friendly, personalized, high quality financial services and products to the communities in which it operates.

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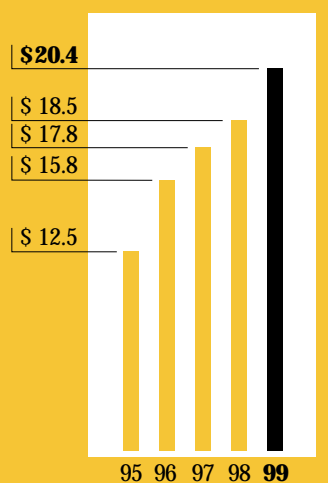
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We have the 1st or 2nd deposit market share in 42 of the 53 communities we serve.

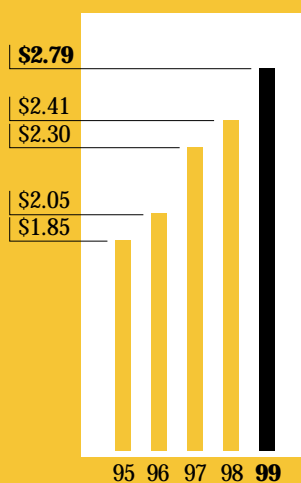


Financial Highlights

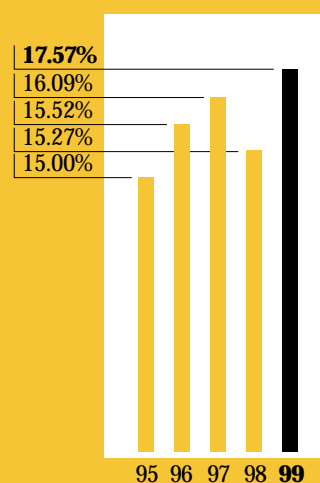
In thousands except per share data	1999	1998	1997	1996	1995	5 Year CAGR
Income Statement Data						
Net interest income (nominal)	\$ 67,941	\$ 64,395	\$ 62,876	\$ 55,266	\$ 47,080	11.5%
Noninterest income (excludes securities gains/losses)	16,124	15,081	11,822	8,842	6,710	23.5
Net income - book	17,635	15,728	15,562	14,133	11,470	11.8
Net income - cash	20,365	18,473	17,752	15,816	12,467	14.6
Common Per Share Data						
Net income - book	\$ 2.42	\$ 2.05	\$ 2.02	\$ 1.83	\$ 1.70	6.1%
Net income - cash	2.79	2.41	2.30	2.05	1.85	8.8
Cash dividend declared	0.96	0.86	0.76	0.69	0.62	11.0
Period-end book value - stated	15.30	16.47	15.56	14.03	12.99	5.2
Period-end book value - tangible	8.32	9.01	7.82	9.85	8.37	-5.1
Selected Ratios						
Return on total assets	1.02%	0.94%	1.04%	1.13%	1.09%	—
Return on shareholders' equity	15.22	13.01	14.09	13.88	13.85	—
Return on tangible shareholders' equity	17.57	15.27	16.09	15.52	15.00	—
Common dividend payout ratio	39.70	42.00	37.30	37.30	34.80	—
Net interest margin (full tax-equivalent)	4.46	4.31	4.64	4.86	4.88	—
End of Period Balance Sheet Data						
Total assets	\$ 1,840,702	\$ 1,680,689	\$ 1,633,742	\$ 1,343,865	\$ 1,152,045	15.0%
Loans, net of unearned discount	1,009,223	917,220	843,212	652,474	560,151	15.9
Earning assets (excludes MVA)	1,685,784	1,503,549	1,450,429	1,229,443	1,032,519	14.9
Total deposits	1,360,306	1,378,066	1,345,686	1,027,213	1,016,946	14.1



Cash Earnings
(in millions)



**Cash Earnings
Per Share**



**Tangible Return on
Shareholders' Equity**

Dear Shareholders, Investors, Customers and Employees,

Strong Performance For 1999

We ended 1999 with record performance and enter a new century with confidence and a strong foundation for accelerated growth in earnings and shareholder value. Our return on shareholders' equity improved to 15.22% compared to 13.01% in 1998. Tangible return on equity, which many analysts and investors consider a better measure of core profitability and value created for shareholders, climbed to 17.57%, placing us well within the top quartile of our regional peer banks and comparing very favorably to 15.27% in 1998. Net income, at an all time record of \$17.6 million, was 12.1% higher than a year ago. Earnings per share increased even more dramatically by 18.0% to \$2.42 per share owing to our very successful stock buy back program, which has been underway since the second half of 1998. It has resulted in the repurchase of 548,100 shares (7.2% of shares outstanding) against our announced maximum buyback target of 750,000 shares.

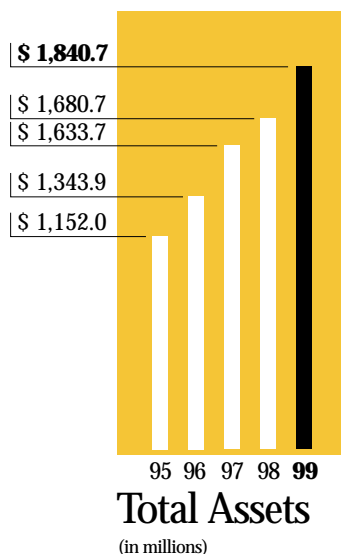
1999 Performance Highlights

- Cash earnings per share (diluted) reached record levels, up 16% to \$2.79
- Tangible return on equity climbed 2.30 percentage points to 17.57%, also a new high
- Net interest margin improved by a meaningful 15 basis points to 4.46%
- Commercial loans grew by 12.5%
- Net charge-offs decreased by nearly \$1 million or 19%
- Financial services revenues increased to 36% of total noninterest income
- Quarterly cash dividend was raised to \$.25 per share, an 8.7% increase

Our well-honed strategy of locally based, responsive service to customers continued to generate revenue growth and increase market share. Imaginative programs were implemented to underwrite more home mortgage and installment loan business, and our commercial lending penetration improved as well. We finished the year with loans outstanding of over \$1 billion, an increase of 10.0% and an excellent accomplishment. Including loans sold in the secondary

market, net loan generation in 1999 was nearly \$129 million, 13.8% more than last year and the highest generation in our history. Our unrelenting focus on credit administration and loan quality resulted in a reduction in net charge-offs of nearly \$1 million, even considering a \$352,000 increase in commercial loan charge-offs caused by three customers. Our credit strength is further evidenced by a reduction of 14 basis points in net charge-offs to average loans outstanding, improved delinquency levels, especially compared to peers in New York State, and our ample loan loss reserve coverage of non-performing loans.

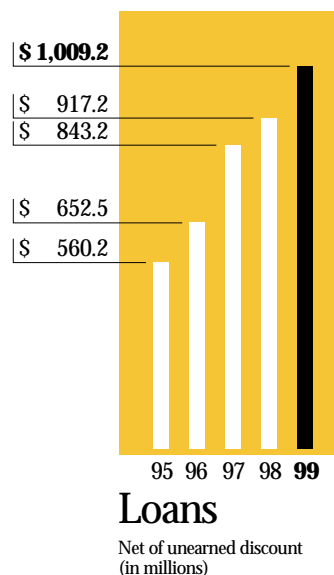
Dominant Market Presence



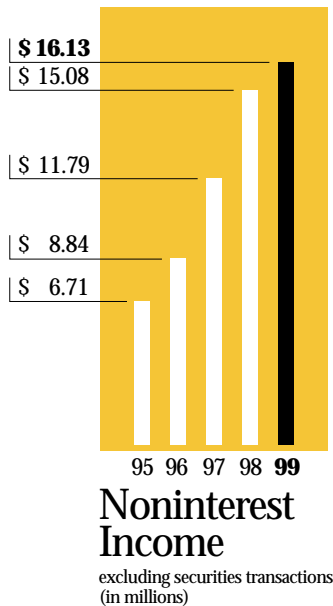
We continue to be the dominant bank in the regions we serve with the first or second market share in 42 of the 53 towns where we are located, and we operate the only bank in 21 of those towns. We do business with nearly 122,000 households and businesses, almost twice the number we serviced in 1994, with a growing cross-sell ratio in each of them. Such a broad and deep foundation in our markets and with our customers has permitted us to expand and diversify our revenues and product offerings consistent with the Financial Modernization legislation enacted by Congress at the end of 1999. Community Investment Services, Inc., our own broker/dealer, is fully implemented with ten Financial Consultants available to provide investment advice and products to customers. In addition, we are now offering selected insurance products through our own insurance agency, Community Financial Services, Inc. We are pleased that

Benefit Plans Administrative

Services, our pension administration business, and our employee benefits trust business together produced \$2.5 million in revenues in 1999, primarily through 401(k) investment management and record keeping and consulting services. Our personal trust business, long a hallmark of our success, continues to grow as well. Finally, we are delighted that David Elias and his firm, Elias Asset Management, will add significant new capability to our financial services menu beginning in the second quarter of 2000. This past February 7th we announced our intention to acquire Elias Asset Management, a nationally recognized firm which currently manages \$700 million in assets for individuals, corporate pension and profit sharing plans and foundations. We expect that David and his associates will help accelerate revenue and earnings growth, further diversifying our revenue stream away from its historical dependence on net interest margin.



Focused On Value



We continue to provide leadership in all markets through enhanced convenience and service to customers using our personalized approach combined with advanced electronic technology. Our new Internet banking product will be available to our markets in early 2000. We're also implementing an image-based technology for check processing and customer statements, providing enhanced efficiency and better service. These new capabilities will augment our check safekeeping, telephone banking and ATM services, which have been well received by bank customers.

We believe our commitment to providing products and services designed to meet our customers' needs, plus our responsive local decision making, position Community Bank System as the preferred brand for community banking in Upstate New York.

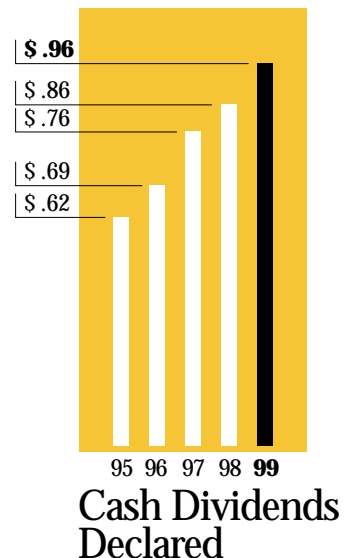
Our strong market position, loyal and talented employees and a focused and sound growth strategy make us confident and optimistic about your company's future.

Credit quality is sound, our traditional lending and deposit-taking business is growing, our breadth of financial services products is expanding, and revenue growth is accelerating. Our staff possesses the requisite sales and professional skills, and is dedicated to providing the highest quality products and service. We are well positioned to meet the growing and diverse needs of our customers in technologically savvy ways while utilizing our locally based, responsive decision making process to good advantage.



Your Board of Directors and management team remain focused on increasing value for all shareholders, with specific actions in 1999 to bring recognition to our stock, listed under the symbol "CBU" on the New York Stock Exchange. These actions were demonstrated by the Board's decision in August to raise cash dividends for the eighth consecutive year, increases which have resulted in a 12.3% compound annual growth rate over that time period. In addition, our significant stock repurchase program demonstrated our belief that CBU is an excellent investment and that the financial markets were not fully valuing our strong banking franchise.

Lastly, we launched a more pro-active investor relations program in the late fall. This was highlighted by the distribution of an attractive and comprehensive "Investor Fact Sheet" to institutions and retail brokers and the commencement of a quarterly teleconference call to discuss CBU's earnings with investors.



Strategic Objectives -Year 2000

- Purchase of Elias Asset Management in February, a nationally recognized investment manager
- Expansion of our branch presence in Chautauqua county in Southwestern NY in February
- Introduction of PC Internet Banking in first quarter for consumers and businesses
- Implementation of image-based technology for check processing and customer statements by mid-year
- First complete year of operation of our own broker/dealer and insurance subsidiary following Financial Modernization legislation

We believe these positive actions will help counterweigh the negative tone surrounding all bank stocks at this early point in 2000. Financial analysts ascribe this tone to an equity market rotation into technology and large capitalization stocks, earnings disappointments from several well-known banks, and an increasingly outdated view that a rise in interest rates adversely affects bank earnings.

We are excited about the prospect of building on our strong banking and financial services foundation and the addition of new technology-based products and services that will provide state-of-the-art convenience to our customers. We believe that 2000 will be another solid year of growth and superior performance reflective of the commitment of our Board of Directors and each Community Bank System employee to enhance the value of your CBU investment.



*James A. Gabriel, Chairman of the Board (left),
Sanford A. Belden, President & Chief Executive Officer*

James A. Gabriel, Chairman

Sanford A. Belden, President & Chief Executive Officer

Board of Directors

■ **JAMES A. GABRIEL** was named Chairman of the Board on January 1, 1999. At age 52, he has served as a Director of the company since 1984. He is owner of the law firm of Franklin & Gabriel, located in Ovid, New York.

■ **SANFORD A. BELDEN**, age 57, has served as a Director of the Company since 1992, when he was also named President and Chief Executive Officer. Mr. Belden was formerly Manager, Eastern Region, Rabobank Nederland, New York, New York from 1990 to 1992 and prior thereto served as President, Community Banking, for First Bank System, Minneapolis, Minnesota, a multi-state bank holding company.

■ **JOHN M. BURGESS** has served as a director of the Company since 1991. At age 63, he is a retired president of Kinney Drugs, Inc., a drug and retail chain with stores located throughout Northern New York State. He is Chairman of the Investment Committee and a member of the Audit/Compliance/Risk Management and Loan Committees.

■ **RICHARD C. CUMMINGS**, age 70, has been a Director of the Company since 1983. He is a Partner in the law firm of Cummings, Dunckel and Campany, LLP of Lowville, New York. He is Chairman of the Nominating Committee and a member of the Trust Committee.

■ **WILLIAM M. DEMPSEY** is Assistant to the President of the Rochester Institute of Technology (RIT), located in Rochester, New York. Formerly, he was Vice President of Finance and Administration at RIT. He is Chairman of the Audit/Compliance/Risk Management Committee and a member of the Investment and Nominating Committees. He is 61 years of age and has been a Director since 1984.

■ **NICHOLAS A. DICERBO** is a Partner of the law firm of DiCerbo & Palumbo of Olean, New York. At age 53, he has been a Director of the Company since 1984. He is Chairman of the Strategic/Executive Committee and a member of the Loan and Personnel Committees.

■ **LEE T. HIRSCHEY**, age 64, has been a Director of the Company since 1991. He currently serves as President and Chief Executive Officer of Climax Manufacturing Company, a converter and manufacturer of paper products headquartered in Castorland, New York. He is Chairman of the Trust Committee and a member of the Investment and Personnel Committees.

■ **DAVID C. PATTERSON** is President and owner of Wight and Patterson, Inc., a manufacturer and seller of livestock feed located in Canton, New York. At age 58, he has served as a Director of the Company since 1991. He is Chairman of the Loan Committee and a member of the Strategic/Executive, Trust and Nominating Committees.

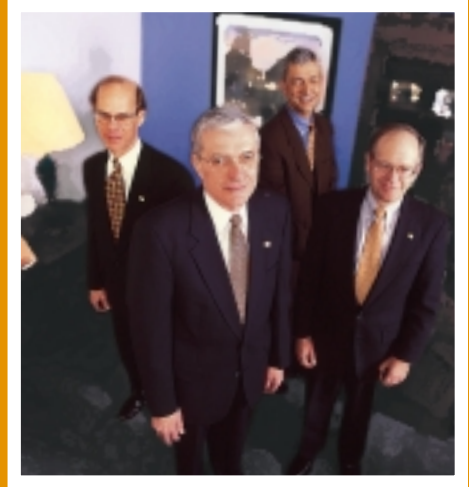
■ **WILLIAM N. SLOAN**, age 65, has served as a Director of the Company since 1991. He is currently Vice President for Administration Emeritus with The State University of New York College at Potsdam, where he also served as Associate Professor of Mathematics prior to 1997. He is Chairman of the Personnel Committee and a member of the Audit/Compliance/Risk Management Committee and Strategic/Executive Committee.



Row 1 (left to right): James A. Gabriel, Sanford A. Belden, John M. Burgess, Row 2 (left to right): William N. Sloan, Lee T. Hirschey, Richard C. Cummings, Row 3 (left to right): David C. Patterson, William M. Dempsey, Nicholas A. DiCerbo

Corporate Officers

- **SANFORD A. BELDEN** (President and Chief Executive Officer of the Company and the Bank). Mr. Belden has been President and Chief Executive Officer of the Company and the Bank since October 1, 1992. Mr. Belden was formerly Manager, Eastern Region, Rabobank Nederland, New York, New York from 1990 to 1992 and prior thereto served as President, Community Banking, for First Bank System, Minneapolis, Minnesota, a multi-state bank holding company.
- **DAVID G. WALLACE** (Treasurer of the Company; Executive Vice President and Chief Financial Officer of the Bank). Mr. Wallace became Vice President and Chief Financial Officer of the Bank and Treasurer of the Company in November 1988, Senior Vice President and Chief Financial Officer in August 1991, and assumed his current position in February 2000.
- **MICHAEL A. PATTON** (President, Financial Services). Mr. Patton was the President and Chief Executive Officer of The Exchange National Bank, a former subsidiary of the Company, from 1984 until January 1992, when, in connection with the consolidation of the Company's five subsidiary banks into Community Bank, N. A., he was named President, Southern Region. He assumed his current position in February 2000.
- **JAMES A. WEARS** (President, Banking). Mr. Wears served as President and Chief Executive Officer from January 1991 until January 1992 and as Senior Vice President of The St. Lawrence National Bank, a former subsidiary of the Company, from 1988 through January 1991. Following the January 1992 consolidation of the Company's five subsidiary banks into Community Bank, N. A., Mr. Wears was named President, Northern Region. He assumed his current position in February 2000.



Community Bank, N. A. Management Committee (left to right): David G. Wallace, Sanford A. Belden, James A. Wears and Michael A. Patton

Community Banking Network

In the last five years our households served has nearly doubled

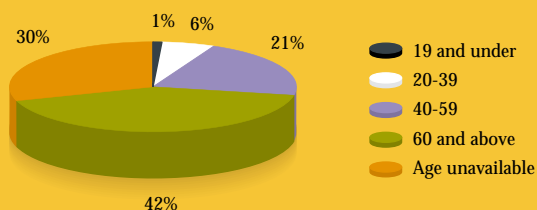


CBU is the fifth-largest commercial banking franchise headquartered in Upstate New York. Community Bank, N. A. operates a geographically dispersed network of 67 customer facilities and 48 ATMs across 18 non-metropolitan

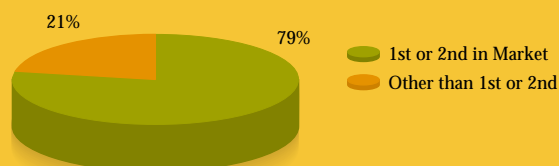
counties. We rank either first or second in deposit market share in 42 of the 53 towns where we do business and are the only bank in town in 21 of those markets.

Deposit and Customer Penetration

Total counties served:	18
Bank-wide deposit market share (all counties):	7%
Counties where CBU has top-three deposit market share:	6 (33%)
Percent of CBU's deposits in counties with top-three market share:	60%
Number of households:	121,695
Number of accounts:	289,393



Deposits Held by Age Group



Deposit Market Share by Location

Deposit Accounts

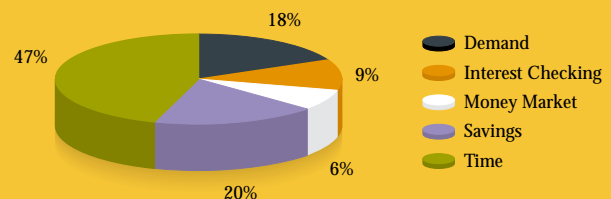
Our funding costs benefit from a high level of stable core deposits



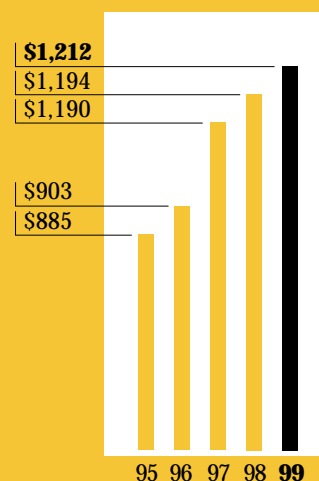
CBU's deposit account services include standard checking accounts, interest-checking accounts, money market accounts, savings accounts, time deposit accounts, and individual retirement accounts. Deposits of municipalities within our market

areas made up 11% of total deposits as of fourth quarter 1999.

CBU's total deposits have grown at a compound annual growth rate of more than 14% over the last five years. Deposits of individuals, partnerships, and corporations (IPC) have increased nearly 16% per year since 1994.



IPC Deposits by Type



IPC Deposits (4th quarter average, in millions)

Lending

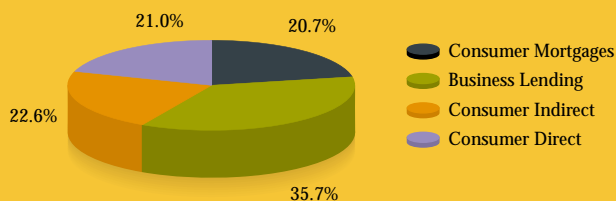
Our business lending has more than doubled since 1995



CBU's predominant focus on the retail borrower results in a highly diversified loan portfolio. About 64% of CBU's outstanding loans are provided to consumers borrowing on an installment and residential mortgage loan basis, and commercial business loans are typically for amounts under \$75,000.

Despite being primarily a retail bank, our business lending has more than doubled since 1995, and now makes up more than one third of our loan portfolio. Loans outstanding climbed 10%, or \$92 million, during 1999, with commercial loans comprising 44% of the total growth. Including loans sold in the secondary market, net loan generation in 1999 was \$129 million, 13.8% more than last year and the highest in our history.

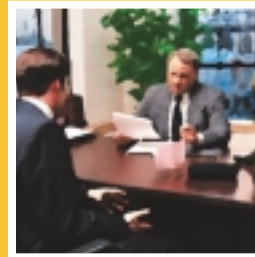
Our lending activities include residential, installment, student and farm loans, business lines of credit, working capital facilities, special purpose term lending, equipment leasing services, and inventory and dealer floor plans. We also provide a service to qualifying businesses by lending on accounts receivable.



Total Loans
\$1,009,223,000
December 31, 1999

Financial Services

The financial services industry is shifting to more diversified companies



CBU's financial services income has more than tripled during the last five years, and with our announced acquisition of Elias Asset Management (EAM), a nationally recognized investment advisory firm with over \$700 million in assets

under management, it will increase significantly during 2000.

Elias Asset Management (EAM) During 1999, approximately 50% of EAM's \$3.2 million in revenues was derived from individual clients, with nearly 25% from corporate pension and thrift plans, and the remainder from foundations and charitable trusts.

Benefit Plans Administrative Services, Inc. (BPA) BPA is a pension administrator and consultant serving small to medium sized businesses, which, along with our employee benefits trust division, generated \$2.5 million in revenues in 1999.

Community Investment Services, Inc. (CISI) During 1999 we eliminated third-party broker/dealers from the distribution process and created our own in-house capability. CISI's revenues from the sale of mutual fund and related consumer financial products reached nearly \$1.3 million in 1999.

Community Financial Services, Inc. (CFSI) Our newly established insurance agency has expanded the product capabilities of our Financial Consultants by adding long-term health care and other selected insurance products to their offerings. Revenues from CFSI were nominal in 1999. Commissions from the sale of insurance products bank-wide and related dividend to the Bank, from the NYS Bankers Association subsidiary through which these products were written, were over \$725,000.

Strong Banking Franchise

Diverse Community Banking Markets

With a reputation for providing “high-touch” personalized service through “Main Street-style” branches, Community Bank System, Inc. is a full-service commercial bank whose core strength is serving consumers and small businesses within the often overlooked non-metropolitan markets of Upstate New York. We provide commercial and retail banking and financial services through 67 customer facilities and 48 automatic teller machines in eighteen counties, stretching diagonally from the northern St. Lawrence River region to the southwest corner of the state bordering on Lake Erie. Our common stock is listed on the New York Stock Exchange under the ticker symbol, “CBU.”

While our non-metropolitan markets are competitive, they are generally not as competitive as larger, urban markets that typically attract big regional and money center banks. We have chosen to focus on our ability to compete in these smaller markets, which has resulted in CBU garnering a top-three market share (as measured by deposits) in six of the 18 counties in which we operate. In fact, in some of these markets our deposit share approaches 40%. We are the “only bank in town” in 21 of the 53 towns in which we do business.



Headquartered in DeWitt, New York, a suburb of Syracuse, we administer our geographically diverse branch network through two regional offices in Canton (Northern Region) and Olean (Southern Region), New York. In 1994, CBU serviced approximately 63,500 households and businesses, but through expansion and acquisitions, as of year-end 1999 that figure had almost doubled to 121,700. In fact, CBU is now the fifth-largest commercial banking franchise headquartered in Upstate New York, which positions us to compete effectively across a wide spectrum of the financial services market place.

Major competitors in these markets primarily include local branches of banks based in Boston, Cleveland, and Buffalo, as well as independent banking and thrift institutions, federal credit unions, and mortgage originators. Each CBU market has a different mix of competitors. Our ability to price and

structure products and services in relation to our competition in each market is a meaningful attraction to our customers as opposed to a “one size fits all” approach.

The Company’s significant focus on the retail borrower results in a highly diversified loan portfolio. About 63% of CBU’s outstanding loans are provided to consumers borrowing on an installment and residential mortgage loan basis. Over the last several years, the growth rate of CBU’s commercial business loans has exceeded that of loans to individuals, and this sector exhibits a high degree of diversification as well. Loans are typically for amounts under \$75,000, with nearly 80% of our customers representing about 25% of commercial loans outstanding. Only thirty-three percent of our commercial portfolio – about 115 customers, including 25 automobile dealers – is comprised of loans in excess of \$500,000.



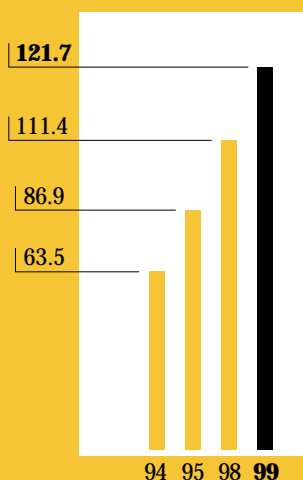
Fortunately, the Upstate New York economy is showing signs of recovery and growth. Since 1995, nearly 105,000 new, private sector jobs have been created in Upstate, erasing all of the Upstate job losses that occurred during the early 1990’s. In fact, the most recent Labor Department statistics show that if Upstate New York were considered as a separate state, it would rank 32nd in the nation in total job growth. Nonetheless, growth in the categories of disposable income, population and household formations over the past few years has been modest. Thus, to meet the Company’s aggressive targets, we have selectively expanded our service area through acquisitions and concentrated on providing customers with a wide range of products and services designed to meet local community needs. In a lower growth market, attaining exceptional growth in revenue and profitability requires increasing market share, largely by taking business away from competitors. By genuinely focusing on the needs of our marketplace, we have become the preferred banking brand in most of our markets.

In our Northern Region, we compete for loans and deposits in a six-county market area. We operate 28 customer facilities in this market, ranking first or second in deposit market share in 17 of the 20 towns in which these offices are located. We have 10.1% of all deposits held among this area’s commercial banks, credit unions, savings and loan associations and savings banks. In this region’s three-county primary market area (St. Lawrence, Jefferson, and Lewis counties), we have a very strong 24.0% market share. The Bank’s dominance in the Northern Region results from a significant period of acquisitions of small banks during the 1970s, with purchases of two groups of branches from Chase Manhattan and Fleet Bank in 1995 and 1997, respectively, which both filled in its original markets as well as extended the region’s south and southwest boundaries.

Commercial lending activity has been very strong in the North Country market, particularly within the agricultural and automotive dealer areas, the latter lending being closely aligned with our program which originates



COMMUNITY BANK, N.A.
Banking your way!



Growth in Households Served

(in thousands)

'94 Base Period
'95 After Chase Branch Acquisition
'98 One year after Key and Fleet Branch Acquisitions
'99 Present Period

consumer automobile loans through dealers. Our growth strategy within this region has been to focus on the few remaining markets where we have the least presence, and move to quickly build a profitable asset base. In addition, commercial lending competition has been relatively limited in this market, enabling CBU to realize better spreads between loan rates and funding costs. Two significant advantages we leverage in this market are our willingness to develop new products that respond to concentrated niche opportunities, and the decentralized commercial lending authority delegated to our branch personnel. This latter authority is executed within well-defined guidelines and carefully monitored to ensure compliance.

Our Southern Region consists of four different submarkets. In its three long-standing markets – Olean, Corning, and the Finger Lakes (excluding Onondaga county), which were originally served by five independent banks acquired by the Company or its predecessor bank in the early to late 1980s – CBU has achieved deposit market shares of 14.2%, 9.7% and 7.3%, respectively, among commercial banks, credit unions, savings and loan associations and savings banks. Purchases of three groups of branches

from the Resolution Trust Company, Chase Manhattan, and Key Bank during the 1994-1997 period have filled in or extended the original market footprint. Chautauqua county, the Southern Region's fourth submarket, was entered in 1997 with the acquisition of four branches from Key Bank and establishment of two de novo facilities – Jamestown in 1998 and Falconer in February 2000.

Within its Southern Region markets, CBU operates 39 offices and ranks either first or second in market share in 25 of the towns where these offices are located. This region has also been the site of CBU's biggest percentage growth in the area of commercial lending and reflects the greatest source of continuing growth opportunities. We are large enough to service substantially all of the commercial lending demand we encounter in this region, and our acquisition strategy has enabled us to develop many new customer relationships in this part of the state over the last five years.

Dedicated and Motivated Associates

Focused management of the customer relationship is, and will remain, the key to our marketing efforts. Our goal is to increase account relationships with existing customers through the cross-selling of products and services, including our newer investment and insurance offerings. Excluding accounts generated through automobile and other

dealers, representing many households who may not be located near a Community Bank branch, our customers currently hold an average of 2.7 primary bank products compared to our goal of three products per household by 2004. Implementing this strategy to deepen customer relationships with the Bank requires a core base of dedicated, experienced and motivated employees focused on ensuring that our customers are aware of, and interested in, the wide array of products and services we offer. Thus, CBU's 700-plus employees are literally our greatest asset, because "knowing the customer " is truly the biggest advantage in community banking.

Our signature - "Banking Your Way!" - is much more than a catchy phrase. It reflects who we are, and what we do. It expresses a banking philosophy based on local decision making, community commitment, and friendly, personalized service delivered with the customer upper most in our minds.

Our branch managers are not only experienced bankers, but they are most often long-time residents of the communities which they serve. The average length of service for our branch managers and senior platform personnel is 18 years, which enables them to leverage their personal relations to grow our asset base. It also means our customers continue to see the same people with whom they built their banking relationship years ago. This is a significant competitive advantage because we have the experience to understand our customers' businesses and how they have changed, giving us the ability to anticipate and meet their needs.

Our lenders call on businesses using a relationship approach, together with rapid decision-making at the branch and regional level. This is in major contrast to our larger competitors, which often review their loan applications at a centralized (and often distant) location, putting more time and less local input into their processes.

In coming years, consumers of banking services will have more choices, primary deposit relationships will continue to be challenging to acquire and retain, and fee income will substantially impact the overall profitability of community banks. To remain successful in an increasingly competitive community banking environment, we will continue to offer all the profitable products and services that fit our customers' needs, and reward our employees for expanding customer relationships. Along the way, we will strive to out-hustle our competitors by studying the most innovative products and services available throughout the industry, re-designing them to best suit the requirements of our clientele.



Our Community Banking Philosophy

We have developed, and are committed to, a philosophy of identifying and meeting the financial needs of customers in local communities. This is our way of doing business, and therefore, it's also our brand. Because our branches are generally located in small towns and villages throughout most of Upstate New York, we have a clear advantage in the delivery of products and services over larger financial institutions that gear their products and delivery in a commoditized approach to major metropolitan markets. Clearly, being fast, focused, and well-organized still counts

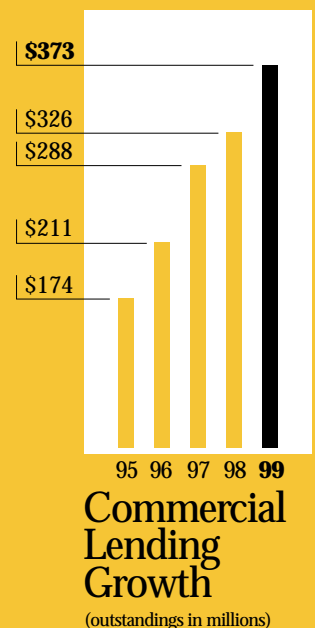
Our Brand – “Banking Your Way!”

- “High-Touch” Service Delivered By People Known and Trusted Within the Community
- Responsive, Local Decision Making
- Quality Products and Services Designed to Meet the Needs and Wants of Our Customers
- Delivered From Small Town, Main Street-Style Branches

for a lot in banking. Moreover, we have the technology to deliver products electronically that are competitive, cost-effective, and well suited to our market place. Community banking is no longer a “big versus small” contest, but rather one that is centered on being “fast and flexible” versus “slow and standardized.” The cookie-cutter strategy of larger competitors has repeatedly failed to satisfy the small-town customer, creating significant opportunity for our needs-based approach.

To that end, CBU has incorporated the “Customer Relationship Management” (CRM) concept in its overall strategy. CRM is a business strategy aimed at understanding and anticipating the needs of current and potential customers. From a technological perspective, CRM involves capturing internally and externally acquired customer data from across the enterprise, consolidating all data in a central database or warehouse, analyzing that data, distributing the analysis and results to various customer touch points, and using this information when interacting with customers via any touch point.

CBU believes that Customer Relationship Management is crucial to its future success. Detailed customer information gathered from transactions and other sources can provide our Bank with a competitive advantage. Building better customer relationships in the future requires a superior decision support engine and customer information system in the present. And we can assure our customers that as a responsible, community-based company, CBU will always respect the privacy of their relationship with us.



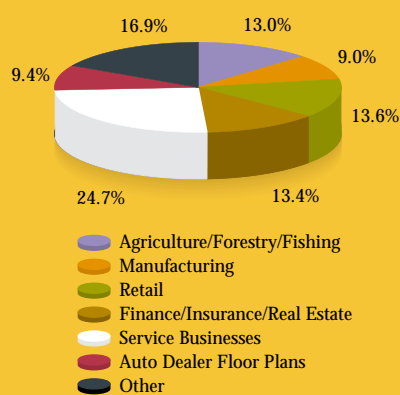
CRM is not an option; rather, it is an essential initiative for all banks that seek to retain their profitable customers, expand those relationships, or attract new profitable customers. The goal is to organize and focus our employees on attracting and retaining profitable customers, leading to revenue growth at the expense of lesser-focused competitors.

Competitive Products and Services

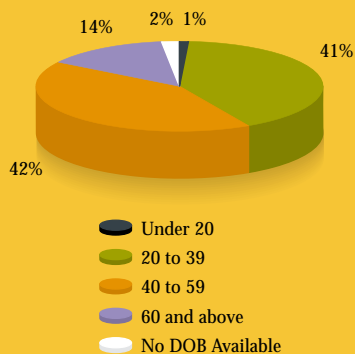
CBU offers a significant range of commercial and retail banking services in each of its markets, which address the needs of businesses, not-for-profit organizations, government entities, and of course, individuals. The Bank also has developed an area of expertise within the agriculture industry (13% of our commercial loans outstanding), assisting many farms and related companies with their unique financial needs. Four other sectors of the commercial portfolio making up between 9% and 14% each are manufacturing; retail trade; finance, insurance, and real estate; and dealer floor planning. A wide variety of service firms constitute 25% of commercial loans.

CBU competes effectively against national and multi-national banks through its decentralized, branch-level responsive decision-making. Our ability to adjust pricing locally to fit specific market conditions gives us a major advantage over larger, more cumbersome competitors. When competing against other community banks that possess some of these same advantages, we again perform smartly through an expanding, technology-enhanced product line delivered by experienced personnel. Among these services are automated cash management, telephone banking, Internet banking (in spring 2000), selection of employee benefit plan investments online, and an expanding network of automatic teller machines (ATMs) at our branch locations besides those accessed through national vendors.

Our lending activities include residential, installment, student and farm loans, business lines of credit, working capital facilities, special purpose term lending, equipment leasing services, and inventory and dealer floor plans. We also provide a service to qualifying businesses by lending on accounts receivable. Despite the fact that we are primarily a retail bank, our business lending has more than doubled since 1995 and now makes up more than one third of our loan portfolio. Loans outstanding climbed 10%, or \$92 million, during 1999, with commercial loans comprising 44% of the total growth. Reflective of our efforts, the U.S. Small Business Administration has ranked us second in small business lending in New York State among banks with \$1 to \$10 billion in assets. Including loans sold in the secondary market, net loan generation in 1999 was nearly \$129 million, 13.8% more than last year and the highest generation in our history.



**Commercial Loan Portfolio
by Industry Type**



Installment Loan Customers by Age Group

CBU's deposit account services include standard checking accounts, interest-checking accounts, money market accounts, savings accounts, time deposit accounts, and individual retirement accounts. We also offer our depositors a variety of traditional banking support services, such as safe deposit boxes, travelers checks, money orders, wire transfers, collections, foreign exchange, drive-in facilities, nationwide ATM network access, and 24-hour depositories.

As of fourth quarter 1999, approximately 89% of our total deposit portfolio was comprised of deposits of individuals and businesses. This group as a whole increased 1.5% during the year, comparing fourth quarter 1999 to the same quarter in 1998, with significant growth in demand deposits (up 7.6%) and time deposits (up 2.4%). Deposits of municipalities within our market areas made up 11% of total deposits as of fourth quarter 1999, with the bulk of

those entities having their primary deposit relationship with us as opposed to only interest sensitive CDs.

CBU's high-touch focus on its retail customers is particularly appealing to the senior members of our communities. We offer social security direct deposit services, no monthly fee demand deposit accounts, and a high-balance "Community Plus" bundled account which offers higher rates on CDs and lower rates on direct consumer loans.

At the same time, we compete for younger retail customers – and more adventuresome seniors – by offering "higher-tech," convenience-based products and services, including ATMs, telephone banking, a VISA Check Card (debit card), check safekeeping, and no-fee direct deposit accounts. Younger loan customers are attracted to our direct, in-house, no-closing-cost home equity and mortgage loans, and our competitively priced secondary market mortgages. This customer group has also responded well to our indirect auto loan product offered through auto dealers, which are located both within and outside areas where we have a branch presence.

In addition, during spring 2000 we're launching our new Internet Banking service. CBU will soon provide PC Internet banking, offering our customers all the functionality currently available via our telephone banking services. It will allow both our commercial and retail customers to safely and securely view their checking and savings account balances and transaction activity, transfer funds among deposit accounts, or place stop payment orders on checks. We're very excited about this new initiative and all the potential it brings to our product and service lines going forward. In addition, we will be making an image-based checking account available during the spring and summer to consumers and businesses, bringing them the convenience of having a consolidated, imaged record of their transactions instead of storing the original physical checks. The quality and comprehensiveness of our customer statements will also improve, with the entire product upgrade bringing cost savings in the delivery of our depositor products at the same time.

Expanding Financial Services

A Changing Financial Services Marketplace

With the signing of the Financial Services Modernization Act in 1999, the regulatory lines defining services to be delivered by banks, insurance companies, brokerage firms and other financial providers have become nearly indistinguishable. Our customers will clearly benefit since the Bank's branch system can now bring an even greater breadth of products and services directly to the towns and villages in which they reside, increasing CBU's efficiency and overall competitiveness as well.



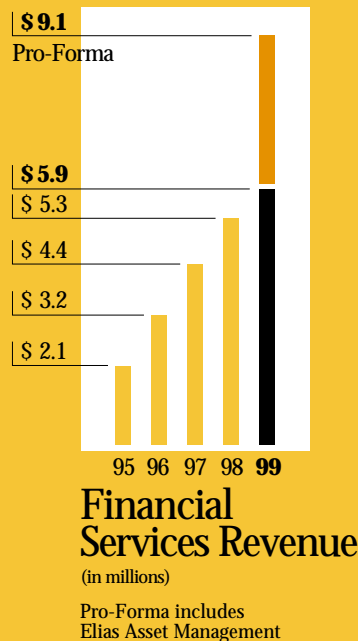
We believe that our shareholders and potential investors will also view these changing regulations as an investment opportunity, as they begin to understand that revenue and earnings potential increases dramatically with the passage of this Act. For the last several years we have been taking advantage of the already permitted opportunities available within the financial services sector and the resulting ability to lessen our dependence on net interest spread income for earnings growth. We intend to make these newly permitted products a major source of growth and expansion for the Company in the future. Since 1994 our financial services revenues have increased to 36% of noninterest income, growing at an annual compound rate of nearly 28% per year.

As consolidation continues among financial institutions, we believe it will be community banks that provide the thread of stability in an otherwise confusing financial environment. We are confident that as more mega-mergers take place within the industry, CBU's emphasis on customer knowledge and service will become an even greater asset, as those consumers on which we focus become increasingly disenchanted with the rigidity and distant nature of large financial service providers.

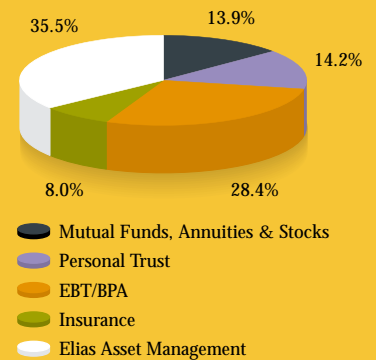
In anticipation of deregulation and other industry changes, CBU has taken several steps over recent years to broaden its customer base and position itself well for growth opportunities, as indicated below.

Personal Trust Services

In addition to its employee benefit trust services delivered in conjunction with Benefit Plans Administrative Services, Inc. (BPA), CBU offers a full range of personal trust services, including living, testamentary and charitable trusts, as



well as estate settlement services, conservatorships, and investment management services. Besides trust investment and administrative personnel based in Olean, NY, trust representatives are also located in Canton, Corning, and most recently, Jamestown. Coupled with its own new business efforts, the trust department draws from a wide referral network including CBNA's branches, commercial lenders, Financial Consultants, and BPA as well as attorneys, accountants, and its own long-standing customer base, which represented over 500 families as of year-end 1999. Our personal trust business has been a significant revenue source for CBU for several years, and 1999 was no different, as fee income from this area grew 9% over the prior year to \$1.29 million. Personal trust assets under management now reach \$170 million.



Financial Services Revenues

Pro-Forma 1999, \$9.1 million

Asset Management

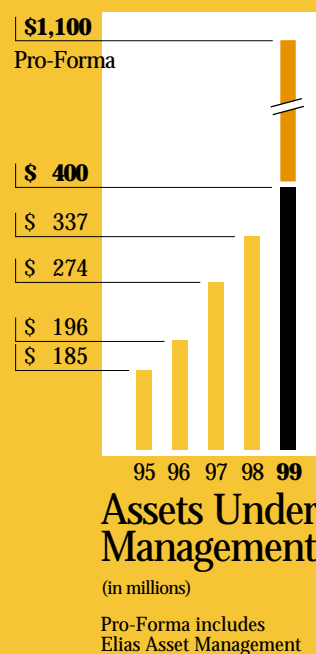
In February 2000, we announced the acquisition of Elias Asset Management (EAM), based in Williamsville, New York, a suburb of Buffalo. This transaction significantly expands our financial services capabilities and is expected to close during the second quarter of the year. Founded in 1981, EAM is a nationally recognized investment advisory firm with over \$700 million in assets under management, comprised of more than 900 accounts with individuals, foundations, and corporate pension and profit-sharing plans.

By acquiring EAM, we are merging the strengths of two companies that have successfully worked together since 1986 in various trust department and pension management capacities, satisfying our customers' preferences for an even greater range of services. Our decision to acquire EAM is consistent with the direction of the financial services industry toward more diversified and broadly based companies - a trend that will accelerate as a result of



Financial Services, (left to right) Charles E. (Bud) Kopp, President, Community Investment Services, Inc. and President, Community Financial Services, Inc.; Michael A. Patton, President, Financial Services; Catherine B. Koebelin, Vice President, Trust Officer; David J. Elias, President and Chief Investment Officer, Elias Asset Management

Financial Modernization legislation. Operating as a separate, independent subsidiary, EAM and its existing clients will benefit from additional resources that will enable EAM to maintain its high quality reputation, while adding valuable personnel and enhanced services. Similarly, CBU's customers will now enjoy more ready access to a broader array of sophisticated financial services. As of year-end 1999, approximately 50% of EAM's \$3.2 million in revenues was derived from individuals, with nearly 25% from corporate pension and thrift plans, and the remainder from foundations and charitable trusts.



Pension and Retirement Planning

In mid-1996, we acquired a pension administrator and consultant, Benefit Plans Administrators (BPA) of Utica, New York, thereby strengthening and consolidating a business relationship we had with that firm since the early 1990's. In conjunction with Community Bank, N. A.'s employee benefit trust division (EBT), BPA serves the retirement plan administration and trust needs of organizations both within and outside of CBNA's branch markets. In 1999, BPA/EBT generated \$2.6 million in revenue from more than 350 plan sponsors, and supported nearly \$230 million in retirement plan trust assets.

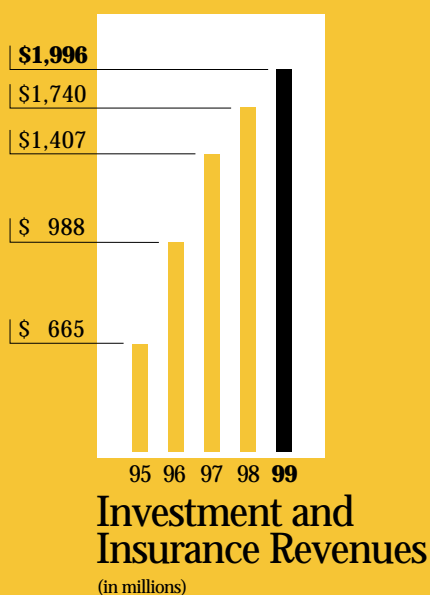
BPA/EBT supports defined benefit, 403(b), 457, 401(k), ESOP and other forms of defined contribution plans, enhancing these products with voice response and transactional web services. Its specialty is individually designed plans, and offers clients a multitude of non-



Benefit Plans Administrative Services, Inc., Girard H. Mayer, Chief Executive Officer (left), and Barry S. Kubin, President

proprietary, no-load mutual funds as investment vehicles. BPA has been endorsed by several trade associations and mutual fund companies; thus, its market continues to grow from a local base to plan sponsors located in the urban centers of New York State and beyond.

Investment and Insurance Services



Since mid-1994, we have steadily expanded our team of Financial Consultants providing mutual funds, annuities, and individual equities through selected locations across our branch network. The small towns we serve have a limited brokerage presence, making investment service offerings a natural fit for CBU. In addition, a freestanding brokerage office was established in Lockport, NY in 1999.

During 1999 we also decided to eliminate costly third-party broker/dealers from the distribution process and create our own in-house capability, Community Investment Services, Inc. (CISI). We believe this provides our retail network with a significantly improved cross-selling opportunity besides lowering our delivery costs. CISI is now fully implemented with ten Financial Consultants providing investment advice and products to our customers. We expect that CISI will become an even greater source of noninterest income, as consumer

interest in owning equities, either through mutual funds or direct ownership, is at an all-time high and the need for advice in making investment decisions is expanding. CISI is preparing as well to participate in the growing consumer desire to directly trade securities, particularly through the Internet. CISI's revenues from the sale of mutual fund and related consumer financial products reached \$1.27 million in 1999, up from \$473,000 in Community Bank's first full year of providing these products in 1995.

Community Financial Services, Inc. (CFSI), our newly established insurance agency in Olean, NY, expanded the product capabilities of our Financial Consultants in 1999 by adding long-term health care and other selected insurance products to their offerings. Community Bank has long been in the business of selling creditor life insurance to installment and mortgage loan customers through its branch system. Revenues from this activity, including the Bank's annual dividend from the New York State Bankers life insurance subsidiary through which the creditor life insurance is written, plus commissions generated by the Financial Consultants, amounted to \$728,000 in 1999.

Shareholder Information

CORPORATE HEADQUARTERS

Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
800-724-2262
315-445-2282
315-445-2997 (fax)
www.communitybankna.com

STOCK LISTING

The common stock of Community Bank System, Inc. is listed on the New York Stock Exchange (NYSE) under the symbol CBU. Its trust preferred securities are traded over the counter under the symbol CBSIP.

Newspaper listing for common stock: CmntyBkSys

ANNUAL MEETING

Wednesday, May 17, 2000 at 1:00 p.m.
Wyndham Syracuse Hotel
6301 Route 298
East Syracuse, NY 13057
Phone: 315-432-0200
Fax: 315-433-1210

INDEPENDENT ACCOUNTANTS

The Board of Directors has appointed the firm of PricewaterhouseCoopers LLP as auditor for the Company.

INVESTOR RELATIONS CONTACT

Investor and shareholder information regarding Community Bank System, Inc., including all filings with the Securities and Exchange Commission, is available through the Company's Web site.

Copies may also be obtained without charge upon written request to:

David G. Wallace
Executive Vice President and Chief Financial Officer
Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883

INVESTOR'S CHOICE PROGRAM

CBSI's Investor's Choice Program, which is administered by American Stock Transfer & Trust Co., offers a variety of convenient, low-cost services for investors who wish to build their share ownership. Some key features of the program include the ability to:

- Buy and sell shares in a convenient and economical fashion.
- Purchase additional shares of CBSI common stock by automatic deduction from investor's bank account or periodic contributions.
- Reinvest all or part of dividends to automatically purchase additional shares.
- Deposit shares for safekeeping or make gifts of shares.
- Enroll without annual account maintenance, safekeeping, or dividend reinvestment costs.
- Access a toll-free customer service line for inquiries regarding the program or investor's own account.

For information, contact:

Community Bank System, Inc.
Shareholder Relations Department
5790 Widewaters Parkway
DeWitt, NY 13214-1883
315-445-2282

or

American Stock Transfer & Trust Co.
40 Wall Street
46th Floor
New York, NY 10005
800-278-4353
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