



The community approach to growth.

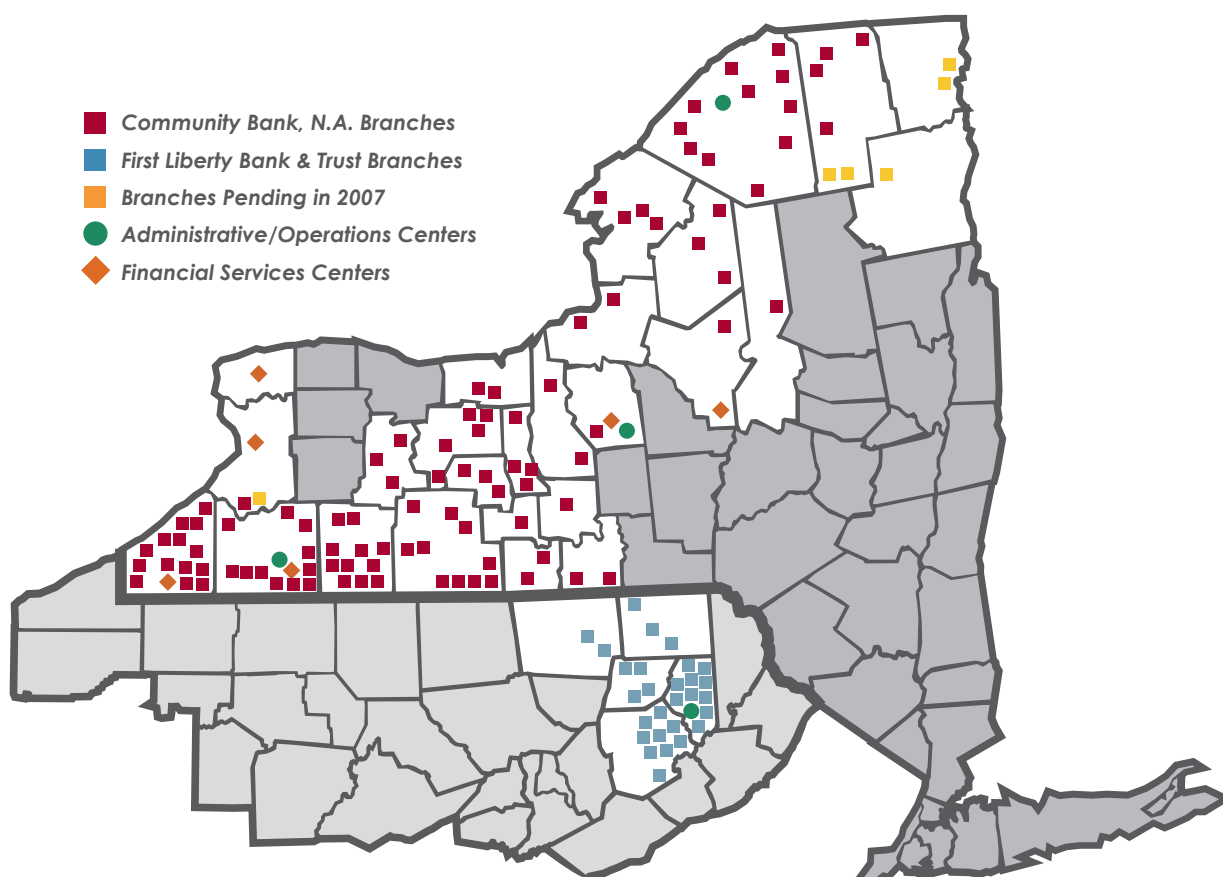


Community Bank System, Inc. Annual Report 2006



2006 Performance Highlights:

- Acquired Elmira Savings & Loan in August, which expanded our presence in the Elmira, N.Y. market and provided our initial entry into the Ithaca, N.Y. community, while adding \$210 million in assets.
- Acquired Ontario National Bank, whose four branches and \$95 million in assets nearly doubled our presence in the northern Finger Lakes region.
- Generated 22,000 new demand deposit accounts between April and December, due to our highly effective “TurboChecking” launch. This represented a growth rate of 17% annually and \$50 million of new balances.
- Generated financial services revenue growth of \$2.1 million or 11.4%, led by 18% growth from our employee benefits administration and consulting business.
- Achieved highly favorable asset quality levels, including a non-performing loan ratio of 0.47% compared to 0.55% in 2005, and a full-year charge-off ratio of 0.24%, an improvement over 2005’s impressive 0.33%.
- Successfully reduced operating expenses in 2006 (excluding acquisition costs) via personnel reductions, select branch consolidations and proactive vendor management programs.
- Purchased 259,000 CBU common shares under the previously announced 1.5 million-share repurchase program, extended the existing program, and approved an additional 900,000-share program.
- Increased our quarterly dividend by 5.3%, underscoring our confidence in our long-term strategies as well as our commitment to maximizing shareholder returns.
- Seamlessly completed our management succession plan, including the transition to a new President and Chief Executive Officer, a new Chairman of the Board, and the planned retirement of several executive management and Board positions.



Community Bank System (NYSE: CBU) is a registered bank holding company based near Syracuse, N.Y. Its wholly-owned banking subsidiary has \$4.5 billion in assets and more than 130 customer facilities across Upstate New York, where it operates as Community Bank, N.A., and Northeast Pennsylvania, where it operates as First Liberty Bank & Trust.

CBU operates primarily in smaller urban markets where it seeks a leading market share position. It ranks first or second in deposit market share in more than 70% of the communities where it does business. It has enhanced its franchise significantly over the past decade, making 17 successful acquisitions since 1994, with two more pending and scheduled for completion in mid 2007. In the process, it has grown its assets by more than 500%, and its number of customer facilities almost four-fold.

Other CBU subsidiaries include: BPA-Harbridge, which provides actuarial, administration, consulting and daily valuation recordkeeping services for benefit plans from offices in Upstate New York and Pennsylvania; Community Investment Services, Inc., a broker-dealer delivering financial products throughout the company's branch network; and Nottingham Advisors, a wealth management and advisory firm with offices in Buffalo, N.Y. and North Palm Beach, Fla.

Table of Contents

<i>Letter to Shareholders</i>	2	<i>Administration & Lenders</i>	22
<i>Review of Operations</i>	8	<i>Branch Locations</i>	24
<i>Growth & Acquisition History</i>	19	<i>Form 10K</i>	26
<i>Board of Directors</i>	20	<i>Shareholder Information</i>	Inside Back Cover
<i>Glossary</i>	21		



Dear Shareholders, Investors, Customers and Employees:



President and Chief Executive Officer Mark Tryniski (left) and Board Chairman Paul Cantwell at the flagship branch of our newly acquired Ontario National Bank in Clifton Springs, N.Y.

Community Bank System's Four-point Growth Strategy

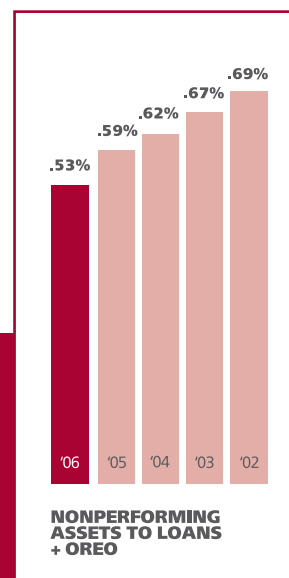
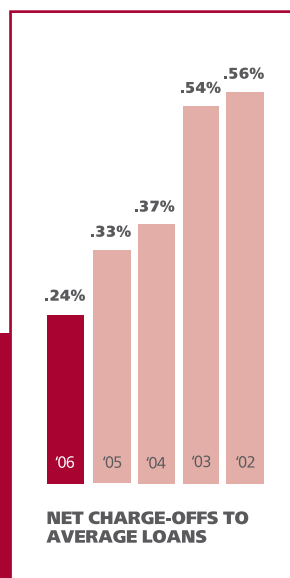
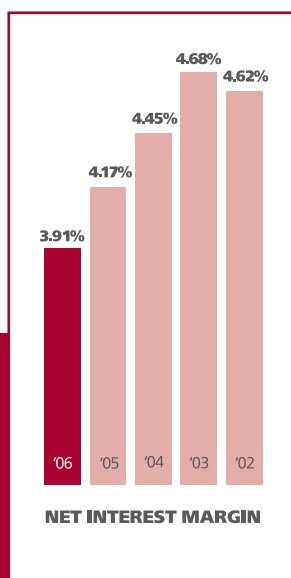
- Create a market leading branch system with decentralized decision making.
- Diversify our revenue and earnings streams through non-interest income.
- Build profitable loan and deposit volume.
- Utilize technology to improve productivity and enhance — not replace — customer service.

Fiscal 2006 was a year of significant change, challenge, and progress for your company. As expected, earnings results for 2006 were down over those reported in 2005, due to the impact of (i) investment gains in 2005 resulting from significant securities sales which improved our interest-rate profile, and (ii) lower net interest margins in 2006 resulting from the flat — and at times, inverted — yield curve. Despite the earnings decline, we are very pleased with our operating performance for 2006. Much of the impact of the events described above was offset by the strength of our core performance, including growth in loans and deposits, increased banking non-interest income, significant growth in our financial services businesses, improved asset quality, and reductions in operating expenses.

Perhaps the signature success of 2006 was the largest business-development effort the company has ever undertaken—a company-wide core-deposit initiative begun in April that we call “TurboChecking.” This campaign centered around the re-design of our demand deposit product offerings, targeted direct mailings and in-branch promotions.

Our branch and other employees have done a wonderful job implementing this program, attracting 22,000 new accounts from April through December last year, representing a 17% annualized growth rate and \$50 million of new balances. These are outstanding results that have strengthened this important core customer base, generated enthusiasm in our branches, and provided earnings and cross-selling opportunities for 2007 and beyond.

Two other important operating performance drivers in 2006 were asset quality strength and operating expense reductions. Asset quality metrics improved to levels not achieved in many years, with reduced charge-offs contributing significantly to earnings in 2006. However, despite our improved asset quality profile, we still recognized a loan loss provision for the year that exceeded net charge-offs.



Our disciplined underwriting and credit administration practices produced these impressive results and will continue to be a hallmark of your company.

We also successfully reduced operating expenses in 2006 (excluding acquisitions) through a combination of personnel reductions, select branch consolidations and the favorable renegotiation of vendor relationships.

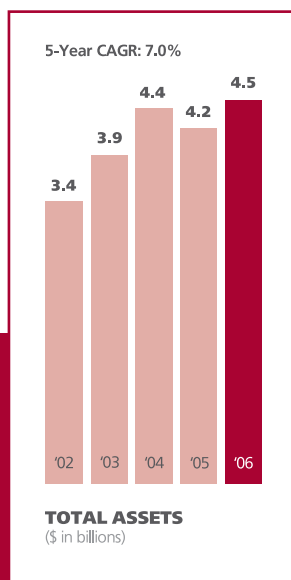
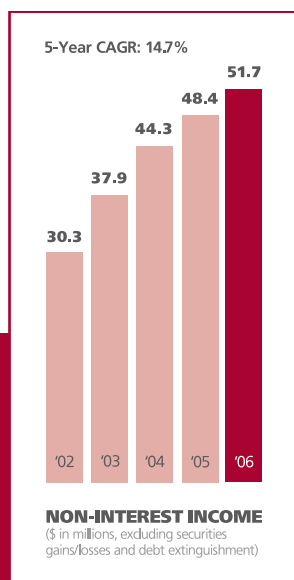
Non-interest income continues to be an increasingly significant contributor to our earnings, with our financial services businesses delivering an 11% revenue increase and a \$1.7 million rise in operating profit over 2005. BPA-Harbridge, our benefits administration and actuarial consulting business, reported \$13.2 million of revenue in 2006 and an organic growth rate of 18%. We will continue to invest in this business, as evidenced by our agreement in February 2007 to acquire Hand Benefits and Trust in Houston, Texas. Following this transaction, which we expect to close in mid 2007, BPA-Harbridge revenue should increase to \$20 million from clients in more than 30 states and Puerto Rico. Excluding New York City, BPA-Harbridge is already the largest actuarial firm in New York State.

Also of note, our wealth management and advisory subsidiary, Nottingham Advisors (formerly known as Elias Asset Management), completed a re-branding effort to better define the broader and more diverse product and service offerings it has developed to more completely support its clients' financial goals. Like BPA-Harbridge, it too reaches well beyond our traditional New York and Pennsylvania footprint, as the office it opened in 2006 in North Palm Beach, Fla. clearly demonstrates.



Because of the moderate-growth markets we serve, our growth strategy will continue to include acquiring small- to medium-sized community banks that are within, or a reasonable extension of, our existing franchise footprint. We will also continue to be disciplined in evaluating and pricing these growth opportunities, making sure the economic and cultural value we acquire is accretive to our shareholders.

During 2006, we completed two such acquisitions, Elmira Savings & Loan, and Ontario National Bank — both in central New York, which collectively added six new branches to our network and gave us our first entries to the communities of Ithaca, Clifton Springs, Phelps and Palmyra. Each of these institutions represents high-value, accretive transactions for your company, and I am very pleased to welcome



their employees to Community Bank System. Just as importantly, I wish to recognize their respective retiring CEOs, Bill McKenzie and Jerry Zehr, for their accomplishments and distinguished service to these new partners.

In January 2007 we announced yet another acquisition, Tupper Lake National Bank. Like our 2006 transactions, it will not only extend our footprint from an area where we already have a significant presence, it also gives us entry to markets which we have targeted for some time. Its five branches include the northeastern New York cities of Plattsburgh and Saranac Lake, marking our first entry into Clinton and Essex counties, respectively. In addition, it's an opportunity to strengthen our presence in Franklin County to a "number-one" market share position, via its two Tupper Lake branches. And like our two transactions during 2006 — and nearly all of the acquisitions we've made in recent years — we'll be gaining a customer base that has not had access to the breadth of retail, commercial, and financial services products we offer. We anticipate completing this transaction during the second quarter of 2007.

In addition, we began construction on a de novo branch in Springville, N.Y., located near the southern Erie County border. This will position

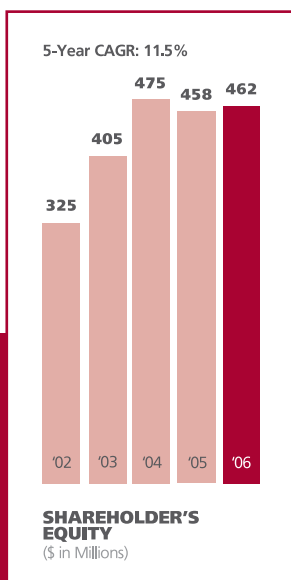
us closer to market opportunities within the southern Buffalo suburbs, and is also slated to open



Two major 2006 highlights were our acquisitions of Ontario National Bank and Elmira Savings & Loan — both trademark CBU transactions due to their geographic characteristics and customer demographics. Shown here are the flagship branches for each in Clifton Springs and Elmira, N.Y., respectively.

during the second quarter this year. We're also enhancing both of the facilities that made up our Elmira Savings and Loan acquisition. We're not only expanding the service capabilities of our Ithaca branch to better respond to the opportunities present in this vibrant community, we're adding a full-scale financial services center to our Elmira branch as well.

During the third quarter of 2006 our Board of Directors once again announced an increase in the company's quarterly dividend on its



common stock to \$0.20 per share. A 5.3% rise, this reflected an annualized dividend yield of 3.5% as of the December 31, 2006 closing price of \$23.00 per share. More significantly, it continues our record of delivering dividend increases for 10 or more consecutive years, making us one of just over 300 — or 3% — of the more than 10,000 U.S. publicly listed companies to do so, according to Mergent, Inc., which named us to its Dividend Achievers Index in 2006.

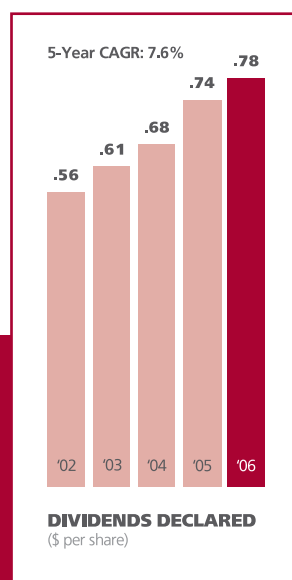
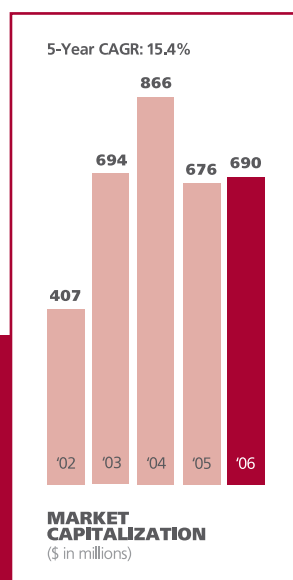
As we stated at the onset, 2006 was a year of significant change for the company. Sanford Belden retired on July 31 as President, CEO and a Director after 14 years of stewardship to Community Bank System and its shareholders. We are most grateful to him for his strategic vision, exceptional leadership and outstanding returns to shareholders.

Your Board of Directors saw great change as well, with a succession in the Chairman's role and the retirement of several Directors. After chairing the Board since 1999 and overseeing one of the Company's greatest growth periods, Jim Gabriel decided it was time to

pass the torch (although he remains on the Board as a Director), and Paul Cantwell was elected Chairman. In addition, John Burgess, Lee Hirschey, and Peter Sabia all retired in 2006. John and Lee both served on the Board for nearly 30 years and played critical roles in the company's long-term success. Their service to shareholders cannot be sufficiently honored here, and their business acumen and presence will be greatly missed. Pete retired in 2006 as well, as will Harold Kaplan following our 2007 Annual Meeting. Both Pete and Hal came to us as a result of our 2001 acquisition of First Liberty Bank & Trust in Scranton, Pa. They have been tireless in their support and oversight of our First Liberty division, which has shown persistently greater success over the past two years. The Board extends its gratitude and appreciation to Sandy, Jim, John, Lee, Pete and Hal for their countless contributions to the company and its shareholders.

Your company is very well positioned for the future. We have a strong management team, capable and committed employees, an engaged Board and a sound, proven business model and growth strategy. Recent

strategic planning by your Board and management has reaffirmed our commitment to a community bank-style business model in non-metropolitan markets, continued



Financial Highlights

	2006	2005	Percent Change	5-Year CAGR
Income Statement Data (in thousands)				
Net interest income	\$ 134,809	\$ 143,872	-6.3%	6.8%
Non-interest income, excluding securities gains	51,679	48,401	6.8	14.7
Investment securities and debt extinguishments (losses) gains, net	(2,403)	12,195	N/A	N/A
Operating expenses	127,203	127,389	-0.1	7.5
Net income	\$ 38,377	\$ 50,805	-24.5	14.9
Diluted weighted average common shares outstanding	30,392	30,838	-1.4%	5.1%
Common Per Share Data (diluted)				
Net income	\$ 1.26	\$ 1.65	-23.6%	9.2%
Cash dividend declared	0.78	0.74	5.4	7.6
Common stock price	23.00	22.55	2.0	11.9
Period-end book value – stated	15.37	15.28	0.6	8.2
Period-end book value – tangible	\$ 7.17	\$ 7.77	-7.7%	8.0%
Balance Sheet Data (end of period, in millions)				
Total assets	\$ 4,498	\$ 4,153	8.3%	7.0%
Loans	2,702	2,412	12.0	9.3
Deposits	\$ 3,168	\$ 2,985	6.2%	4.5%

All share and share-based amounts reflect the two-for-one stock split effected as a 100% stock dividend on April 12, 2004. All financial results reflect the 2001 acquisition of First Liberty Bank Corp. (FLIB) in accordance with the pooling-of-interest method of accounting. N/A = Not applicable. Five-year CAGR period covers 2001 to 2006.

investment in non-banking businesses and a growth strategy that incorporates both organic and acquired expansion. The near-term outlook will continue to be challenging for all banks because of the interest-rate environment. However, it's incumbent upon our management to develop and execute operating plans that provide earnings growth and shareholder returns in any and

all business environments — and we remain highly confident in our ability to accomplish exactly that.



Paul M. Cantwell, Jr.
Chairman of the Board



Mark E. Tryniski
President and Chief Executive Officer



Banking Services

Wendy Baire always dreamed of buying a home. A single mother in Limestone, N.Y., her dream finally came true through the help of our Community Bank, N.A. team in Olean, N.Y. At our urging, she attended a first-time home buyer's course, which educated her on the overall home loan application process. By connecting her with the New York State Affordable Housing Program and other local human service agencies, Wendy not only got approved for her loan — her monthly mortgage payment is roughly half of what she was paying in rent. Now that's a story book ending. Pictured here are Wendy and her children, Frank and Dominique, in their new home in Olean.

When it comes to corporate names, ours may not be the most glamorous or catchy, but it sure does a nice job of defining who we are.

We're Community Bank System... which quite literally means, we're a system — a network, if you prefer — of community banks.

And that's important because it explains almost immediately to customers, employees and shareholders alike, what our primary focus is, and how we go about running our business.

Stated simply, we're a bank that serves communities — not metropolises. We help customers manage their financial goals with a level of attention that has vanished from many other banks. In fact, we go beyond the role of banker in the markets we serve, asking our associates to get involved in their communities and support them with a variety of financial and volunteer means. We become a true part of these smaller cities and towns, allowing us to relate to customers with an extraordinary degree of understanding and relevance.

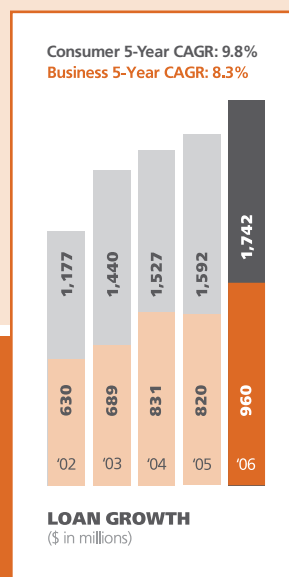
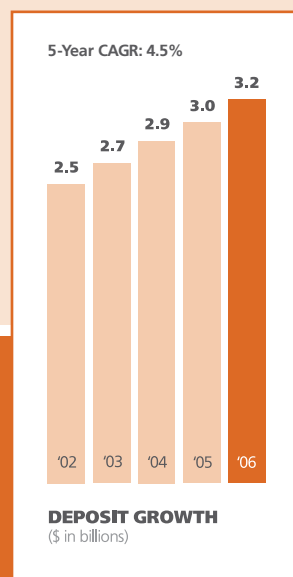
For example, if a customer walks into our branch in, say, Watkins Glen, N.Y., and applies for a loan, that application isn't shipped off to some far away, impersonal decision makers.

Instead, it is reviewed and evaluated right there by our branch manager — Laurie Fox — and her team, all of whom have a level of knowledge about that customer that large-scale centralized lenders can't come close to matching.

In fact, that's how we do things in all of our 128 branches. There are 128 Laurie Foxes on our team, part of 1,600 employees as of year-end, that follow our decentralized approach to decision making. They appreciate that we respect them enough to give them these responsibilities, and they reward that respect with superior service and attention to detail.

We've proven time and again that this approach works, as evidenced by the fact that we have the #1 or #2 market share in 70% of the communities where we do business. There are still plenty of markets where service is valued and loyalty can be earned. That's why we keep expanding into those places, as the nine banking acquisitions we've made since 2001 (with a 10th pending) suggest. We'll also continue to seek organic growth in all three of our major banking regions (which we will discuss over the next few pages), as we look

to build upon the loan and deposit momentum we gained last year. Above all, we continue to focus on the people who live and work in our own communities because, ultimately, it is their best interests that we must serve if we wish to continue to succeed.





Southern New York

In 1968, Stephen Kane founded a retail floor covering business in Wellsville, N.Y. which would come to be known as Wellsville Carpet Town. Since then, the Kane family has leveraged its retailing expertise by not only growing the Carpet Town franchise, but with the help of Community Bank N.A. since 1993, expanding its operations to include a franchise of five Ashley Furniture Home Stores in Western and Central New York, with a sixth set to open in suburban Rochester in 2007. Pictured here at its year-old Orchard Park (a Buffalo suburb) location are Managing Partners Timothy Quinn, Thomas Kane and Kathleen Smith.

Our Southern New York region includes 69 branches and \$1.6 billion in deposits within the Finger Lakes and Southern Tier areas, which include cities like Olean, Fredonia, Jamestown, Geneva, Corning, Elmira, and Ithaca. We've experienced solid growth here over the past two years because of superior execution on both sides of the balance sheet.

This region includes our two most recent acquisitions, Elmira Savings & Loan and Ontario National Bank, which together added six branches and more than \$300 million to our asset base.

Both of these purchases were "trademark" acquisitions for us, in that they met all of the criteria we seek in our candidates. They both held significant positions within smaller urban markets from which we could establish a lending presence. They had a history of providing quality service to their markets and generated solid operating results. They offered customers which had not previously had access to the breadth of retail deposit, lending and financial services products we offer. They were led by proven management, most of whom we have kept in leadership and business-development roles following the mergers. They are logical extensions of our geographic footprint, complementing the offices we currently operate in the Finger Lakes and Southern Tier. They feature cities which serve as economic anchors for their respective counties. And in the case of the ES&L transaction, like so many of our markets, its Ithaca and Elmira markets are home to such major higher education

institutions as Cornell University, Ithaca College, Elmira College and various community colleges, which generate all of the socioeconomic and stability benefits which such institutions typically offer their communities.

In addition, we're building a new branch in Springville, south of Buffalo. This will position us closer to many attractive opportunities within Buffalo's southern suburbs, and is slated to open during the second quarter this year. We're also expanding our newly acquired Ithaca branch and adding a financial services center to our new Elmira facility.

Southern New York is home to more than just branches for us, as our decentralized company has developed significant administrative operations in the city of Olean. This highly representative CBU market is also home to headquarters for both our broker-dealer and personal trust departments, as well as our loan processing center, allowing us greater flexibility throughout our organization from both administrative and personnel perspectives. As a result, Community Bank System has become one of the five largest employers in Olean.



Northeast Pennsylvania

Intermountain Health Group began in 1998 with 19 physicians of Intermountain Medical Group who wished to provide quality healthcare to patients, without the increasing demands of administering their business. First Liberty Bank & Trust has been with the Kingston, Pa. business since day one. We've supported its day-to-day financing needs as well as numerous capital expansions, including a sleep disorder center, clinical laboratory, physical therapy center and, most recently, its imaging center, with such state-of-the-art equipment as the CAT scan machine, shown above. Today — in less than 10 years' time — Intermountain has 28 locations, 52 physicians and 320 employees dedicated to keeping people all across the Wyoming Valley region healthy, wealthy and wise. Pictured from right are Dr. Durelle Scott, Intermountain Medical's Director, along with Intermountain Health President Mark Stephens and Stanley Zorgorski, Intermountain Health's Chief Operating and Financial Officer.

Our second-largest and most recent regional banking market is Northeast Pennsylvania, with 27 branches and approximately \$830 million in deposits throughout the five counties of Bradford, Lackawanna, Luzerne, Susquehanna and Wyoming.

Doing business as "First Liberty Bank & Trust," the brand name of our initial 12-branch, whole-bank acquisition within this market in 2001, we have steadily grown our presence here with two sizable subsequent acquisitions (Grange National Bank and First Heritage Bank), as well as strategic de novo expansion.

Scranton and Wilkes-Barre are the two largest metropolitan areas in this region, as well as our entire company. Therefore, despite our \$830 million deposit base, our overall market share in this five-county market is just 8%, which means there's significant potential here for additional growth — some of which we realized in 2006. Our First Liberty team, under the direction of Tom McCullough and Bob Matley, has clearly shown great improvement throughout the last two years. It delivered solid loan growth during 2006, capped off by a nearly 9% annualized rate in the fourth quarter. First Liberty continues to benefit from the strengthened business development efforts we've implemented since 2004, and we are confident First Liberty will continue this momentum into the future.

Another operational highlight for this region came in the form of a company-wide

marketing campaign featuring one of its biggest local sports heroes. Gerry McNamara, a four-year starting guard at Syracuse University and a key member of its 2003 National Championship team, is a native of Scranton, Pa. He also led Syracuse to the 2006 Big East tournament title with a series of last-second heroics that Hollywood itself could not have scripted any better. He's been a local legend dating back to his high school days, so when Gerry graduated last year to begin his professional career, we jumped at the opportunity to sign Scranton's favorite son as our company spokesperson. Gerry embodies the passion,

work ethic and team spirit we strive to achieve, and his connections to the hometowns of both our First Liberty and corporate headquarters made him a slam dunk with both customers and employees.



One of our retail banking highlights in 2006 was signing Scranton native and hometown hero Gerry McNamara, one of the most admired basketball players in Syracuse University history, as a company spokesman.



Northern New York

After 35 years of providing health services to low-income families in Northern New York, the North Country Children's Clinic realized its facilities were outdated. The Watertown agency knew it needed a new building and numerous enhancements to adequately serve the nearly 28,000 people who visited the clinic more than 79,000 times in 2005. The clinic embarked on a campaign to raise the nearly \$3 million needed — much of which would come in the form of slow-moving pledges and grants. Community Bank, N.A. not only financed the project, but we structured it to allow pledges to be collected over three to five years, in addition to permanent financing for any shortfall between pledges and actual costs. This allowed the new clinic to open its doors before the close of 2006, making a great many people feel "all better." Pictured from left are registered dental hygienist Janet Zando and the clinic's Executive Director, Janice Charles.

Our Northern New York banking region is also the site of our company's original roots, which date back to 1866 in Canton, N.Y. near the St. Lawrence River, along the Canadian border.

Today we have 32 branches across seven counties and \$800 million in deposits in this region, whose anchor communities include Canton, Ogdensburg, Potsdam and Watertown. We have developed a dominant presence which includes a 26% deposit market share and the related benefits that such a leadership position provides within the four-county area of Franklin, Jefferson, Lewis and St. Lawrence.

In addition, after our pending acquisition of \$100 million-asset Tupper Lake National Bank is completed during the second quarter of 2007, we will not only strengthen our presence to a #1 market share position in Franklin County via its two Tupper Lake branches, its Plattsburgh and Saranac Lake locations will mark our first entry into the northeastern New York counties of Clinton and Essex, two markets that we've been looking to expand into for some time.

In addition, like Elmira Savings & Loan and Ontario National Bank — and nearly all of the acquisitions we've made in recent years, for that matter — the Tupper Lake

transaction will bring us customers from a bank that did not offer as broad of an array of retail, commercial, and financial services products as we do, giving us a greater opportunity to assist them with multiple financial needs.

Tupper Lake National Bank also operates two insurance agencies in its markets, delivering both commercial and personal lines coverage to bank and non-bank customers. We look forward to the opportunity to geographically expand these service offerings as well.



Our "TurboChecking" campaign was a huge success in 2006, attracting 22,000 new accounts in just nine months. Here, the team at our Watertown (Washington St.) branch shows off the in-branch promotion they collectively designed.

Consumer Installment **30.7%**

Residential Mortgage **33.8%**

Business/Commercial **35.5%**

**LOAN PORTFOLIO
BALANCE**



Financial Services



First Presbyterian Church in Olean, N.Y. is a great example of how multiple CBU divisions can work together to manage a variety of customer needs. In addition to its deposit accounts, the Church has a long-standing relationship with our Trust Department, which partners with our wealth management subsidiary, Nottingham Advisors, in managing First Presbyterian's endowment accounts. As a result, the Church has been able to supplement its revenue, which has not only helped in delivering its own ministry services, but also allows it to help answer the prayers of other local human service agencies. Pictured from left are members of First Presbyterian's finance committee, Chris Norton, Craig Polson and Ken Way.

Our other major growth driver has been our ability to participate meaningfully in the financial services arena. Collectively, these businesses have generated revenue at a compound annual growth rate of 12.4% during the last five years.

They have given us a valuable means of diversifying our income, combining for more than 11% of our total revenue in 2006 at \$20.6 million, an 11.4% increase over 2005.

Not only are financial services a key component of our revenue mix, they play a major role whenever we evaluate potential banking acquisitions. Most of the banks we've added over the years — including the two transactions in 2006, as well as our pending Tupper Lake National Bank purchase — had the added attraction of customers which previously did not have access to most of the financial services products we provide. Thus, not only have we benefited from the banking portions of these transactions, we've also inherited bank customers who have become strong financial services customers as well.

Our financial services components consist of:

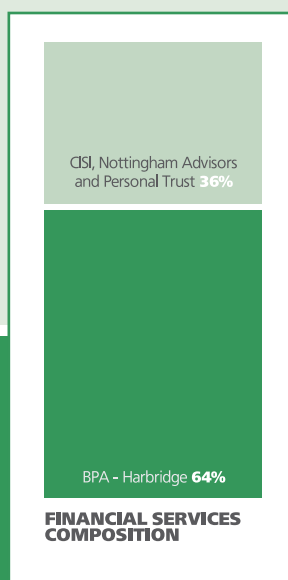
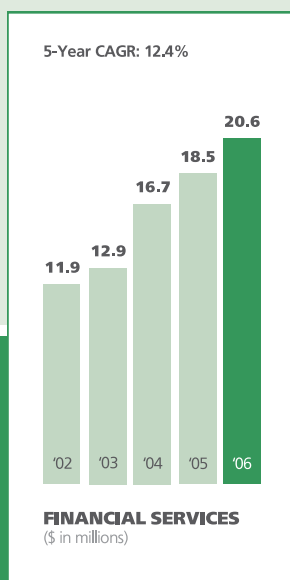
BPA-Harbridge, which provides daily valuation, actuarial and employee benefit plan consulting services to clients in 32 states and Puerto Rico from offices in New York and Pennsylvania. This

has been our fastest growing financial services business for many years, posting double-digit revenue increases in each of the last four, including 18% in 2006. It accounted for 64% of our 2006 financial services revenue, and following our pending Hand Benefits & Trust acquisition, its combined revenues should exceed \$20 million.

Community Investment Services Inc. (CISI), our broker-dealer group which provides traditional investment and insurance products from various locations within our markets. CISI continued to generate more of its annual revenues from registered investment advisory services in 2006, an important long-term objective.

Nottingham Advisors, which provides wealth management and advisory services to institutional investors, foundations, endowments and high-net-worth individuals across the country from its Buffalo and South Florida offices. In 2006 it continued to enhance its product offerings while adding some very important advisory and management depth.

Our personal trust team, which offers living, testamentary and investment management services, among others, to individuals and organizations. This group generated noticeable improvements in revenues and earnings in 2006 from its locations across the company's service areas.





The Community Approach to Growth

For 17 years, Community Bank has partnered with Duggan & Duggan Contractors of Allegany, N.Y., creating a symbiotic relationship where each company helps the other. Not only have we provided financing and other banking services to the father-and-son business as they have grown and expanded throughout New York's Southern Tier and Northern Pennsylvania, but we have benefited from their expertise as well. Duggan & Duggan has consistently been our contractor of choice in New York for most of our major renovation and new construction projects, including branches in Dansville, Dunkirk, Lakewood, Olean, and our newest branch in Springville, shown here, set to open in mid 2007. Pictured from left are Vice President Kyle Duggan, his father and President Mel Duggan, and Doug Scott, Project Manager.

CBU's Growth and Acquisition History

Acquisitions		New Facilities/Events
2007: (pending)	Tupper Lake National Bank, northeast New York. Hand Benefits & Trust, Houston, Texas.	Springville, N.Y.
2006:	Ontario National Bank, Ontario and Wayne counties, N.Y. Elmira Savings & Loan, Elmira and Ithaca, N.Y.	
2005:		Clayton, N.Y., Clarks Summit, Pa.
2004:	First Heritage Bank, Wilkes-Barre, Pa. region. HSBC Bank branch, Dansville, N.Y.	
2003:	Harbridge Consulting Group, Syracuse, N.Y. People's Bankcorp, Ogdensburg, N.Y. Grange National Banc Corp., Northeast Pa.	Lakewood, N.Y.
2001:	Citizens' National Bank, Malone, N.Y. First Liberty Bank & Trust, Scranton/Wilkes-Barre, Pa. region. 36 FleetBoston branches in Upstate New York.	
2000:	Investment advisory firm Elias Asset Management (now Nottingham Advisors), Buffalo, N.Y.	Falconer, N.Y.
1999:		Created internal broker-dealer, CISI (Community Investment Services Inc.).
1998:		Owego, Houghton, Newark and Jamestown, N.Y.
1997:	Eight Key Bank branches in western New York. 12 Fleet Bank branches in northern New York.	
1996:	Pension administration and recordkeeping business Benefit Plans Administrators (BPA), Utica, N.Y.	
1995:	15 branches from Chase Manhattan Bank.	
1994:	Four branches in central New York., from Resolution Trust Co. and Chase Manhattan Bank	First began offering financial services products.
1992:		Five independent banks merge to form Community Bank, N.A.
1990:	Key Bank branch, Corning, N.Y.	
1988:	CommuniCorp, Inc., Addison, N.Y.	
1987:	Nichols National Bank, Nichols, N.Y.	
1984:	Three Bank of New York branches, southwest New York.	
1983:		Community Bank System, Inc. forms as a holding company, consisting of the St. Lawrence National Bank, First National Bank of Ovid, and Exchange National Bank.



A FOND FAREWELL

On July 31, 2006 we said goodbye to Sanford A. Belden, who led our company as President and CEO (and later, a director) since 1992. In that 14-year span, Sandy oversaw a tremendous period of growth at Community Bank System. Our assets climbed from \$670 million to \$4.2 billion. Our branches grew from 32 to 125. And our market cap soared from \$64 million to \$614 million. He directed us through 16 acquisitions, including our entry into Pennsylvania. He developed our financial services businesses into the significant and diversified revenue streams they have become. And he and his wife Betsy were tireless volunteers with numerous community service and banking industry organizations. Best of all, he was a gentlemen every step of the way. We are indebted to his service and wish him every joy in the retirement that he so clearly earned.

Board of Directors



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

Harold S. Kaplan has served as a Director since 2001, following the merger of First Liberty Bank Corp. He is a co-owner of M.C.F., Inc. and a Partner at D&T Real Estate, both of Scranton, Pa. He serves on the Trust Committee.



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

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



William M. Dempsey is retired from the Rochester Institute of Technology (RIT), where he was VP, Finance & Administration, and President of the American College of Management & Technology (an RIT affiliate), in Dubrovnik, Croatia. A Director since 1984, he chairs the Audit/Compliance/Risk Management Committee and is a member of the Nominating/Corporate Governance Committee.

David C. Patterson is President and owner of Wight and Patterson, Inc., a manufacturer and seller of livestock feed located in Canton, N.Y. He has served as a Director since 1991 and is a member of the Compensation, Nominating/Corporate Governance and Strategic/Executive Committees.



Nicholas A. DiCerbo is a partner of the law firm of DiCerbo & Palumbo of Olean, N.Y. He has been a Director since 1984. He is Chairman of the Strategic/Executive Committee and a member of the Investment, Loan and Trust Committees.

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



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

Mark E. Tryniski has served as President and Chief Executive Officer of Community Bank System since 2006, when he was also elected to the Board. He was formerly the company's Executive Vice President and Chief Operating Officer from 2004-2006, and joined the company as its Chief Financial Officer in 2003. Prior to this, he was a partner within the Syracuse office of PricewaterhouseCoopers.



We wish to express our sincere appreciation to John Burgess, Lee Hirschey and Peter Sabia, all of whom retired from our Board during 2006. John and Lee served on the Board for nearly 30 years and have had pivotal roles in the company's considerable growth. Pete came to us following our 2001 acquisition of First Liberty Bank & Trust, and has steadily supported and developed our First Liberty market. We thank them all for their service and guidance, and look forward to always making them proud to have played a part of this company.



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

The 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

Tuesday, May 15, 2007 at 1:00 p.m.
Clarkson University
Cheel Campus Center
Potsdam, NY 13699
315-268-6638

Transfer Agent and Registrant of Stock

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800-937-5449
www.amstock.com

Investor Information

www.communitybankna.com
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.

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

Ms. JosephineAnne 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, 2006.

Analyst Coverage

The following analysts published research about Community Bank System in 2006:

C.L. King & Associates
Kevin Timmons 518-431-3260
ktt@clking.com

FTN Midwest Research
David Darst..... 615-734-6162
david.darst@ftnmidwest.com

Janney Montgomery Scott
Richard Weiss 215-665-6224
rweiss@jmsonline.com

Keefe, Bruyette & Woods
Damon Del Monte 860-722-5908
ddelmonte@kbw.com

Investor's Choice Program

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

Stock Price Data

The following table contains the high, low and closing prices of Community Bank System's common stock, as well as its average daily trading volume, during each quarter of 2006.

	High	Low	Close	Ave. Daily Volume
Q4	25.11	21.79	23.00	106,051
Q3	22.84	19.45	22.16	96,684
Q2	22.38	18.75	20.17	160,024
Q1	24.31	20.64	22.33	136,637

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



Community Bank System, Inc.

5790 Widewaters Parkway • DeWitt, New York 13214-1883
800.724.2262 • Fax 315.445.7347 • communitybankna.com