Annual Report 2000

The Community Approach To Growth

Community Bank System, Inc.

Community Bank System will long remember 2000 as one of the Company's most successful and pivotal years. It was a record-breaking year from both a revenue and earnings standpoint, and a year in which the Company's growth strategy was significantly accelerated. It acquired a nationally known asset management firm in Western New York and agreed to acquire two commercial banks, including one in Northeastern Pennsylvania, its first acquisition outside of New York State.

Year 2000 Performance Highlights

- ☐ Noninterest income rose over 31% for the full year, and the ratio of noninterest income to operating income reached 21.7% for the year compared to 18.3% for 1999.
- ☐ Loans climbed over $90 million, or 8.9%, to nearly $1.1 billion.
- ☐ Net interest income increased by 4.8% in 2000, to $71.2 million from $67.9 million in 1999.
- ☐ The Company's efficiency ratio improved to 52.6% for the year compared to 53.9% in 1999; growth in overhead expense was held to $1.29 million or 2.7%, excluding the impact of the Elias Asset Management acquisition in April 2000.
- ☐ Net charge-offs were $6.0 million for the year, up $1.8 million or 44%, entirely due to two commercial customers whose situations management considers to be unusual and isolated; consumer net charge-offs were down for the second year in a row.
- ☐ Assets under management exceeded $1.28 billion as of December 31, 2000, more than twice the level of a year earlier, reflective of growth in personal and retirement plan trusts and assets originated through CBU's broker-dealer as well as the purchase of Elias Asset Management.
- ☐ CBU announced its first strategic partnership outside of New York State with the signing in late November of a definitive agreement with First Liberty Bank Corp. (NASDAQ-OTC: FLIB), a $647 million asset commercial bank based in Jermyn, Pennsylvania, to acquire all the stock of FLIB. First Liberty Bank & Trust will be merged into Community Bank, N.A. (CBNA), operating under its present name in Pennsylvania as a division of CBNA. Subject to shareholder and regulatory approvals, the transaction is expected to close in second quarter 2001.
- ☐ Shareholders of Citizens National Bank of Malone (CNB), an eighty year-old commercial bank with $112 million in assets, overwhelmingly approved in late December the proposed merger between CBU and CNB, with consolidation into Community Bank, N.A.'s Northern New York franchise in late January 2001.

Company Profile

CBU LISTED NYSE

Community Bank System, Inc. (NYSE: CBU) is a registered bank holding company headquartered in DeWitt, NY, a suburb of Syracuse. Its wholly owned banking subsidiary, Community Bank, N.A., is the fifth-largest commercial banking franchise located in Upstate New York. With assets of $2.2 billion at December 31, 2000 and approximately 752 full-time employees (pro forma for the January 2001 acquisition of Citizens National Bank of Malone), Community Bank and its affiliates operate a dispersed network of 76 customer facilities and 54 ATMs across 20 non-metropolitan counties, diagonally from Northern New York State to the Southern Tier and west to Lake Erie.

The Company follows a strategy of operating in smaller urban markets where banking competition is often less intense. CBU ranks either first or second in deposit market share in 46 of the 57 towns where it does business, and is "the only bank in town" in 23 of these towns. CBU has achieved additional growth through acquisitions, having successfully assimilated 44 acquired branches since 1994.

Also in 1994, CBU committed to a strategy to reduce its reliance on traditional spread income. By diversifying its operating revenue stream through noninterest income, the Company has been able to mitigate the compression on net interest margins, generating a five-year compound annual growth rate of more than 26% for noninterest income.

Other subsidiaries within the CBU family are Elias Asset Management, Inc., an investment management firm; Benefit Plans Administrative Services, Inc. (BPA), a pension administration and consulting firm; Community Investment Services, Inc. (CISI), a broker-dealer delivering financial products from selected locations within Community Bank's branch system and from two stand-alone offices; and Community Financial Services, Inc. (CFSI), an insurance agency specializing in long-term health care and other selected products.

Expanding Our Market

Community Bank, N.A. has the first-or second-largest deposit market share in 46 of the 57 communities we serve. The Company now has 72 customer facilities, plus four financial services offices, across 20 Upstate New York counties, and will add 13 more locations in two Northeastern Pennsylvania counties with the anticipated May 2001 acquisition of First Liberty Bank Corp.

Banking – Growth and Acquisitions History

- *April 1983 – Community Bank System, Inc. (CBSI) formed as a multi-bank holding company, acquiring the St. Lawrence National Bank in 1984 and four other subsidiary banks over the next four years*
- *June 1986 – $11.6 million raised in secondary common stock offering, with trading on NASDAQ having begun in November 1985*
- *January 1992 – CBSI's five independent banks come together to form Community Bank, N.A.*
- *June 1994 – Acquired branches in Canandaigua, Corning and Wellsville, NY from the Resolution Trust Company*
- *October 1994 – Acquired branch in Cato, NY from Chase Manhattan Bank*
- *July 1995 – Acquired 15 more branches from Chase Manhattan Bank, funded by secondary offerings of $18.2 million in common stock and $9.0 million in preferred stock*
- *June 1997 – Acquired eight branches from Key Bank*
- *July 1997 – Acquired twelve branches from Fleet Bank*
- *December 1997 – Company's stock is listed on the New York Stock Exchange (NYSE) under the symbol CBU*
- *January 1998 – Opened a de novo branch in Owego, NY*
- *February 1998 – Opened a de novo branch in Houghton, NY*
- *September 1998 – Opened a de novo branch in Jamestown, NY*
- *February 2000 – Opened a de novo branch in Falconer, NY*
- *January 2001 – Acquired all five branches of Citizens National Bank of Malone, located in Franklin and St. Lawrence counties in Northern New York*
- *May 2001 – Anticipate closing on previously announced acquisition of First Liberty Bank Corp., the Company's first expansion outside of New York State, which will add 13 branches in the Northwest Pennsylvania counties of Lackawanna and Luzerne*

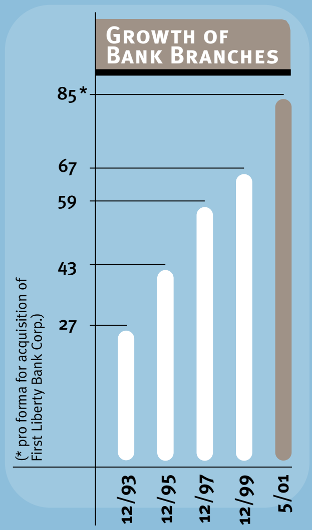
Expanding Our Products and Services

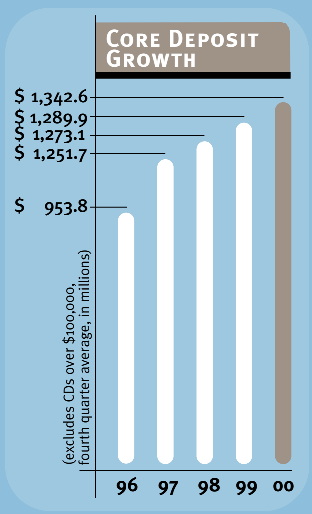
The traditional community banking approach of spread lending no longer provides a sufficient level of revenue and earnings growth to satisfy investors.

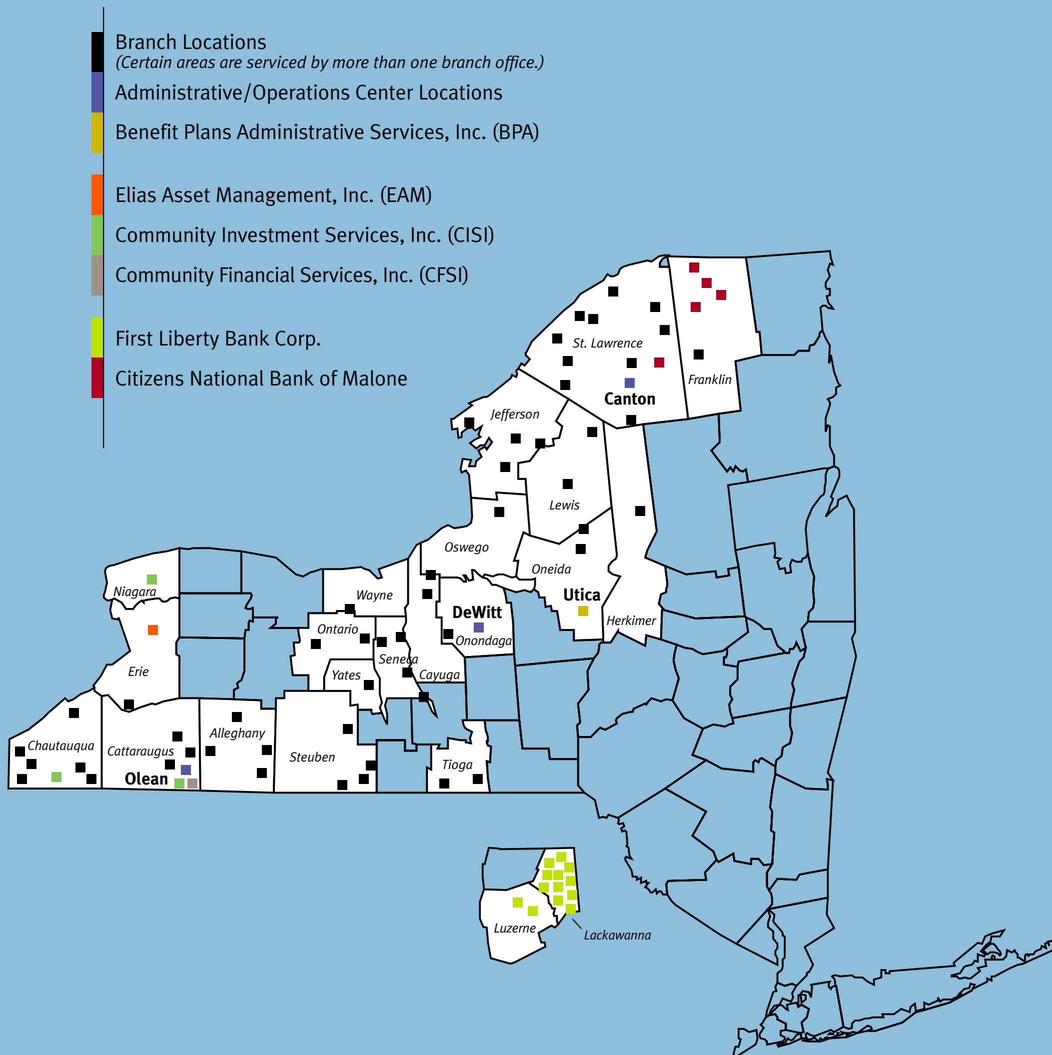
Because of this, many community banks are now searching – some perhaps scrambling – to find alternative sources of revenue that offer better stability and margins. For many, it will be a significant challenge to make the necessary investments in people, products, and technology, leaving a merger transaction as their only option.

Financial Services – Growth and Acquisitions History

- *April 1994 – Began offering financial services, including mutual funds, annuities and other investment products, through a third-party marketing partner*
- *July 1996 – Acquired a pension administrator and consultant, Benefit Plans Administrators, Inc. of Utica, NY*
- *June 1998 – Established a stand-alone insurance agency, Community Financial Services, Inc., in Olean, NY, offering long-term health care and other selected insurance products*
- *March 1999 – Created Community Investment Services, Inc., to give CBU a full-fledged, in-house broker-dealer capability*
- *November 1999 – Established our first stand-alone brokerage office in Lockport, NY*
- *April 2000 – Acquired Elias Asset Management, a nationally recognized investment advisory firm with over $650 million in assets under management, based in Williamsville, NY*
- *September 2000 – Established our second stand-alone brokerage office in Jamestown, NY*

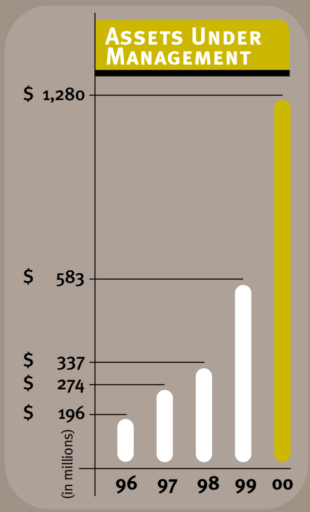


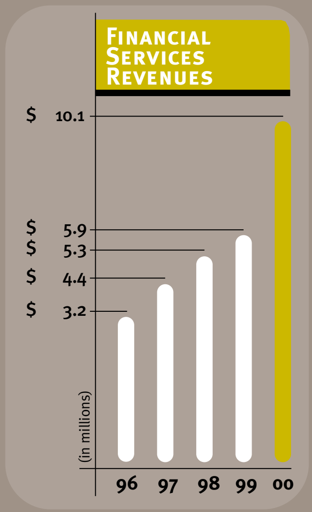




Expanding Our Market

But at Community Bank System, we have focused on strengthening the core banking business – with acquisitions when appropriate – and leveraging the expanded opportunities provided to financial institutions by offering a broadening array of financial services.





The secret to CBU's success has been our ability to determine what products and services make sense for our marketplace. Then we invested significantly in obtaining and developing the know-how necessary to provide these products and services in a profitable way.

And as you will discover while reading the following pages, this strategy is proving quite sound, as our double-digit, five-year compound annual growth rates for noninterest income, net income, and EPS would suggest.

Expanding Our Products and Services

Financial Highlights

In thousands except per share data	2000	1999	1998	1997	1996	5 Year CAGR
Income Statement Data						
Net interest income (nominal)	**$ 71,208**	$ 67,941	$ 64,395	$ 62,876	$ 55,266	8.6%
Noninterest income (excludes securities gains/losses)	**21,201**	16,125	15,081	11,822	8,842	25.9
Net income - book	**20,319**	17,635	15,728	15,562	14,133	12.1
Net income - cash	**23,081**	20,366	18,473	17,752	15,816	13.1
Common Per Share Data						
Net income - book	**$ 2.85**	$ 2.42	$ 2.05	$ 2.02	$ 1.83	10.9%
Net income - cash	**3.23**	2.79	2.41	2.30	2.05	11.8
Cash dividend declared	**1.04**	0.96	0.86	0.76	0.69	10.9
Period-end book value - stated	**19.93**	15.30	16.47	15.56	14.03	8.9
Period-end book value - tangible	**12.64**	8.32	9.01	7.82	9.85	8.6
Selected Ratios						
Return on total assets	**1.06%**	1.02%	0.94%	1.04%	1.13%	–
Return on shareholders' equity	**17.56**	15.22	13.01	14.09	13.88	–
Tangible return on shareholders' equity	**19.94**	17.57	15.27	16.09	15.52	–
Common dividend payout ratio	**35.98**	39.05	41.15	37.30	37.27	–
Net interest margin (full tax-equivalent)	**4.29**	4.59	4.31	4.64	4.86	–
End of Period Balance Sheet Data						
Total assets	**$ 2,022,635**	$ 1,840,702	$ 1,680,689	$ 1,633,742	$ 1,343,865	11.9%
Loans, net of unearned discount	**1,098,726**	1,009,223	917,220	843,212	652,474	14.4
Earning assets (excludes MVA)	**1,849,375**	1,686,605	1,503,549	1,450,429	1,229,443	12.4
Total deposits	**1,457,730**	1,360,306	1,378,066	1,345,686	1,027,213	7.5

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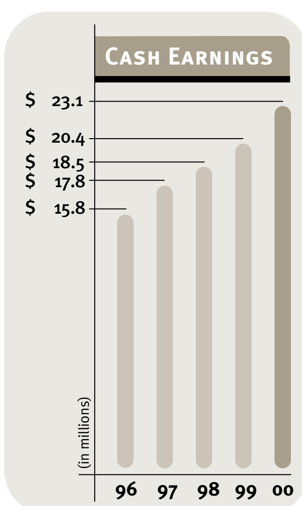
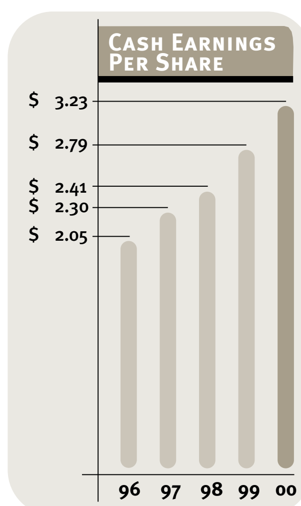
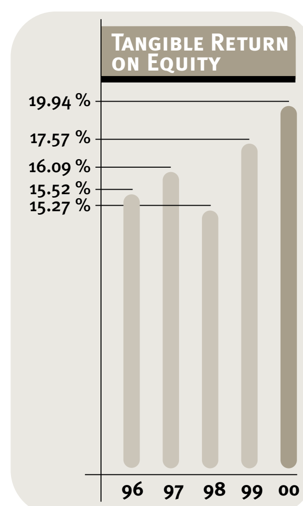
(Note to Investor: Please see Glossary of Banking Terms on page 22 for explanation of certain words, phrases, and ratios used throughout this Annual Report.)



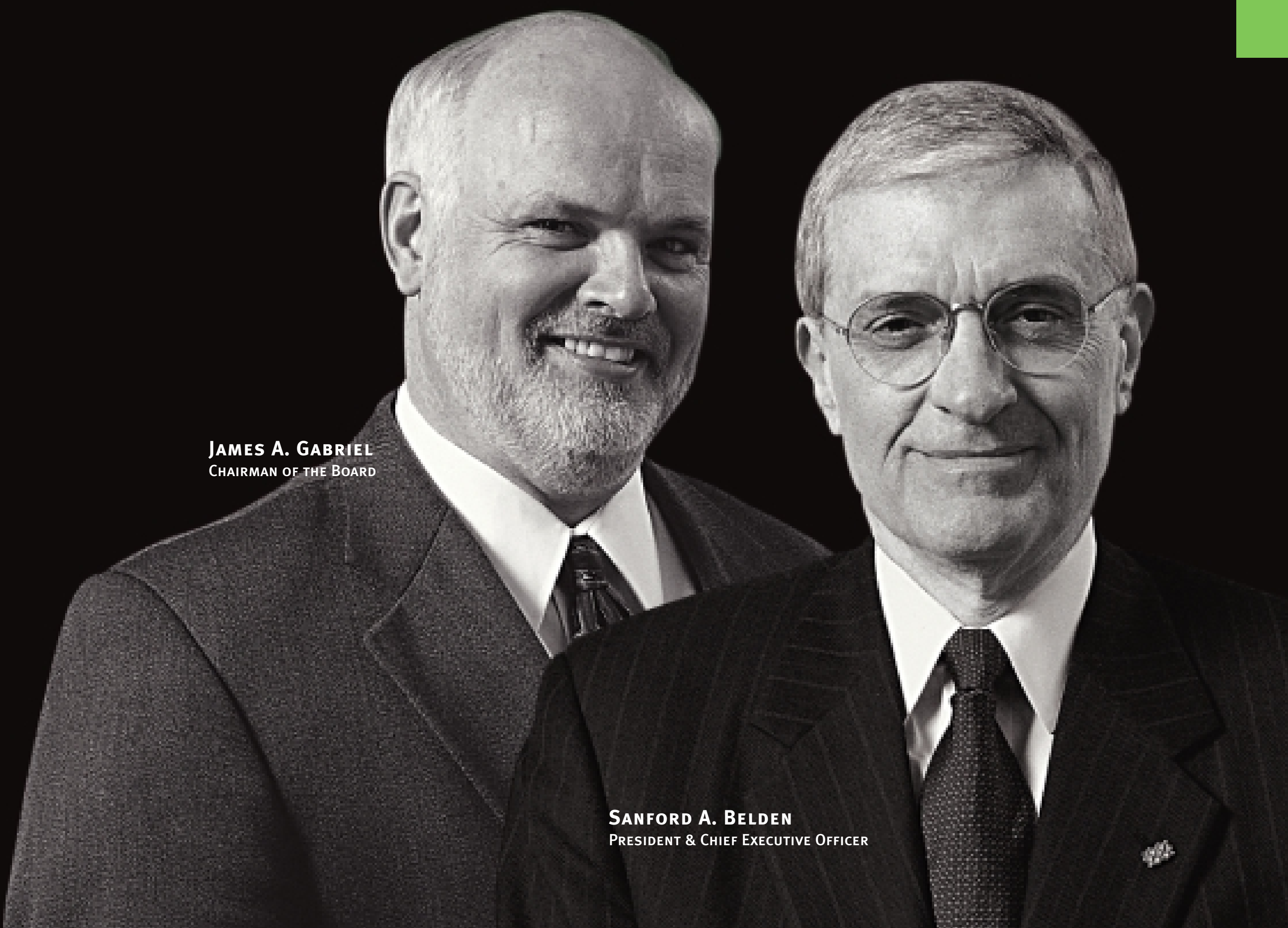




The Community Bank System, Inc. Annual Report contains forward-looking statements, within the provisions of the Private Security Litigation Reform Act of 1995, that are based on current expectations, estimates, and projections about the industry, markets and economic environment in which the Company 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.

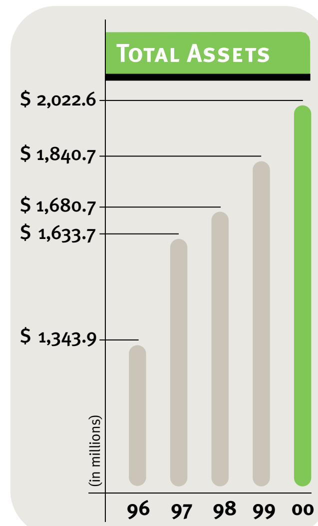
Dear Shareholders, Investors, Customers and Employees:

Community Banking is a Growth Business



At CBU, we are deeply committed to growth in performance. As you'll note in the performance highlights below, 2000 has been a year of substantial acceleration in Company performance in all measures of importance to our constituencies.

Earnings growth has been especially remarkable and driven by consistent execution of the key elements of our strategy. While experiencing margin compression in a fashion similar to that experienced throughout the industry, our strategies of focusing on less concentrated banking markets, building a very strong market share in those markets, and working with customers with a decentralized, responsive, relationship orientation have enabled us to keep our net interest margin above the average for our peer community bank group.

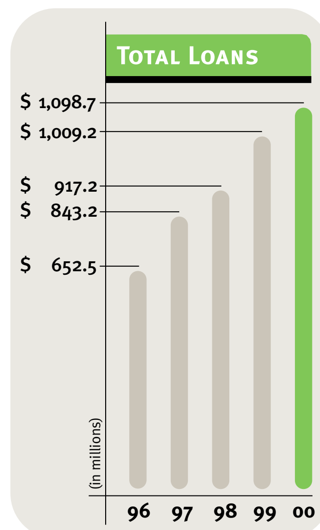


Even more remarkable in 2000 has been the growth in revenue and earnings contribution from noninterest income, especially attributable to fee income from our expanding financial services businesses. We are well underway towards our long-term strategic objective of realizing 40% of operating income from noninterest income sources. From a starting point of about 12% of operating income attributable to noninterest income in 1995, we have grown to over 22% as of the fourth quarter of 2000. We are especially pleased with the changing mix of noninterest income as fully 50% now comes from our fee-based financial services businesses.

- ☐ *Return on equity for the year increased a substantial 2.34 percentage points over 1999 to 17.56%.*
- ☐ *Tangible return on equity for 2000 climbed to 19.94% while tangible return on assets rose to 1.21%.*
- ☐ *Total assets rose nearly 10%, exceeding $2 billion for the first time in Company history.*
- ☐ *Assets under management exceeded $1.28 billion as of December 31, 2000, more than twice the level of a year earlier.*
- ☐ *Cash dividends declared increased by 8.3% during 2000, the 9th-consecutive year of meaningful dividend increases.*

Growth in our financial services business in 2000 was largely due to the highly successful acquisition of Elias Asset Management in April 2000. Client retention and new business acquisition have surpassed our initial expectations, as has the contribution to net income. Our broker-dealer, personal trust, and benefits administration/employee benefit trust businesses have also exceeded growth and contribution expectations, and revenues from the sale of creditor life and disability insurance through the Bank's branch network continue to increase. Aggregate pretax net income from all our financial service businesses, including Elias Asset Management, totaled $3.0 million for the year or 10.5% of Company-wide results. Bringing all our financial service businesses under the focused management of Mike Patton early in 2000 has enhanced performance and helped us capitalize on the inherent synergies in these businesses in delivering both packaged and tailored products to serve a continually evolving customer base.

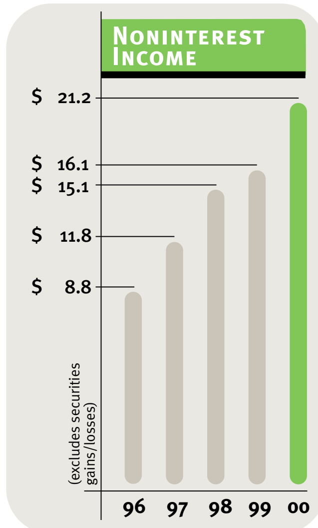
Continuing to successfully meet customer needs in our banking business, now consolidated under the leadership of Jim Wears, was another hallmark of 2000. The use of imaginative pricing and marketing programs for deposit products allowed us to grow core deposits by 4.1%, an achievement essential for funding future asset growth. While loan growth at nearly 9% was not as substantial as in prior years, it was nonetheless significant and consistent with our keen attention to asset quality as we anticipate a slowdown in the general economy in 2001. Credit administration and net charge-off performance improved in installment lending for the second year in a row. Two unusual and isolated commercial charge-offs, one related to fraud, totaling about $2.5 million marred what would have otherwise been improvement as well in commercial loan charge-offs. The lessons learned from these two situations caused us to realign responsibility for commercial loan administration and eliminate the receivables factoring program through which the fraud occurred.

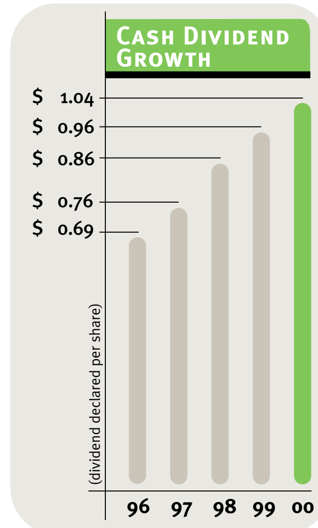


Two of the key strategic objectives for 2000 identified in last year's letter to shareholders were to introduce a PC Internet Banking product and to implement image-based technology for check processing and customer statements. We are pleased to report that both of these capabilities were successfully implemented on schedule and with anticipated results in customer utilization and productivity improvement. We also successfully introduced enhanced technology for direct deposit, payroll and cash management products.

☐ *Net income for 2000 was up 15% to $20.32 million, from $17.64 million in 1999.*
☐ *Earnings per share rose 18% to a record $2.85, up from 1999's previous best of $2.42.*
☐ *Cash earnings per share also achieved record levels, up nearly 16% to $3.23 for the year.*
☐ *Net interest income increased by 4.8%, up from $67.9 million in 1999 to $71.2 million in 2000.*
☐ *Noninterest income jumped 31.5%, from $16.1 million in 1999 to $21.2 million in 2000, and the ratio of noninterest income to operating income rose to 21.7% for the year compared to 18.3% for 1999.*
☐ *Total loans climbed nearly $90 million, or 8.9%, over 1999's levels.*
And 2000 marked the 5th-consecutive year of improvements in each of these categories!

The capstone for growth in long-term value to shareholders was the announcement in September of the acquisition of Citizens National Bank of Malone, New York and in November of the acquisition of First Liberty Bank Corp. of Jermyn, Pennsylvania. Taken together, these acquisitions, to be consummated on January 26 and May 11, 2001, respectively, will add over 38,000 households and businesses to our customer base. Cross selling our financial service products to these customers, whose prior banks had not previously offered such products, promises substantial opportunity for revenue and net income growth. Coupled with the cost savings associated with consolidations in both cases; expanded deposit market shares; and the net income benefits attributable to enhanced asset/liability management, the anticipated revenues will produce improved earnings for shareholders over time.



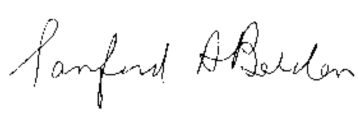


The recent proposals by the Financial Accounting Standards Board to permit non-amortization of goodwill (provided such assets are not impaired in value) promises to be very beneficial to the Company. Specifically, we anticipate that implementation of the proposal during 2001 will cause a significant portion of the difference between reported earnings and cash earnings to be eliminated, with a consequent increase in reported earnings.

We pay special tribute this year to Dick Cummings, our friend and fellow Director, who retired from the Board on December 31, 2000 after serving your Company and its predecessor entities since 1966. Dick's keen insights and persistent good sense were wonderful assets for the Board, and we wish him well.

As ever, your Company remains committed to sustained growth in shareholder value. This commitment was further demonstrated by the Board's decision in August 2000 to increase cash dividends by 8% on an annualized basis, making it the ninth-consecutive year of meaningful increases in dividend returns. The combined impact of CBU's stock price and dividend increases was an 11.8% total return to shareholders for 2000 assuming dividends were reinvested; this performance was achieved despite the turbulence of the overall market. Our more proactive investor relations program outlined in this letter a year ago has worked very well, and we remain dedicated to building value and communicating that value actively with investors, analysts and potential investors in CBU.

James A. Gabriel
Chairman



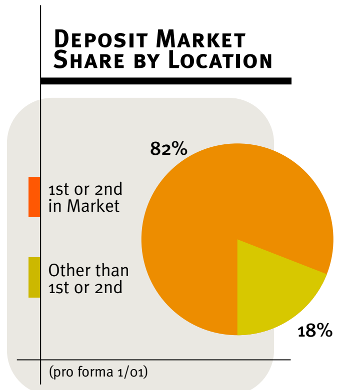
Sanford A. Belden
President & Chief Executive Officer

Community Banking

The number of households CBU serves has more than doubled since 1994.

CBU is the fifth-largest commercial banking franchise headquartered in Upstate New York. Community Bank, N.A. operates a geographically dispersed network of 72 customer facilities and four financial services centers across 20 Upstate New York counties. CBU ranks either first or second in deposit market share in 46 of the 57 towns in which it does business, and is the only bank in town in 23 of those markets.

These figures are expected to expand in May of 2001 when CBU's acquisition of First Liberty Bank is finalized. This transaction will increase CBU's total branch bank facilities to 85, and give the Bank its first presence in Pennsylvania, in the Northeast counties of Lackawanna and Luzerne.



Financial Services

Financial services reduce our reliance on net interest margin to drive financial performance.

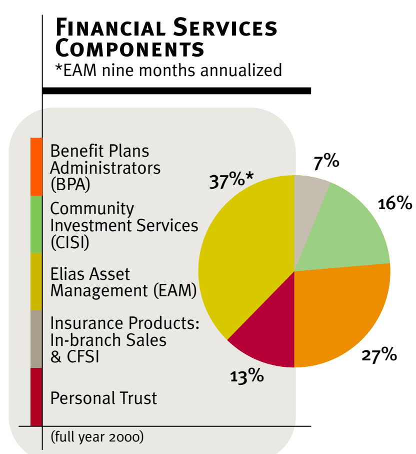
CBU's financial services income is nearly five times greater, at $10.1 million, than the level the Bank generated just six years ago. The Company has been committed to growing its financial services revenues for many years now—to reduce its dependence on net interest income and help diversify its revenue sources to protect itself from the periodic narrowing of net interest margins. The following shows how the various components of our financial services business performed during 2000:

Elias Asset Management (EAM) Acquired in March 2000, this nationally recognized investment advisory firm contributed $3.1 million in revenues during 2000, making it the largest contributor to our financial services group, despite being part of CBU for just the last nine months of 2000.

Benefit Plans Adminstrative Services, Inc. (BPA) A pension administrator and consultant to small- to medium-sized businesses, BPA generated $3.0 million in revenues during 2000, nearly a 16% increase over its 1999 revenues.

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 mutual fund and related consumer financial sales added $1.8 million to our 2000 revenues, an increase of more than 41% over its 1999 contribution.

Community Financial Services, Inc. (CFSI) and Insurance Products sold at CBNA Branches In 1999 we expanded the product capabilities of our Financial Consultants by adding long-term health care and other selected insurance products to their offerings. This, along with greater sales of creditor life and disability insurance at CBNA branches, resulted in revenues climbing to nearly $850,000, up more than 16% from 1999's levels. The Citizens and First Liberty acquisitions are expected to strengthen sales in this area.

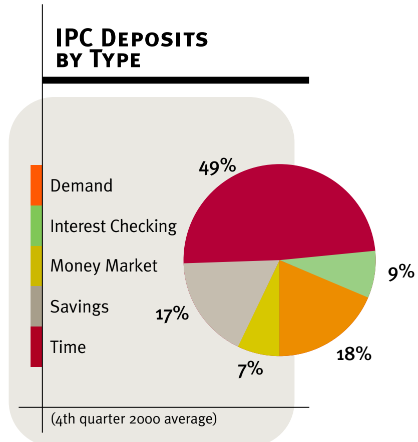


Deposit Accounts

Nearly all of the $94 million increase in average loans since fourth quarter 1999 was funded by deposit growth.

CBU's deposit account services include standard checking, interest checking, money market, savings, time deposit and individual retirement (IRA) accounts. Individuals, partnerships, and corporations (IPC) comprise 88% of our depositor base, with deposits from municipalities within our market areas making up the balance.

CBU's total deposits have increased at a compound annual growth rate of over 13% during the last six years. The Bank's successful targeted CD promotions have attracted over $96 million in new money (28% of the promotions) since their inception in the spring of 1999. Deposits of individuals, partnerships and corporations rose $61 million in 2000 (up 5.1%), and have increased nearly 14% per year since 1994 – providing a significantly lower-cost alternative to borrowing from the capital markets.



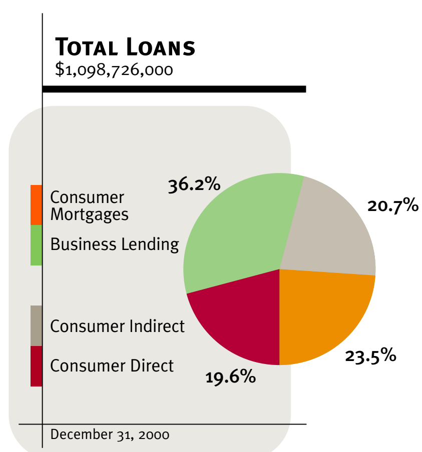
Lending

One of our strengths is our ability to make responsive, localized approval decisions, focused on customer needs.

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 increased 129% since 1995, and now makes up over 36% of our loan portfolio. Loans outstanding climbed 8.9%, or $90 million, during 2000, with commercial loans comprising nearly 36% of the growth. Including loans sold to the secondary market, net loan generation in 2000 was $99 million.

Our lending activities include residential, installment, student and farm loans, business lines of credit, working capital facilities, special purpose term lending, equipment leasing services (through a third party), and inventory and dealer floor plans.



Our Success has not been accidental

Strategic Growth in a Surprising Setting

The secret to Community Bank System's success has been our ability to determine what products make sense for our Upstate New York market, coupled with a focus on providing these products in a profitable way. For many super-regional and money-center institutions, this was a daunting task – so much so that many chose to abandon the market throughout the 1990s, rather than attempt to service and develop it.

But we have consistently viewed this region in a very different light. At a time when "the big banks" were giving up on the concept of branch banking, assuming the Internet would soon make branches obsolete, Community Bank System (CBU) remained committed to the importance of personal service to Upstate New Yorkers. And after doing our homework, we reaffirmed that this market presented the kind of challenge where our particular skills thrive.

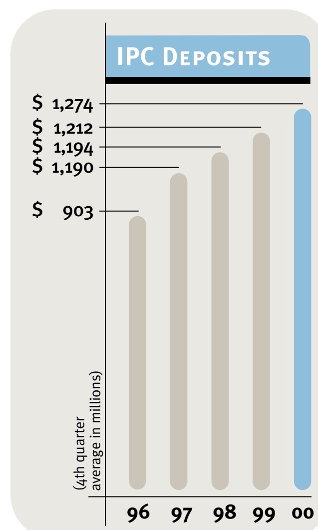
In fact, it's proved to be a diamond in the rough. In 2000, researchers at the Buffalo Branch of the Federal Reserve Bank of New York reported that true economic strength existed in the rural areas of Upstate New York. While Upstate's metropolitan areas lost population from 1990 to 1999, the counties classified as rural – the very markets that CBU has historically focused on – have had a stable to growing residential base. Similarly, non-farm employment between 1975 and 1999 rose by 41% in rural New York State, compared with 32% for urban areas.

And what about commercial banking customers? Ironically, the advent of the Internet and other telecommunications tools – the very things predicted to bring an end to traditional community banking – have made urban location less important for many employers who often prefer to operate from rural areas with more manageable cost-of-living/labor expenses.

This same technology influx has increased the level of sophistication among our consumer banking clientele. So today, even though you're still likely to see little league baseball parades, barber shops and PTA meetings in these non-metropolitan towns, you'll also see people who are savvy with cell phones and mouse clicks, which translates to a more financially sophisticated customer-base, desiring more financial products and services in a time-saving delivery package.

So you see, our success has not been accidental, as our double-digit five-year compound annual growth rates for net income and earnings per share illustrates. Community Bank System's reputation for providing the highest level of personalized service through "Main Street-style" branches and localized decision making has consistently paid off in these markets. And while these non-metropolitan markets are competitive, they are generally not as competitive as larger, urban markets, which has helped us in establishing a position of market dominance within them. Our approach to customer service has helped us generate the largest or second-largest market share in 46 of the 57 communities we serve. We now have 72 customer facilities, plus four financial services offices, across 20 Upstate New York counties.

Steady Growth in Steady Markets



Another secret to our growth in recent years has been our ability to successfully identify and execute acquisition opportunities within these markets. For example, during the 1990s when many of the super-regional banks were pulling out of our markets, we were able to acquire 39 branches at very affordable prices, from such formidable institutions as Chase, Key and Fleet, who simply could not make their business models work in these regions. We are happy to report that we have maintained strong deposit market positions in these locations, which represented both fill-ins or contiguous extensions of our branch network. Equally important, we have generated significant new loans in these markets, enabling us to continue our Company's enviable pace of earning asset growth. Meaningful cost savings and efficiencies as a result of these acquisitions were also achieved by combining selected near-by facilities and maximizing the effectiveness of our marketing reach. All of this has given us the confidence to look for additional merger opportunities in these regions.

In the third quarter of 2000, we found such an opportunity in Citizens National Bank of Malone, a five-branch community bank headquartered in Northern New York State that will significantly increase our presence in Franklin County. This acquisition, which was finalized in January 2001, has been fully integrated into our Northern New York branch network, with Community Bank's broader array of products being delivered to the former Citizens customers, and administrative and operational work handled from our long-established Canton facility.

The Keystone to Future Growth

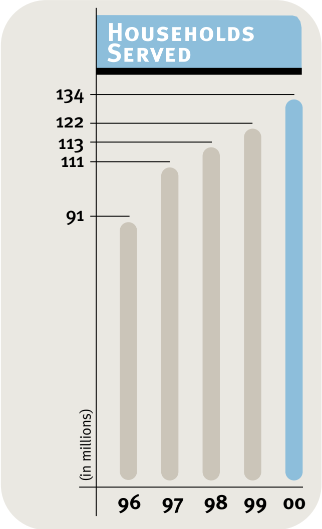
CBU uncovered an even larger opportunity during the fourth quarter – one that would give our Company the chance to expand beyond its traditional New York State borders. In November we announced our intent to acquire all of the outstanding stock of First Liberty Bank Corp., a $647 million asset bank holding company headquartered in Jermyn, Pennsylvania (a suburb within the Scranton / Wilkes-Barre market).

For its first strategic partnership outside of New York, CBU is pleased and fortunate to have the opportunity to acquire such a solid, well-established community bank as First Liberty. This bank holds the second-largest deposit market share (at 17%) in Lackawanna County, where 11 of its 13 branches are located, bringing additional core deposit funding capacity to our Company. First Liberty's asset quality is superb, and the expanded lending opportunities it presents are promising. In addition, its ample capital position will significantly add to our Company's strength, with particular benefit to levels of tangible equity and tangible book value per share.

Plans are in place to improve efficiency by a minimum of 20 percent through focusing First Liberty's resources on the delivery of face-to-face customer services through its branch system, commercial lending officers, and trust personnel. In addition, their commercial lending expertise, which has capitalized on the expanding opportunities in the greater Scranton and Wilkes-Barre markets, is expected to be of continuing benefit to our combined operations. Distribution of CBU's broader range of financial services is anticipated to be particularly successful in First Liberty's market place, which is characterized by a higher average household income and rate of growth than many of our New York State markets.

We expect this transaction, which is scheduled to close on May 11, 2001, to be accretive to earnings per share by the first quarter of 2002. Upon completion of the merger, the total assets of Community Bank System will be approximately $2.9 billion, and the inside ownership level for the combined entity (directors and executive officers) will exceed 18%.

Since January 1, 2000, between our own internal growth and the Citizens acquisition, we have increased the total number of households we serve by 9.7%, from 121,700 to 133,500. In fact, over the last four years we have grown our number of households served by nearly 47%, and First Liberty's 28,400 households will increase this figure to nearly 78%. With each new acquisition we make, we increase the breadth and scope of the products we can offer both our own and our merger partner's customers, creating a multitude of new cross-selling opportunities throughout our organization.



We're Focused on noninterest income growth

A Profitable Complement to Banking

Despite our historic success in the Upstate New York marketplace, we recognized the underlying industry-wide trend that the traditional community banking approach of spread lending would soon no longer provide a sufficient level of revenue and earnings growth to satisfy investors. In 1994, we committed to a strategy to reduce our reliance on traditional spread income. By diversifying our operating revenue stream through noninterest income, we were confident we could significantly mitigate the periodic and potential long-term compression on net interest margins.

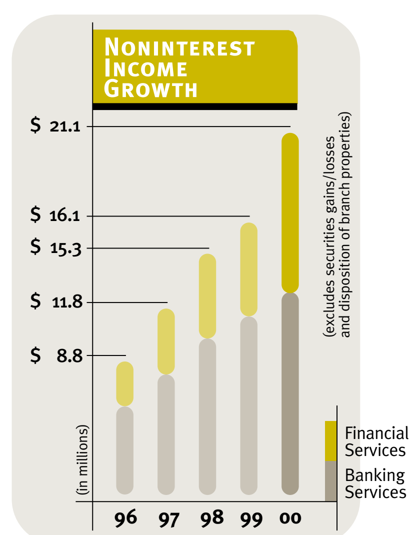
We have since developed a keen focus on growing noninterest income and have invested significantly in obtaining the know-how and products that our customer base will buy. With a five-year compound annual growth rate of nearly 26% for noninterest income, we are making strong progress.

Equally important is the progress we are making in increasing noninterest income as a percentage of net revenue. In 1995 it was just 12.1% of net revenue, but by the end of 2000 this figure had grown to more

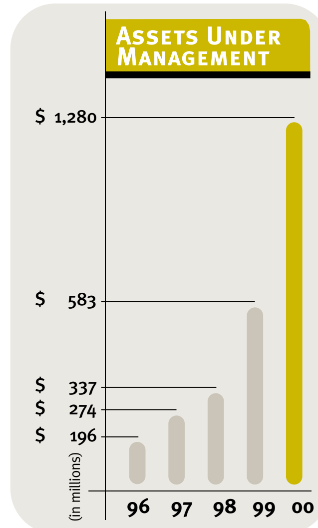
than 22%. As with our branch network, we continually look for opportunities to expand financial services revenue. By broadening the set of financial products and services we offer, we have steadily met the evolving needs of our customers and have realized opportunities to grow branch revenues and improve efficiency.

The enactment of the Financial Modernization Act of 1999 helped facilitate the movement of community banks in this direction. It further enabled our Company to evolve into a more complete financial service provider, with a reduced reliance on net interest margin to drive financial performance. As a proactive organization, we were focused well before the passage of this Act on growth opportunities presented by nontraditional financial services:

- We have offered mutual funds, and related consumer financial products, through selected branch network locations since mid-1994.
- In mid-1996 we acquired Benefit Plans Administrators (BPA), a Utica, New York-based pension administrator and consultant serving small- to medium-sized businesses. It generated $3.0 million in revenues in 2000.
- In 1999, we eliminated third-party broker-dealers from the distribution process and created our own in-house capability, Community Investment Services, Inc. (CISI), whose revenues added $1.8 million to noninterest income during 2000, in part due to the addition of a second independent brokerage office of CISI, opened in Jamestown, New York during the fall.
- Personal Trust services have generated noninterest income for many years through our branch system, where trust offices are positioned in four central locations. Personal trust fees contributed $1.4 million to our noninterest income revenues in 2000.
- Insurance products, largely credit life and disability, have been offered through our branch system since the 1980s. In 1998, we opted to grow this portion of our business by establishing our own insurance agency, Community Financial Services, Inc. (CFSI). This expanded our insurance product capabilities by adding long-term health care and other selected products and, along with existing in-branch insurance sales, generated nearly $850,000 this past year.



☐ Most recently, we seized an opportunity to significantly accelerate the growth of our financial services revenues with the purchase of Elias Asset Management (EAM) of Williamsville, New York in April 2000. With 2000 revenues running at an annualized rate of $4.1 million, EAM provides a stronger platform for financial services revenue growth going forward. The EAM acquisition also significantly grew our assets under management, which on a combined basis for all our financial services units now reaches $1.28 billion – more than six times the value held just five years ago, and double the level at year-end 1999. David Elias, EAM's President and Chief Executive Officer, is a nationally renowned asset manager and author of two financial strategy books. EAM has grown and prospered by providing its clients with effective investment management over the long term. We are also focused on the long term, and while steady expansion of EAM's revenues has historically been achieved through internal growth, our intent is that EAM will serve as a foundation for acquisitions of other investment managers.



Strength in Numbers

The true power of the above strategies appears in the cross-selling opportunities that arise when they are all marketed under the same umbrella. For example, representatives of CISI will be positioned on-site in selected First Liberty branches once that acquisition is completed, and a marketing strategy will be implemented for the sale of CBU's employee benefit trust services (BPA) and investment management services (EAM). First Liberty previously did not offer these products or services. Thus, these customers will now have access to a whole new array of financial tools with the convenience of both one-stop shopping and in-house expertise.

By offering customers a full complement of financial services planning and products, we have been able to address two main objectives. First, we strengthen the link between our bank and our customers, who have begun to view us as legitimate, full-service financial "stores." Second, and perhaps more importantly, we address our goal of reducing our dependence on net interest income. Financial services revenues rose $4.3 million during the past year alone, and now contribute $10.1 million (10.4%) to total net operating revenues.

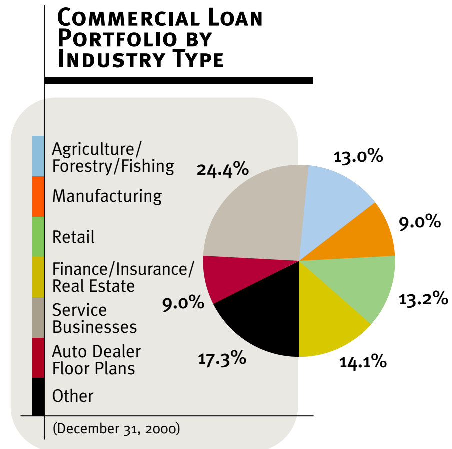
We've grown Business lending by 129% since 1995

Growth, Diversification and Quality

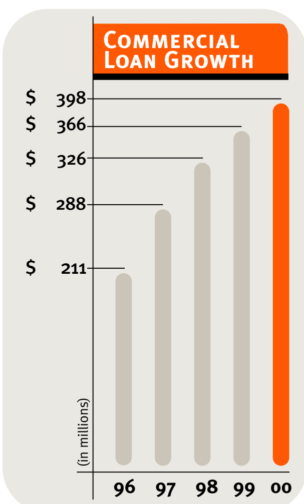
Any discussion of growth in community banking has to focus on the challenges of continuously building a high-quality loan portfolio. Therefore, generating profitable loan volume is a key element of our strategy for continued growth. Total loans increased $90 million, or 8.9% in 2000, representing a five-year compound annual growth rate of more than 14%.

In prior years, our portfolio strategy involved seeking diversification with a primary focus on the retail borrower, but during the past several years, we have enhanced our strategy to growing commercial business loans faster than loans to individuals. As a result, our business lending has grown nearly 129% between 1995 and today, and our $398 million commercial lending portfolio now comprises 36% of our total loans versus 31% of our total in 1995.

In terms of ensuring strong loan quality, we utilize a process of responsive, localized decision-making, focused on meeting the needs of customers we know. A number of our experienced branch personnel have come to us through our 39 branch acquisitions, most from the bigger, super-regional banks as they deserted our marketplace. We have empowered these managers to make many loan decisions on-site, a business model that has served us so successfully over the years. Periodically, we have also been successful in hiring new commercial lenders from the larger banks as they retrenched or centralized their operations, and in doing so, have acquired existing and sizable books of business to help build our loan portfolio. These tactics have worked exceptionally well, positioning us to strongly compete for good quality loan business. For the year, we grew business loans by $32 million, or 8.7% – in spite of a slowing economy in the latter part of 2000 – and have generated a five-year compound annual growth rate for business loans of 18%.



We have also recently developed new commercial loan centers – within two of our larger branches – one which opened in Geneva, NY during 2000, complete with a full team of commercial lenders, and the second scheduled to open in Watertown, NY during 2001. We are staying focused on the needs of the commercial markets and are developing plans especially designed for them, covering everything from mortgage and payroll services to credit and debt management.



As with our financial services business, lending is yet another area where we expect to improve as a result of the newly acquired Citizens and First Liberty markets. We expect both franchises to benefit from our decentralized, responsive lending philosophy, which we will institute in each. We are particularly excited about First Liberty's solid commercial lending expertise and their greater Scranton and Wilkes-Barre markets, which are experiencing significant growth. In fact, the counties of Lackawanna and Luzerne, where all 13 First Liberty branches are located, are projected to have a combined increase in average household income of 3.6% per annum over the next five years, to over $53,500 per household – a rate of growth and level of income well in excess of the primary counties in Upstate New York where Community Bank, N.A. presently does business.

We also remain focused on developing both the commercial and retail loan sides in the southwest corner of New York State, particularly in Chautauqua County. We have had strong success there in recent years, building on the customer base of the offices purchased in 1997 from Key Bank in Jamestown, Cassadaga, Clymer, Falconer, Ripley and Sherman, and see the potential for further growth in quality lending.

We also realize we must review markets in which we are not performing as well as we would like, and seek ways to gain greater market share. Currently, we are addressing specific needs regarding personnel, which include new hires as well as the strategic repositioning of people within the Company throughout New York State to better balance our market presence.

Ironically, technology Helps us compete with larger banks

Sophisticated Banking for the Simpler Lifestyle

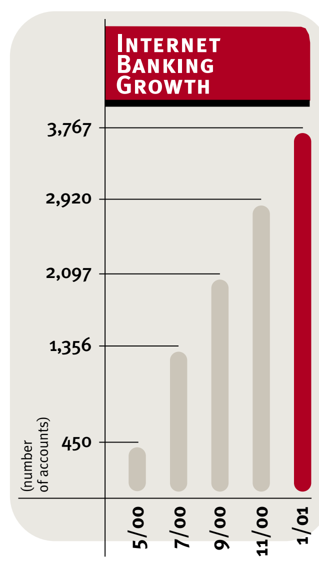
Admit it. When you think of a community bank, you probably conjure up images right out of movies like "It's A Wonderful Life" – old men with green visors and pocket watches speaking to customers from behind a small set of wrought-iron bars on the counter. But the fact is, today's environment is so competitive that even community banks have needed to evolve in order to survive. In the case of Community Bank, one of our biggest modernization initiatives has been significant investments in technology, understanding early on that such improvements would only serve to increase our competitive position within our markets.

As we mentioned when discussing the strength of our markets, access to state-of-the-art technology is one of the major driving factors behind the growth of the nonmetropolitan markets on which we focus. Technology allows our customers to shop and do business globally, making geographic locale a much less significant factor in determining where to live or locate their business. Therefore, technology becomes just as important for a bank like ours as it is for the super-regionals; and ironically, the technological advances that were supposed to hurt the community banking model are instead serving to level the playing field for us with these same super-regionals.

Technology enhancements have particularly helped us in remaining competitive with our time-sensitive, technology-savvy retail customers by offering such convenience-based products and services as Internet and telephone banking, a no-fee direct deposit service, more ATMs and a VISA™ Check Card (debit card). Our younger, value-minded customers are particularly attracted to our direct, in-house, no-closing-cost home equity and mortgage loans. We have been able to streamline processes due to our improved access to technology, which allows us to share information faster and more accurately between branches and a centralized processing operation, while cutting costs along the way.

There's More Than One Way to Reach a Customer

One of the biggest initiatives we undertook during 2000 was our Internet Banking Service. We now provide our customers with free Internet access to their accounts and the means to perform a variety of functions in a secure, convenient manner, such as monitoring account balances, reviewing transaction histories, transferring funds and placing stop payments. We are currently working to expand this on-line capability to include 401(k) accounts and brokerage customers. We have taken great steps to ensure the ease of use for our customers, all within privacy and security firewalls that are state-of-the-art. To date, this new service has been met with wide acceptance throughout our markets, given customers' increasing preferences to be able to perform transactions 24 hours a day, seven days a week. We anticipate its popularity to continue throughout the coming years, particularly with our newly acquired Citizens and First Liberty customers, whose prior banks did not offer such Internet-based services.



We expect that our Internet banking service will further grow in popularity as our telephone banking service has over the last several years. This service is used heavily among our customer base, currently averaging 93,000 calls per month – roughly doubling its usage from just two years ago. In fact, today over 30% of Community Bank, N.A.'s customers take advantage of telephone banking, translating to over one million telephone inquirees per year, many of which used to be handled by branch personnel in a much less efficient manner. And like Internet banking, we expect an increase in this service's usage as a result of the Citizens and First Liberty acquisitions.

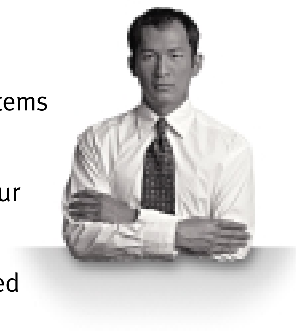
Our newest initiative was the launch of our Image-based Check Processing Service in May of 2000, which represents a $2.8 million investment for us. Thus far, this technological implementation has led to clearer, more concise statements that are easier for customers to read and balance, while adding a layer of customer protection. And from the Bank's perspective, it's a far more efficient and profitable option for servicing our customers. This system lets us consolidate up to 12 checks per page, which results in lower postage costs, better record storage and much faster research when performing customer search requests. It has also streamlined our back-room operations, allowing for faster processing and recording of transactions, so much so that approximately 45% of all checks are now processed with no physical human contact.

Instead of having to maintain two duplicate check processing and service centers, this image-based system has allowed us to operate a much more cost-effective remote check encoding center, which in turn electronically transfers check images to a single, centralized statement rendering and service location. We also plan to implement this method within the First Liberty organization, with Scranton, PA being a remote center, mirroring our Olean, NY operation, with both feeding our full-service Canton, NY facility.

Business customers may now obtain statements on CD-ROM, which gives them access to past records and transactions, as well as a much easier storage method. Customers are also taking more and more advantage of our automated "sweep accounts," which are set up to automatically "sweep" money from a commercial customer's demand account into a money management account, which offers a higher interest rate and a better use of idle cash balances. It also can protect customers against service charges on small balance accounts and eliminate the need to monitor multiple accounts as closely.

We have also recently launched "MagicWrighter", a new cash management system we licensed, which allows commercial customers to pay employees electronically, securely and directly via PC transmission. We can now post the entire payroll for a commercial customer – even for employees who aren't Community Bank, N.A. customers themselves – thereby saving a business owner the costs of cutting checks, and in turn, saving the Bank the costs of dealing with those checks.

We have steadily increased the numbers of personal computers (PCs) and laptops in use both among our in-branch employees, as well as our Financial Services Consultants, to approximately 750 in place today. These, along with our 90 servers and countless other computing-related assets, represent an investment in excess of $4 million. Many of these PCs replaced older terminals that did not permit electronic communications outside the branch network, limiting their effectiveness. In doing so, we have increased the technological savvy and efficiency of our employee base, as well as their overall communications abilities, while improving the speed and accuracy with which we can satisfy our customers.



We have also committed to working with a technology partner to ensure that our systems remain current. More than eight years ago, we elected to handle our technology needs through Fiserv™, a large data processing provider with deep expertise in our industry. We believe our alliance with Fiserv has provided an economical and effective solution to meeting our technology demands, allowing us to offer expanded products and services to our customers in a shorter time frame.

Finally, we have recently begun investigating the possibility of offering "E–Statements" – account statements distributed securely over e-mail – which will save obvious mailing and processing costs and allow for faster receipt by customers. If the product proves to be attractive, implementation would be in 2002.

All of our technology initiatives have been instituted with three main objectives at their forefront:

☐ Make transactions quick, secure and seamless to the customer.

☐ Save time and costs for the Bank, particularly with less involvement by the Bank's personnel on routine transactions.

☐ Improve customer response time.

We're confident that an appropriate level of technology investment will ensure that CBU can continue to offer the latest product innovations, and the convenience that community banking customers require.

And There's More Than One Way to Reach an Investor

We significantly stepped up our communications efforts within the investment community during 2000, as well. And that's meant an added focus on technology to help reach these audiences quickly, accurately and affordably. We've begun conducting our quarterly earnings conference call live over the Internet, in addition to the standard telephone method. This gives investors a second option through which to gain information about financial performance, providing them far greater flexibility, as listeners can do so at their convenience, and rewind or fast-forward the call at their leisure.

When we announced our acquisition of First Liberty, we took this a step further by developing a visual presentation that could be viewed live and/or downloaded from a designated Web site. This technology gave all investors the ability to access a "take-away" on the announcement, containing far more information than would be practical to place in a press release. We also made use of our Web site for other investor-related initiatives during the year, including a link directly to the *Barron's* newspaper Web site and the story they published on the investment merits of CBU in September of 2000.

You can be sure we will continue to look for ways to utilize our Web site and other technology-based options for additional communications opportunities with investors, customers and other audiences.

Board of Directors

☐ **James A. Gabriel** was named Chairman of the Board on January 1, 1999. At age 53, 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 58, has served as a Director of the Company since 1992, when he was also named to the posts of 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 64, he is a retired president of Kinney Drugs, Inc., a drug and retail chain with stores primarily located throughout Upstate New York. He is Chairman of the Investment and Technology Committees, and a member of the Audit/Compliance/Risk Management and Loan Committees.

☐ **Paul M. Cantwell, Jr.,** age 59, is the former Chairman and President of the Citizens National Bank of Malone, which was acquired by the Company in January 2001, at which time he became a Director. He is Owner of the Cantwell & Cantwell Law Offices located in Malone, New York. He is a member of the Personnel and Trust Committees.

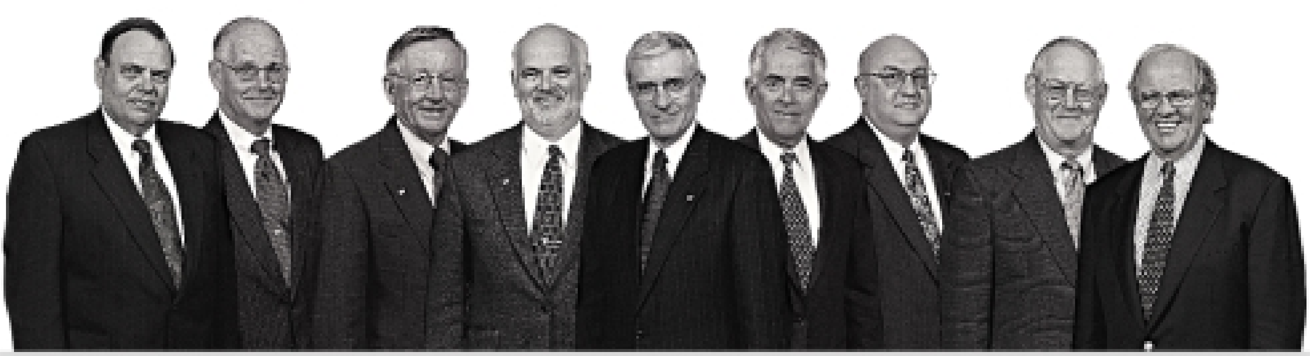
☐ **William M. Dempsey** recently retired from the Rochester Institute of Technology (RIT), located in Rochester, New York, as Vice President, Finance and Administration, and President of the American College of Management and Technology, located in Dubrovnik, Croatia, an affiliate of RIT. He is Chairman of the Nominating and Audit/Compliance/Risk Management Committees and a member of the Investment and Technology Committees. He is 62 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 54, 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 65, 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, Nominating, 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 59, he has served as a Director of the Company since 1991. He is Chairman of the Loan Committee and a member of the Nominating, Strategic/Executive, and Trust Committees.

☐ **William N. Sloan,** age 66, has served as a Director of the Company since 1991. He is 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, Strategic/Executive, and Technology Committees.



(left to right): Paul M. Cantwell, William M Dempsey, William N. Sloan, James A. Gabriel, Sanford A. Belden, David C. Patterson, Nicholas A. Dicerbo, John M. Burgess, Lee T. Hirschey

☐ **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 February 2000.

☐ **James A. Wears** *President, Banking.* Mr. Wears served as President and Chief Executive Officer of The St. Lawrence National Bank, a former subsidiary of the Company, from January 1991 until January 1992 and as Senior Vice President 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.

Investor Returns & Relative Valuation	**CBU**	Peer Group***	**CBU vs. Peer Group**
Total Return*			
10 years	**27.0 %**	19.4 %	**+7.6 % pts.**
5 years	**15.9**	13.3	**+2.6**
3 years	**0.4**	-3.0	**+3.4**
1 year	**28.0**	7.1	**+20.9**
Relative Pricing**			
Price/2000 EPS	**10.0 x**	12.0 X	**16.4 % discount**
Price/Cash 2000 EPS	**8.2**	11.6	**29.7**

* CBU stock price $28.20 at 1/31/01
** CBU stock price $28.85 at 2/11/01
*** 20 banks in the Northeast and Ohio, comparable in size and operating in similar markets to CBU

(left to right): David G. Wallace, Sanford A. Belden, James A. Wears, Michael A. Patton

Glossary of Banking Terms

The following terms are particular to our industry and appear throughout this Annual Report. A more detailed explanation of certain terms is found in the Notes to the Company's financial statements contained on Form 10-K within this Annual Report.

Cash earnings (net income - cash): Net income, excluding the after-tax impact of amortizing (writing down over time) the premium (goodwill or intangible) that the Company has paid for its acquisitions. Many analysts consider this as a better measure of a company's earnings power and ability to support future growth.

Consumer direct lending: Direct lending to consumers through the Bank's branches, largely on an installment basis, for the purchase of automobiles and durable (long lasting) goods for the home. Also includes loans secured by the equity in a borrower's home and for educational and general purposes.

Consumer indirect lending: Loans originated through applications taken on the premises of automobile, boat, and other dealers selling substantially priced goods, electronically submitted to the Bank, and approved within a very short time period while the consumer remains on premises.

Core deposits: The total of checking, interest checking, savings and money market deposits, and certificates of deposit less than $100,000. Generally considered a bank's most stable and least-cost source of funds.

Coverage ratio: The ratio of loan loss allowance to nonperforming loans (payment not received after 90 days or more) or nonperforming assets (additionally includes collateral acquired by a bank after the loan has defaulted). Considered an indicator of the strength of a financial institution's reserves, and the likelihood of it surviving an unforeseen, negative financial surprise without directly impairing shareholder equity.

Diluted shares (or fully diluted): A calculation which includes those shares issued and outstanding or issuable upon the exercise of stock options held by employees or Directors, assuming cash received upon exercise is used by the company to repurchase shares on the open market. Shares held in treasury are excluded.

Efficiency ratio: Measure of a bank's productivity, derived by dividing overhead expense by revenues (net interest income (FTE) plus noninterest income), excluding the effect of gains or losses on the sale of securities, amortization of goodwill and intangibles, and gains or losses on sale of subsidiaries and disposition of branch properties. The lower the ratio, the better the efficiency.

Full-tax equivalent (FTE): Restatement of tax-exempt income as if it were fully taxable. Enables tax-exempt income to be compared to taxable income on a consistent basis.

IPC deposits: Deposits from individuals, partnerships and corporations (i.e., all consumer and commercial deposits), but excluding those from local governments/municipalities. Constitutes the major component of core deposits (see above).

Interest rate spread: The difference between the yield on a bank's earning assets and the rate it pays on its combined interest-bearing funds (deposits plus borrowings). It's considered a basic measure of sensitivity of a bank's net interest earnings to changes in interest rates over a specified time period (typically one year).

Loan loss provision: The charges against earnings to provide for the potential write-down or charge-off of possible future defaulted loans.

Net interest income: Banking revenues generated from standard lending activities, equaling the difference between interest income on loans and investments and interest expense on deposits and borrowings. It's the primary source of earnings before expenses for most banks.

Net interest margin: A performance measure or ratio which is calculated by dividing net interest income by average interest-earning assets. It's the most basic indicator of the relative return on loan and investing activities. Interest rate spread is a component of the net interest margin.

Noninterest income: Revenues generated from fee-based depositor and borrowing services, financial services offerings, and surcharges from such things as ATMs and overdrafts. As reported by CBU, it excludes gains or losses from the sale of securities and may include the impact of the disposal of branch properties, if indicated.

Nonperforming assets: Represent loans delinquent as to interest or principal for a period of 90 days or more, loans for which interest is not being accrued (no payments expected), and real estate acquired through foreclosure.

Tangible equity/assets: Shareholders' equity net of goodwill and intangible assets divided by the assets of the Bank. It's a highly conservative measure of capital strength which assumes that premiums paid for the franchise value of acquisitions have no value.

Tier I capital: Shareholders' equity, adjusted for the unrealized gain or loss on securities held for sale and for certain assets such as goodwill and other intangibles. It's the primary measure of a bank's capital as defined by various bank regulatory agencies.

Branch Offices and Subsidiaries

ADMINISTRATIVE / OPERATIONS CENTER LOCATIONS
Administrative Office - 5790 Widewaters Parkway, DeWitt, NY 13214-1883
Northern Markets Office - 45-49 Court Street, Canton, NY 13617-0509
Southern Markets Office - 201 North Union Street, Olean, NY 14760-0690

Northern Market
Black River
Christina S. Meagher, Assistant Vice President, Manager
Boonville (101 Main Street & Headwaters Plaza)
Kevin J. Kent, Vice President, Manager
Brushton
James H. McElwain, Manager
Canton
David R. Peggs, Vice President, Manager
Chateaugay
Steven P. Garneau, Branch Supervisor
Clayton
Rita J. Walldroff, Assistant Vice President, Manager
Gouverneur
Kenneth W. Snyder, Vice President, Cluster Manager
Harrisville
Marlys A. Lesperance, Assistant Cashier, Manager
Hermon
Connie J. Green, Branch Supervisor
Heuvelton
R. Jean Pray, Assistant Cashier, Manager
Lowville (7605 State Street and 7395 Turin Road)
Adam J. Smykla, Vice President, Cluster Manager
Madrid
Marsha L. Watson, Manager
Malone (Elm St. & West End)
Shawn McNerney, Vice President, Manager
Massena
Ronald S. Rickett, Vice President , Manager
Norwood
Laura M. Lacomb, Branch Supervisor
Ogdensburg (320 Ford Street, Gateway Plaza and Seaway Shopping Center)
Robert L. Seymour, Vice President, Cluster Manager
Old Forge
Barbara B. Criss, Assistant Vice President, Manager
Port Leyden
Debra S. Weber, Branch Supervisor
Potsdam (64-70 Market Street and May Road)
Joyce E. Lalonde, Vice President, Manager
Pulaski
Steven P. Gaffney, Vice President, Manager
St. Regis Falls
Patricia A. Susice, Manager
Star Lake
Corina L. Kelley, Assistant Cashier, Manager
Waddington
Brenda L. Matthie, Branch Supervisor
Watertown (1125 Arsenal Street)
Elizabeth A. Brown, Assistant Vice President, Manager
Watertown (216 Washington Street)
Stephanie A. McGuire, Vice President, Cluster Manager
West Carthage
Gerald S. Morrow, Assistant Vice President, Manager

Corning Market
Addison
Paulena A. Webster, Assistant Vice President, Manager
Corning
William J. Pope, Vice President, Cluster Manager
Corning North
Douglas A. Mitchell, Vice President, Manager
Corning South
Brenda L. Van Kurin, Branch Supervisor
Hammondsport
Donnette J. Wager, Assistant Vice President, Manager
Nichols and Owego
Samuel F. Thomas, Vice President, Manager
Penn Yan
Marilyn L. James, Vice President, Manager
Woodhull
James R. Crans, Vice President, Manager

Olean Market
Alfred
Cheri A. Horton, Manager
Allegany
Eric M. Garvin, Manager
Cassadaga
Lee R. Johnson, Manager
Clymer
Laurie L. Harvey, Manager
Cuba
Mary M. Quigley, Assistant Vice President, Manager
Falconer
Joann W. Anderson, Manager
Gowanda
Sandra T. Gaylord, Assistant Vice President, Manager
Houghton College
David B. Fleming, Manager
Jamestown
Linda L. Anderson, Manager
Olean (201 North Union Street)
James M. Kelly, Vice President, Cluster Manager
Olean (Delaware Park)
S. Lynn Gumtow, Manager
Portville
Beverly J. Geise, Manager
Ripley
Patricia J. Knight, Manager
Sherman
Denise G. Rice, Manager
Wellsville (99 Main Street and 4196 Bolivar Road)
Donald E. Charles, Vice President, Cluster Manager

Finger Lakes Market
Canandaigua
Paul E. Lepore, Vice President, Manager
Cato
Linda A. Martin, Assistant Cashier, Manager
Geneva
Edward L. (Ned) Clark, Vice President, Manager
Hannibal
Debra A. Davis, Assistant Vice President, Manager
Interlaken
Evelyne L. Caron, Manager
Newark & Newark Plaza
Debra A. Murphy, Vice President, Cluster Manager
Ovid
Joyce A. Tavelli, Assistant Vice President, Manager
Seneca Falls
Betty A. Verzillo, Assistant Vice President, Manager
Skaneateles
Robert E. Marsh, Manager
Waterloo & Liberty Center Drive-Thru
Larry D. Ledgerwood, Vice President, Manager

CBSI AND CBNA SUBSIDIARIES

BENEFIT PLANS ADMINISTRATIVE SERVICES, INC.
1500 Genesee Street
Utica, NY 13502
Girard H. Mayer, Chief Executive Officer
Barry S. Kublin, President

COMMUNITY FINANCIAL SERVICES, INC.
COMMUNITY INVESTMENT SERVICES, INC.
201 North Union Street
Olean, NY 14760
Charles E. Kopp, President

ELIAS ASSET MANAGEMENT, INC.
500 Essjay Road, Suite 220
Williamsville, NY 14221
David J. Elias, President and Chief Investment Officer
Thomas S. Quealy, Vice President, Portfolio Manager
Barbara V. Elias, Vice President, Secretary/Treasurer
Kathleen E. Strohmeyer, Operations Manager
Portfolio Managers
Michael R. Brace, CFA
John D. Shine, Research Analyst
Nicholas Verbanic

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Earl R. Withers, Jr., Vice President, Real Estate Manager, Olean

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Bradley L. Ward, Vice President, Commercial Loan Officer
Robert F. Zehr, Vice President, Commercial Lender/Floor Plan

Corning
J. David Clark, Vice President, Senior Banking Executive, Finger Lakes & Corning Markets
James F. Ells, Assistant Vice President, Commercial Loan Officer

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Walter D. (Pete) Mairs, Vice President, Commercial Loan Officer
Kevin P. Gallvan, Assistant Vice President, Commercial Loan Officer
James M. King, Assistant Vice President, Agricultural Loan Officer
Loren C. Herod, Agricultural Loan Officer

Gowanda
Brian F. Aldrich, Assistant Vice President, Agricultural Loan Officer

Jamestown
Roger E. Dickinson, Vice President, Commercial Loan Officer

Lowville
Raymond H. Collier, Assistant Vice President, Agricultural Loan Officer
Richard E. Roes, Assistant Vice President, Agricultural Loan Officer

Malone
Michael J. Brassard, Vice President, Commercial Loan Officer
Nicholas S. Russell, Assistant Vice President, Commercial Loan Officer

Olean
James E. Kennedy, Vice President, Commercial Loan Officer
Mark P. Saglimben, Vice President, Commercial Loan Officer
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Martin P. Schatz, Vice President, Commercial Loan Officer
Edward C. Ward, Assistant Vice President, Agricultural Loan Officer

Wellsville
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BRANCH SERVICES
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Judith A. Meyer, Vice President, Branch Coordinator, Olean

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Steven C. Byington, Vice President, Marketing Manager, DeWitt
Dianne L. Parks, Vice President, Compliance Manager, Canton
Donna J. Drengel, Assistant Vice President, Secretary, Board and Shareholder Relations, DeWitt
John A. Puchir, Assistant Vice President, Sales Trainer, DeWitt
Elaine A. Saarinen, Assistant Vice President, Purchasing Manager, Canton

FINANCIAL SERVICES
Michael A. Patton, President, Financial Services, Olean

TRUST SERVICES
Employee Benefit Trust
Robert A. Malczyk, Sales Manager, Utica

Personal Trust
Catherine B. Koebelin, CTFA, Vice President, Trust Officer, Olean
Patricia E. Barie, Trust Officer, Olean
Carmen A. Camp, Trust Officer, Canton
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Robert P. Jewell, Trust Officer, Corning
Stefanus J. Smith, Trust Officer, Olean
Paul J. Snodgrass, Trust Investment Officer, Canton

COMMUNITY INVESTMENT SERVICES, Inc. / COMMUNITY FINANCIAL SERVICES, Inc.

Charles E. Kopp, President, Olean

Financial Consultants
Eric E. Brunet, Ogdensburg
Joseph M. Butler, Jr., Watertown
Daniel P. Drappo, Black River
Brien D. Gardner, Newark Plaza
Kevin C. Gildner, Olean
Larry R. Schultz, Geneva
Helen M. Willman, Jamestown/Gowanda

Hamburg Service Center
Patricia L. Schneider, Sales Manager

Jamestown Office
David J. Cromey, Vice President
Financial Consultants
Jason R. Hanson
Philip J. Lombardo

Lockport Office
Matt A. Myers, Vice President/Branch Manager
Eric W. Connor, Senior Financial Consultant

FINANCE AND INVESTMENTS
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David G. Wallace, Executive Vice President and Chief Financial Officer
Richard A. Chapin, Vice President, Financial Systems Manager
Charles M. Ertel, Vice President, Corporate Accounting Manager
Joseph J. Lemchak, Vice President, Investments and Asset/Liability Management
Ann M. Moneypenny, Assistant Vice President, General Accounting Manager

OPERATIONS
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Harry J. Lee, Vice President, Deposit Operations Manager, Canton
William L. Sprague, Vice President, Operations Manager, Olean
Robin E. Dumas, Assistant Vice President, Electronic Banking Manager, Canton
Brian R. Gaffney, Assistant Vice President, Information Systems Supervisor, DeWitt
Patricia A. Hayes, Assistant Vice President, Loan Operations Manager, Canton
Nancy M. Lewis, Assistant Vice President, Deposit Operations Manager, Olean
Helyn E. Wilson, Assistant Vice President, Loan Operations Manager, Olean

AUDIT
W. Valen McDaniel, Vice President, Corporate Auditor and Risk Manager, DeWitt
Lynne M. Wadsworth, Assistant Vice President, Audit Manager, DeWitt

Corporate Headquarters

Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
800-724-2262
315-445-2282
315-445-7347 (fax)
www.communitybankna.com

Transfer Agent and Registrar of Stock

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

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 2, 2001 at 1:00 p.m.
Wyndham Syracuse Hotel
6301 Route 298
East Syracuse, NY 13057
Phone: 315-432-0200 Fax: 315-433-1210

Analyst Coverage

The following analysts published research about Community Bank System in 2000:

FIRM/ANALYST	PHONE
CIBC World Markets/Lana Chan	212-667-7098
First Albany Corp./Kevin Timmons	518-447-8438
Janney Montgomery Scott/ Wilson Smith	215-665-6221
Keefe, Bruyette & Woods/Don Kauth	212-432-4544
McConnell, Budd & Downes/ Bill McCrystal	973-538-7800

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 offers a variety of convenient, low-cost services for investors who wish to build their share ownership.

For information, contact:

Community Bank System, Inc.
Ms. Donna J. Drengel
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DeWitt, NY 13214-1883
315-445-7313
e-mail: donna.drengel@communitybankna.com

or

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
800-278-4353
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