

COMMUNITY BANK SYSTEM, INC.  
Form 424B3  
February 10, 2017

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Registration No. 333-214961

## PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Dear Stockholder:

On October 22, 2016, the board of directors of Merchants Bancshares, Inc. ( Merchants ) unanimously approved an Agreement and Plan of Merger (the Merger Agreement ) between Merchants and Community Bank System, Inc. ( Community Bank System ). Merchants is holding a special meeting of stockholders on Thursday, March 23, 2017, at 10:00 a.m., Eastern time, at the DoubleTree by Hilton, 1117 Williston Road, South Burlington, Vermont 05403, for its stockholders of record on February 2, 2017, to vote on the proposals necessary to complete the merger. If Merchants stockholders adopt the Merger Agreement and the merger is subsequently completed, Merchants will merge with and into Community Bank System (the Merger ), with Community Bank System continuing as the surviving company.

If the Merger Agreement proposal is approved and the Merger is subsequently completed, Merchants stockholders may elect to receive, in exchange for each outstanding share of Merchants common stock they hold, either: (i) \$40.00 in cash (which we refer to as the cash election consideration ); (ii) 0.9630 shares of common stock of Community Bank System (which we refer to as the stock election consideration ); or (iii) a combination of \$12.00 in cash and 0.6741 shares of common stock of Community Bank System (which we refer to as the mixed election consideration ).

Both the cash election consideration and the stock election consideration are subject to proration and adjustment procedures to ensure that the total amount of cash paid, and the total number of shares of Community Bank System common stock issued, in the Merger to Merchants stockholders, as a whole, will equal as nearly as practicable the total amount of cash and number of shares that would have been paid and issued if all of the Merchants stockholders received the mixed election consideration. Merchants stockholders who fail to make a timely election or who make no election will receive the mixed election consideration. For more information, see Proposal I The Merger and The Merger Agreement.

The precise consideration that Merchants stockholders will receive if they elect the cash election consideration or the stock election consideration will not be known at the time that Merchants stockholders vote on the proposal to adopt the Merger Agreement or make an election as to the type of consideration that they would like to receive in the Merger. On October 21, 2016, which was the last trading date on the New York Stock Exchange ( NYSE ) preceding the public announcement of the Merger, the closing price of Community Bank System common stock was \$47.50 per share, valuing the mixed election consideration at approximately \$44.02 per share. On February 2, 2017, the most recent practicable date prior to the mailing of this Proxy Statement/Prospectus, the closing price of Community Bank System common stock on the NYSE was \$57.67, valuing the mixed election consideration at approximately \$50.88 per share. Based on 6,898,903 shares of Merchants common stock issued and outstanding, Community Bank System expects to issue in the Merger approximately 4,650,551 shares of its common stock before taking into account any adjustment for the issuance of cash in lieu of fractional shares.

The market prices of Community Bank System common stock and Merchants common stock will fluctuate before the completion of the Merger. **You should obtain current stock price quotations for Community Bank System and Merchants common stock before you vote.** Community Bank System common stock is listed on the NYSE under the symbol CBU. Merchants common stock is traded on the NASDAQ Global Select Market ( NASDAQ ) under the

symbol MBVT.

Under the terms of the Merger Agreement, in the event that the volume-weighted average trading price of Community Bank System common stock for a specified period prior to the closing is less than \$35.77 per share and the decrease in the price of Community Bank System's common stock is more than 20% greater than the decrease in the SNL Midcap U.S. Bank Index over the same period, Merchants has the right to terminate the Merger Agreement, Community Bank System has the option to increase the amount of Community Bank System common stock issuable to Merchants stockholders by a formula-based amount set forth in the Merger Agreement to prevent such termination.

**The Merchants board of directors has unanimously determined that the Merger and the Merger Agreement are advisable and in the best interests of Merchants and its stockholders and unanimously recommends that you vote FOR the adoption of the Merger Agreement, FOR approval, on an advisory basis, of the Merger-related executive compensation payable to the Merchants named executive officers in connection with the Merger, and FOR the proposal to adjourn the Merchants special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to adopt the Merger Agreement.**

**The Merger cannot be completed unless at least two-thirds of the issued and outstanding shares of Merchants common stock entitled to vote at the special meeting vote in favor of the Merger. Whether or not you plan to attend the special meeting of stockholders, please take the time to vote by using the Internet, by telephone or by completing the enclosed proxy card and mailing it in the enclosed envelope. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote FOR each of the proposals being voted on at Merchants' special meeting. If you fail to vote, or you do not instruct your broker how to vote any shares held for you in street name, it will have same effect as voting AGAINST the Merger Agreement, but it will have no impact on the advisory, non-binding proposal to approve the Merger-related executive compensation or the proposal to approve an adjournment of the special meeting.**

The accompanying document is being delivered to Merchants stockholders as Community Bank System's Prospectus for its offering of Community Bank System common stock in connection with the Merger, and as Merchants' Proxy Statement for the solicitation of proxies for the special meeting.

This Proxy Statement/Prospectus provides you with detailed information about the proposed Merger. It also contains or references information about Merchants, Community Bank System and related matters. You are encouraged to read this document carefully. **In particular, you should read the Risk Factors section beginning on page 15 of this Proxy Statement/Prospectus for a discussion of the risks you should consider in evaluating the proposed Merger and how it will affect you.**

**On behalf of our board of directors, I thank you for your prompt attention to this matter.**

Sincerely,

Jeffrey L. Davis  
Chairman of the Board of Directors

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Merger, the issuance of the Community Bank System common stock in connection with the Merger or the other transactions described in this Proxy Statement/Prospectus, or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

**The securities to be issued in connection with the Merger are not savings accounts, deposits or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any**

**other governmental agency.**

This Proxy Statement/Prospectus is dated February 7, 2017, and is first being mailed to stockholders of Merchants on or about February 10, 2017.

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MERCHANTS BANCSHARES, INC.  
275 Kennedy Drive  
South Burlington, Vermont 05403

## NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON MARCH 23, 2017

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Merchants Bancshares, Inc. ( Merchants ) will be held on Thursday, March 23, 2017, at 10:00 a.m., Eastern time, at the DoubleTree by Hilton, 1117 Williston Road, South Burlington, Vermont 05403, to consider and vote upon the following matters:

1. a proposal to adopt the Agreement and Plan of Merger, dated as of October 22, 2016, by and between Community Bank System, Inc. ( Community Bank System ) and Merchants (the Merger Agreement), which provides for the merger of Merchants with and into Community Bank System with Community Bank System as the surviving company (the Merger );
2. a non-binding, advisory proposal to approve the compensation payable to the named executive officers of Merchants in connection with the Merger (the Merger-Related Executive Compensation );
3. a proposal to approve one or more adjournments of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement (the adjournment proposal ); and
4. any other business which may properly come before the special meeting or any adjournment thereof.

The Merger is described in more detail in this Proxy Statement/Prospectus, which you should read carefully in its entirety before you vote. A copy of the Merger Agreement is attached as **Annex A** to this Proxy Statement/Prospectus. Only holders of record of Merchants common stock at the close of business on February 2, 2017 are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting.

**Under Delaware law, Merchants stockholders who do not vote in favor of adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their Merchants common stock as determined by the Delaware Court of Chancery if the Merger is completed, but only if they submit a written demand for such an appraisal prior to the vote on adoption of the Merger Agreement and strictly comply with the other Delaware law procedures explained in this Proxy Statement/Prospectus. See the section entitled Proposal I The Merger Appraisal or Dissenters Rights beginning on page 58. The applicable Delaware law is reproduced in its entirety in Annex C to this Proxy Statement/Prospectus.**

**Please vote as soon as possible. The affirmative vote of two-thirds of the outstanding shares of Merchants common stock entitled to vote at the special meeting of stockholders is required for the adoption of the Merger Agreement. Approval of the non-binding, advisory Merger-Related Executive Compensation proposal requires the affirmative vote of a majority of the votes cast on the proposal. Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast on the proposal.**

**If you fail to vote, or you do not instruct your broker how to vote any shares held for you in street name, it will have same effect as voting AGAINST the Merger Agreement.**

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**To ensure your representation at the special meeting of stockholders, please follow the voting procedures described in the accompanying Proxy Statement/Prospectus and on the enclosed proxy card.** This will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Your proxy may be revoked at any time before it is voted by following the instructions provided in the Proxy Statement/Prospectus.

**THE MERCHANTS BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR ALL PROPOSALS.**

BY ORDER OF THE BOARD OF DIRECTORS

Jamie Oberle  
Secretary

South Burlington, Vermont  
February 7, 2017

## **YOUR VOTE IS IMPORTANT!**

**Whether or not you plan to attend the special meeting in person, Merchants urges you to submit your proxy as soon as possible by (1) calling the toll free telephone number specified on the enclosed proxy card, (2) accessing the Internet website specified on the enclosed proxy card, or (3) completing, signing and dating the enclosed proxy card and returning it in the postage paid envelope provided. If your shares are held in the name of a bank, broker or other fiduciary, please follow the instructions on the voting card provided by such entity.**

**If you have any questions concerning the Merger or other matters to be considered at the Merchants special meeting, would like additional copies of this Proxy Statement/Prospectus or need help voting your shares, please contact Innisfree M&A Incorporated, Merchants proxy solicitor, by calling (212) 750-5833.**

**PLEASE DO NOT SEND STOCK CERTIFICATES WITH THE PROXY CARD. YOU WILL BE SENT SEPARATE INSTRUCTIONS REGARDING MAKING ELECTIONS AS TO THE FORM OF MERGER CONSIDERATION YOU WOULD LIKE TO RECEIVE AND THE SURRENDER OF YOUR STOCK CERTIFICATES.**

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## QUESTIONS AND ANSWERS ABOUT THE MERGER

*The following are answers to certain questions that you may have regarding the merger and the special meeting. We urge you to read carefully the remainder of this Proxy Statement/Prospectus because the information in this section may not provide all the information that might be important to you in determining how to vote. Additional important information is also contained in the annexes to, and the documents incorporated by reference in, this Proxy Statement/Prospectus.*

**Q: Why am I receiving this document?**

Community Bank System, Inc. ( Community Bank System ) and Merchants Bancshares, Inc. ( Merchants ) have agreed to combine under the terms of an Agreement and Plan of Merger by and between Community Bank System and Merchants, dated as of October 22, 2016 (the Merger Agreement ), that is described in this Proxy Statement/Prospectus. A copy of the Merger Agreement is attached to this Proxy Statement/Prospectus as **Annex A**. In order to complete the merger of Merchants with and into Community Bank System (the Merger ), the stockholders of Merchants must vote to adopt the Merger Agreement. Merchants will hold a special meeting of its stockholders to solicit this approval, as well as the non-binding advisory approval of the Merger-Related Executive Compensation and, if necessary, the approval of the adjournment proposal. We are delivering this Proxy Statement/Prospectus to you as both a Proxy Statement of Merchants and a Prospectus of Community Bank System. It is a Proxy Statement because the Merchants board of directors is soliciting proxies from its stockholders. It is a Prospectus because Community Bank System will issue Community Bank System common stock to the Merchants stockholders who receive stock consideration in the Merger, and this Prospectus contains information about Community Bank System common stock. This Proxy Statement/Prospectus contains important information about the Merger, the Merger Agreement, the special meeting of Merchants stockholders, and other related matters, and we encourage you to read it carefully.

**Q: What will happen to Merchants as a result of the Merger?**

If the Merger is completed, Merchants will cease to exist and Merchants Bank, the wholly-owned subsidiary of Merchants, will become a direct, wholly-owned subsidiary of Community Bank System. Immediately following completion of the Merger, Merchants Bank will then merge with and into Community Bank, N.A. ( Community Bank ), the wholly-owned subsidiary of Community Bank System, with Community Bank being the surviving bank.

**Q: Who is being asked to approve matters in connection with the Merger?**

Only Merchants stockholders are being asked to vote to approve the Merger-related proposals. Community Bank System is not required to obtain Community Bank System stockholder approval of the Merger or the Merger Agreement.

**Q: What will I receive in the Merger?**

If the Merger Agreement proposal is approved and the Merger is subsequently completed, each outstanding share of Merchants common stock will be converted into the right to receive either:

\$40.00 in cash, without interest (the cash election consideration );  
0.9630 shares of Community Bank System common stock, plus cash in lieu of fractional shares (the stock election consideration ); or  
a combination of both \$12.00 in cash and 0.6741 shares of Community Bank System common stock, plus cash in lieu of fractional shares (the mixed election consideration ).

The above consideration is subject to proration procedures that are designed to ensure that the total amount of cash paid, and the total number of shares of Community Bank System common stock issued, in the Merger will equal as nearly as practicable the total amount of cash and number of shares that would have been paid and issued if all of the Merchants stockholders received the mixed election consideration.



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You may elect to receive the cash election consideration, the stock election consideration, or the mixed election consideration. However, the ability to receive the consideration of your choice will depend on the elections of other Merchants stockholders. The proration of the consideration payable to Merchants stockholders in the Merger will not be known until Community Bank System tallies the results of the elections made by Merchants stockholders, which will not occur until near or after the closing of the Merger.

**Q: Will I receive the form of consideration that I elect?**

A: If you elect to receive the mixed election consideration, you will receive the mixed election consideration. If you elect to receive the cash election consideration or stock election consideration, you may not receive the exact form of consideration that you elect. If you make no election with respect to your shares of Merchants common stock (and do not exercise appraisal rights), you will receive the mixed election consideration.

It is currently estimated that, if the Merger is completed, Community Bank System will issue, in the aggregate, approximately 4.65 million shares of Community Bank System common stock and pay approximately \$82.78 million in cash to Merchants stockholders. Under the proration procedures in the Merger Agreement, the total amount of cash paid, and the total number of shares of Community Bank System common stock issued, in the Merger to the holders of shares of Merchants common stock (other than excluded shares), as a whole, will equal as nearly as practicable the total amount of cash and number of shares that would have been paid and issued if all of such shares of Merchants common stock were converted into the mixed election consideration.

Whether you receive the amount of cash and/or stock you request in your election form will depend in part on the elections of other Merchants stockholders. You may not receive the form of consideration that you elect in the Merger, and you may instead receive a pro-rata amount of cash and/or Community Bank System common stock.

The greater the oversubscription of the stock election consideration, the less stock and more cash a Merchants stockholder making the stock election will receive. Reciprocally, the greater the oversubscription of the cash election consideration, the less cash and more stock a Merchants stockholder making the cash election will receive. However, in no event will a Merchants stockholder who makes the cash election or the stock election receive less cash and more shares of Community Bank System common stock, or fewer shares of Community Bank System common stock and more cash, respectively, than a stockholder who elects the mixed election consideration. See The Merger Agreement Election and Proration Procedures beginning on page 63 of this Proxy Statement/Prospectus.

The proration of the consideration payable to Merchants stockholders who elect to receive the cash election consideration and/or the stock election consideration will not be known until Community Bank System tallies the results of the elections, which will not occur until near or after the closing of the Merger.

**Q: How will Merchants stock options be treated in the Merger?**

A: Each Merchants stock option outstanding and unexercised immediately prior to the effective time of the Merger, whether or not then vested or exercisable, will be cancelled and automatically converted into the right to receive a cash amount equal to the aggregate number of Merchants shares subject to such option *multiplied by* the excess of the value of the mixed election consideration over the exercise price of such option.

**Q: How will shares of Merchants common stock subject to vesting or forfeiture restrictions be treated in the Merger?**

Each share of Merchants common stock subject to vesting or forfeiture restrictions and granted under any Merchants benefit plan that is outstanding immediately prior to the effective time, whether or not then vested, will automatically vest in full, and any restrictions thereon will lapse, and such



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stock will be converted into the right to receive an amount of cash equal to the value of the mixed election consideration plus dividends, if any, accrued but unpaid as of the effective time with respect to such restricted share.

**Q: How will warrants to purchase Merchants common stock be treated in the Merger?**

A: Each warrant that was originally issued on April 25, 2008 by NUVO Bank & Trust Company (with respect to which Merchants issued replacement warrants on December 4, 2015), which we refer to as organizers warrants, to purchase Merchants common stock outstanding as of the effective time will be converted at the effective time into a warrant to acquire, upon payment of the amount determined by dividing the per share exercise price immediately prior to the effective time by the stock election consideration of 0.9630, the number of shares of Community Bank System common stock determined by *multiplying* (i) the number of shares of Merchants common stock which may be acquired upon exercise of such organizers warrant immediately prior to the effective time by (ii) the stock election consideration of 0.9630.

Each warrant that was originally issued on April 30, 2013 by NUVO Bank & Trust Company (with respect to which Merchants issued replacement warrants on December 4, 2015), which we refer to as 2013 warrants, to purchase Merchants common stock outstanding as of the effective time will be converted into the right to receive, at the holder's election, either (i) a cash payment in cancellation of such 2013 warrant equal to the number of shares of Merchants common stock which may be acquired upon exercise of such 2013 warrant *multiplied by* the excess, if any, of the cash election consideration of \$40.00 over the per share 2013 warrant exercise price immediately prior to the effective time or (ii) a replacement 2013 warrant certificate issued by Community Bank System and representing the right to acquire prior to the expiration date of the original 2013 warrant, upon payment of the amount determined by dividing the per share exercise price immediately prior to the effective time by the stock election consideration of 0.9630, that number of shares of Community Bank System common stock equal to the number of shares of Merchants common stock which may be acquired upon exercise of such 2013 warrant immediately prior to the effective time *multiplied by* the stock election consideration of 0.9630.

**Q: Could you tell me more about Community Bank System?**

A: Community Bank System is the parent company of Community Bank and is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. Community Bank is a commercial banking franchise headquartered in Upstate New York, with more than 200 customer facilities and 202 ATMs ranging diagonally from Northern New York to the Southern Tier and west to Lake Erie, and in Northeastern Pennsylvania.

Community Bank is a community retail bank committed to the philosophy of serving the financial needs of customers in local communities. Community Bank emphasizes the local character of business, knowledge of the customer and customer needs, comprehensive retail and small business products, and responsive decision-making at the branch and regional levels. Community Bank and its subsidiaries offer a range of commercial and retail banking and financial services in their market areas to business, individual, agricultural and government customers. Community Bank and its employees strive to support and to actively engage in important initiatives in local communities within the market areas it serves.

Community Bank System common stock is publicly traded on the NYSE under the symbol CBU. At September 30, 2016, Community Bank System had on a consolidated basis approximately \$8.7 billion in total assets, \$7.1 billion in total deposits, \$4.9 billion in total loans and stockholders' equity of \$1.2 billion. For additional information about Community Bank System, please see "Where You Can Find More Information" beginning on page 104 of this Proxy Statement/Prospectus.

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**Q: When is the Merger expected to be completed?**

The parties are working to complete the Merger during late second quarter or early third quarter of 2017. Merchants and Community Bank System must first obtain the necessary regulatory approvals and the approval of the Merchants stockholders at the special meeting and satisfy other customary closing conditions. Merchants and Community Bank System cannot assure you as to when or if all the conditions to the Merger will be met, and it is possible that the parties will not complete the Merger at all.

**Q: What happens if the Merger is not completed?**

If the Merger is not completed, Merchants will remain an independent company. If the Merger Agreement is terminated under certain specified circumstances, Merchants may be required to pay to Community Bank System a termination fee of \$10.72 million.

**Q: Does the board of directors of Merchants have a recommendation on how I should vote on the Merger Agreement?**

Yes. The board of directors of Merchants unanimously determined that the Merger Agreement and the Merger are advisable and in the best interests of Merchants and its stockholders, and unanimously recommends that the stockholders of Merchants vote FOR the adoption of the Merger Agreement.

**Q: Why am I being asked to cast a non-binding, advisory vote to approve the Merger-Related Executive Compensation?**

The Securities and Exchange Commission ( SEC ), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ), adopted rules that require Merchants to seek a non-binding, advisory vote with respect to certain payments that will or may be made to Merchants named executive officers in connection with the Merger.

**Q: What will happen if Merchants stockholders do not approve the Merger-Related Executive Compensation proposal at the special meeting?**

Approval of the proposal related to the Merger-Related Executive Compensation is not a condition to completing the Merger. The vote with respect to the Merger-Related Executive Compensation is an advisory vote and will not be binding on Merchants regardless of whether the Merger Agreement is adopted. Accordingly, as the compensation to be paid to the Merchants executives in connection with the Merger is contractual, such compensation will or may be payable if the Merger is completed regardless of the outcome of the advisory vote.

**Q: Are there any stockholders already committed to voting in favor of the Merger Agreement?**

Yes. All of the directors of Merchants and another principal stockholder of Merchants have entered into voting agreements with Community Bank System requiring them to vote all of their shares in favor of adoption of the Merger Agreement. As of the record date for the special meeting, these stockholders held approximately 11% of the outstanding shares of Merchants common stock.

**Q: What risks should I consider before I vote on the Merger and make my election as to the form of merger consideration?**

You should read and carefully consider the risk factors set forth in section entitled Risk Factors beginning on page 15 of this Proxy Statement/Prospectus as well as the other information contained or incorporated by reference into this Proxy Statement/Prospectus, including the matters addressed in the section of this Proxy Statement/Prospectus titled Cautionary Statement Regarding Forward-Looking Statements on page 21.

**Q: Is there other information I should consider?**

Yes. Much of the business and financial information about each of the companies that may be important to you is not included in this document. Instead, that information is incorporated by

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reference to documents Merchants and Community Bank System separately filed with the SEC. This means that Merchants and Community Bank System can satisfy their disclosure obligations to you by referring you to one or more documents separately filed by Community Bank System or Merchants with the SEC. Please see **Where You Can Find More Information** beginning on page 104 of this Proxy Statement/Prospectus, for a list of documents that they have incorporated by reference into this document and for instructions on how to obtain copies of those documents, free of charge.

**Q: When and where will Merchants stockholders meet?**

A: Merchants will hold a special meeting of its stockholders on Thursday, March 23, 2017, at 10:00 a.m., Eastern time, at the DoubleTree by Hilton, 1117 Williston Road, South Burlington, Vermont 05403.

**Q: Who can vote at the Merchants special meeting?**

A: Holders of record of Merchants common stock at the close of business on February 2, 2017, which is the record date for the Merchants special meeting, are entitled to vote at the special meeting.

**Q: How many votes must be represented in person or by proxy at the Merchants special meeting to have a quorum?**

A: A majority of the shares of Merchants common stock outstanding and entitled to vote at the special meeting, present in person or represented by proxy, constitutes a quorum at the special meeting.

**Q: What vote by Merchants stockholders is required to adopt the Merger Agreement?**

A: Assuming a quorum is present at the Merchants special meeting, adoption of the Merger Agreement will require the affirmative vote of the holders of at least two-thirds of the outstanding shares of Merchants common stock entitled to vote. Abstentions and broker non-votes will have the same effect as shares voted AGAINST adoption of the Merger Agreement, but they will have no impact on the advisory, non-binding proposal to approve the Merger-Related Executive Compensation or the proposal to approve an adjournment of the special meeting.

**Q: What do I need to do now?**

A: After you have carefully read and considered the information contained or incorporated by reference into this Proxy Statement/Prospectus, please vote your shares promptly. If you hold common stock in your name as a stockholder of record, please complete, sign, date and mail your proxy card in the enclosed postage paid return envelope as soon as possible. You may also vote by telephone or through the Internet as instructed on the enclosed proxy card. If you hold your shares in street name through a bank, broker or other fiduciary, you must direct your bank or broker to vote in accordance with the instructions you receive from your bank, broker or other fiduciary. If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be voted in favor of the Merger Agreement, the approval, on an advisory basis, of the Merger-Related Executive Compensation, and, if necessary, the adjournment proposal.

**Q: If my shares are held in street name by my broker, will the broker vote my shares for me?**

A: No. Your broker WILL NOT vote your shares unless you provide instructions on how to vote. It is important that you provide timely instruction to your broker or bank to ensure that all shares of Merchants common stock that you own are voted at the special meeting. You should instruct your broker how to vote your shares, following the directions your broker provides.

**Q: What if I fail to instruct my broker?**

A: If you do not provide your broker with instructions and your broker submits an unvoted proxy, referred to as a broker non-vote, the broker non-vote will have the same effect as a vote against the adoption of the Merger Agreement. Broker non-votes will have no impact on the advisory, non-binding proposal to approve the Merger-Related Executive Compensation or the proposal to approve an adjournment of the special meeting.

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**Q: Can I attend the special meeting and vote my shares in person?**

Yes. Although the Merchants board of directors requests that you vote your shares by mail, by telephone, or through the Internet in advance of the special meeting, all Merchants stockholders are invited to attend the special meeting. Stockholders of record on February 2, 2017 may vote in person at the special meeting. If your shares are held by a broker, bank or other nominee, then you are not the stockholder of record and you must bring to the special meeting appropriate documentation from your broker, bank or other nominee to enable you to vote at the special meeting.

**Q: Can I change my vote?**

Yes. If you do not hold your shares in street name, there are three ways you can change your vote at any time after you have sent in your proxy card and before your proxy is voted at the special meeting: (i) you may give written notice of revocation to Merchants corporate secretary; (ii) you may submit a new signed proxy card bearing a later date or vote again by telephone or the Internet (any earlier proxies will be automatically revoked); or (iii) you may attend the special meeting and vote in person (however, the mere presence of a stockholder at the special meeting will not constitute revocation of a previously given proxy). If you hold your shares in street name through a bank, broker or other fiduciary, you should contact your bank, broker or other fiduciary to revoke your proxy. Any written notices of revocation and other communications with respect to revocation of proxies should be addressed to Merchants as follows: Merchants Bancshares, Inc., Corporate Secretary, 275 Kennedy Drive, South Burlington, Vermont, 05403, which must be received by 5:00 p.m., Eastern time, on March 22, 2017.

**Q: How do I make an election as to the form of merger consideration I wish to receive in the Merger?**

Community Bank System will mail to each Merchants stockholder an election form/letter of transmittal which will contain instructions for making a selection of merger consideration and for surrendering your stock certificates in exchange for the merger consideration. American Stock Transfer & Trust Company ( American Stock Transfer ), the exchange agent for the Merger, must receive your properly completed election form/letter of transmittal and your stock certificates, or suitable guarantee of delivery, by no later than the election deadline in order for your choice as to the form of merger consideration to be considered with those made by the other Merchants stockholders. Merchants and Community Bank System will notify you of the election deadline.

**Q: What happens if I don't make a valid election as to the form of merger consideration before the election deadline?**

If you do not make a valid election as to the form of merger consideration before the election deadline, each share of Merchants common stock held by you will be converted into the right to receive a combination of \$12.00 in cash and 0.6741 shares of Community Bank System common stock. If the Merger is completed, the exchange agent will send any stockholder who does not make a valid election a new letter of transmittal that such stockholder can use to surrender his or her shares of Merchants common stock in exchange for the merger consideration.

**Q: Can I change my election as to the form of merger consideration?**

Yes. You can change your election as to the form of merger consideration by submitting a new election form/letter of transmittal. For a change to be effective, the exchange agent must receive your election form/letter of transmittal before the election deadline.

**Q: What are the material U.S. federal income tax consequences of the Merger to me?**

It is a condition to the obligation of Merchants to complete the Merger that Merchants receives a legal opinion to the effect that the Merger qualifies as reorganization within the meaning of Section 368(a) of the Internal Revenue Code, as amended, which we refer to as the Code. If, as

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expected, the Merger qualifies as a reorganization, the specific tax consequences to a U.S. holder (as defined in Material U.S. Federal Income Tax Consequences of the Merger beginning on page 54 of this Proxy Statement/Prospectus) exchanging Merchants common stock in the Merger will generally depend upon the form of consideration such U.S. holder receives in the Merger.

A U.S. holder exchanging all of its shares of Merchants common stock for solely Community Bank System common stock (and cash instead of fractional shares of Community Bank System common stock) pursuant to the Merger Agreement will generally not recognize gain or loss, except with respect to cash received instead of fractional shares of Community Bank System common stock.

A U.S. holder exchanging all of its shares of Merchants common stock for solely cash pursuant to the Merger Agreement will generally recognize gain or loss equal to the difference between the amount of cash it receives and its cost basis in its Merchants common stock.

A U.S. holder exchanging all of its shares of Merchants common stock for a combination of Community Bank System common stock and cash pursuant to the Merger Agreement will generally recognize gain (but not loss) in an amount equal to the lesser of (i) the amount of cash treated as received in exchange for Merchants common stock in the Merger and (ii) the excess of the amount realized in the transaction (i.e., the fair market value of the Community Bank System common stock at the effective time of the Merger plus the amount of cash treated as received in exchange for Merchants common stock in the Merger) over its tax basis in its surrendered Merchants common stock.

**The U.S. federal income tax consequences described above may not apply to all holders of Merchants common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your own tax advisor to determine the particular tax consequences of the Merger to you.**

**Q: Are Merchants stockholders entitled to seek appraisal or dissenters' rights if they do not vote in favor of the adoption of the Merger Agreement?**

A: Yes. As a holder of Merchants common stock, you are entitled to seek appraisal or dissenters' rights under the Delaware General Corporation Law in connection with the Merger. Failure to follow precisely any of the statutory requirements could result in the loss of your appraisal rights.

**Q: Should Merchants stockholders send in their stock certificates with the enclosed proxy?**

A: No. Merchants stockholders SHOULD NOT send in any stock certificates now. You will receive separate written instructions for making your election and surrendering your shares of Merchants common stock.

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## WHO CAN HELP ANSWER YOUR QUESTIONS

If you want to ask any questions about the Merger or the merger consideration to be issued in the Merger, you should contact:

**Innisfree M&A Incorporated**

501 Madison Avenue  
New York, New York 10022  
(212) 750-5833

You may also contact:

**Community Bank System, Inc.**

Scott A. Kingsley  
E.V.P. and Chief Financial Officer  
Community Bank System, Inc.  
5790 Widewaters Parkway  
DeWitt, New York 13214  
(315) 445-7378

**Merchants Bancshares, Inc.**

Geoffrey R. Hesslink  
President and Chief Executive Officer  
Merchants Bancshares, Inc.  
275 Kennedy Drive  
South Burlington, Vermont 05403  
(800) 322-5222

Both Community Bank System and Merchants file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that Community Bank System or Merchants files at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1 800-SEC-0330 for further information on the Public Reference Room. Community Bank System's and Merchants' public filings are also available at the Internet site maintained by the SEC at <http://www.sec.gov>.

Community Bank System's and Merchants' public filings are also available from Community Bank System and Merchants, respectively, at the address shown below or at their respective websites: [www.communitybankna.com](http://www.communitybankna.com) or [www.mbv.com](http://www.mbv.com). Please note that Community Bank System's and Merchants' Internet addresses are included in this Proxy Statement/Prospectus as inactive textual references only. The information contained on Community Bank System's and Merchants' websites are not incorporated by reference in this Proxy Statement/Prospectus and should not be considered part of this document.

Community Bank System has filed a registration statement to register with the SEC the shares of Community Bank System common stock to be issued to Merchants stockholders in the Merger. This document is a part of the registration statement and constitutes a Prospectus of Community Bank System and a Proxy Statement of Merchants for its special meeting of stockholders. As allowed by SEC rules, this document does not contain all the information that stockholders can find in the registration statement or the exhibits to the registration statement. The SEC allows Community Bank System and Merchants to incorporate by reference certain information into this document, which means that Community Bank System and Merchants can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be a part of this document, except for any information which contradicts information contained directly in this document. Please see "Where You Can Find More Information" beginning on page 104 of this Proxy Statement/Prospectus to find out where you can find more information about the documents incorporated by reference.

If you wish to obtain an additional copy of this document, or any other information, without charge upon written or oral request, please see "Where You Can Find More Information" beginning on page 104 of this Proxy Statement/Prospectus to find out where you can find more information about Community Bank System and

Merchants, or contact:

**Community Bank System, Inc.**

Donna J. Drengel  
Investor Relations  
Community Bank System, Inc.  
5790 Widewaters Parkway  
DeWitt, New York 13214  
(315) 445-7313

**Merchants Bancshares, Inc.**

Geoffrey R. Hesslink  
President and Chief Executive Officer  
Merchants Bancshares, Inc.  
275 Kennedy Drive  
South Burlington, Vermont 05403  
(800) 322-5222

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**To obtain timely delivery of these documents, you must request the information no later than March 9, 2017 in order to receive them before the special meeting.**

**You should rely only on the information contained in, or incorporated by reference into, this Proxy Statement/Prospectus. No one has been authorized to give any information or make any representation about the Merger or Community Bank System or Merchants that differs from, or adds to, the information in this Proxy Statement/Prospectus or in documents that are incorporated by reference herein and publicly filed with the SEC. Therefore, if anyone does give you different or additional information, you should not rely on it. You should not assume that the information contained in this Proxy Statement/Prospectus is accurate as of any date other than the date of this Proxy Statement/Prospectus, and you should not assume that any information incorporated by reference into this document is accurate as of any date other than the date of such other document, and neither the mailing of this Proxy Statement/Prospectus to Merchants stockholders nor the issuance of Community Bank System common stock in the Merger shall create any implication to the contrary.**

**This Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this Proxy Statement/Prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction.**

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## SUMMARY

*This summary highlights selected information from this document and may not contain all of the information that is important to you. For a more complete understanding of the Merger and for a more complete description of the legal terms of the Merger, we encourage you to read this entire Proxy Statement/Prospectus and its annexes carefully, as well as the additional documents referred to in this Proxy Statement/Prospectus. See *Where You Can Find More Information* beginning on page 104 of this Proxy Statement/Prospectus.*

*The Merger Agreement is attached to this document as Annex A. Please read that document carefully. It is the legal document that governs the Merger and your rights in the Merger.*

### **Information about the Companies (Page 22)**

**Community Bank System, Inc.**

5790 Widewaters Parkway  
DeWitt, New York 13214  
(315) 445-2282

Community Bank System is a bank holding company operating Community Bank, which currently has more than 200 customer facilities and 202 ATMs in 36 counties in Upstate New York: Allegany, Broome, Cattaraugus, Cayuga, Chautauqua, Chenango, Chemung, Clinton, Delaware, Erie, Essex, Franklin, Hamilton, Herkimer, Jefferson, Lewis, Livingston, Madison, Oneida, Onondaga, Ontario, Oswego, Otsego, St. Lawrence, Saratoga, Schoharie, Schuyler, Seneca, Steuben, Tioga, Tompkins, Ulster, Warren, Washington, Wayne, and Yates, and six counties in Northern Pennsylvania: Bradford, Carbon, Lackawanna, Luzerne, Susquehanna and Wyoming. Community Bank and its subsidiaries offer a broad range of commercial banking, trust, pension administration, investment and financial services to business, individual, agricultural and government customers.

Community Bank is Community Bank System's principal operating subsidiary. At September 30, 2016, Community Bank System had on a consolidated basis approximately \$8.7 billion in total assets, \$7.1 billion in total deposits, \$4.9 billion in total loans and stockholders' equity of \$1.2 billion.

Community Bank System common stock is currently listed on the NYSE under the symbol CBU.

Community Bank System announced on December 5, 2016 that it has entered into an agreement to acquire Northeast Retirement Services, Inc. ( "NRS" ), a leading institutional provider of plan accounting, transfer agency, fund administration, trust and retirement plan services. Upon the closing of the transaction on February 3, 2017, NRS became a subsidiary of Benefit Plans Administrative Services, Inc. ( "BPAS" ), a wholly-owned subsidiary of Community Bank System. The cash and stock transaction is valued at approximately \$140 million. The foregoing transaction is referred to in this Proxy Statement/Prospectus as the "NRS acquisition."

**Merchants Bancshares, Inc.**

275 Kennedy Drive  
South Burlington, Vermont 05403  
(802) 658-3400

Merchants is a publicly-held bank holding company registered under the Bank Holding Company Act of 1956, as

amended, and is subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve Board ). Merchants is incorporated under the laws of the State of Delaware and headquartered in South Burlington, Vermont. At September 30, 2016, Merchants had total consolidated assets of approximately \$1.99 billion (including loans of approximately \$1.47 billion), deposits of approximately \$1.50 billion and stockholders equity of approximately \$158 million.

Merchants conducts substantially all of its business through its subsidiary, Merchants Bank. Merchants Bank is a Vermont-chartered nonmember stock bank organized in 1849 with 31 full-service banking offices located throughout the State of Vermont and one full-service banking office in Massachusetts. The primary business of Merchants Bank is to attract deposits from and extend loans to consumer, institutional, municipal,

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non-profit and commercial customers. Merchants also provides wealth management and trust services through the Merchants Trust Company Division of Merchants Bank.

Merchants common stock is currently listed on the NASDAQ Global Select Market under the symbol MBVT.

## **Information about the Special Meeting**

### **Date, Time and Place of the Special Meeting (Page 24)**

A special meeting of Merchants stockholders will be held on Thursday, March 23, 2017, at 10:00 a.m., Eastern time, at the DoubleTree by Hilton, 1117 Williston Road, South Burlington, Vermont 05403.

### **Actions to be Taken at the Special Meeting (Page 24)**

At the special meeting, Merchants stockholders as of February 2, 2017, the record date, will be asked to vote on a proposal to adopt the Merger Agreement, a non-binding, advisory proposal to approve the Merger-Related Executive Compensation, and if necessary, the adjournment proposal.

### **Record Date; Outstanding Shares; Shares Entitled to Vote (Page 24)**

Only holders of record of Merchants common stock at the close of business on the record date of February 2, 2017 are entitled to notice of and to vote at the special meeting. As of the record date, there were 6,898,903 shares of Merchants common stock outstanding, held of record by approximately 856 stockholders.

### **Quorum; Vote Required (Page 24)**

The presence in person or by proxy of the holders of a majority of the shares of Merchants common stock outstanding on the record date will constitute a quorum for the transaction of business at the special meeting.

The adoption of the Merger Agreement requires the affirmative vote of the holders of two-thirds of the outstanding shares of Merchants common stock entitled to vote at the special meeting of stockholders. Approval of the Merger-Related Executive Compensation proposal requires the affirmative vote of a majority of the votes cast on the proposal. Approval of the adjournment proposal, if necessary to solicit additional proxies if there are not sufficient votes to adopt the Merger Agreement, requires the affirmative vote of a majority of the votes cast on the proposal.

Broker non-votes and abstentions will have the same effect as a vote AGAINST the Merger Agreement, but they will have no effect on the Merger-Related Executive Compensation proposal or the adjournment proposal.

### **Share Ownership of Management; Voting Agreements (Page 25)**

On the record date, the directors and another principal stockholder of Merchants had voting power with respect to an aggregate of 739,146 shares of Merchants common stock, or approximately 11% of the shares of the Merchants common stock then outstanding. Each such person executed an agreement that generally commits such person to vote

all of his or her shares of Merchants common stock in favor of the Merger Agreement.

## **Recommendation of the Merchants Board of Directors (Page 24)**

Merchants board of directors has unanimously approved the Merger Agreement, and recommends a vote FOR the adoption of the Merger Agreement, FOR the approval, on an advisory basis, of the Merger-Related Executive Compensation, and FOR the adjournment proposal, if necessary.

## **Appraisal Rights (Page 58)**

Under Delaware law, Merchants stockholders who do not vote in favor of adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their Merchants common stock as determined by the Delaware Court of Chancery if the Merger is completed, but only if they submit a written demand for such an appraisal prior to the vote on adoption of the Merger Agreement and strictly comply with

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the other Delaware law procedures explained in this Proxy Statement/Prospectus. See the section entitled "Proposal 1 The Merger Appraisal or Dissenters Rights" beginning on page 58 of this Proxy Statement/Prospectus. The applicable Delaware law is reproduced in its entirety in **Annex C** to this Proxy Statement/Prospectus.

## **The Merger**

### **Structure of the Merger (Page 62)**

Merchants and Community Bank System are proposing a merger of Merchants with and into Community Bank System, with Community Bank System as the surviving company. Immediately following the Merger, the parties will merge Merchants Bank, a wholly-owned banking subsidiary of Merchants, with and into Community Bank, a wholly-owned banking subsidiary of Community Bank System, with Community Bank as the surviving entity (the Bank Merger).

The Merger Agreement is attached to this document as **Annex A**. We encourage you to read the Merger Agreement carefully and in its entirety as it is the legal document that governs the Merger and your rights in it. You are also encouraged to read the risk factors beginning on page 15.

### **Merger Consideration (Page 62)**

If the Merger proposal is approved and the Merger is subsequently completed, you may elect to receive (subject to the proration procedures described below), in exchange for each outstanding share of Merchants common stock that you own, either:

\$40.00 in cash, without interest (the cash election consideration);  
0.9630 shares of Community Bank System common stock, plus cash in lieu of fractional shares (the stock election consideration); or  
a combination of 0.6741 shares of Community Bank System common stock and \$12.00 in cash, plus cash in lieu of fractional shares (the mixed election consideration).

### **Election Procedures (Page 63)**

Community Bank System will mail separately an election form/letter of transmittal. Please read the instructions to the election form/letter of transmittal, and complete, sign and return it with your Merchants stock certificates or appropriate guarantee of delivery before the election deadline. Merchants and Community Bank System will notify you of the election deadline. If you do not make a valid election as to the form of merger consideration before the election deadline, all of your shares of Merchants common stock will be converted into the right to receive the mixed election consideration.

### **Proration Procedures (Page 63)**

The merger consideration to be paid to Merchants stockholders is subject to allocation procedures that are designed to ensure that the total amount of cash paid, and the total number of shares of Community Bank System common stock issued in the Merger, as a whole, will equal as nearly as practicable the total amount of cash and number of shares that would have been paid and issued if all of the Merchants stockholders received the mixed election consideration.

Whether you receive the amount of cash and/or stock you request in your election form will depend in part on the elections of other Merchants stockholders. You may not receive the form of consideration that you elect in the Merger, and you may instead receive a pro-rata amount of cash and/or Community Bank System common stock.

The greater the oversubscription of the stock election, the less stock and more cash a Merchants stockholder making the stock election will receive. Reciprocally, the greater the oversubscription of the cash election, the less cash and more stock a Merchants stockholder making the cash election will receive. However, in no event will a Merchants stockholder who makes the cash election or the stock election receive less cash and more shares of Community Bank System common stock, or fewer shares of Community Bank System common stock and more cash, respectively, than a stockholder who makes the mixed election.

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For additional detail and for illustrative examples, see The Merger Agreement Election and Proration Procedures beginning on page 63 of this Proxy Statement/Prospectus.

### **Treatment of Merchants Equity Awards and Warrants (Page 67)**

At the effective time of the Merger, each option granted under Merchants equity plans outstanding and unexercised, whether or not then vested or exercisable, will be cancelled and converted into the right to receive a cash payment in an amount equal to the product of the number of shares of Merchants common stock underlying the option and the excess of the value of the mixed election consideration over the exercise price of the option.

At the effective time of the Merger, each restricted stock award granted under Merchants equity plans will automatically vest in full, and any restrictions thereon will lapse, and such stock will be cancelled and converted into the right to receive a cash payment equal to the value of the mixed election consideration, plus all dividends, if any, accrued but unpaid as of the effective time of the Merger with respect to such restricted share.

At the effective time of the Merger, each organizers warrant will be converted into a warrant to acquire, upon payment of the amount determined by dividing the per share exercise price immediately prior to the effective time by the stock election consideration of 0.9630, the number of shares of Community Bank System common stock determined by *multiplying* (i) the number of shares of Merchants common stock which may be acquired upon exercise of such organizers warrant immediately prior to the effective time by (ii) the stock election consideration of 0.9630.

At the effective time of the Merger, each 2013 warrant will be converted into the right to receive, at the holder's election, either (i) a cash payment in cancellation of such 2013 warrant equal to the number of shares of Merchants common stock which may be acquired upon exercise of such 2013 warrant *multiplied by* the excess, if any, of the cash election consideration of \$40.00 over the per share 2013 warrant exercise price immediately prior to the effective time or (ii) a replacement 2013 warrant certificate issued by Community Bank System representing the right to acquire prior to the expiration date of the original 2013 warrant, upon payment of the amount determined by dividing the per share exercise price immediately prior to the effective time by the stock election consideration of 0.9630, that number of shares of Community Bank System common stock equal to the number of shares of Merchants common stock which may be acquired upon exercise of such 2013 warrant immediately prior to the effective time *multiplied by* the stock election consideration of 0.9630.

### **Opinion of Merchants Financial Advisor (Page 38)**

In connection with the Merger, Merchants financial advisor, Piper Jaffray & Co. ( Piper ), delivered a written opinion to the Merchants board of directors, dated October 22, 2016, that, as of such date, and based upon and subject to the various factors, assumptions and limitations set forth in its opinion, the consideration offered in the Merger was fair, from a financial point of view, to the holders of Merchants common stock. The full text of Piper's written opinion dated October 22, 2016, which sets forth, among other things, the procedures followed, assumptions made, matters considered and qualifications and limitations on the scope of review undertaken in rendering its opinion, is attached as **Annex B** to this Proxy Statement/Prospectus and is incorporated herein by reference. **Piper's opinion was addressed to, and provided for the information and benefit of, the Merchants board of directors (in its capacity as such) in connection with its evaluation of the fairness of the merger consideration from a financial point of view, and did not address any other aspects or implications of the Merger. The opinion does not constitute a recommendation to the Merchants board of directors or to any other persons in respect of the Merger, including as to how any holder of Merchants common stock should vote at any stockholders meeting held in connection with the Merger or take, or not to take, any action in respect of the Merger. Piper's opinion does not**

**address the relative merits of the Merger as compared to any other business or financial strategies that might be available to Merchants, nor does it address the underlying business decision of Merchants to engage in the Merger.**

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TABLE OF CONTENTS**Share Information and Market Price (Page 90)**

Community Bank System common stock is traded on the NYSE under the symbol CBU. Merchants common stock is traded on the NASDAQ Global Select Market under the symbol MBVT. The following table shows the closing or last sale prices of Community Bank System common stock and Merchants common stock on October 21, 2016 and February 2, 2017. October 21, 2016 is the last full trading day prior to the announcement of the signing of the Merger Agreement. February 2, 2017 was the last practicable trading day for which information was available prior to the date of this document. The equivalent price per share of Merchants common stock is determined by multiplying the closing price of Community Bank System common stock by the 0.6741 mixed stock consideration and adding \$12.00 to such amount.

	Community Bank System	Merchants	Equivalent Market Value Per Share
	Historical	Historical	
Closing Sale Prices Per Share on:			
October 21, 2016	\$ 47.50	\$ 32.85	\$ 44.02
February 2, 2017	\$ 57.67	\$ 50.40	\$ 50.88

The market prices of both Community Bank System common stock and Merchants common stock will fluctuate before the Merger. Merchants and Community Bank System encourage you to obtain current market prices.

**Required Regulatory Approvals (Page 57)**

Community Bank System must make filings with or obtain approvals from certain regulatory authorities to effect the Merger. In addition, before Merchants and Community Bank System can complete the Merger, they will make all filings and obtain all regulatory approvals required for the merger of their banking subsidiaries, Community Bank and Merchants Bank. These include the approvals of the Federal Reserve Board and the Office of the Comptroller of the Currency (the OCC). In addition, Community Bank System must apply to list the common stock to be issued in the Merger on the NYSE.

**Limitations on Considering Other Acquisition Proposals (Page 73)**