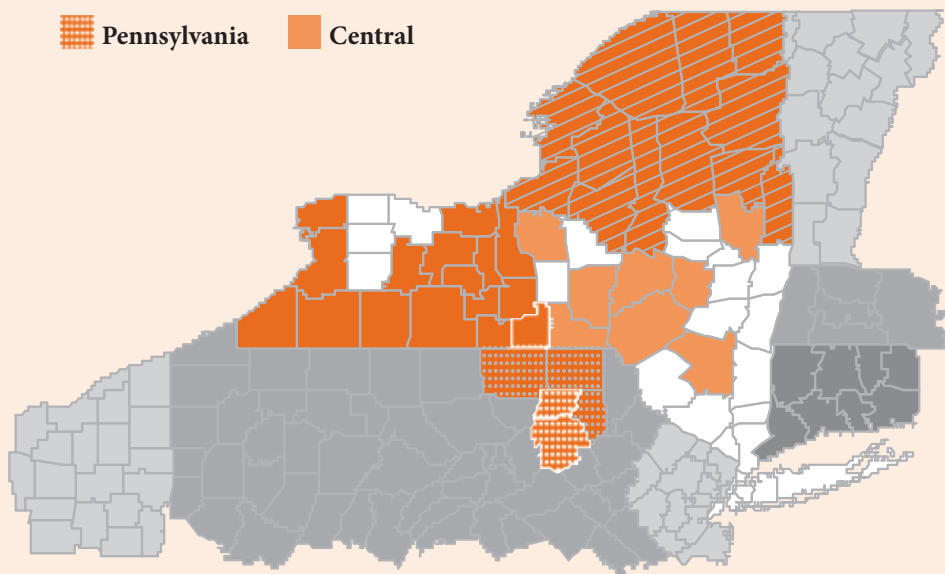




Community Bank System, Inc.

 Northern
  Southern  
 Pennsylvania
  Central



Region	Northern	Southern	Central	Pennsylvania
Counties	12	16	8	5
Branch Locations	52	69	22	27
Deposits (in Billions)	\$1.6	\$1.6	\$0.8	\$0.8

Our operations are located primarily in the smaller non-urban markets of Upstate New York and Northeastern Pennsylvania, where we rank first or second in deposit market share in over 70% of the communities where we have retail locations. Our retail banking business operates in stable markets which have not been subjected to the volatility currently impacting the housing and mortgage lending industries.

Community Bank System, Inc.

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All the right pieces



Community Bank System, Inc.

2011 THIRD QUARTER REPORT

## Dear Shareholders, Customers and Employees:

During the third quarter of 2011, we sustained the strong operating results and metrics we reported to you in the first and second quarters, once again achieving record earnings. Our results reflect continued organic and acquired balance sheet growth, non-banking revenue growth, operating expense control, superior asset quality and the accretive impact of the Wilber acquisition.

Our net income for the quarter increased 15.9% over the prior year third quarter to \$20.0 million, which included \$0.4 million in acquisition expenses related to the Company's purchase of The Wilber Corporation. Diluted earnings per share were up 8% over the prior year third quarter and 12% over year-to-date 2010 earnings, exclusive of acquisition related expenses.

Our third quarter total revenue was up more than 12.0% over the third quarter of last year to \$77.8 million. Net interest income for the quarter grew to \$54.6 million, an increase of 17.8% above the third quarter of 2010, as a result of an \$867 million increase in average interest-earning assets (primarily related to the Wilber acquisition), offset somewhat by a slightly lower net interest margin. Non-interest income was \$23.2 million for the quarter, up 1.3% from the third quarter of 2010. Our quarterly operating expenses of \$47.7 million, excluding acquisition expenses, were 7.7% higher than the same quarter last year, reflective of the Wilber additions.

Average deposits were \$839.8 million above third quarter of 2010 and 2.5% above the second quarter of 2011. Total deposits for the quarter are up more than \$872 million over the comparable quarter in 2010 to \$4.8 billion, with core deposits experiencing double-digit growth, primarily in low-cost and revenue-generating demand and savings products.

The current difficult economic climate has proven trying for many companies, especially banks, and many of our peers continue to find this operating environment challenging. Our Company has been able to deliver consistent results, in large part due to our exceptional asset quality, which reflects our disciplined and balanced approach to growth.

Our provision for loan losses of \$1.0 million was \$0.4 million lower than the third quarter 2010. In addition, our third quarter net charge-offs were \$1.1 million, or 0.13% of average loans, compared to net charge-offs of \$0.7 million in the previous quarter and \$1.4 million in the third quarter 2010. Nonperforming loans to total loans at September 30, 2011 decreased to 0.54%. These metrics are a significant operating strength of our Company and noticeably superior to our peer and industry averages.

We remain very pleased with the results of our acquisition of the Wilber Corporation, which closed in the second quarter. We believe that the integration of the Wilber National Bank branches was a seamless process reflected in the retention of the important customer relationships acquired in the transaction. These branches

continue to perform at a high level as we have seen deposits, consumer mortgages and trust assets, related to these branch locations, increase meaningfully. The acquisition was accretive to second and third quarter earnings and we expect that it will continue to be additive to earnings and our dividend capacity into the future. We believe that Wilber is a good illustration of the strength of our acquisition strategy and our preference for pursuing quality institutions with cultural and market similarities.

We also recently announced that we've entered into a definitive agreement to acquire CAI Benefits, Inc. (CAI) through our subsidiary, Benefit Plans Administrative Services, Inc. (BPAS). The addition of CAI, a provider of actuarial consulting and retirement plan administration services, provides the appropriate platform to strengthen our participation in a strategically important market by adding offices in New York City and Northern New Jersey. We expect the transaction to close by the end of the year pushing BPAS' expected revenue above \$36 million in 2012.

Our quarter-end shareholders' equity grew to \$755.6 million, or \$139.8 million higher than the prior year, and tangible book value per share grew to \$11.37. The Company's net tangible equity to net tangible assets ratio improved to 6.79% at quarter-end, up 58-basis points over the third quarter of 2010.

With our continued strong performance through the first three quarters, our Board of Directors approved another quarterly cash dividend of \$0.26 per share, payable on January 10, 2012 to shareholders of record as of December 15, 2011. This represents a two-cent, or 8.3% improvement over the same period of 2010, and is our 19th consecutive annual increase, and reflects the Company's ongoing commitment to the payment of a meaningful dividend as an important component of providing consistent and favorable long-term returns to our shareholders.

Our ability to set new "high-water" earnings marks for the Company through the past three quarters is gratifying and demonstrates the wisdom of a disciplined and balanced approach to business regardless of market conditions. Community Bank System remains in a very good place with earnings, capital levels, liquidity, credit quality, and dividend strength and safety among the best in the banking industry. We are well positioned to continue pursuing the types of organic and acquired growth opportunities which are necessary to strengthen our franchise and build value for our shareholders. We look forward to reporting on our progress at the end of the fourth quarter and fiscal 2011.

Sincerely,



Mark E. Tryniski  
President and Chief Executive Officer

## Financial Highlights

Income Statement Data (in thousands)	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Net interest income	\$ 54,568	\$ 46,324	17.8%	\$154,278	\$135,551	13.8%
Noninterest income	23,216	22,914	1.3%	66,823	67,009	(0.3%)
Provision for loan losses	1,043	1,400	(25.5%)	3,143	5,270	(40.4%)
Acquisition expenses & special charges	381	57	NM	4,689	256	NM
Operating expenses	47,712	44,295	7.7%	137,846	132,509	4.0%
Net income	\$ 20,008	\$ 17,262	15.9%	\$ 54,154	\$ 47,426	14.2%
Diluted weighted average shares outstanding	37,312	33,606	11.0%	36,112	33,477	7.9%
Common Per Share Data						
Net income – diluted	\$ 0.54	\$ 0.51	5.9%	\$ 1.50	\$ 1.42	5.6%
Cash dividend declared	0.26	0.24	8.3%	0.74	0.70	5.7%
Period-end book value-stated	20.52	18.57	10.5%			
Period-end book value-tangible	\$ 11.37	\$ 9.74	16.7%			
Balance Sheet Data (in millions)						
Total assets	\$ 6,504	\$ 5,496	18.3%			
Loans	3,477	3,080	12.9%			
Deposits	4,839	3,966	22.0%			
Shareholders' equity	756	616	22.7%			

NM = not meaningful

## Stock Performance

This table shows the high, low and closing price for CBU's common stock in recent quarters.

Quarter Ending	Trade Price		Closing Price	Volume
	High	Low		
9/30/11	25.84	21.67	22.69	17,930,118
6/30/11	25.12	22.78	24.79	11,354,822
3/30/11	28.45	23.02	24.27	10,291,395
12/31/10	28.95	22.12	27.77	10,403,929
9/30/10	25.93	21.52	23.01	11,599,590

## Investor Materials

Annual and quarterly shareholder reports, regulatory filings, press releases, and articles about the corporation which have appeared in various publications are generally available in the "Investor Relations" section of our website, [www.communitybankna.com](http://www.communitybankna.com), or may be obtained from Ms. Josephine Rurka by calling (315) 445-7300 or via e-mail at [josie.rurka@communitybankna.com](mailto:josie.rurka@communitybankna.com).

## Dividend Reinvestment and Stock Purchase Plan

The corporation offers its shareholders a convenient and economical plan to increase their investment in Community Bank System, Inc. common stock. This plan provides a method of investing cash dividends and voluntary cash payments in additional shares of common stock without payment of brokerage commissions or service charges.

Individuals who wish to purchase CBU stock for the first time may also participate in this plan. For additional information about the plan and a prospectus, please contact either:

American Stock Transfer & Trust Company  
Operations Center  
6201 15th Avenue, Brooklyn, NY 11219  
[www.amstock.com](http://www.amstock.com)  
Reinvestment questions: (800) 278-4353  
General questions: (800) 937-5449  
or  
Community Bank System, Inc.  
Ms. Donna Drengel  
Shareholder Relations Department  
(315) 445-7313  
[donna.drengel@communitybankna.com](mailto:donna.drengel@communitybankna.com)