

Wilber Branch Offices

Community Bank added 22 new bank branches and expanded into seven additional New York counties through its acquisition of The Wilber Corporation in April 2011.

Banking Locations

Otsego County

Oneonta Main Office
245 Main Street
Oneonta, NY 13820
607-432-1700
1-800-374-7980

Oneonta Plains Office
434 Chestnut Street
Oneonta, NY 13820
607-432-6610

FoxCare Center Office
2 FoxCare Drive
Oneonta, NY 13820
607-432-6910

Southside Mall Office
5066 State Highway 23
Oneonta, NY 13820
607-432-2343

Milford Office
101 East Main Street
Milford, NY 13807
607-286-3361

Schenevus Office
101 Main Street
Schenevus, NY 12155
607-638-5821

Otego Office
304 Main Street
Otego, NY 13825
607-988-2521

Morris Office
132 Main Street
Morris, NY 13808
607-263-5146

Cooperstown Office
62 Main Street
Cooperstown, NY 13326
607-547-9941

Otsego Office

5378 State Highway 28
Cooperstown, NY 13326
607-547-7222

Delaware County

Sidney Office
19 Union Street
Sidney, NY 13838
607-563-7770

Downsville Office
15299 State Highway 30
Downsville, NY 13755
607-363-7211

Delhi Office
85 Sherwood Road
Delhi, NY 13753
607-746-2162

Fleishmanns Office
1084 Main Street
Fleishmanns, NY 12430
845-254-5252

Walton Office
124 Delaware Street
Walton, NY 13856
607-865-6555

Chenango County

Norwich Town Office
4837 State Highway 23
Norwich, NY 13815
607-336-7344

Norwich City Office
18 S. Broad Street
Norwich, NY 13815
607-334-2277

Broome County

Johnson City Office
23 Riverside Drive
Johnson City, NY 13790
607-644-1270

Onondaga County

Cicero Office
5966-5968 State Route 31
Cicero, NY 13039
315-288-2015

Saratoga County

Clifton Park Office
1685 NYS Route 9
Clifton Park, NY 12065
518-373-7080

Schoharie County

Cobleskill Office
750 East Main Street
Suite 1
Cobleskill, NY 12043
518-234-2535

Ulster County

Boiceville Office
4141 State Highway 28
Boiceville, NY 12412
845-657-8733

Financial Services Center

Malta
2 Bayberry Drive
Malta, NY 12020
518-373-0212

Community Bank System, Inc.

5790 Widewaters Parkway
DeWitt, NY 13214-1883

800.724.2262

fax 315.445.7347

Communitybankna.com



All the right pieces



Community Bank System, Inc.

2011 SECOND QUARTER REPORT

Dear Shareholders, Customers and Employees:

I am pleased to once again be reporting exceptional results for the second quarter of 2011. Mirroring our first quarter success, we saw record operating results and a continuation of our strong operating metrics.

As I have previously mentioned, we completed our acquisition of The Wilber Corporation, parent company of Wilber National Bank in Oneonta, NY, during the first week of April. This strategic acquisition, which was one of our most seamless integrations to date, has enabled us to expand our presence in Upstate New York by adding 22 branches in the Eastern Upstate region as well as over \$770 million in deposits, over \$300 million in trust assets, and approximately \$464 million in net loans.

We are gratified by the positive response of the Wilber National customers as illustrated by the deposit and loan balances which remain within 1% of the acquisition balances. Now our focus has changed to playing offense and building on the strong market presence and reputation we enjoy in those markets. As expected, the transaction was immediately accretive to earnings, and we expect that this will continue into the second half of 2011 and beyond.

Our net income for the quarter increased 11.3% to \$18.0 million, which included \$3.6 million in acquisition expenses related to the Wilber transaction. Excluding acquisition expenses and special charges, earnings per share were up 16.7% over the prior year to \$0.56, a second quarter record. The increase in earnings per share this quarter was driven by balance sheet growth, both organic and acquired, margin improvement, non-interest revenue growth, strong asset quality, and control over operating expenses.

Total revenue for the first quarter was \$76.9 million, up \$8.6 million, or 12.6%, over the prior year second quarter. The higher revenue, compared with second quarter 2010, reflected a 16.2% increase in average earning assets, principally from the Wilber acquisition, a three basis point improvement in the Company's net interest margin, and a reduction in the provision for loan losses.

In the current economic environment, it would be difficult to overstate the importance of our ability to deliver consistently superior asset quality in relation to our peers. Our second quarter net charge-offs were \$0.7 million, or 0.08% of average loans, an improvement over net charge-offs of \$1.4 million in the previous quarter and \$1.5 million in the second quarter 2010. In addition, our percentage of nonperforming loans to total loans at June 30, 2011, was 0.58%, noticeably better than peer and industry averages and a significant operating strength.

Our second quarter net interest income grew to \$54.2 million, an increase of 17.9% above second quarter 2010 as a result of increased interest-earning assets and a higher net interest margin. As I mentioned above, the increase in interest-earning assets was primarily a result of our Wilber National Bank acquisition. Non-interest income was \$22.8 million for the quarter, up 1.7% from the second quarter of last year. Our quarterly operating expenses of \$47.5 million (excluding acquisition expenses) were 7.9% higher than the same quarter last year and reflective of the additional Wilber locations.

Average deposits of \$4.68 billion were \$704 million above first quarter of 2011 and 17.9% above the second quarter 2010. Total deposits for the quarter are up more than \$800 million over the similar quarter 2010 to \$4.8 billion. The April closing of the Wilber transaction added approximately \$770 million in new deposits and maintained our stable and favorable deposit mix, with core deposits making up 75% of total deposits.

Our quarter-end shareholders' equity grew to \$730.1 million and tangible book value per share grew to \$10.59, up 15.1% from second quarter 2010. The Company's net tangible equity to net tangible assets ratio improved to 6.44% at quarter-end, up 52 basis points over the second quarter of 2010.

Our Company's primary objective has been and remains to deliver exceptional returns to our shareholders, and we take pride in the fact that we've been able to achieve that goal throughout the credit crisis and economic recession. As such, our Board of Directors has approved a \$0.02, or 8.3%, increase in our quarterly cash dividend, to \$0.26 per share. Importantly, this increase represents the 19th consecutive annual increase to the Community Bank System dividend.

Our balanced approach to business has us solidly positioned to respond to future growth opportunities, and to continue delivering exceptional returns to our investors. We are in a very strong operating position with earnings momentum at record levels and top-tier asset quality. In addition, we have tremendous liquidity as well as strong capital and we're poised to build on these strengths.

We're grateful for the continued strong support of our shareholders and we look forward to reporting our progress to you again at the end of the third quarter.

Sincerely,



Mark E. Tryniski
President and Chief Executive Officer

Financial Highlights

Income Statement Data (in thousands)	Three Months Ended			Six Months Ended		
	6/30/11	6/30/10	% Change	6/30/11	6/30/10	% Change
Net interest income	\$ 54,187	\$ 45,945	17.9%	\$ 99,710	\$ 89,227	11.8%
Noninterest income	22,765	22,378	1.7%	43,607	44,095	-1.1%
Acquisition expenses & special charges	3,617	199	NM	4,308	199	NM
Operating expenses	47,509	44,021	7.9%	90,134	88,214	2.2%
Net income	\$ 17,986	\$ 16,162	11.3%	\$ 34,146	\$ 30,164	13.2%
Diluted weighted average shares outstanding	37,061	33,570	10.4%	71,050	66,897	6.2%
Common Per Share Data						
Net income – diluted	\$ 0.49	\$ 0.48	2.1%	\$ 0.96	\$ 0.90	6.7%
Cash dividend declared	0.24	0.24	0.0%	0.48	0.46	4.2%
Period-end book value-stated	19.84	18.10	9.6%			
Period-end book value-tangible	\$ 10.59	\$ 9.20	15.1%			
Balance Sheet Data (end of period, in millions)						
Total assets	\$ 6,391	\$ 5,448	16.0%			
Loans	3,478	3,091	12.5%			
Core (non-time) deposits	3,571	2,917	22.4%			
Shareholders' equity	730	600	21.7%			

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		
6/30/11	25.12	22.78	24.79	11,354,822
3/31/11	28.45	23.02	24.27	10,295,200
12/31/10	28.95	22.12	27.77	10,392,800
9/30/10	25.93	21.52	23.01	11,594,200
6/30/10	26.49	21.33	22.03	12,598,000

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, or may be obtained from Ms. Josephine Rurka by calling (315) 445-7300 or via e-mail at 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
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