

## 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

*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 FIRST QUARTER REPORT

## Dear Shareholders, Customers and Employees:

I'm pleased to once again report very solid results for our first quarter, as we continued to build upon a successful 2010. Our strong operating results reflect our disciplined operating model, along with our focus on both sides of our balance sheet, as well as the top and bottom of our income statement.

In an operating environment that continues to challenge many of our peers, we grew net interest income, improved our net interest margin, generated organic core deposit growth, effectively managed our operating costs, and delivered another quarter of sound asset quality. Simply stated, we have established a very good trajectory for moving forward.

Our net income for the quarter increased 15.4% to \$16.2 million, and earnings per share were up 14.3% over the prior year to \$0.48, a record for the Company's first quarter. Total revenue for the first quarter was \$66.4 million, up \$1.4 million over the prior year first quarter. The higher revenue, compared with first quarter 2010, reflected an increase in average earning assets and a 15-basis point improvement in the Company's net interest margin, along with a reduction in the provision for loan losses.

Our bottom line continues to benefit from the Company's ongoing focus on cost management, as evidenced by our first quarter operating expenses of \$42.6 million (excluding acquisition expenses), which were \$1.6 million, or 3.5%, lower than the first quarter of 2010.

Prudent credit management has been, and will continue to be, a foundational strength of our Company. Importantly, we delivered another quarter of excellent asset quality, reflecting the soundness of our loan portfolios. Net charge-offs for the quarter were \$1.4 million, or 0.19% of average loans, down from \$1.6 million, or 0.22% of average loans in first quarter 2010. The Bank's full range of asset quality metrics remain significantly better than industry averages.

First quarter net interest income grew to \$45.5 million, an increase of 5.2% above first quarter 2010, resulting from an increase in interest-earning assets and a higher net interest margin. Low market interest rates and continued disciplined deposit pricing resulted in a 25-basis point reduction in the total cost of funds, compared to the first quarter of 2010. This was partially offset by an 11-basis point decline in earning asset yields, including cash equivalents, reflective of lower, but generally stable securities returns and lower loan yields.

Non-interest income was \$20.8 million for the quarter, down 4.0% from the first quarter of last year, reflecting a decline in mortgage-banking related revenues, as well as lower customer utilization of certain fee-based deposit services. Our employee benefits administration and consulting businesses and wealth management groups generated combined revenue results that were consistent with the first quarter of 2010.

Total deposits were \$4.0 billion at quarter end, up nearly 1.0% in comparison to the first quarter of 2010, and reflective of our targeted trend of a higher proportion of core (non-time) deposit balances.

Our quarter-end shareholders' equity of \$624.1 million was \$45.7 million, or 8.0%, higher than March 31, 2010, and tangible book value per share grew to \$10.01, an increase of 17.6% compared to the prior year quarter. The Company's net tangible equity to net tangible assets ratio improved to 6.36% at quarter-end, up 93 basis points from the end of last year's first quarter.

We completed our acquisition of The Wilber Corporation, parent company of the Wilber National Bank in Oneonta, NY, on April 8th. Wilber is an exceptionally good fit with our strategy and our existing retail footprint, and we're excited by our growth potential in these markets.

Our ability to produce solid financial results in various market conditions substantiates the value of our disciplined and balanced approach to business. Community Bank System has never been stronger, with earnings, capital levels, liquidity, credit quality, and dividend strength and safety among the best in the banking industry. This was illustrated by our being recognized as the "7th best bank" among America's 100 largest financial institutions in an industry analysis that appeared in *Forbes.com* in January 2010, and again in January 2011.

We greatly appreciate the ongoing support of all of our stakeholders, and we look forward to updating you on our progress again at the end of the second quarter.

Sincerely,



Mark E. Tryniski  
President and Chief Executive Officer

## Financial Highlights

Income Statement Data (in thousands)	Three Months Ended		
	3/31/11	3/31/10	% Change from
Net interest income	\$ 45,523	\$ 43,282	5.2%
Noninterest income	20,842	21,717	-4.0%
Operating expenses	43,316	44,193	-2.0%
Net income	\$ 16,160	\$ 14,002	15.4%
Diluted weighted average shares outstanding	33,989	33,327	2.0%
Common Per Share Data			
Net income – diluted	\$ 0.48	\$ 0.42	14.3%
Cash dividend declared	0.24	0.22	9.1%
Period-end book value-stated	18.67	17.48	6.8%
Period-end book value-tangible	\$ 10.01	\$ 8.51	17.6%
Balance Sheet Data (end of period, in millions)			
Total assets	\$ 5,549	\$ 5,486	1.1%
Loans	3,000	3,063	-2.1%
Core (non-time) deposits	3,116	2,891	7.8%
Shareholders' equity	\$ 624	\$ 578	8.0%

## 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		
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
3/31/10	24.25	17.81	22.78	12,018,400

## 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  
59 Maiden Lane, New York, NY 10038  
[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)