

All the right pieces



Community Bank System, Inc.

2010 ANNUAL REPORT

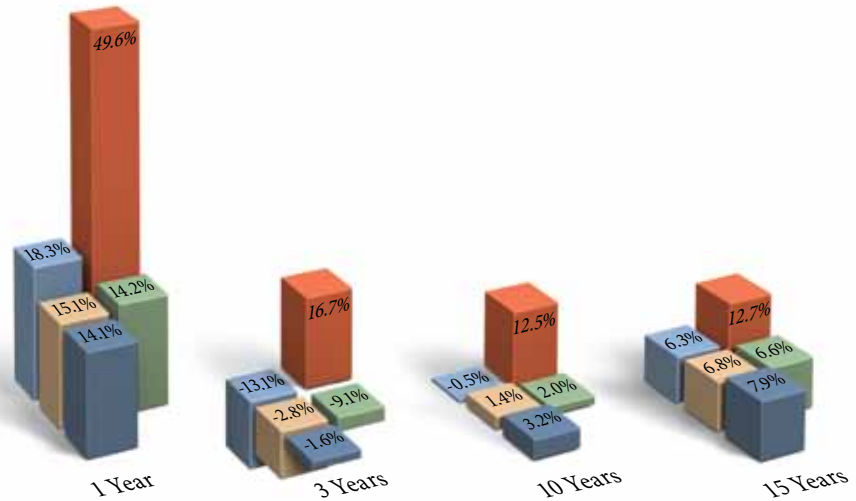
Focused Value Creation

Total Shareholder Return

Through December 31, 2010,
Including Reinvestment of Dividends

- CBU
- S&P 600 Commercial Banks
- NASDAQ Bank
- S&P 500
- Dow Jones Ind. Ave.

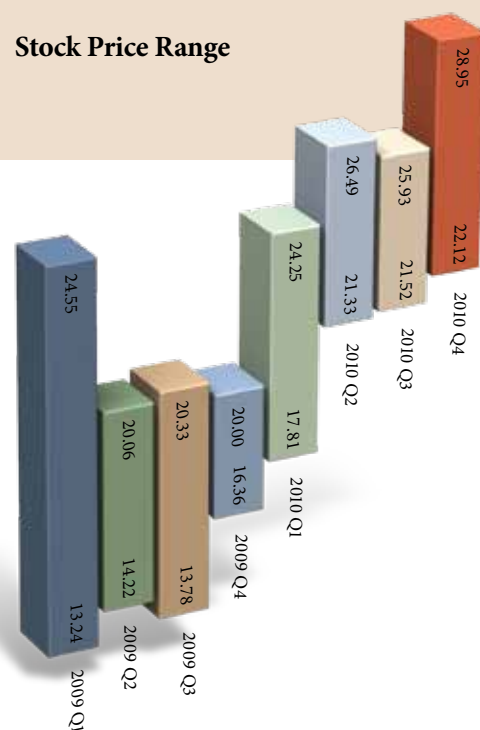
Source: Bloomberg



Investment Considerations

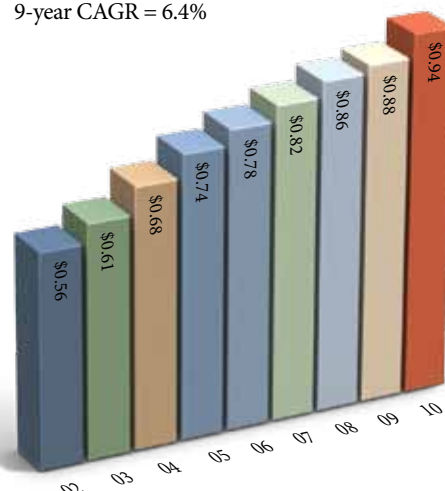
- Disciplined approach to revenue and profitability growth
- Successful and effective operating strategy
- Excellent asset quality
- Dominant market share – 1st or 2nd in more than 74% of our markets
- Substantial noninterest income – 32.8% of operating revenues in 2010
- Diversified financial services businesses with \$39.4 million in 2010 revenues
- Record of successful and accretive acquisitions
- Meaningful dividend and yield
- Effective capital management strategies
- Chose not to participate in TARP
- NYSE listed with significant liquidity

Stock Price Range



Dividends Declared

9-year CAGR = 6.4%





Community Bank continues to grow with a new branch banking center in Orchard Park, NY (shown here), scheduled to open in April 2011.

2010 Highlights

- Net income increased by 52.8% to \$63.3 million
- Total revenue was \$270.5 million, up \$21.4 million, or 8.6%, from 2009
- Successful implementation of expense management programs provided a year-over-year reduction in total operating expenses
- At year end, nonperforming loans/total loans were 0.61%, nonperforming assets/total assets were 0.38%, and full year 2010 net charge-offs totaled 0.21% of average loans. These exceptional asset quality metrics remain significantly better than peer or industry averages
- Entered a definitive agreement to acquire The Wilber Corporation providing entry into adjoining markets that substantially expands our presence in the eastern half of Upstate New York
- The Company's Board approved a \$0.02, or 9.1%, increase in the company's quarterly cash dividend on its common stock, reflecting the Board's commitment to provide consistent and favorable long-term returns to our shareholders
- For the second consecutive year, CBU appeared on the *Forbes Magazine* list of best and worst large banks – ranking 7th best

We combined revenue growth, operating expense control, and continued excellent asset quality to drive stronger operating results in 2010. In addition, we entered into a definitive agreement to acquire The Wilber Corporation, providing entry into adjoining markets that substantially expands our presence in the eastern half of Upstate New York.

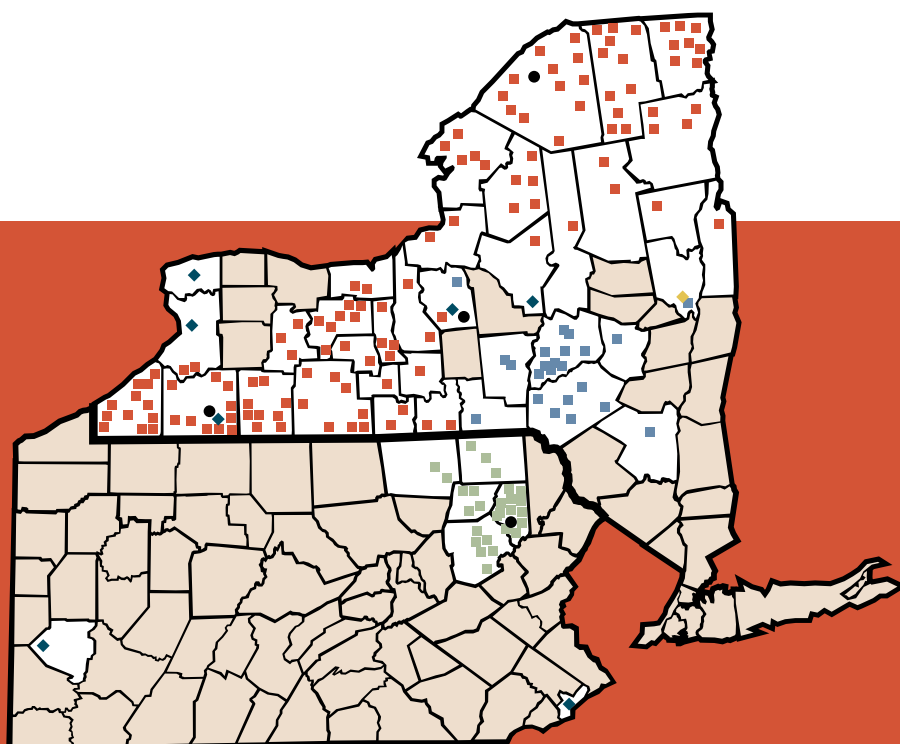
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Business Brief

Community Bank's Expanding Footprint

- Administrative/Operations Centers
- Community Bank, N.A. Branches
- First Liberty Bank & Trust Branches
- Wilber National Bank Branches
- ◆ WNB Loan Production Centers
- ◆ Financial Services Centers



Region	Northern	Southern	Central	Pennsylvania
Counties	13	16	6	5
Branch Locations	52	69	22	27
Towns (1st or 2nd Market Share)	36	40	17	13
Deposits (in Billions)	\$1.6	\$1.5	\$0.7	\$0.8

Wilber Acquisition Summary

- Offers significant size in new markets
- Market extension into an adjacent region with similar demographic profile
- Wilber currently has number one deposit market share in the Oneonta MSA
- Markets similar to areas where CBU has historically performed well
- Market growth potential associated with the Marcellus Shale formation
- Network provides an attractive platform for CBU's product suite
- Makes CBU a \$6.3 billion institution, operating in nearly every market in Upstate New York
- Transaction expected to be 2%-4% accretive to EPS in 2011 and 2012 (excl. one-time costs)
- Projected internal rate of return of approximately 12% on transaction
- \$870 million in total assets
- 22 branch locations in 8 counties in Central New York State

Retail Banking

Community Bank, N.A.

- A wholly-owned subsidiary of Community Bank System, Inc.
- \$5.4 billion in assets
- More than 150 customer facilities across Upstate New York and Northern Pennsylvania
- Operates as First Liberty Bank in PA, with branch locations in Lackawanna, Luzerne, Bradford, Susquehanna, and Wyoming counties
- Wilber Corporation acquisition will add 7 new counties to CBU's service area: Broome, Chenango, Delaware, Otsego, Saratoga, Schoharie, and Ulster



Benefits & Trust Administration / Consulting / Actuarial

Benefit Plans Administrative Services, Inc.

- Based in Utica, NY, with primary offices in Syracuse, NY; Pittsburgh and Philadelphia, PA; and Houston, TX.
- Provides administrative, actuarial, and consulting services to a diverse array of clients throughout the United States and Puerto Rico
- Continuous development of product and skill set in response to marketplace needs and regulatory changes
- Services more than 2,000 retirement plans and 200,000 plan participants in total, through partnerships with more than 160 financial intermediaries nationwide

Defined Contribution Plans

- 1,700 plans supported
- 270,000 total employees tracked
- 164,000 participants with a balance
- \$4.0 billion in plan assets

Defined Benefit Plans

- 400 plans supported
- 40,000 plan participants

Institutional Trust Services

- 125 collective fund CUSIPs
- \$5.4 billion under administration

Flexible Benefit Plans

- 575 plans supported
- 16,300 plan participants



Trust / Investments / Asset Management / Insurance

CBNA Insurance

- A full service auto, home, business, and life insurance agency
- Offices in Tupper Lake, Plattsburgh, Heuvelton, and Malone, NY
- Founded in 1974 to serve the North Country of New York State

Community Investment Services, Inc. (CISI)

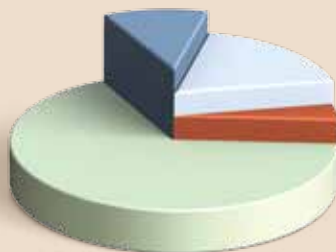
- A broker-dealer delivering financial products, including mutual funds, annuities, individual stocks and bonds, long-term health care, and other selected insurance products
- Services are custom tailored for each client
- Operates from various locations within the Community Bank and First Liberty branch system
- In PA, does business under the name of First Liberty Investment Services

Total revenue grew by 8.6% in 2010

Total Revenue Composition

2010 Total Revenue = \$270.5 Million

• Net Interest Income	67%
• Banking Services	18%
• Benefit Plan Services	11%
• Wealth Management Services	4%



Nottingham Advisors

- Headquartered in Buffalo, NY, with a satellite office in North Palm Beach, FL
- An SEC-registered investment advisory firm with more than 25 years of experience managing assets for private investors and institutions
- Areas of expertise include equities, fixed income and alternative investments

Personal Trust Services

- Personal trust, estate, and investment management services
- Operates from various locations within the Community Bank and First Liberty branch system

Dear Shareholders, Customers and Employees:

2010 was a successful and important year for Community Bank System, Inc. (CBU) in many respects. The discipline we endeavor to bring to our operating model and decision-making continues to build our financial strength and performance. Our earnings, capital levels, liquidity, credit quality, and dividend capacity continue to be among the best in the entire banking industry. This is illustrated by our ranking as the “7th best bank” among America’s 100 largest financial institutions, for the second straight year. The ranking appeared on Forbes.com and was based on an analysis of eight financial metrics, which was compiled by the industry research firm SNL Financial.

This outcome has not been the result of chance, but of a disciplined focus, across our history, on serving our customers and our communities, investing in accretive growth opportunities (both organic and acquired), prudent credit management, and careful allocation of our shareholders’ capital. The best measure of these efforts is reflected in “total return to shareholders”, which includes share appreciation and reinvested dividends over time. The table below outlines the total return of CBU shares compared to the general equity and industry-specific indices over a number of time horizons.

Total Shareholder Return

Through December 31, 2010, Including Reinvestment of Dividends

	1 Year	3 Years	10 Years	15 Years
CBU	49.6%	16.7%	12.5%	12.7%
S&P 600 Commercial Banks	18.3%	(13.1%)	(0.5%)	6.3%
NASDAQ Bank	14.2%	(9.1%)	2.0%	6.6%
S&P 500	15.1%	(2.8%)	1.4%	6.8%
Dow Jones Ind. Ave.	14.1%	(1.6%)	3.2%	7.9%

Source: Bloomberg

The strength of CBU’s performance and returns to shareholders across multiple business and economic cycles and investing horizons reflects the value of our simple, yet disciplined, operating model. This strategy includes developing a market-leading branch system serving predominantly non-urban markets, with a decentralized decision-making approach. Our customer focus targets the development of longer-term core account relationships. We have diversified our revenue stream by investing in financial services businesses that generate significant non-interest revenue. And, our model leverages both organic and acquired growth opportunities. We remain exceptionally well-positioned to continue this record of historical performance.

Community Bank System, Inc. reported record earnings results in 2010. Earnings per share rose 50%, from \$1.26 in 2009 to \$1.89 in 2010. Both interest income and non-interest income were up, and both credit losses and operating expenses were down. The factors and dynamics that drove these results, however, were largely related to focused actions and investments initiated in prior years. Significant core-deposit gathering efforts that began in 2007 have created growing liquidity over the past several years, which has been successfully deployed. The Citizens branch acquisition, completed at year-end 2008, provided loan, core deposit and fee income growth for the past two years, creating accretive earnings growth. Cost-reduction initiatives developed and implemented at the end of 2009 enabled us to reduce 2010’s operating expenses by over \$6 million. Organic and acquired investments in our benefits administration and wealth management businesses over the past several years have resulted in significant increases in net earnings contribution. The dependency of our 2010 results on historical efforts is precisely consistent with the strategic and operating model of the company – be disciplined, be focused on shareholder value, and think and invest for the long-term.

Our retail banking business, consisting of 148 branches and 135 ATM's across Upstate New York and Northeastern Pennsylvania, posted a strong year. Core deposits grew at a 9% pace, and fee income was up 5%. Deposit growth was paced by our branches in and around the Marcellus Shale gas formation in Pennsylvania, which grew core deposits in excess of 20%. Retail lending was mixed, as mortgage originations and direct consumer lending remained strong and home equity and indirect auto lending was down sharply, consistent with the characteristics of our local markets. One of the pillars supporting our financial strength is a stable, low-cost core deposit base, which has realized steady growth for several years. At year-end 2010, these core deposits represented 77% of our total deposit base, lowering our total deposit costs for 2010 to 0.77%. We opened two new branch banking centers in 2010, one in Montrose, Pennsylvania, and one in Palmyra, New York, that replaced an existing facility we had outgrown.



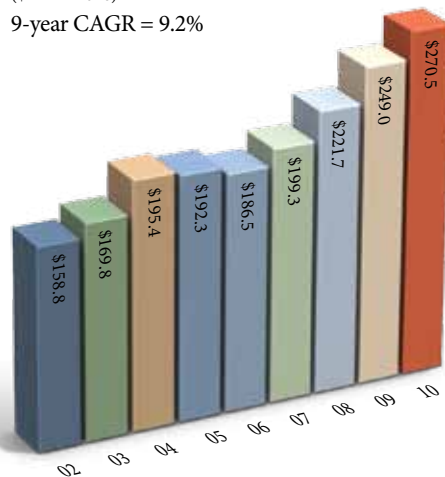
David C. Patterson (left)
Chairman of the Board

Mark E. Tryniski (right)
President and Chief Executive Officer

Total Revenue

(\$ in millions)

9-year CAGR = 9.2%

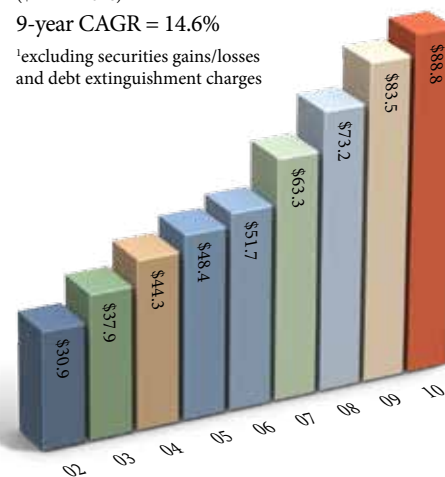


Noninterest Income¹

(\$ in millions)

9-year CAGR = 14.6%

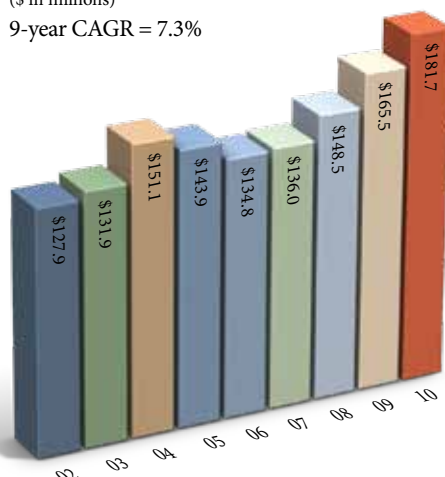
¹excluding securities gains/losses and debt extinguishment charges



Net Interest Income

(\$ in millions)

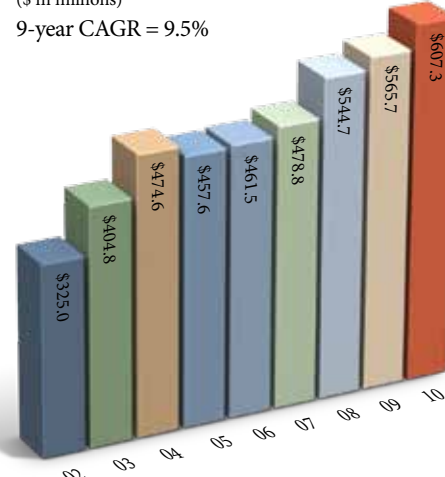
9-year CAGR = 7.3%



Shareholders Equity

(\$ in millions)

9-year CAGR = 9.5%



In addition, we commenced work on an additional banking center in Orchard Park, New York, that was scheduled to open in April 2011. We will continue to look selectively for opportunities to open additional branch facilities that we expect to be additive to earnings capacity.

Our commercial banking business continued to face significant economic headwinds in 2010, as it experienced in 2009. Loans outstanding declined \$43 million, or 4% from 2009, consistent with the decline in commercial credit outstanding for the banking industry as a whole. Credit demand from commercial and business borrowers remains soft. A focused initiative around business deposits resulted in the addition of more than 3,800 new accounts, representing \$36 million of new core deposits. The concentrated efforts of our business bankers to grow relationships and create new opportunities continues to be a primary focus in 2011.

Asset quality across the industry continues to improve at the larger banks, but appears to be worsening for many smaller institutions. CBU's credit quality continues to be among the strongest in the banking industry, as it has remained consistently throughout the credit crisis and economic downturn of the past three plus years. For 2010, our net-charge-off's were 21 basis points, compared to 254 basis points for the banking industry as a whole, and our non-performing loans to total loans at year-end 2010 were 61 basis points, compared to 487 basis points for the entire banking industry. Prudent credit management has been, and will continue to be, a foundational strength of this institution.

Our non-banking businesses continue to be an important source of current and future earnings and growth for CBU. Benefits administration and actuarial consulting delivered revenue growth of 8%, while reducing operating expenses, providing for a year-over-year improvement in profitability of over 50%. Wealth management revenues grew 15% and profitability was up over 100% from 2009. In the aggregate, the pre-tax earnings of these businesses grew from \$4.3 million in 2009 to \$8.0 million in 2010. The strength of this performance and the leadership of these strategically important businesses position us well for future opportunities.

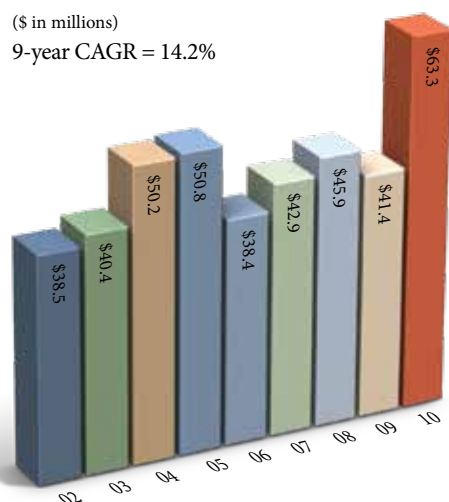
Improvement in net interest margins, effective cost management, and the continuation of favorable asset quality enabled us to produce record earnings in 2010



Net Income

(\$ in millions)

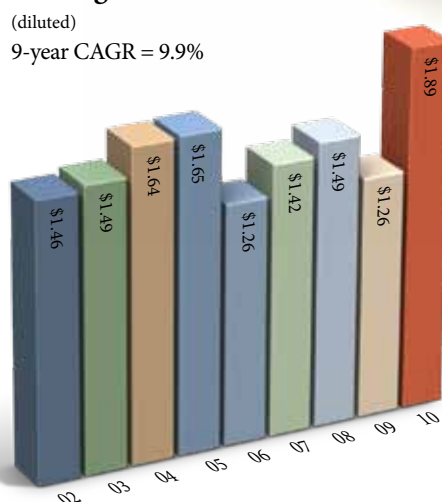
9-year CAGR = 14.2%



Earnings Per Share

(diluted)

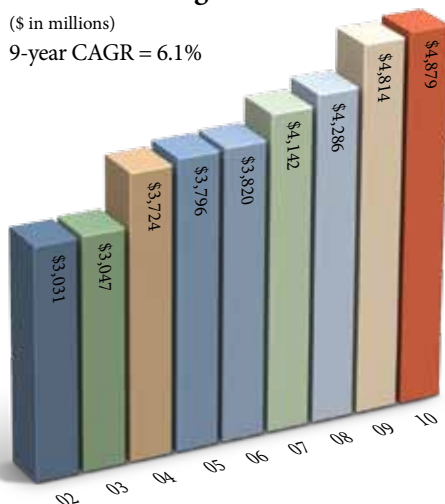
9-year CAGR = 9.9%



Interest-Earning Assets

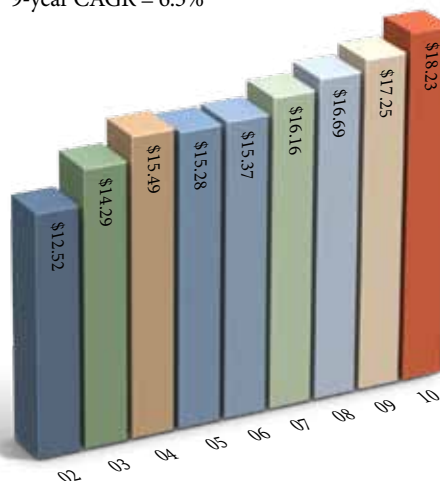
(\$ in millions)

9-year CAGR = 6.1%



Book Value Per Share

9-year CAGR = 6.5%



During the third quarter of 2010, we announced an agreement to acquire The Wilber Corporation, parent company of Wilber National Bank, based in Oneonta, New York. Wilber's 22 branches, \$870 million of assets, and \$720 million of deposits afford us entry into seven new counties that serve as a natural and contiguous extension of our existing branch network. Wilber's markets, community-based service model, and historical record of success make it an ideal partner for CBU. We received both regulatory and Wilber shareholder approval in March and expect the merger to close in early April.

We would be remiss not to acknowledge the most significant operational undertaking in CBU's history. During 2010, the company completed the conversion of its core computer systems from an outsourced legacy mainframe to a more current in-house platform. This new system provides our customers and employees with greater efficiency and better information, and our shareholders with significantly reduced operating costs. This project has taken many years and hundreds of thousands of hours of effort from our employees. There have certainly been many challenges and difficulties along the way, and some remain yet. To our employees and customers, we extend our greatest thanks and appreciation. This considerable accomplishment would not have been possible without the commitment of our talented associates, nor without the loyalty and patience of our customers. Thank you.

A significant strength of CBU has always been the active and engaged leadership of the Board of Directors. Charles E. Parente retired from our Board in 2010, after serving since 2004 following our acquisition of First Heritage Bank in Wilkes-Barre, Pennsylvania. Chuck's extensive business experience and objective insights brought a great deal of value to our boardroom and we are most appreciative of his service to our shareholders over the past seven years.

CBU's market position, high quality loan portfolio, and considerable financial strength have enabled the company to prosper during a challenging economic period. These same strengths position the Company for continued prosperity as the economy continues to recover. We remain ever-mindful of our obligations to manage with prudence and discipline, serve our customers with distinction, and deliver exceptional returns to shareholders.

David C. Patterson
Chairman of the Board

Mark E. Tryniski
President and Chief Executive Officer

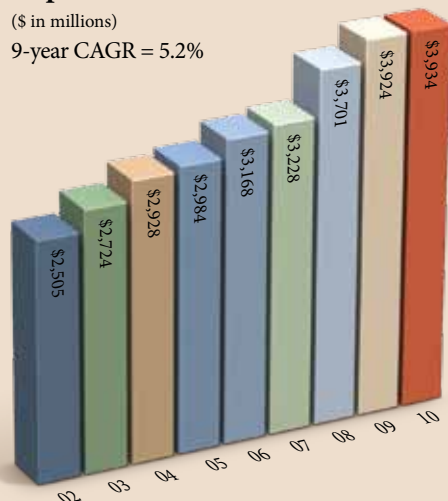
Market-Leading Branch System Serving Predominantly Non-Urban Markets

- We rank first or second in deposit market share in 74% of the communities where we have retail locations
- We're focused on generating and retaining core deposit accounts – which was 77% of total deposits at the end of 2010
- Core deposits grew by 8.9% in 2010
- Our retail banking business operates in stable markets which have not been subjected to the volatility experienced in many regions of the country

Deposit Growth

(\$ in millions)

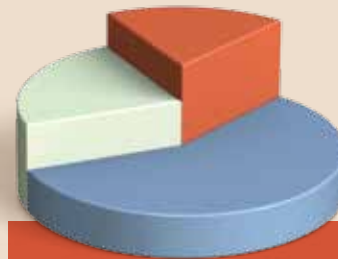
9-year CAGR = 5.2%



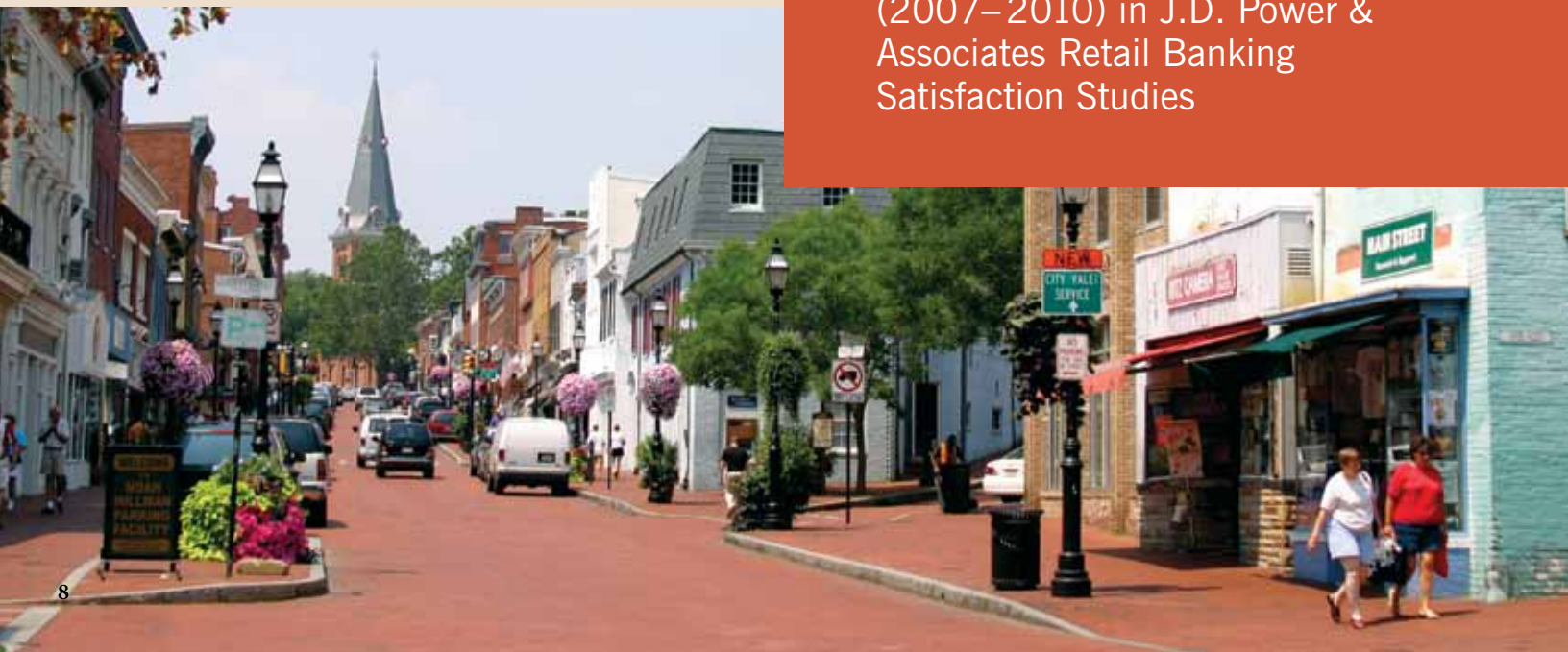
Deposit Composition

2010 Total Deposits = \$3.9 Billion

• Noninterest-bearing	18.8%
• Non-maturity interest-bearing	57.8%
• Time	23.4%

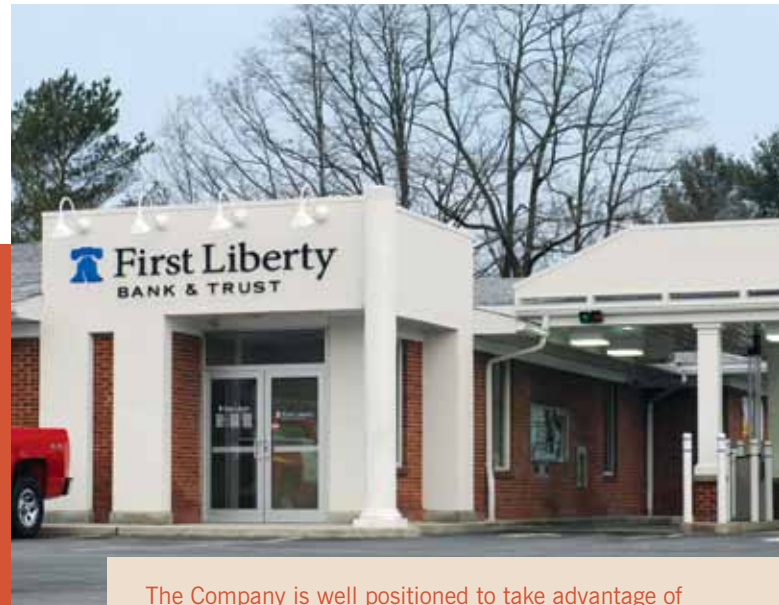


Ranked in the top 10 nationally for three of the last four years (2007–2010) in J.D. Power & Associates Retail Banking Satisfaction Studies



Focused on Core Relationships

- Our long-term success reflects our ability to grow and retain customer relationships
- We continue to focus heavily on growing core (non-time) deposits through proactive marketing efforts, competitive product offerings and top quality customer service
- Core deposits grew by 8.9% in 2010 and higher-cost time deposits were reduced in amount and as a percentage of total deposits
- The acquisition of Wilber National Bank will add approximately \$720 million in deposits and 20,000 new customer relationships



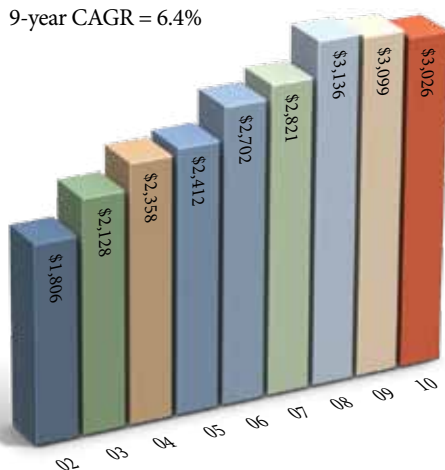
The Company is well positioned to take advantage of the revenues being generated by the Marcellus Shale drilling through its First Liberty Bank & Trust banking centers, including the new branch in Montrose, PA, (shown here) opened in late 2010.

We have greatly strengthened and grown the company over the past several years through a disciplined operating model that remained focused on gathering core deposits and making quality loans to customers within our branch service area

Lending Growth

(\$ in millions)

9-year CAGR = 6.4%



Loan Portfolio Composition

2010 Total Loans = \$3.0 Billion

• Consumer Installment*	31.3%
• Business/Commercial	33.8%
• Consumer Mortgage	34.9%

*including home equity

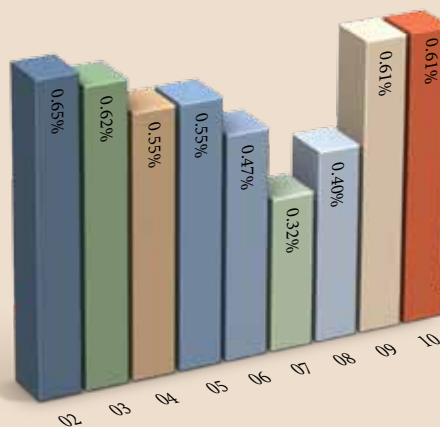


Our most fundamental strength remains the quality of our loan and investment portfolios

Exceptional Asset Quality

- Our Asset quality metrics remained very strong in 2010, reflecting disciplined and consistent underwriting standards, and proactive management of recovery efforts
- Our loan loss reserves of \$42.5 million were 2.30 times greater than our non-performing loans at year end, a ratio more than three times greater than the average for all commercial banks
- The Bank's nonperforming loans to total loans ratio was 0.61% at December 31, 2010, compared to an average of nearly 5% for all commercial banks
- The Community Bank loan portfolio has been, and remains, free of exposure to subprime and other high-risk mortgage products
- Our loan portfolio composition remains very well balanced, with business and commercial loans, residential mortgages, and consumer installment lending each representing approximately one-third of the total loans outstanding at year end 2010

Nonperforming Loans to Total Loans



Exceptional Asset Quality

12/31/2010

	Community Bank System, Inc. (CBU)	All Commercial Banks National (ACBN)	ACBN Assets < \$100M	ACBN Assets \$100M to \$1B	ACBN Assets > \$1B
Loan loss allowance/nonperforming loans	230%	66.43%	68.96%	55.34%	67.35%
Nonperforming loans/loans outstanding	0.61%	4.96%	2.56%	3.62%	5.15%
Nonperforming assets/total assets ²	0.38%	3.12%	2.35%	3.53%	3.09%
Net charge-offs/average loans ¹	0.21%	2.67%	0.80%	1.14%	2.88%

1. FDIC Statistics - Net Charge Offs to Loans

2. FDIC Statistics - Noncurrent assets plus other real estate owned/assets



We have developed and acquired a diversified and complementary suite of financial services and products, creating additional non-interest based revenue opportunities

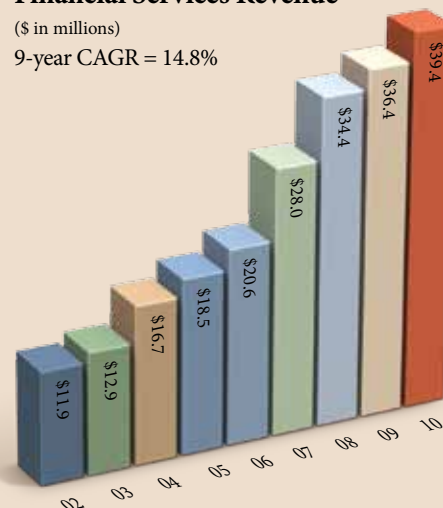
Investment in Noninterest Revenues

- Noninterest income grew by 6.3% in 2010
- Approximately 32.8% of total 2010 revenue was from noninterest income sources
- Our financial services revenues more than tripled since 2000, growing to more than \$39 million, or 14.6% of revenue in 2010
- We have been a strategic and opportunistic acquirer of financial services businesses, which started with our acquisition of Benefit Plans Administrators in 1996
- Wealth management and benefit plans administration and consulting products increase our ability to drive higher non-interest income and complement our retail banking products and services
- We generate revenue outside of our retail banking service footprint from our wealth management and benefit plans administration and consulting businesses
- Income provided by our financial services products offer a stable source of revenue that remains less affected by the variability of interest rate movements

Financial Services Revenue

(\$ in millions)

9-year CAGR = 14.8%



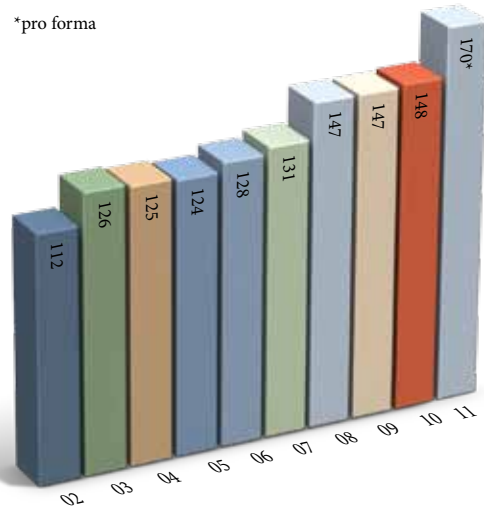
Leveraging Organic and Acquired Opportunities

- From 2001 through 2008, CBU made eleven separate branch or whole bank acquisitions, providing entry into 75 new markets
- The Wilber acquisition provides significant operating scale in new markets with a similar demographic profile
- Wilber appears to have market growth potential associated with the Marcellus Shale formation
- The Wilber transaction is expected to be 2% – 4% accretive to EPS in 2011 and 2012, after excluding one-time costs
- Wilber's network provides an attractive platform for CBU's comprehensive product suite



Retail Branch Locations

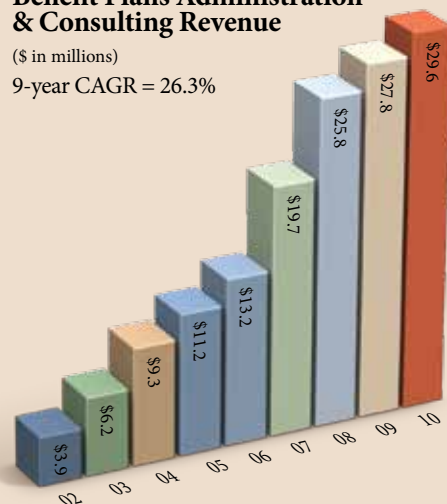
*pro forma



Benefit Plans Administration & Consulting Revenue

(\$ in millions)

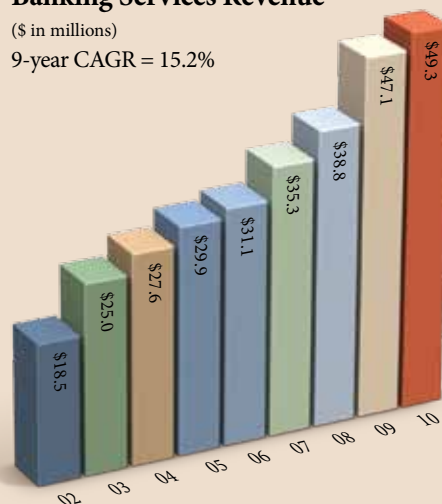
9-year CAGR = 26.3%



Banking Services Revenue

(\$ in millions)

9-year CAGR = 15.2%



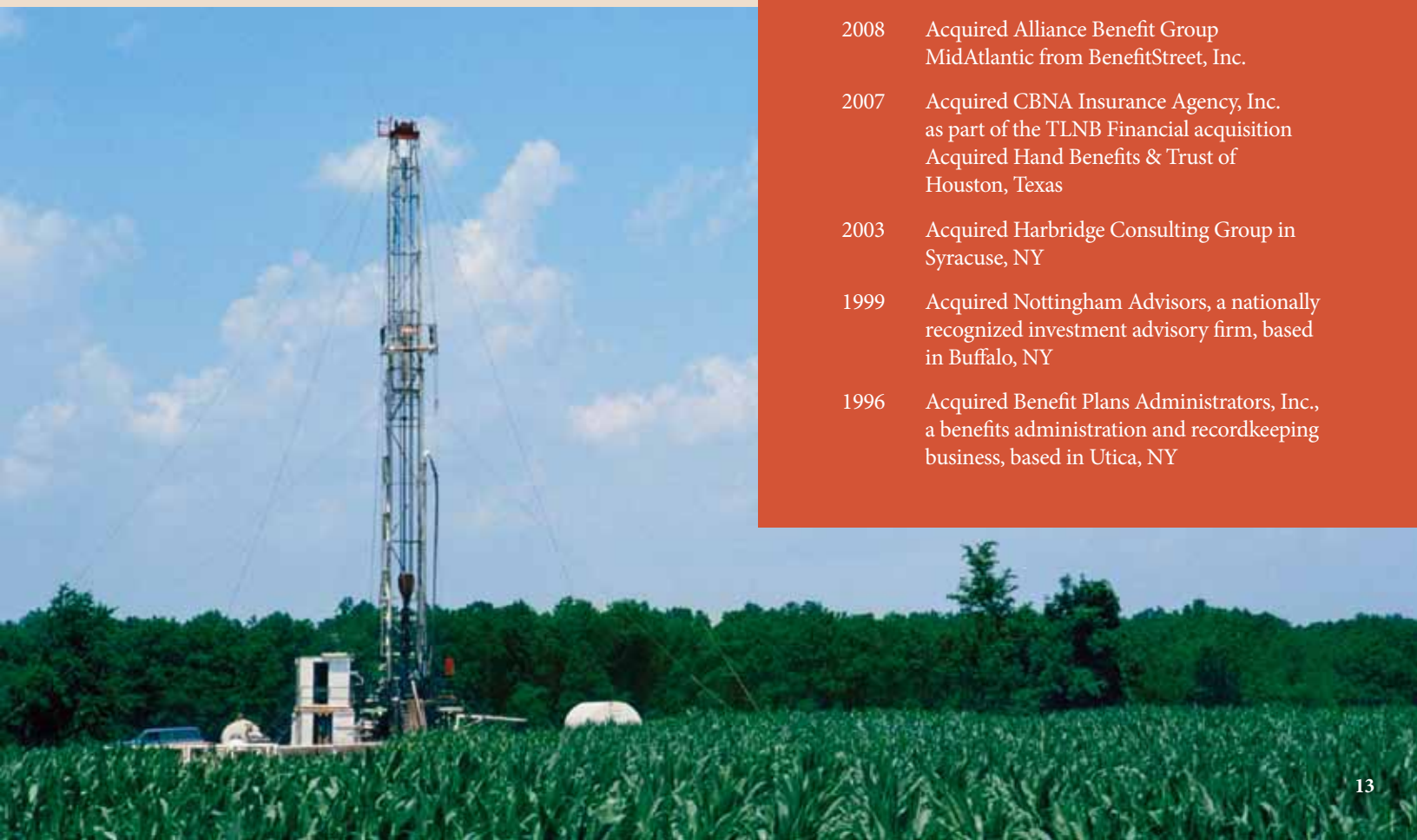
We expect to continue making high-value acquisitions an important element of our strategic growth plan



- The Marcellus Shale is believed to contain 50 trillion cubic feet of natural gas, much of which underlies our branch service area
- We have acquired and developed a diversified and complementary suite of financial services products, creating non-interest based revenue opportunities
- Benefit Plan Administrative Services has a national customer base of more than 350 actuarial engagements, administration of over 250,000 defined contribution and flexible spending participant accounts, and custody of nearly \$6 billion in retirement plan assets
- We emphasize responsive, local decision making and customer support
- Our associates are focused on generating and retaining core deposit accounts
- Community Bank branches are located primarily in non-urban markets where leadership positions can be earned
- Our customer service was ranked in the top 10 nationally three of the last four years (2007–2010) in the J.D. Power & Associates annual Retail Banking Satisfaction Studies

Financial Services Acquisitions

- | | |
|------|--|
| 2008 | Acquired Alliance Benefit Group MidAtlantic from BenefitStreet, Inc. |
| 2007 | Acquired CBNA Insurance Agency, Inc. as part of the TLNB Financial acquisition
Acquired Hand Benefits & Trust of Houston, Texas |
| 2003 | Acquired Harbridge Consulting Group in Syracuse, NY |
| 1999 | Acquired Nottingham Advisors, a nationally recognized investment advisory firm, based in Buffalo, NY |
| 1996 | Acquired Benefit Plans Administrators, Inc., a benefits administration and recordkeeping business, based in Utica, NY |



Executive Management Team

Mark E. Tryniski

President and Chief Executive Officer

Mark E. Tryniski was appointed President and Chief Executive Officer in August 2006 and was elected to the Board of Directors at that time. Mr. Tryniski has been with the bank since 2003, serving first as its Chief Financial Officer, and then its Executive Vice President and Chief Operating Officer.

Scott A. Kingsley

Executive Vice President and Chief Financial Officer

Scott A. Kingsley joined the company in August 2004 and serves as Executive Vice President and Chief Financial Officer. Prior to his position with Community Bank, he was Vice President and Chief Financial Officer of Ohio-based Carlisle Engineered Products, Inc.

Brian D. Donahue

Executive Vice President and Chief Banking Officer

Brian D. Donahue joined Community Bank in 1992 and currently serves as Chief Banking Officer. Previously, he held the positions of Chief Credit Officer and, prior to that, Senior Loan Officer in the Southern Region. He also has experience in human resources, branch management, and retail indirect and mortgage lending.

George J. Getman

Executive Vice President and General Counsel

George J. Getman was appointed Executive Vice President and General Counsel of Community Bank System, Inc. and Community Bank, N.A. in January 2008. Prior to joining the Company, he was a senior partner with Bond, Schoeneck & King, PLLC and served as corporate counsel to the Company on a broad range of matters, including mergers and acquisitions, SEC and other regulatory reporting, banking law, and corporate governance.



FROM LEFT TO RIGHT

BACK Scott Kingsley *Executive Vice President & Chief Financial Officer*
Brian Donahue *Executive Vice President & Chief Banking Officer*

FRONT Mark Tryniski *President & Chief Executive Officer*
George Getman *Executive Vice President & General Counsel*

The Board of Directors expresses its sincere appreciation for the years of service provided by **Charles E. Parente**, who retired from the Board in January 2011. A Director since 2004, following the acquisition of First Heritage Bank, he most recently served as Chairman of the Audit/Compliance/Risk Management Committee and a member of the Strategic/Executive and Compensation committees. His commitment and guidance will be missed.

Community Bank, N.A. Advisory Boards

First Liberty Advisory Board

Ed Coach
Michael Coleman
William M. Davis
Charles Flack
John Graham
Scott Henry

Gary Lamont
Thomas McCullough
William Nasser
Russell Newell
Frank Niemiec
James O'Brien
Robert Wheeler

Adirondack/Plattsburgh Advisory Board

William Dempsey
Alexander Edwards
Joe Lamb
James Langley
C. J. Madonna
Kim Murray

Board of Directors

David C. Patterson has served as a Director since 1991 and was named Chairman of the Board in April 2010. He is President and owner of Wight and Patterson, Inc., a manufacturer and seller of livestock feed located in Canton, NY.

Brian R. Ace has served as a Director since 2003, following the acquisition of Grange National Banc Corp. He is Chairman of the Compensation Committee and a member of the Nominating/Corporate Governance Committee. He served on the Board of Grange National Banc Corp. from 1992-2003 and was Vice Chairman from 2001-2003. He is the owner of Laceyville Hardware in Laceyville, PA.

Mark J. Bolus is the President and majority owner of Bolus Motor Lines, Inc. and Bolus Freight Systems, Inc. of Scranton, PA. He was appointed to the Board in 2010 and is a member of the Compensation and Trust committees.

Paul M. Cantwell, Jr. served as Chairman of the Board from 2006 to 2010. He is the former Chairman and President of the Citizens National Bank of Malone. He is presently the owner of the Cantwell & Cantwell Law Offices in Malone, NY. He is Chairman of the Trust Committee and Vice Chairman of the Strategic/Executive Committee.

Nicholas A. DiCerbo is a partner of the law firm of DiCerbo & Palumbo of Olean, NY. He has been a Director since 1984 and serves as Chairman of the Strategic/Executive Committee and Vice Chairman of the Trust Committee.

Neil E. Fesette is the owner, President and Chief Executive Officer of Fesette Realty, LLC and Fesette Property Management, both located in Plattsburgh, NY. Appointed to the Board in 2010, he is Vice Chairman of the Nominating/Corporate Governance Committee and a member of the Trust Committee.

James A. Gabriel served as Chairman of the Board from 1999 to 2006 and is currently a member of the Strategic/Executive Committee. He has served as a Director since 1984 and is the owner of the law firm of Franklin & Gabriel, located in Ovid, NY.

James W. Gibson, Jr. was appointed to the Board on January 1, 2009. Mr. Gibson served as a Partner in KPMG, LLC, a global network of professional services firms providing audit, tax, and advisory services in New York City, through September 2004. He is a member of the Compensation and Audit/Compliance/Risk Management committees.

Edward S. Mucenski, a Certified Public Accountant and a partner and Managing Director of the Pinto, Mucenski, Hooper, Van House & Company, P.C. accounting firm in Potsdam, NY, was appointed to the Board in 2010. He is a member of the Compensation and Audit/Compliance/Risk Management committees.

John Parente is the Chief Executive Officer of CP Media, LLC of Wilkes-Barre, PA, an owner and operator of broadcast television stations. He was appointed to the Board in 2010 and is a member of the Audit/Compliance/Risk Management and Trust committees.

Sally A. Steele has served as a Director since 2003, following the acquisition of Grange National Banc Corp. She serves as Chairwoman of the Nominating/Corporate Governance Committee and is a member of the Strategic/Executive Committee. Ms. Steele operates her own law practice in Tunkhannock, PA.

Mark E. Tryniski has served as President and Chief Executive Officer of Community Bank System since 2006, at which time he was also elected to the Board. He was formerly the company's Executive Vice President and Chief Operating Officer from 2004-2006 and, prior to that, its Chief Financial Officer beginning in 2003. Before joining the company in 2003, Mr. Tryniski was a partner within the Syracuse office of PricewaterhouseCoopers.

John F. Whipple, a Certified Public Accountant and the Chief Executive Officer of Buffamante Whipple Buttafaro, P.C., a certified public accounting and business advisory firm with offices in Olean, Jamestown and Orchard Park, NY, was appointed to the Board in 2010. He is a member of the Nominating/Corporate Governance and Audit/Compliance/Risk Management committees.

James A. Wilson was appointed to the Board on January 1, 2009. He served as a Partner for Parente Randolph, LLC, one of the top 35 accounting and consulting firms in the United States, in its Wilkes-Barre, PA office through April 2008. He also previously served as Director for the School of Accounting for the International Correspondence School in Scranton, PA. He is Chairman of the Audit/Compliance/Risk Management Committee and a member of the Nominating/Corporate Governance Committee.

One of the smallest of the best banks on the *Forbes Magazine* list, Community Bank had nonperforming loans and assets that were among the lowest of any bank

Selected Financial Highlights

	2010	2009
Income Statement (in millions)		
Net interest income	\$ 181.7	\$ 165.5
Noninterest income	88.8	83.5
Financial services revenue	39.4	36.4
Operating expenses	\$ 176.9	\$ 186.2
FDIC assessments	5.8	8.6
Provision for loan loss	7.2	9.8
Net income	\$ 63.3	\$ 41.4
Per Share Data (diluted)		
Earnings per share	\$ 1.89	\$ 1.26
Cash dividends declared	0.94	0.88
Book value	18.23	17.25
Tangible book value	\$ 9.49	\$ 8.09
Balance Sheet Data (end of period, in millions)		
Assets	\$ 5,445	\$ 5,403
Loans	3,026	3,099
Deposits	3,934	3,924
Shareholders' Equity	\$ 607	\$ 566



Administration and Lenders

Executive

Mark E. Tryniski, President and Chief Executive Officer
Scott A. Kingsley, Executive Vice President, Chief Financial Officer
Brian D. Donahue, Executive Vice President, Chief Banking Officer
George J. (Joe) Getman, Executive Vice President, General Counsel

Lending, Credit and Branch Administration

Joseph F. Serbun, Senior Vice President, Chief Credit Officer
Stephen G. Hardy, Senior Vice President, Chief Credit Administrator
Richard M. Heidrick, Senior Vice President, Retail Banking Administrator
Claire F. LaGarry, Senior Vice President, Branch Service Administration, Director of Consumer Banking
Scott J. Boser, Vice President, Indirect/Consumer Loan Manager
Mark A. Guenthner, Vice President, Special Assets Manager
Nancy Mastrucci, Vice President, Senior Credit Manager
Denise Rhoads, Vice President, Commercial Appraisal Manager
Michael J. Stacey, Vice President, Collections Manager
Pamela S. Dent, Assistant Vice President, Bankruptcy Recovery Specialist
Stephen B. Dupree, Assistant Vice President, Reports Analyst
Jennifer Hernandez, Assistant Vice President, Mortgage Processing

Accounting, Finance and Treasury Management

Joseph J. Lemchak, Senior Vice President, Chief Investment Officer
Susan S. Fox, Vice President, Corporate Controller
Robert R. Frost, Vice President, Manager of Financial Analysis
Sean M. Howard, Vice President, Investment Officer
Randy Pray, Vice President, Corporate Purchasing Manager
Pamela J. Taylor, Vice President, Data Warehousing Manager
Shannon M. Davis, Assistant Vice President, Asset Liability Manager
Laura J. Mattice, Assistant Vice President, General Accounting Manager
Dennelle T. Michalski, Assistant Vice President, Financial Controls Manager
Robert E. Pierce, Assistant Vice President, Financial Reporting Manager

Administration

Timothy J. Baker, Senior Vice President, Director of Special Projects
Bernadette R. Barber, Senior Vice President, Chief Human Resources Officer
Harold M. Wentworth, Senior Vice President, Director of Sales and Marketing
Kristine M. Besaw, Vice President, Senior Regional Human Resources Manager NY
Diane C. Seaman, Vice President, HR Manager/Organizational Development
Michelle L. Cring, Assistant Vice President, HR Operational Services Administrator
Donna J. Drengel, Assistant Vice President; Corporate Secretary, Board and Shareholder Relations
Michael F. Joyce, Assistant Vice President, Facilities Manager
John A. Puchir, Assistant Vice President, Sales Manager
Lorie M. Semmel, Assistant Vice President, HRIS/Projects Manager

Technology & Operations

J. Michael Wilson, Senior Vice President, Chief Technology Officer
George J. (Jerry) Burke, Vice President, Director of Technology Services
Robin E. Dumas, Vice President, Electronic Banking Manager
Nancy M. Lewis, Vice President, Item Processing Manager
Barbara L. Snyder, Vice President, Loan Operations Manager
Christina E. Sullivan, Vice President, Deposit Operations Manager
Tracie M. Clayson, Assistant Vice President, Loan Operations Unit Manager
Aaron S. Friot, Assistant Vice President, Information Technology Manager – Technical Support & Security
Allyson B. Houston, Assistant Vice President, Technical Project Administrator
Frank A. Palmisano, Assistant Vice President, Manager Network Administration
Dale Pike, Assistant Vice President, Sr. Imaging Supervisor

Risk Management

Paul J. Ward, Senior Vice President, Chief Risk Officer
Mark J. Houghtaling, Vice President, Credit Risk Manager
Daniel P. O'Connell, Vice President, Director of Internal Audit
Dianne L. Parks, Vice President, Corporate Compliance Officer
Stuart A. Smith, Vice President, Security Officer

Lynne M. Wadsworth, Vice President, Assistant Director of Internal Audit
Melissa R. Cloce, Vice President, Compliance Manager
Anthony A. Antonello, Assistant Vice President, Security Investigator
William McLaughlin, Assistant Vice President, Loan Review

Community Bank

Branch Services

Judith A. Meyer, Vice President, Regional Branch Services Administrator, Olean
Sherry Stone, Assistant Vice President, Regional Branch Services Administrator, Canton

Business Banking

Buffalo

David McKinley, Vice President, Commercial Banking

Canton

Robert F. Zehr, Vice President, Senior Indirect Market Manager

Clifton Springs

Tina Bounds, Assistant Vice President, Mortgage Specialist

DeWitt/Syracuse

Luke Fagan, Vice President, Commercial Banking Team Leader

Elmira

Christopher Mekos, Vice President, Commercial Banking
Richard R. Sisson, Vice President, Commercial Banking

Erwin/Painted Post

Michael G. Austin, Vice President, Small Business Loan Manager
John D. Clark, Vice President, Commercial Banking
Jill Staats, Senior Underwriter, Small Business Banking

Geneva

David Gooding, Vice President, Commercial Banking
Loren C. Herod, Vice President, Agricultural Banking Team Leader
Charles Van Hooft, Vice President, Agricultural Banking
Stephen H. Rich, Vice President, Commercial Banking Team Leader
Dominick (Jim) Vedora, Assistant Vice President, Commercial Banking

Lakewood

Roger E. Dickinson, Vice President, Commercial Banking Team Leader

Lowville

Kevin J. Kent, Vice President, Commercial Banking

Malone

Thomas F. MacDonald, Vice President, Agricultural Banking

North Creek

Eugene M. Arsenault, Vice President,
Commercial Banking

Olean

Mark P. Saglimben, Vice President,
Commercial Banking Team Leader

Scott P. Brechbuehl, Vice President,
Commercial Banking

Gretchen Copella, Assistant Vice
President, Commercial Banking

Eric M. Garvin, Assistant Vice President,
Commercial Banking

Plattsburgh

Paul Connelly, Vice President,
Commercial Banking

Tracy Clark, Assistant Vice President,
Commercial Banking

Potsdam

Nicholas S. Russell,
Senior Vice President of Commercial
Banking Northern Region

Ronald J. Bacon, Vice President,
Commercial Banking Team Leader

Matthew Rollins, Assistant Vice
President, Commercial Banking

Saranac Lake

Craig Stevens, Vice President,
Commercial Banking

Watertown

Duane M. Pelkey, Vice President,
Commercial Banking Team Leader

Michael J. Brassard, Vice President,
Loan Workout Officer

Jennifer Hutteman-Kall, Vice President,
Commercial Banking

Andrew Rice, Assistant Vice President,
Agricultural Banking

Wellsville

Douglas O. Frank, Vice President,
Commercial Banking

James M. Knapp, Assistant Vice President,
Business Development Officer

First Liberty Bank & Trust

Robert P. Matley, Executive Vice President,
President Pennsylvania Banking

Robert A. Cirko, Senior Vice President,
Regional Retail Banking Manager

Donna Skechus, Vice President,
Special Projects Manager

Debbie Dunleavy, Assistant Vice
President, Marketing Coordinator

Branch Services

J. Randall Palko, Vice President,
Regional Branch Administrator

Business Banking**Hazleton**

Arthur A. Tarone, Senior Vice President,
Commercial Banking

Olyphant

Barry J. Westington, Vice President,
Loan Workout Officer

Scranton

Warren C. Rozelle, Senior Vice President,
Commercial Banking Team Leader

Mary Elizabeth D'Andrea, Senior Vice
President, Commercial Banking

Samuel DeStefano, Vice President,
Senior Indirect Market Manager

Matthew Dougherty, Vice President,
Commercial Banking

Joseph S. Tomko, Senior Vice President,
Commercial Banking

Tunkhannock

Walter Sarafinko, Assistant Vice
President, Commercial Banking

Wilkes-Barre, Franklin St.

Frank R. Doyle, Senior Vice President,
Commercial Banking Team Leader

A. Edward Nork, Senior Vice President,
Commercial Banking

Cynthia L. Lefko, Vice President,
Cash Management Product
and Sales Manager

David M. McHale, Vice President,
Commercial Banking

Douglas E. Klinger, Vice President,
Commercial Banking

Carmela D. Yanora, Assistant Vice
President, Commercial Banking

**Financial Services
and Subsidiaries****Personal Trust Services**

Catherine B. Koebelin, CTFA, Vice
President, Trust Administration
Manager, Olean

Vincent L. Mastrucci, Vice President,
Trust Officer, Scranton

Patricia E. Barie, CTFA, Trust Officer,
Olean

Charlotte S. Carlson, CTFA,
Trust Officer, Lakewood

Patricia A. Crolly, Trust Officer, Scranton

Robert P. Jewell, CFP, Trust Officer, Elmira

Thomas LaPage, Trust Officer, Canton

Paul J. Snodgrass, AIF,
Trust Investment Officer

Michael P. Byrne, Trust Officer, Geneva

**Benefit Plans Administrative
Services, LLC**

6 Rhoads Drive, Utica, NY 13502

Barry S. Kublin, President – BPAS, Inc.

Paul M. Neveu,
Senior Vice President, Sales

Robert A. Malczyk, Vice President, Sales

Linda S. Pritchard, Vice President,
Operations

3501 Masons Mill Road, Suite 505,
Huntingdon Valley, PA 19006

Mary Anne Geary, Vice President

Richard Schultz, Vice President

John VanBuren, Vice President

Hand Benefits & Trust

820 Gessner, Suite 1250,
Houston, TX 77024

W. David Hand, Chief Executive Officer

Stephen Hand, President

Kathy Harvey, Vice President

Harbridge Consulting Group, LLC

1 Lincoln Center, Syracuse, NY 13201

Vincent F. Spina, President

Steven P. Chase, Vice President

Sarah E. Dam, Vice President

Kenneth M. Prell, Vice President

Sheila L. Yoensky, Vice President

Nottingham Advisors, Inc.

500 Essjay Road, Suite 220,
Williamsville, NY 14221

Thomas S. Quealy, Chief Executive Officer

Lawrence V. Whistler, President,
Chief Investment Officer

**Community Investment
Services, Inc.**

Charles E. Kopp, President, Lockport

Paul A. Restante, Executive Vice
President, DeWitt

Audrey Pound, Operations Manager,
Lockport

Financial Consultants

George Awad, DeWitt

David E. Bierwiler, Corning

Christian Brown, Elmira

Eric E. Brunet, Canton

Lucas A. Burton, Olean

Joseph M. Butler, Jr., Watertown

Daniel P. Drappo, CFP, Black River

James G. Durso, Waterloo

Timothy Forman, Lake Placid

Kevin C. Gildner, CFP®, Wellsville

Justin P. Hooper, Plattsburgh

Randall J. Hulick, Springville

Paul A. LaPointe, Potsdam

Richard P. Little, Tunkhannock

John B. McCarthy, Clifton Springs

Jude R. McDonough, Wilkes-Barre

Albert F. Nitto, Dansville

David H. O'Neil, Jr., Boonville

Richard A. Ritts, Scranton

Helen M. Willman, Lakewood

CBNA Insurance Agency

Mark J. Moeller, President

117 Park Street, Tupper Lake, NY 12986

173 Margaret Street,
Plattsburgh, NY 12901

6 Clinton Street, Heuvelton, NY 13654

217 Main Street, Malone, NY 12953

Branch Locations

Community Bank Northern Market

Ausable Forks
Valerie A. Daniels, Assistant Vice President, Manager

Black River
Christina S. Meagher, Assistant Vice President, Manager

Boonville (101 Main Street and Headwaters Plaza)
Debra Roberts, Assistant Vice President, Manager

Brushton
James H. McElwain, Branch Supervisor

Canton
David R. Peggs, Vice President, Manager

Champlain
Melissa M. Peryea, Assistant Vice President, Manager

Chateaugay
Barbara J. LaVoie, Manager

Clayton
Rita J. Walldroff, Vice President, District Manager

Fort Covington
Gayle Miner, Branch Supervisor

Gouverneur
Diane Easton, Vice President, Manager

Harrisville
Karen Pierce, Branch Supervisor

Hermon
Connie J. Green, Branch Manager

Heuvelton
Sandra C. Kendall, Vice President, Manager

Indian Lake
Brenda K. Lanphear, Manager

Lake Placid
Katie R. Stephenson, Assistant Vice President, Manager

Long Lake
Lynn L. Bly, Manager

Lowville (7605 State Street and 7395 Turin Road)
Tina M. Paczkowski, Vice President, District Manager
Mary L. Peters, Assistant Vice President, Retail Service Officer
Joseph Monnat, Assistant Vice President, Retail Service Officer

Lyons Falls
Nancy Fruin, Assistant Vice President, Manager

Madrid
Marsha L. Watson, Manager

Malone (Elm Street)
Byron Tuthill, Vice President, District Manager
Lawrence P. Fleury, Assistant Vice President, Indirect Lending

Malone (West Main St.)
Stacey Brunell, Assistant Vice President, Manager

Massena
Joy Graves, Assistant Vice President, Manager

Newcomb
Lynn L. Bly, Manager

North Creek
Lori A. DeMars, Assistant Vice President, Manager

Norwood
Victoria Strader, Manager

Ogdensburg (825 State Street)
Robert L. Seymour, Vice President, District Manager

Ogdensburg (320 Ford Street)
Sandra C. Kendall, Vice President, Manager

Old Forge
Barbara B. Criss, Vice President, Manager

Plattsburgh (Margaret Street)
Kent G. Backus, Vice President, District Manager
Mary Gibbs, Vice President, Manager

Plattsburgh (In-store – Price Chopper)
Arlene Favreau, Branch Supervisor

Plattsburgh (Route 3)
James E. Snook, Vice President, Manager

Plattsburgh (In-store – Wal-Mart)
Meagan Witt, Branch Supervisor

Potsdam (64-70 Market Street and May Road)
Victoria G. Strader, Vice President, Branch Manager
Helen M. Hollinger, Assistant Vice President, Retail Service Officer

Pulaski
Steven P. Gaffney, Vice President, Manager

Saranac Lake (Broadway)
Brenda Darrah, Assistant Vice President, Manager

Saranac Lake (Lake Flower)
Susan Goetz, Assistant Vice President, Manager

St. Regis Falls
Cynthia M. Murphy, Assistant Vice President, Manager

Star Lake
Connie Green, Branch Manager

Ticonderoga
Maria E. Beuerlein, Assistant Vice President, Manager

Tupper Lake (Hosely)
John W. Salmay, Vice President, Manager

Tupper Lake (Park Street)
Gail Auclair, Vice President, Manager

Waddington
Brenda L. Matthie, Branch Supervisor

Watertown (1125 Arsenal Street)
Elizabeth A. Brown, Assistant Vice President, Manager

Watertown (216 Washington Street)
Catherine Ward, Vice President, Manager

West Carthage
Shirley E. Bloss, Assistant Vice President, Manager

Whitehall
Holly A. Lachapelle, Manager

Community Bank Southern Market

Addison
Robin K. Knapp, Assistant Vice President, Manager

Alfred
Beth L. Plaisted, Manager

Allegany
Stephanie L. Kolkowski, Assistant Vice President, Manager

Angelica
Diana L. Grastorf, Branch Supervisor

Bath
Joel P. Brazie, Assistant Vice President, Manager

Belfast
Sandra K. Taber, Branch Supervisor

Bolivar
Susan M. Jordan, Manager

Brocton
Phyllis A. Crockett, Manager

Canandaigua
Paul E. Lepore, Vice President, Manager

Cassadaga
Susan C. Sekuterski, Manager

Cato
Tiesha Coombs, Branch Supervisor

Clifton Springs (26 East Main Street)
Theresa P. Dorgan, Vice President, Manager

Clifton Springs (One Clifton Plaza)
Deanna L. Nissen, Branch Supervisor

Clymer
Laurie L. Harvey, Manager

Corning West Market Street
Wendy B. Daines, Vice President, Manager

Corning North
Michael Procopio, Vice President, Manager

Cuba
Mary M. Quigley, Vice President, Manager

Dansville
Jody R. Tonkery, Vice President, District Manager
Susan M. Colegrove, Vice President, Manager
Carolyn M. Scoppa, Assistant Vice President, Retail Service Officer

Dunkirk (3909 Vineyard Drive)
Daniel L. Drozdziel, Vice President, District Manager

Dunkirk (345 Central Avenue)
Jean M. Coughlin, Assistant Vice President, Manager

Elmira
Denise E. Allen, Vice President, District Manager

Erwin/Painted Post
Michelle Robinson-McGill, Branch Supervisor

Falconer
Joann W. Anderson, Assistant Vice President, Manager

Fillmore
Julie A. Hall, Manager

Franklinville
Sandra S. Wolfer, Manager

Geneva
Debra A. Murphy, Vice President, District Manager

Gowanda
Brooke Baker, Manager

Hammondsport
Kelly L. Bussmann, Assistant Vice President, Manager

Hannibal
Debra A. Davis, Assistant Vice President, District Manager

Hornell
Melissa M. Ponticello, Manager

Horseheads-Consumer Square
Cynthia A. Welliver, Manager

Houghton College
Julie Hall, Manager

Interlaken
Denise Ector, Manager

Ithaca
Evelyne Caron, Manager

Jamestown (1281 N. Main Street)
Kathleen S. Bemus, Assistant Vice President, Manager

Jamestown (25 Main Street - Brooklyn Square)
Glori Taylor, Branch Manager

Lakewood
Lisa R. Allenson, Assistant Vice President, District Manager

Livonia
Deborah Fitch, Manager

Moravia
Kathleen M. Longyear, Manager

Mount Morris
Klaas W. deWaard, Manager

Naples
Beth A. Robbins, Manager

Newark Plaza
Brenda K. Westcott, Manager

Nichols
Kathleen M. Bowen, Assistant Vice President, Manager

North Collins
Ellen M. Pavlovic, Assistant Vice President, Manager

Olean (201 North Union Street)
Jody L. Collins, Vice President, District Manager
Theresa M. Raftis, Assistant Vice President. Retail Service Officer

Olean (Delaware Park)
Robin K. Bowser, Branch Supervisor

Ovid
Jackie Robinson, Manager

Owego
Florence Rossi, Assistant Vice President, Manager

Palmyra
Cheryl A. Ford, Manager

Penn Yan (151 Main Street)
Thomas R. May, Vice President, Manager

Penn Yan (272 Lake Street)
Teresa A. Vivier, Manager

Phelps
Susan J. Lanse, Manager

Portville (1471 E. State Road)
Brenda Blackwell, Manager

Portville (7 North Main Street)
Kelly A. Crandall, Branch Supervisor

Randolph
Diane M. Lecceardone, Branch Supervisor

Ripley
Patricia J. Knight, Manager

Rushville
Joilette M. Pendleton, Branch Supervisor

Salamanca
Marilyn J. Harvey, Manager

Seneca Falls
David W. Sloan, Vice President, District Manager
Christine Fleming, Manager

Sherman
Shannon Stevens, Manager

Silver Creek
Mark J. Catalano, Assistant Vice President, District Manager

Skaneateles
Desiree R. Murphy, Assistant Vice President, Manager

Springville
Mary Ann Lutz, Manager

Waterloo
Larry D. Ledgerwood, Vice President, Manager

Watkins Glen
Laurel M. Fox, Manager

Wellsville (4196 Bolivar Road)
Lori Dzielski, Manager

Wellsville (113 Main Street)
David E. Newton, Vice President, District Manager
Virginia L. Elliott, Assistant Vice President, Manager

Woodhull
Lynn S. Vitale, Branch Supervisor

Yorkshire
Joseph D. Fore, Assistant Vice President, Manager

First Liberty Bank & Trust

Carbondale
Bobbi Ann Davis, Manager

Clarks Summit
David C. Griffin, Vice President, Manager

Daleville
Susan Pitoniak, Manager

Dickson City
Lisa Kennedy, Manager

Edwardsville
Denise M. Johnson, Manager

Hazleton
Paula Palance, Vice President, Manager

Jermyn
Lisa Browning, Assistant Vice President, Manager

Jessup
Mary Z. Bieszczad, Vice President, Manager

Kingston
Susan Russick, Assistant Vice President, Manager

Laceyville
Kevin W. Huyck, Assistant Vice President, Manager

Lawton
Greg M. Culver, Manager

Little Meadows
Mary Sivers, Branch Supervisor

Meshoppen
Jennifer Ramey, Branch Supervisor

Montrose
Steven Stranburg, Vice President, Manager

Noxen/Bowman's Creek
Colleen Bullock, Branch Supervisor

Olyphant
Theresa A. Collins, Vice President, Manager

Pittston
Nolan Ayres, Assistant Vice President, Manager

Scranton - Keyser Avenue
John Peterson, Vice President, District Manager

Scranton - Minooka - Davis Street
David H. Lencicki, Vice President, Manager

Scranton - N. Washington Ave.
Lee B. Walter, Vice President, Manager

Scranton - Wyoming Avenue
Patricia M. Calabro, Vice President, Manager

Towanda
Lori Smith, Manager

Tunkhannock
Karen Fuller, Vice President, District Manager
Jennifer Chesner, Manager

Trucksville/Back Mountain
Susanne M. Mullin, Assistant Vice President, Manager

Wilkes Barre
David P. Dobbs, Vice President, District Manager
Gary J. Missal, Assistant Vice President, Manager

Wyalusing
Douglas M. Jackson, Manager

Glossary

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

Consumer direct lending

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

Consumer indirect lending

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

Core deposits

The total of checking, interest checking, savings and money market deposits. Generally considered a bank's most stable and affordable source of funds.

Coverage ratio

The ratio of loan loss allowance to nonperforming loans (loans for which payment is delinquent 90 days or more and loans for which interest is not being accrued) or nonperforming assets (additionally includes collateral acquired by a bank after a loan has defaulted) is considered an indicator of the strength of a financial institution's allowance for loan losses.

Diluted shares (or fully diluted)

A calculation which includes those shares issued and outstanding or issuable upon the exercise of in-the-money stock options held by employees or Directors, offset by the number of shares which the company could repurchase on the open market with the cash received upon exercise. Shares held in treasury are excluded.

Efficiency ratio

A measure of a bank's operating leverage or productivity, derived by dividing overhead expense by revenues (net interest income (FTE) plus noninterest income), excluding the effect of gains or losses on the sale of securities or the extinguishment of debt, amortization of intangibles, and acquisition-related expenses. The lower the ratio, the better the efficiency.

FDIC Special Assessment

Action taken by the FDIC, as part of its efforts to rebuild the Deposit Insurance Fund (DIF), whereas it assessed an amount equal to five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital and capped at 10 basis points of an institution's domestic deposits, as of June 30, 2009. The special assessment was collected September 30, 2009.

Fully tax equivalent (FTE)

Restatement of tax-exempt interest income as if it was fully taxable. Enables tax-exempt interest income to be compared to taxable interest income on a consistent basis.

IPC deposits

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

Loan loss provision

The charge against earnings to increase the allowance for loan losses (net of current period charge-offs) sufficient to absorb losses inherent in the company's loan portfolios.

Net interest income

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

Net interest margin

A performance measure or ratio which is calculated by dividing net interest income by average interest-earning assets. The most basic indicator of the relative return on lending, investing, and depository activities before overhead and loan loss provision. Interest rate spread is a component of the net interest margin.

Noninterest income

Revenues generated from fee-based depositor and borrowing services (including interchange and overdraft fees), the sale of financial services products, and gains or losses from the sale of securities and extinguishment of debt, if any.

Nonperforming assets

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

Tangible equity/assets

Shareholders' equity, net of goodwill and other intangible assets, divided by the assets of the company, net of goodwill and intangible assets.

Troubled Asset Relief Program (TARP)

A program of the United States government to purchase assets from, and provide capital to, financial institutions in order to strengthen the financial sector. It was the largest component of the government's measures to address the crisis in the financial services industry over the past few years. The company chose not to participate in this program.

Tier 1 capital

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

Shareholder Information

Corporate Headquarters

Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
Phone: 315-445-2282 or 800-724-2262
Fax: 315-445-7347
www.communitybankna.com

Stock Listing

Common stock of Community Bank System, Inc. is listed on the New York Stock Exchange (NYSE) under the symbol: CBU. Newspaper listing for common stock: CmntyBkSys.

Annual Meeting

Wednesday, May 25, 2011
1:00 p.m. ET
Ventosa Vineyards
3440 Route 96A
Geneva, NY 14456

Transfer Agent and Registrant of Stock

Shareholders requiring a change of name, address or ownership of stock, or information about shareholder records, lost or stolen certificates, and dividend checks, direct deposit and reinvestment should contact:

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

Investor Information

Investor and shareholder information regarding Community Bank System, Inc., including all filings with the Securities and Exchange Commission, is available through the company's website: www.communitybankna.com

Copies may also be obtained without charge upon written request to:

Ms. Josephine Anne E. Rurka
Investor Relations Department
Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
315-445-7300
josie.rurka@communitybankna.com

Independent Auditors

The Board of Directors appointed PricewaterhouseCoopers LLP as auditor for the company for the year ended December 31, 2010.

Analyst Coverage

The following analysts published research about Community Bank System in 2010:

Boenning & Scattergood
Jason O'Donnell / 610.832.5258
jodonnell@boenninginc.com

Guggenheim Partners
David Darst / 615.208.1224
david.darst@guggenheimpartners.com

Janney Montgomery Scott
Richard Weiss / 215.665.6224
rweiss@jmsonline.com

Keefe, Bruyette & Woods
Damon Delmonte / 860.722.5908
ddelmonte@kbw.com

Macquarie Securities Group
John Moran / 212.231.0662
john.moran@macquarie.com

Raymond James & Associates
Whitney Young / 212.856.4885
whitney.young@RaymondJames.com

Sandler O'Neil & Partners
Joseph Fenech / 212.466.7938
jfenech@sandleroneill.com

Investor's Choice Program

CBU offers convenient, low-cost options for investors wishing to steadily buy shares. For information, contact:

Ms. Donna J. Drengel
Shareholder Relations Department
Community Bank System, Inc.
5790 Widewaters Parkway
DeWitt, NY 13214-1883
Phone: 315-445-7313
donna.drengel@communitybankna.com

or

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

Safe Harbor Statement

The Community Bank System, Inc. Annual Report contains forward-looking statements, within the provisions of the Private Security Litigation Reform Act of 1995, that are based on current expectations, estimates, and projections about the industry, markets and economic environment in which the company operates. Such statements involve risks and uncertainties that could cause actual results to differ materially from the results discussed in these statements. These risks are detailed in the company's periodic reports filed with the Securities and Exchange Commission.



Community Bank System, Inc.

5790 Widewaters Parkway

DeWitt, NY 13214-1883

800.724.2262

fax 315.445.7347

Communitybankna.com

Market Summary

Our retail banking franchise operates primarily in the smaller cities and towns of Upstate New York and Northeastern Pennsylvania, stable markets which have not been subjected to the volatility experienced in many regions of the country. Our retail banking operation ranks first or second in deposit market share in nearly 75% of the communities where we do business.

