SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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CNY FINANCIAL CORP

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31,1998

0-24739
Commission File Number

CNY Financial Corporation
(Exact name of registrant as specified in its charter)

DELAWARE	16-1557490
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employment Identification No.)

ONE NORTH MAIN STREET
CORTLAND, NEW YORK 13045
(Address of principal executive offices)

(607) 756-5643
Registrant's telephone number, including area code

COMMON STOCK, $0.01 PAR VALUE
Securities registered pursuant to Section 12(g) of the Act

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 day. (X) Yes ( ) No.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X).

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was approximately $54.2 million as of March 17, 1998. As of March 17, 1998, the registrant had 5,088,829 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Stockholders' Report for the year ended December 31,1998, are incorporated by reference into Part II hereof and portions of the Proxy Statement for the registrant's Annual Meeting of Stockholders to be held on April 28, 1999, are incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

CNY Financial Corporation, a Delaware corporation incorporated in 1998 (the "Company") is a bank holding company headquartered in Cortland, New York with total assets of over $281 million at December 31, 1998. Through its wholly owned subsidiary, Cortland Savings Bank, which was founded in 1866 (the "Bank"), the Company engages in full service community banking. The Bank is also headquartered in Cortland, New York, and has three full service offices in Cortland County, and a loan production office in Ithaca, Tompkins County.

The Company provides community banking services primarily to individuals and small-to-medium-sized businesses, in Cortland County and the neighboring counties. These services include traditional checking, NOW, money market, savings and time deposit accounts. The Company offers home equity, home mortgage, commercial real estate, commercial and consumer loans, safe deposit facilities and other services specially tailored to meet the needs of customers in its target markets.

The Company commenced operations on October 6, 1998, when the Bank converted from a state chartered mutual savings bank to a state chartered stock savings bank. References to the business activities, financial condition and operations of the Company prior to October 6, 1998 refer to the Bank, while references to the Company on or after that date refer to both the Company and the Bank as consolidated, unless the context indicates otherwise.

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements, including the accompanying notes, which appear in the Company's 1998 Annual Report, included as an exhibit to this Form 10-K.

INVESTMENT ACTIVITIES

GENERAL. The investment policy of the Company, which is approved by the Board of Directors, is based upon its asset/liability management goals and is designed primarily to provide satisfactory yields, while maintaining adequate liquidity, a balance of high quality, diversified investments, and minimal risk. The investment policy is implemented by the President and the Chief Financial Officer. The Company is assisted in its investment decisions by an independent nationally recognized investment advisory firm. All securities purchases and sales must be approved by at least two executive officers and the purchases are reported to the Board of Directors each month. The Company generally classifies its new securities investments as available-for-sale in order to maintain flexibility in satisfying future investment and lending requirements.

The following table sets forth certain information with respect to the Company's securities portfolio.

<TABLE>
<CAPTION>

	AT DECEMBER 31,					
	1998		1997		1996	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
SECURITIES AVAILABLE-FOR-SALE:	(Dollars in thousands)					
U.S. Treasury securities	$ 8,041	$ 8,136	$ 15,045	$ 15,141	$ 14,497	$ 14,550
U.S. Government agencies	4,996	5,028	996	1,005	4,988	4,993
Corporate debt obligations	27,649	27,822	13,819	13,861	13,233	13,252
State and municipal sub-divisions	917	927	-	-	-	-
Mortgage-backed securities	42,801	43,041	12,144	12,211	11,833	11,722
Total debt securities	84,404	84,954	42,004	42,218	44,551	44,517

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Equity securities	2,072	3,483	1,192	1,922	628	1,077
Total available-for-sale	86,476	88,437	43,196	44,140	45,179	45,594
SECURITIES HELD-TO-MATURITY:						
U.S. Government agencies	1,505	1,507	1,992	1,995	-	-
Corporate debt obligations	2,858	2,878	1,854	1,870	-	-
State and municipal sub-divisions	747	764	425	430	858	867
Mortgage-backed securities	5,208	5,255	8,279	8,274	10,899	10,766
Total held-to-maturity	10,318	10,404	12,550	12,569	11,757	11,633
TOTAL SECURITIES	$ 96,794	$ 98,841	$ 55,746	$ 56,709	$ 56,936	$ 57,227

</TABLE>

DEBT SECURITIES. The Company's debt securities totaled $95.3 million at December 31, 1998. It is the policy of the Company to invest in debt securities issued by the United States Government, its agencies, municipalities and corporations. The Company purchases only investment grade debt securities for its investment portfolio and at December 31, 1998, none of its debt securities were in default or otherwise classified. The Company seeks to balance its debt securities purchases between U.S. government and related securities which are virtually risk-free but which have lower yields and corporate debt securities which offer higher yields. Corporate debt securities present greater risks than U.S. Government securities because of the increased possibility that the corporate obligor, compared to the U.S. government, will default. To control risks, the Company limits its investment in corporate debt securities to those rated in the three highest grades by a nationally recognized rating organization.

The Company also invests in mortgage-backed securities. Mortgage-backed securities generally have higher yields than other debt securities because of their longer terms and the uncertainties associated with the timing of mortgage repayments. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize borrowings of the Company. However, these securities generally yield less than the loans that underlie them because of the cost of payment guarantees or credit enhancements that reduce credit risk.

While mortgage-backed securities carry a reduced credit risk as compared to loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities.

Debt securities are generally purchased with a remaining term to maturity of two to three years, with the exception of mortgage-backed securities, which have amortization schedules as long as thirty years. At December 31, 1998, more than 97.5% of the carrying value of the Company's debt securities, excluding mortgage-backed securities, had remaining terms to maturity of five years or less.

EQUITY SECURITIES. The Company and Bank invest a limited amount of their assets in corporate equity securities. These investments are made to diversify the Company's investments and provide opportunities for capital appreciation as well as dividend income. All equity securities are classified as available-for-sale. The Company does not regularly trade such securities and generally does not purchase them for the purpose of near term sale. Equity securities had a fair value of $3.5 million at December 31, 1998. The Bank intends to invest approximately an additional $50,000 per month in equity securities.

SECURITIES OF A SINGLE ISSUER. There were no securities of any singe issuer, other than the U.S. Treasury or U.S. government sponsored entities, which had a book value in excess of ten percent of stockholders' equity at December 31, 1998.

SECURITIES, MATURITIES AND YIELDS. The following table sets forth maturities and the weighted average yields of the Company's securities portfolio at December 31, 1998.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	ONE YEAR OR LESS		ONE TO FIVE YEARS		FIVE TO TEN YEARS		MORE THAN TEN YEARS		TOTAL DEBT SECURITIES	

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	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD
					(Dollars in thousands)					
U.S. Treasury securities	$ 5,066	6.17%	$ 3,069	6.33%	$ --	--%	$ -- --	--%	$ 8,135	6.25%
U.S. Government agencies	1,001	6.55%	5,533	5.90%	--	--%	--	--%	6,534	6.23%
Corporate debt	13,512	5.65%	17,168	6.01%	--	--%	--	--%	30,680	6.10%
State and municipal subdivisions	--	--%	486	4.25%	1,188	4.25%	--	--%	1,674	4.28%
Mortgage-backed securities	560	6.38%	2,404	7.07%	4,611	7.31%	40,674	6.80%	48,249	6.89%
Total	$20,139		$ 28,660		$ 5,799		$ 40,674		$ 95,272	

</TABLE>

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties.

LENDING ACTIVITIES

The loan portfolio is the largest category of the Company's interest earning assets.

LOAN PORTFOLIO COMPOSITION. The following table sets forth the composition of the Company's loan portfolio in dollar amounts and in percentages at the dates indicated.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	AT DECEMBER 31,									
	1998		1997		1996		1995		1994	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
					(Dollars in thousands)					
Real estate loans:										
Residential	$101,885	62.96%	$ 97,303	61.66%	$ 96,097	59.73%	$ 95,854	59.57%	$ 92,942	60.12%
Construction	145	0.09	316	0.20	528	0.33	155	0.10	1,065	0.69
Home equity	6,804	4.20	5,924	3.75	5,882	3.66	6,344	3.94	7,085	4.58
Commercial mortgages	29,224	18.06	30,867	19.56	35,119	21.83	35,165	21.86	32,756	21.19
Total real estate loans	138,058	85.31	134,410	85.17	137,626	85.55	137,518	85.47	133,848	86.58
Other loans:										
Guaranteed student loans	1,016	0.63	1,507	0.96	1,552	0.96	1,747	1.09	1,960	1.27
Property improvement loans	709	0.44	907	0.57	1,031	0.64	916	0.57	822	0.53
Automobile loans	10,854	6.71	8,902	5.64	6,378	3.96	5,510	3.42	4,617	2.99
Other consumer loans	4,597	2.84	5,031	3.19	6,289	3.91	6,174	3.84	5,993	3.88
Commercial Loans	6,588	4.07	7,049	4.47	8,020	4.98	9,023	5.61	7,366	4.75
Total other loans	23,764	14.69	23,396	14.83	23,270	14.45	23,370	14.53	20,758	13.42
Total loans	161,822	100.00%	157,806	100.00%	160,896	100.00%	160,888	100.00%	154,606	100.00%
Less:										
Deferred loan fees, net	121		241		333		379		378	
Allowance for loan losses	2,494		2,143		1,952		2,002		1,752	
Total loans, net	$159,207		$155,422		$ 158,611		$158,507		$152,476	

</TABLE>

RESIDENTIAL MORTGAGE LOANS. The Company offers both adjustable-rate and fixed-rate mortgage loans. The relative proportion of fixed versus adjustable mortgage loans originated by the Company depends principally upon customer preferences, which are generally driven by general economic and interest rate conditions and the pricing offered by the Company's competitors. In recent years, with relatively low mortgage interest rates, customer preference has favored fixed-rate mortgage loans. The adjustable-rate loans generally carry annual or triennial interest rate caps and life-of-the-loan ceilings which limit

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interest rate adjustments.

Generally, credit risks on adjustable-rate loans are somewhat greater than on fixed-rate loans primarily because, as interest rates rise, so do borrowers' payments, increasing the potential for default. The Company offers teaser rate loans with low initial interest rates that are not based upon the index plus the margin for determining future rate adjustments; however, the Company judges the borrower's ability to repay based on the payment due at an interest rate 2% higher than the initial rate.

In addition to verifying income and assets of borrowers, the Company obtains independent appraisals on all residential first mortgage loans and attorney's opinions of title are required at closing. The Company generally uses title opinions rather than title insurance on residential mortgage loans, but has not experienced losses due to its reliance on title opinions instead of title insurance. As the Company seeks to position itself to be able to sell mortgage loans on the secondary market towards the middle of 1999, it will begin to require title insurance on first lien residential mortgage loans it intends to sell. Private mortgage insurance is required on most loans with a loan to value ratio in excess of 80%. Real estate tax escrows are generally required on residential mortgage loans with loan to value ratios in excess of 80%.

Adjustable-rate mortgage loans originated in recent years have interest rates that adjust annually or every three years based on the one or three year Treasury bill index, plus 3%. Interest rate adjustments are generally limited to 2% per year for one-year adjustable loans and 3% per adjustment for three-year adjustable loans. There is normally a lifetime maximum interest rate adjustment, measured from the initial interest rate, of 6%.

Fixed-rate residential mortgage loans generally have terms of 10 to 30 years. Although fixed-rate mortgage loans may adversely affect the Company's net interest income in periods of rising interest rates, the Company originates such loans to satisfy customer demand. Such loans are generally originated at initial interest rates which exceed the fully indexed rate on adjustable-rate mortgage loans offered at the same time. Therefore, during periods of level interest rates, they tend to provide higher yields than adjustable loans. Fixed-rate residential mortgage loans originated by the Company generally include due-on-sale clauses which permit the Company to demand payment in full if the borrower sells the property without the Company's consent. Due-on-sale clauses are an important means of adjusting the rates of the Company's fixed-rate mortgage loan portfolio, and the Company has generally exercised its rights under these clauses.

HOME EQUITY LOANS. The Company offers a home equity line of credit secured by a residential one-to-four family mortgage, usually a second lien. These loans have adjustable rates of interest and generally provide for an initial advance period of ten years, during which the borrower pays interest only and can borrower, repay, and re-borrow the principal balance. The Company also offers home equity loans which are fully advanced at closing and repayable in monthly principal and interest installments over a period not to exceed 10 years. The maximum loan to value ratio, including prior liens, is 80% for lines of credit and 85% for regular amortizing home equity loans.

COMMERCIAL MORTGAGE LOANS. The Company originates commercial mortgage loans secured by office buildings, retail establishments, multi-family residential real estate and other types of commercial property. Substantially all of the properties are located in the Company's market area or in nearby areas of Central New York State.

The Company makes commercial mortgage loans with loan to value ratios up to 75%, terms up to five years, and amortization periods up to 20 years. Most of the Company's recent fixed-rate commercial mortgage loans mature after five years, which allows the Company to adjust the interest rate after five years if appropriate.

For commercial mortgage loans, the Company generally requires a debt service coverage ratio of at least 110% and the personal guarantee of the principals of the borrower. The Company also requires an appraisal by an independent appraiser. Title insurance is required for loans in excess of $500,000. Attorney's opinions of title are used instead of title insurance for smaller commercial loans, but the Company has not experienced losses as a result of not having title insurance.

Loans secured by commercial properties generally involve a greater degree of risk than one-to-four family residential mortgage loans. Because payments on such loans are often dependent on successful operation or management of the properties, repayment may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks through its underwriting policies. The Company evaluates the qualifications and financial condition of the borrower, including credit

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history, profitability and expertise, as well as the value and condition of the underlying property. The factors considered by the Company include net operating income; the debt coverage ratio (the ratio of cash net income to debt service); and the loan to value ratio. When evaluating the borrower, the Company considers the resources and income level of the borrower, the borrower's experience in owning or managing similar property and the Company's lending experience with the borrower. The Company's policy requires borrowers to present evidence of the ability to repay the loan without having to resort to the sale of the mortgaged property.

AUTOMOBILE LOANS. In recent years, the Company has exerted efforts to increase its level of automobile loans in order to provide improved yields, increase the interest rate sensitivity of its assets and expand its customer base. Automobile loans are originated both through direct contact between the Company and the borrower and through automobile dealers who refer the borrowers to the Company. The Company conducts its own analysis of the creditworthiness of borrowers referred to it by dealers before approving any automobile loan. The dealer loans are represented by installment sales contracts between the dealer and the purchaser which are immediately assigned to the Company. The dealers receive fees from the Company for the referrals.

The Company offers automobile loans for both new and used cars. The loans have fixed rates with maturities not more than five years. Loan amounts generally equal 85% of the purchase price of the car. These loans tend to present greater risks of loss than mortgage loans because the collateral is rapidly depreciable and easier to conceal. Therefore, the Company evaluates the credit and repayment ability of the borrower as well as the value of the collateral in determining whether to approve a loan.

OTHER CONSUMER LOANS. The Company also makes short-term fixed rate consumer loans either unsecured or secured by savings accounts or other consumer assets, as well as adjustable-rate revolving credit card loans and overdraft checking loans. The fixed-rate loans generally have a term of not more than five years and have interest rates higher than mortgage loans. The shorter terms to maturity or adjustable rates are helpful in managing the Company's interest rate risk. Applications for these loans are evaluated based upon the borrower's ability to repay and, if applicable, the value of the collateral. Collateral value, except for loans secured by bank deposits or marketable securities, is a secondary consideration because personal property collateral generally rapidly depreciates in value, is difficult to repossess, and rarely generates close to full value at a forced sale.

COMMERCIAL LOANS. The Company makes commercial loans to businesses for automobile dealer floor plan financing, working capital, machinery and equipment purchases, expansion, and other business purposes. These loans generally have higher yields than mortgage loans, with maturities that generally are not more than seven years. Working capital lines of credit tend to provide for one-year terms with annual reviews.

Commercial loans tend to present greater risks than mortgage loans because the collateral, if any, tends to be rapidly depreciable, difficult to sell at full value and easier to conceal. In order to limit these risks, the Company evaluates these loans based upon the borrower's ability to repay the loan from ongoing operations. The Company considers the business history of the borrower and perceived stability of the business as important factors when considering applications for such loans. Occasionally, the borrower provides commercial or residential real estate collateral for such loans, in which case the value of the collateral may be a significant factor in the loan approval process.

LOAN MATURITIES

The following table sets forth the maturities of commercial and real estate construction loans outstanding at December 31, 1998. Also set forth are the amounts of such loans due after one year, classified according to sensitivity to changes in interest rates.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
	MATURITY					
	DUE IN ONE YEAR OR LESS	DUE AFTER ONE YEAR THROUGH FIVE YEARS		DUE AFTER FIVE YEARS		TOTAL
		FIXED	FLOATING RATE	FIXED	FLOATING RATE	
		(In thousands)				

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Commercial and real estate construction loans	$ 2,971	$ 1,918	$ --	$ 1,844	$ --	$ 6,733

</TABLE>

ASSET QUALITY

NON-PERFORMING LOANS. Non-performing loans include: (1) loans accounted for on a non-accrual basis; (2) accruing loans contractually past due ninety days or more as to interest or principal payments; (3) loans whose terms have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.

The following table provides certain information on the Company's non-performing loans at the dates indicated.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C> AT DECEMBER 31,	<C>	<C>
	1998	1997	1996	1995	1994
			(Dollars in thousands)		
Non-accrual loans: (1)					
Residential mortgages	$ 667	$ 2,010	$ 1,069	$ 772	$ --
Commercial mortgages	167	1,235	1,416	421	1,295
Total real estate loans	834	3,245	2,485	1,193	1,295
Commercial loans	71	331	790	739	51
Other loans	15	209	358	62	--
Total non-accrual loans	920	3,785	3,633	1,994	1,346
Accruing loans past due 90 days or more:					
Residential mortgages	--	2	1	--	747
Commercial mortgages	--	--	--	--	310
Total real estate loans	--	2	1	--	1,057
Commercial loans	11	--	--	--	13
Other loans	4	7	33	--	47
Total loans past due 90 days or more and still accruing	15	9	34	--	1,117
Total non-performing loans	935	3,794	3,667	1,994	2,463
Real estate owned	260	964	563	374	572
Total non-performing assets	$ 1,195	$ 4,758	$ 4,230	$ 2,368	$ 3,035
Non-performing loans as a percent of total loans	0.58%	2.37%	2.28%	1.24%	1.60%
Non-performing assets as a percent of total assets	0.42%	2.04%	1.78%	1.00%	1.32%

</TABLE>

(1) Non-accrual loans at December 31, 1997 include $2.3 million of non-accrual loans held for sale. These loans were sold during the first quarter of 1998, representing the largest component of the decline in non-accrual loans.

At December 31, 1998 there were no loans other than those included in the table with regard to which management had information about possible credit problems of the borrower that caused management to seriously doubt the ability of the borrower to comply with present loan repayment terms.

DELINQUENCY PROCEDURES. When a borrower fails to make a required payment on a loan, the Company attempts to cause the deficiency to be cured by contacting the borrower. Late notices are sent when a payment is more than 15 days past due and a late charge is generally assessed at that time. The Company attempts to contact personally any borrower who is more than 20 days past due. All loans past due 90 days or more are added to a watch list and an employee of the Company contacts the borrower on a regular basis to seek to cure the delinquency. If a mortgage loan becomes past due from 90 to 120 days, the Company refers the matter to an attorney, who first seeks to obtain payment without litigation and, if unsuccessful, generally commences a foreclosure action or other appropriate legal action to collect the loan. A foreclosure action, if the default is not cured, generally leads to a judicial sale of the mortgaged real estate.

If an automobile loan becomes 60 days past due, the Company seeks to

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repossess the collateral. If the default is not cured, then upon repossession the Company sells the automobile as soon as practicable through a local automobile auction. When other types of non-mortgage loans become past due, the Company takes measures to cure defaults through contacts with the borrower and takes appropriate action, depending upon the nature of the borrower and the collateral, to obtain repayment of the loan.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses is maintained at a level considered adequate to provide for potential future losses. The level of the allowance is based upon management's periodic and comprehensive evaluation of the loan portfolio, as well as current and projected economic conditions. Reports of examination furnished by state and federal banking authorities are also considered by management in this regard. These evaluations by management in assessing the adequacy of the allowance include consideration of past loan loss experience, changes in the composition of the loan portfolio, the volume and condition of loans outstanding and current market and economic conditions.

The analysis of the adequacy of the allowance is reported to and reviewed by the Loan Committee of the Board of Directors of the Bank monthly. Management believes it uses a reasonable and prudent methodology to project potential future losses in the loan portfolio, and hence assess the adequacy of the allowance for loan losses. However, any such assessment is speculative and future adjustments may be necessary if economic conditions or the Company's actual experience differ substantially from the assumptions upon which the evaluation of the allowance was based. Moreover, future additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of management's control.

Loans are charged to the allowance for loan losses when deemed uncollectible by management, unless sufficient collateral exists to repay the loan.

Set forth in the following table is an analysis of the allowance for loan losses.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(Dollars in thousands)				
Allowance for loan losses, beginning of year	$ 2,143	$ 1,952	$ 2,002	$ 1,752	$ 1,620
Provision for loan loss	325	3,300	1,380	600	300
Charge-offs:					
Real estate	16	2,484	264	478	110
Commercial	52	395	898	31	21
Other	112	400	551	96	137
Total charge-offs	180	3,279	1,713	605	268
Recoveries:					
Real estate	96	9	24	161	--
Commercial	40	61	190	--	--
Other	70	100	69	94	100
Total recoveries	206	170	283	255	100
Net charge-offs (recoveries)	(26)	3,109	1,430	350	168
Allowance for loan losses, end of year	$ 2,494	$ 2,143	$ 1,952	$ 2,002	$ 1,752
Allowance for loan losses as a percent of total loans	1.54%	1.34%	1.22%	1.25%	1.14%
Allowance for loan losses as a percent of non-performing loans	266.74%	56.48%	53.23%	100.40%	71.13%
Ratio of net charge-offs (recoveries) to average loans outstanding	(0.02)%	1.97%	0.90%	0.22%	0.12%

</TABLE>

The following table presents the allocation of the allowance for loan losses.

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	AT DECEMBER 31,									
	1998		1997		1996		1995		1994	
	AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT	PERCENT OF LOAN TO TOTAL LOANS
	(Dollars in thousands)									
ALLOWANCE FOR LOAN LOSSES ALLOCATED TO:										
Residential mortgages	$1,187	67.25%	$ 661	65.61%	$ 389	63.72%	$ 112	63.61%	$ 746	65.39%
Commercial mortgages	617	18.06	638	19.56	818	21.83	753	21.86	341	21.19
Commercial loans	279	4.07	183	4.47	478	4.98	961	5.61	331	4.75
Other loans	411	10.62	192	10.36	267	9.47	176	8.92	334	8.67
Unallocated	--	--	469	--	--	--	--	--	--	--
Total allowance	$2,494	100.00%	$2,143	100.00%	$1,952	100.00%	$2,002	100.00%	$1,752	100.00%

</TABLE>

SOURCES OF FUNDS

GENERAL. The Company's primary source of funds is deposits. In addition, the Company derives funds for loans and investments from loan and security repayments and prepayments and revenues from operations. Scheduled payments on loans and securities are a relatively stable source of funds, while savings inflows and outflows and loan and securities prepayments are significantly influenced by general interest rates and money market conditions.

DEPOSITS. The Company offers several types of deposit programs to its customers, including passbook and statement savings accounts, NOW accounts, money market deposit accounts, checking accounts and certificates of deposit. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. The Company's deposits are obtained predominantly from its Cortland County market area. The Company relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain deposits. The Company does not use brokers to obtain deposits and has no brokered deposits.

The Company prices its deposit offerings based upon market and competitive conditions in its market area. Pricing determinations are made weekly by a committee of senior officers. The Company seeks to price its deposit offerings to be competitive with other institutions in its market area.

The following table sets forth the maturities of certificates of deposit and other time deposits of $100,000 or more at December 31, 1998.

	December 31, 1998
	(Dollars in thousands)
Maturing within three months	$ 1,705
After three but within six months	1,528
After six but within twelve months	4,153
After twelve months	5,642
Total	$13,028

BORROWINGS. The Company maintains an available overnight line of credit with the Federal Home Loan Bank of New York (FHLB) for use in the event of unanticipated funding needs which cannot be satisfied from other sources. Additionally, the Company may borrow term advances for the FHLB. The Company had $1 million of borrowings from the FHLB at December 31, 1998.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under

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federal and state law. References under this heading to applicable statues or regulations are brief summaries of portions thereof which do not purport to be complete and which are qualified in their entirety by reference to those statutes and regulations. Any change in applicable laws or regulations may have a material adverse effect on the business of savings banks and bank holding companies, including the Company and the Bank. However, management is not aware of any current recommendations by any regulatory authority which, if implemented, would have or would be reasonable likely to have a material adverse effect on liquidity, capital resources or operations of the Company or the Bank.

BANK HOLDING COMPANY REGULATION: The Company is registered as a "bank holding company" with the Federal Reserve and accordingly, is subject to supervision by the Federal Reserve under the Bank Holding Company Act (the "BHC Act"). The Company is required to file with the Federal Reserve periodic reports and such additional information as the Federal Reserve may require pursuant to the BHC Act. The Federal Reserve has the authority to examine the Company and may also examine the Bank.

The BHC Act requires prior Federal Reserve approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than five percent of the voting shares or substantially all the assets of any bank or bank holding company, or for a merger or consolidation of a bank holding company with another bank holding company. With certain exceptions, the BHC Act prohibits a bank holding company from acquiring direct or indirect ownership or control of voting shares of any company which is not a bank or bank holding company and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or performing services for its authorized subsidiaries. Under the BHC Act and Federal Reserve regulations, the Company and the Bank are prohibited from engaging in certain tie-in arrangements in connection with an extension of credit, lease, sale of property, or furnishing of services.

Any person, including associates and affiliates of and groups acting in concert with such person, who purchases or subscribes for ten percent or more of any class of the Company's voting stock may be required to obtain prior approval of the Federal Reserve under the BHC Act. Prior regulatory approval is also required before acquiring the power to directly or indirectly direct the management, operations or policies of the Company or the Bank. In addition, any corporation, partnership, trust or organized group that acquires a controlling interest in the Company or the Bank may have to obtain approval of the Federal Reserve to become a bank holding company and thereafter be subject to regulation as such. Furthermore, in order for the Company to acquire control of another bank or bank holding company so that the Company owns, directly or indirectly, two separate banks, the advance approval of the New York Banking Board would generally also be required.

It is the policy of the Federal Reserve that the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank. The Federal Reserve takes the position that in implementing this policy, it may require the Company to provide such support when the Company otherwise would not consider itself able to do so.

The Federal Reserve has adopted risk-based capital requirements for assessing bank holding company capital adequacy. These standards define regulatory capital and establish minimum capital standards in relation to assets and off-balance sheet exposures, as adjusted for credit risks. Under the Federal Reserve's risk-based guidelines, capital is classified into two categories. For bank holding companies, Tier 1 or "core" capital consists of common shareholders' equity, perpetual preferred stock and trust preferred stock (both subject to certain limitations) and minority interest in the common equity accounts of consolidated subsidiaries, and is reduced by goodwill, certain other intangible assets and certain investments in other corporations ("Tier 1 capital"). Tier 2 capital consists of the allowance for loan and lease losses (subject to certain conditions and limitations), perpetual preferred stock (to the extent not included in Tier 1 capital), "hybrid capital instruments," perpetual debt and mandatory convertible debt securities, and term subordinated debt and intermediate-term preferred stock.

Under the Federal Reserve's capital guidelines, bank holding companies are required to maintain a minimum ratio of qualifying capital to risk-weighted assets of 8.0%, of which at least 4.0% must be in the form of Tier 1 capital. The Federal Reserve also requires a minimum leverage ratio of Tier 1 capital to total average assets of 4.0%, except that bank holding companies not rated in the highest category under the regulatory rating system are required to maintain a leverage ratio of 1.0% to 2.0% above such minimum. The 4.0% Tier 1 capital to total average assets ratio constitutes the minimum leverage standard for bank holding companies, and will be used in conjunction with the risk-based ratio in determining the overall capital adequacy of banking organizations. In addition, the Federal Reserve considers the Tier 1 leverage ratio in evaluating proposals for expansion or new activities.

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As of December 31, 1998, the Company had a Tier 1 capital to risk-weighted assets ratio ("Tier 1 Ratio") of 47.42%, total capital to risk-weighted assets ratio ("Tier 2 Ratio") of 48.91% and a Tier 1 capital to total average assets ratio ("leverage ratio") of 29.57%.

TRANSACTIONS WITH AFFILIATES. Transactions between a bank and its holding company or other affiliates are subject to various restrictions imposed by state and federal regulatory agencies. Such transactions include loans and other extensions of credit, purchases of securities and other assets, and payments of fees or other distributions. In general, these restrictions limit the amount of transactions between an institution and an affiliate of such institution, as well as the aggregate amount of transactions between an institution and all of its affiliates, and require transactions with affiliates to be on terms comparable to those for transactions with unaffiliated entities.

DIVIDEND LIMITATIONS. As a holding company, the Company is primarily dependent upon dividend distributions from the Bank and interest on investments for its income. Federal statutes and regulations impose restrictions on the payment of dividends by the Company and the Bank.

Federal Reserve policy provides that a bank holding company should not pay dividends unless (i) the bank holding company's net income over the prior year is sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries.

Delaware law also places certain limitations on the ability of the Company to pay dividends. For example, the Company may not pay dividends to its stockholders if, after giving effect to the dividend, the Company would not be able to pay its debts as they become due.

Under the New York Banking Law, a stock form savings bank may pay dividends out of its net profits unless there is an impairment of capital. A savings bank may not declare dividends in any year which exceed the total net profits of that year combined with the bank's retained net profits of the preceding two years, subject to certain adjustments, without the approval of the Superintendent of Banks. Furthermore, the Bank may not declare a dividend which would cause it to fail to meet its capital requirements and may not declare a dividend that would cause its capital to decline below the liquidation account created in the conversion.

The FDIC and the Superintendent may prohibit the Bank from paying dividends if, in either of their opinions, the payment of dividends would constitute an unsafe or unsound practice. Dividends are also prohibited if the payment would cause the Bank to be undercapitalized.

BANK REGULATIONS. The Bank is subject to extensive regulation, examination, and supervision by the New York State Banking Department and the FDIC. The Bank's deposit accounts are insured up to applicable limits by the Bank Insurance Fund of the FDIC. The Bank must file reports with the Banking Department and the FDIC concerning its activities and financial condition, and it must get regulatory approvals before entering into certain transactions, such as mergers with other banks. The Banking Department and the FDIC conduct periodic examinations of the Bank to determine the safety and soundness of the Bank and whether the Bank is complying with regulatory requirements.

BUSINESS ACTIVITIES. The Bank derives its lending, investment and other authority primarily from the New York Banking Law and the regulations of the Superintendent of Banks and the New York State Banking Board, as limited by FDIC regulations and other federal laws and regulations. The Bank may make investments and engage in activities only as permitted under specific laws and regulations which grant powers to the Bank. The Bank may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, state and local government agencies, certain types of corporate equity securities and certain other assets. The Bank may invest up to 7.5% of its assets in certain corporate stock and may also invest up to 7.5% of its assets in certain mutual fund securities. Investment in stock of a single corporation is limited to the lesser of 2% of the outstanding stock of such corporation or 1% of the Bank's assets, except as set forth below. In order to qualify for investment by the Bank, the equity securities must meet certain tests of financial performance. The Bank may also make investments not otherwise permitted under the Banking Law. This authority permits investments in otherwise impermissible investments of up to 1% of the Bank's assets in any single investment, subject to certain restrictions, and to an aggregate limit for all such investments of up to 5% of assets. Additionally, instead of investing in securities as specifically permitted in the Banking Law, the Bank may elect to invest under a prudent person standard in a wider range of debt and equity securities. The Bank has not exercised the right to invest under this prudent person standard. If the Bank

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elects to utilize the "prudent person" standard, it will be unable to use the other provisions of the Banking Law and regulations which permit specific investments. New York State chartered savings banks may also exercise trust powers upon approval of the Banking Board. The Bank has not sought such approval.

At December 31, 1998, the Bank did not have any operating subsidiaries. The Bank may invest in subsidiaries that engage in activities in which savings banks may engage directly, plus any additional activities which may be authorized by the Banking Board. Investment in the stock, capital notes and debentures of all subsidiaries is limited to 3% of the Bank's assets, and such investments, together with the Bank's loans to its subsidiaries, may not exceed 10% of the Bank's assets.

Under FDIC regulations, the Bank generally may not directly or indirectly acquire or retain any equity investment that is not permissible for a national bank. In addition, the Bank may not directly or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the applicable FDIC insurance fund and the Bank is in compliance with applicable regulatory capital requirements.

Savings bank life insurance activities are permitted if (i) the FDIC does not decide that such activities pose a significant risk to the applicable deposit insurance fund, (ii) the insurance underwriting is conducted through a division of the Bank that meets the definition of a separate department under FDIC regulations and (iii) the Bank discloses to purchasers of life insurance policies and other products that they are not insured by the FDIC, among other things.

Also excluded from the prohibition on making investments not permitted for national banks are certain investments in common and preferred stock listed on a national securities exchange and in shares of an investment company registered under the Investment Company Act of 1940, as amended. The Bank's total investment in such securities may not exceed 100% of the Tier 1 capital as calculated under FDIC regulations. The Bank qualifies for this exclusion and has used its authority to invest in corporate equity securities. The authority to continue these investments may terminate if the FDIC determines that the investments pose a safety and soundness risk to the Bank or if the Bank converts its charter or undergoes a change in control.

LOANS TO ONE BORROWER. The Bank, as a New York State chartered savings bank, may make mortgage loans to any borrower or group of borrowers without regard to mandatory maximum loan amount limits based upon capital or any other measure imposed by law, except for general concepts of prudence and safety and soundness. However, with certain exceptions, the Bank may not make non-mortgage loans for commercial, corporate or business purposes (including lease financing) to a single borrower, in an aggregate amount in excess of 15% of the Bank's stockholders' equity, plus an additional 10% of the Bank's stockholders' equity if such amount is secured by certain types of readily marketable collateral. Similar limits apply to most other types of non-mortgage loans. The Bank currently complies with these limits.

CAPITAL REQUIREMENTS. The FDIC regulates the capital adequacy of the Bank. The FDIC requires that the highest rated banks maintain a leverage ratio of at least 3.0%. All other banks subject to FDIC capital requirements must maintain a leverage ratio of 4.0% to 5.0% or more. As of December 31, 1998, the Bank's leverage capital ratio was 23.40%.

The Bank must also meet a risk-based capital standard. The risk-based standard requires the Bank to maintain total capital (defined as Tier 1 and Tier 2 capital) to risk-weighted assets of at least 8% of which at least 4% must be Tier 1 capital. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset. As of December 31, 1998, the Bank maintained a 37.32% Tier 1 risk-based capital ratio and a 38.82% total risk-based capital ratio.

COMMUNITY REINVESTMENT. Under the Community Reinvestment Act, the Bank must, consistent with its safe and sound operation, help meet the credit needs of its entire community, including low and moderate income neighborhoods. There are no specific lending requirements or programs nor does the law limit the Bank's discretion to develop products and services that it believes are best suited to its particular community. The FDIC periodically assesses the Bank's record of meeting the credit needs of its community and must take such record into account in its evaluation of certain applications made by the Bank.

FDIC regulations provide that the Bank's performance under the Community Reinvestment Act is evaluated based on its actual performance in meeting community needs. In particular, the rating system focuses on three

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tests: (a) a lending test, to evaluate the Bank's record of making loans in its assessment areas; (b) an investment test, to evaluate the Bank's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) a service test, to evaluate the Bank's delivery of banking services. The Bank received a satisfactory rating from the FDIC at its last examination under the Community Reinvestment Act.

The New York Banking Law imposes similar community reinvestment obligations on the Bank. The Banking Department makes an annual written assessment of the Bank's compliance. The Banking Department considers the Bank's state community reinvestment rating when reviewing an application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices or automated teller machines. The Bank received a satisfactory rating from the Banking Department at its last state community reinvestment examination.

STANDARDS FOR SAFETY AND SOUNDNESS. The Federal Reserve and the FDIC, together with the other federal bank regulatory agencies, has prescribed guidelines which establish minimum general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines also cover asset quality and earnings evaluation and monitoring as well. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the FDIC may order an institution that has been given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If an institution then fails to submit an acceptable plan or fails in an material respect to implement an accepted compliance plan, the FDIC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized bank is subject under the "prompt corrective action" requirements described below. If an institution fails to comply with such an order, the FDIC may seek enforcement in judicial proceedings and civil money penalties.

PROMPT CORRECTIVE ACTION. FDICIA requires the federal banking regulators, including the Federal Reserve and the FDIC, to take prompt corrective action with respect to depository institutions that fall below certain capital standards. Institutions that are not adequately capitalized may be subject to a variety of supervisory actions including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions and will be required to submit a capital restoration plan which, to be accepted by the regulators, must be guaranteed in part by any company having control of the institution (such as the Company). Federal banking agencies have indicated that, in regulating bank holding companies, the agencies may take appropriate action at the holding company level based on their assessment of the effectiveness of supervisory actions imposed upon subsidiary insured depository institutions pursuant to the prompt corrective action rules.

FORWARD-LOOKING STATEMENTS

In this Form 10-K, the Company, when discussing the future, may use words like "will probably result", "are expected to", "may cause", "is anticipated", "estimate", "project", or similar words. These words represent forward-looking statements. In addition, any analysis of the adequacy of the allowance for loan losses or the interest rate sensitivity of the Company's assets and liabilities, represent attempts to predict future events and circumstances and also represent forward-looking statements.

Many factors could cause future results to differ from what is anticipated in the forward-looking statements. For example, future financial results could be affected by (i) deterioration in local, regional, national or global economic conditions which could cause an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial service industry; (iv) changes in competition and (v) changes in consumer preferences.

Please do not place unjustified or excessive reliance on any forward-looking statements. They speak only as of the date made and are not guarantees, promises or assurances of what will happen in the future. Remember that various factors, including those described above, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to be materially different from what has been

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anticipated or projected.

PERSONNEL

At December 31, 1998, the Company employed 91 full-time equivalent employees. The employees are not represented by a collective bargaining unit, and the Company considers its relationship with its employees to be good.

COMPETITION

The Company's principal competitors for deposits are other savings banks, savings and loan associations, commercial banks and credit unions in the Company's market area, as well as money market mutual funds, insurance companies and securities brokerage firms, many of which are substantially larger in size than the Company. The Company's competition for loans comes principally from savings banks, savings and loan associations, commercial banks, mortgage bankers, finance companies and other institutional lenders. Some of the institutions which compete with the Company have much greater financial and marketing resources than the Company. The Company's principal methods of competition include loan and deposit pricing, maintaining close ties with its local community, advertising and marketing programs and the types of services provided.

ITEM 2. PROPERTIES

The Company conducts its business through its headquarters in the City of Cortland, a nearby drive-up facility, and two branches in adjacent communities in Cortland County. The Company also has a representative office in Ithaca for the originations of mortgage loans. The Company believes that these properties are adequate for current needs. The following table sets forth certain information regarding the Company's deposit-taking offices at December 31, 1998.

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LOCATION	DATE ACQUIRED	OWNED/ LEASED	NET BOOK VALUE
		(In thousands)	
One North Main Street, Cortland, NY 13045 and nearby drive through facility at 29-31 North Main Street	Various	Owned	$836
12 South Main Street, Homer, NY 13077	Various	Owned	$916
860 Route 13, Cortlandville, NY 13045	Various	Owned	$482
200 East Buffalo Street, Ithaca, NY 14850	1998	Leased	None

</TABLE>

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank are from time to time parties in various routine legal actions arising in the normal course of business. Management believes that there is no proceeding threatened or pending against the Company or the Bank which, if determined adversely, would materially adversely affect the consolidated financial position or operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information required in response to this item is contained in the Company's Annual Report under the captions "Stock Listing" and "Dividends" and is incorporated herein by reference. The Company did not engage in the sale of any securities which were not registered under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

Information required in response to this item is contained in the Annual Report to Stockholders under the caption "Selected Financial Highlights"

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and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required in response to this item is contained in the Company's Annual Report to Stockholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated herein by reference. The discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and supplementary data contained in the Company's Annual Report to Stockholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required in response to this item is contained in the Company's Annual Report to Stockholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated herein by reference. The discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and supplementary data contained in the Company's Annual Report to Stockholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required in response to this item is contained in the Annual Report to Stockholders under the caption "Consolidated Financial Statements," and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required in response to this item is contained in the Company's definitive Proxy Statement (the "Proxy Statement") for its Annual Meeting of Stockholders to be held April 28, 1999 under the caption "The Board of Directors, Nominees and Executive Officers" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item is contained in the Company's Proxy Statement under the caption "Executive Officer Compensation" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is incorporated by reference to the section "Principal Owners of Our Common Stock" in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 28, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this item is contained in the Proxy Statement under the caption "Transactions with Directors and Officers" and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

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1., 2. Financial Statements and Schedules

The Consolidated Financial Statements are incorporated by reference to the following pages from the 1998 Annual Report to Stockholders, attached hereto as Exhibit 13.1:

	Page
Independent Auditor's Report	14
Consolidated Balance Sheets	15
Consolidated Statements of Income	16
Consolidated Statements of Stockholders' Equity and Comprehensive Income	17
Consolidated Cash Flow Statements	18-19
Notes to Consolidated Financial Statements	20-37

No schedules are required to be filed with this report.

3.0 Exhibits

3.1 Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Form S-1 Registration Statement (No. 333-57259) filed with the Securities and Exchange Commission on June 19, 1998).

3.2 Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Company's Form S-1 Registration Statement (No. 333-57259) filed with the Securities and Exchange Commission on June 19, 1998).

10.1 Employment Agreement between Cortland Savings Bank and Wesley D. Stisser (incorporated by reference to Exhibit 10.1 of the Company's Form S-1 Registration Statement (No. 333-57259) filed with the Securities and Exchange Commission on June 19, 1998).

10.2 Employment Agreement between Cortland Savings Bank and F. Michael Stapleton (incorporated by reference to Exhibit 10.2 of the Company's Form S-1 Registration Statement (No. 333-57259) filed with the Securities and Exchange Commission on June 19, 1998).

10.3 Employment Agreement between Cortland Savings Bank and Steven A. Covert (incorporated by reference to Exhibit 10.3 of the Company's Form S-1 Registration Statement (No. 333-57259) filed with the Securities and Exchange Commission on June 19, 1998).

10.4 Employment Agreement between Cortland Savings Bank and Kerry D. Meeker (incorporated by reference to Exhibit 10.4 of the Company's Form S-1 Registration Statement (No. 333-57259) filed with the Securities and Exchange Commission on June 19, 1998).

13.1 1998 Annual Report to Stockholders

21.1 Subsidiaries of the Company

27.1 Financial Data Schedule

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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CNY FINANCIAL CORP.

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By:	Wesley D. Stisser	/s/	WESLEY D. STISSER President & Chief Executive Officer	MARCH 25, 1999 (Dated)
	Steven A. Covert	/s/	STEVEN A. COVERT Executive Vice President & Chief Financial Officer	MARCH 25, 1999 (Dated)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Joseph H. Compagni	/s/	JOSEPH H. COMPAGNI Director	MARCH 25, 1999 (Dated)
Patrick J. Hayes	/s/	PATRICK J.HAYES Director	MARCH 25, 1999 (Dated)
Robert S. Kashdin	/s/	ROBERT S. KASHDIN Director	MARCH 25, 1999 (Dated)
Harvey Kaufman	/s/	HARVEY KAUFMAN Director	MARCH 25, 1999 (Dated)
Donald P. Reed	/s/	DONALD P. REED Director	MARCH 25, 1999 (Dated)
Lawrence Seidman		Director	(Dated)
Terrance D. Stalder	/s/	TERRANCE D. STALDER Director	MARCH 25, 1999 (Dated)
Wesley D. Stisser	/s/	WESLEY D. STISSER Director	MARCH 25, 1999 (Dated)

</TABLE>

INDEX TO EXHIBITS

3.1 Certificate of Incorporation of the Company*

3.2 Bylaws of the Company*

10.1 Employment Agreement between Cortland Savings Bank and Wesley D. Stisser*

10.2 Employment Agreement between Cortland Savings Bank and F. Michael Stapleton*

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10.4 Employment Agreement between Cortland Savings Bank and Kerry D. Meeker*

13.1 1998 Annual Report to Stockholders

21.1 Subsidiaries of the Company

27.1 Financial Data Schedule

*Previously filed.

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DESCRIPTION OF BUSINESS

CNY FINANCIAL CORPORATION IS A PUBLICLY TRADED BANK HOLDING COMPANY HEADQUARTERED IN CORTLAND, NEW YORK. WITH ASSETS OF $281.2 MILLION, THE COMPANY SERVES ITS COMMUNITY THROUGH ITS WHOLLY OWNED SUBSIDIARY, CORTLAND SAVINGS BANK. THE BANK OPERATES THREE FULL-SERVICE OFFICES IN CORTLAND COUNTY AND A LOAN PRODUCTION OFFICE IN ITHACA, IN NEIGHBORING TOMPKINS COUNTY. CNY FINANCIAL'S COMMON STOCK IS TRADED ON THE NASDAQ NATIONAL MARKET SYSTEM UNDER THE SYMBOL "CNYF".

CNY FINANCIAL CORPORATION
Selected Financial Highlights

<TABLE>
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SELECTED BALANCE SHEET DATA:	DECEMBER 31, 1998	1997	1996	1995	1994
	(In thousands, except share data)				
Total assets	$281,186	$ 233,729	$238,100	$235,681	$230,339
Loans receivable, net	159,207	155,422	158,611	158,507	152,476
Allowance for loan losses	2,494	2,143	1,952	2,002	1,752
Loans held-for-sale	--	2,541	--	--	--
Securities available-for-sale	88,437	44,140	45,594	41,777	2,519
Securities held-to-maturity	10,318	12,550	11,757	11,188	61,716
Cash & cash equivalents	14,536	8,079	12,536	14,176	4,912
Real estate owned	260	964	563	374	572
Deposits	196,014	199,770	204,640	203,110	200,310
Borrowings	1,000	--	--	--	--
Total stockholders' equity	$ 79,070	$ 30,740	$ 30,345	$ 29,030	$ 26,876
Book value per share (1)	$ 15.06	N/A	N/A	N/A	N/A
Book value per share, excluding unallocated ESOP shares (2)	$ 16.38	N/A	N/A	N/A	N/A

Continued page 1

</TABLE>

ON OUR COVER
POISED FOR GROWTH
From a position of recognized leadership in community banking that spans more than 130 years, a strong, new financial services company was created in Central New York on October 6, 1998 when the oldest and largest independent bank in Cortland, NY converted from a state-chartered mutual savings bank to a stock savings bank. On that day, CNY Financial was launched.

CNY
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CNY FINANCIAL CORPORATION
Selected Financial Highlights, Continue

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31 1998	1997	1996	1995	1994
SELECTED OPERATIONS DATA:	(In thousands, except share data)				
Interest income	$ 18,003	$ 17,667	$ 17,787	$ 17,811	$ 15,855
INTEREST EXPENSE	7,986	8,328	8,758	8,613	7,915
Net interest income	10,017	9,339	9,029	9,198	8,940
PROVISION FOR LOAN LOSSES	325	3,300	1,380	600	300
Net interest income after provision for loan losses	9,692	6,039	7,649	8,598	8,640

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OTHER NON-INTEREST INCOME	1,583	889	770	671	478
	11,275	6,928	8,419	9,269	9,118
OTHER NON-INTEREST EXPENSE	8,326	6,872	6,201	5,945	5,586
Income before income taxes	2,949	56	2,218	3,324	3,532
INCOME TAX EXPENSE (BENEFIT)	1,270	(16)	853	1,400	1,361
Net Income	$ 1,679	$ 72	$ 1,365	$ 1,924	$ 2,171
Basic earnings per share (3)	$ --	N/A	N/A	N/A	N/A
Earnings per share, excluding contribution to Foundation (4)	$ 0.13	N/A	N/A	N/A	N/A
Weighted average shares outstanding	4,928,044	N/A	N/A	N/A	N/A

</TABLE>

<TABLE>
<CAPTION>

<S> SELECTED FINANCIAL RATIOS AND OTHER DATA:	AT OR FOR THE YEAR ENDED DECEMBER 31				
	1998	1997	1996	1995	1994
PERFORMANCE RATIOS:					
Return on average assets	0.64%	0.03%	0.58%	0.82%	0.92%
Return on average assets, excluding contribution to Foundation (4)	0.87%	0.03%	0.58%	0.82%	0.92%
Return on average equity	3.21%	0.23%	4.64%	6.85%	8.41%
Return on average equity, excluding contribution to Foundation (4)	4.38%	0.23%	4.64%	6.85%	8.41%
Net interest rate spread	3.52%	3.58%	3.48%	3.70%	3.62%
Net interest margin	4.28%	4.17%	4.02%	4.18%	4.03%
Efficiency ratio	72.00%	67.49%	63.38%	60.34%	59.52%
Efficiency ratio, excluding contribution to Foundation (4)	63.15%	67.49%	63.38%	60.34%	59.52%
STOCKHOLDERS' EQUITY AND ASSET QUALITY RATIOS:					
Average equity to average total assets	19.86%	13.04%	12.40%	12.00%	10.96%
Total equity to assets end of period	28.12%	13.15%	12.74%	12.32%	11.67%
Non-performing assets to total assets	0.42%	2.04%	1.78%	1.00%	1.32%
Non-performing loans to total loans	0.58%	2.37%	2.28%	1.24%	1.60%
Allowance for loan losses to total loans	1.54%	1.34%	1.22%	1.25%	1.14%
Allowance for loan losses to non-performing loans	266.74%	56.48%	53.23%	100.40%	71.13%
OTHER DATA:					
Full service offices	3	3	3	3	3
Full-time equivalent employees	91	93	95	96	99

</TABLE>

(1) Book value per share is equal to total equity divided by the common shares outstanding at December 31, 1998.

(2) Equal to stockholders' equity divided by common shares outstanding, less 423,175 unallocated ESOP shares.

(3) Earnings per share calculated on earnings from date of conversion (October 6, 1998) to December 31, 1998.

(4) Excludes contribution expense to the Cortland Savings Foundation of $1,023,000, or $614,000 after taxes.

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A MESSAGE TO OUR SHAREHOLDERS

I am pleased to present to you the inaugural annual report of CNY Financial. Creation of your new public holding company and conversion of its sole subsidiary, Cortland Savings Bank, to a stock bank have enabled us to

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reach historic levels of profitability and position. CNY Financial for leadership within the industry, as evidenced by the following:

o Net income for 1998 was $2.3 million, excluding the expense of a donation to the Company's charitable foundation, compared with net income in 1997 of $72,000. This improvement occurred primarily as the result of a reduction in the costs associated with nonperforming assets.

NET INCOME
$ in Millions

1996	1997	1998	
		$2.3 Before Foundation Contribution	
		Net Income After Foundation Contribution	After-Tax Foundation Contribution
$1.4	$0.1	$1.7	$0.6

o Nonperforming assets totaled $1.2 million on December 31, 1998, or .42% of total assets, compared to $4.8 million or 2.04% of total assets at the end of 1997. This reduction reflects the successful sale of problem assets in the first quarter of 1998 and our loan staff's continued attention to asset quality.

NON-PERFORMING ASSETS/TOTAL ASSETS

1996	1997	1998
1.78%	2.04%	0.42%

o Stockholders' equity totaled $79.1 million on December 31, 1998 reflecting a $48.3 million increase during the year. The Company is well in excess of regulatory requirements to be "well capitalized" and, as such, is well positioned to benefit from strategic expansion opportunities. We will work diligently with our financial advisors to identify appropriate avenues to deploy this new capital.

The conversion has also been beneficial in other ways. While we have always been mindful that our employees and the communities we serve have a direct impact on our success, creation of CNY Financial enabled us to launch two initiatives that will underscore their continuing importance in the future. The first is development of an employee stock ownership plan which gives our employees a vested interest in their Company. This translates into our employees working towards an even higher level of productivity as employee-owners. The second is creation of a charitable entity, the Cortland Savings Foundation, which is endowed with $1 million of common stock from the conversion. The Foundation, which is endowed with $1 million of common stock from the conversion. The Foundations's purpose will be to support significant housing, community development and charitable projects that will enhance the quality of life for people in the communities we serve.

As evidence of our commitment to enhancing shareholder value, the Company was the first in New York State to receive approval to repurchase 5% of its common stock less than six months after our conversion. Furthermore, we were pleased to announce the initial quarterly cash dividend of the Company in February of 1999. As we continue to focus on shareholder value we are currently considering fee income enhancements and efficiency improvements through increased utilization of existing systems and personnel, both of which initiatives should increase the return to shareholders.

Amid consolidations of monumental proportions in our industry, CNY Financial stands as a refreshing alternative. Your new company possesses a clear vision for strong community banking throughout Central New York. It is a vision that will offer a superior delivery system but will not sacrifice personal attention and service to the customer.

"THE EARLY SUCCESS OF OUR ITHACA LPO HAS ENABLED US TO DEVELOP A BUSINESS STRATEGY THAT INCLUDES THE ADDITION OF SEVERAL MORE LOAN PRODUCTION OFFICES IN SURROUNDING CITIES...THEY WILL GIVE CNY FINANCIAL A STRONG PRESENCE IN SEVERAL NEW MARKETS WITHOUT ADDING COSTLY BRICK AND MORTAR FACILITIES."

The means toward realizing our vision is already in place with the creation of $50.3 million of additional capital from the initial public offering. We stand poised to benefit from strategic growth opportunities with

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access to a new consumer base in a larger market area.

How will we grow? In 1999, our primary focus will be on expansion of our residential and commercial lending capabilities. During 1998, of total loan closings of $39.4 million, we originated $5.4 million of residential loans and $700,000 of commercial loans from a new loan production office in Ithaca. The early success of our Ithaca LPO has enabled us to develop a business strategy that includes the addition of several more loan production offices in surrounding cities. These offices will emphasize excellent turnaround and a high degree of attention to the customer. They will give CNY Financial a strong presence in several new markets without adding costly brick and mortar facilities.

This is an ambitious agenda. The creation of a publicly traded company has necessitated a major restructuring of the organization in order to meet the challenges that will result from expansion. During the past year, we have enhanced our senior management team to include seasoned professionals noted for their successful careers in community banking. I am pleased to welcome them.

Chief Operating Officer F. Michael Stapleton brings to your company significant operational and retail banking experience as well as extensive knowledge of local markets. Chief Financial Officer Steven A. Covert, who directed the successful conversion, adds substantial financial and investor relations expertise. They join Senior Vice President Kerry D. Meeker who in 1996 brought breadth to our lending programs, both commercial and residential.

They, and the remainder of CNY Financial's 90 dedicated employees, have had a busy inaugural quarter. We are already out in front of our peers on implementation of a comprehensive Year 2000 readiness plan. While many companies are incurring major costs to ensure a smooth transition into the next millennium, we believe we can avoid any significant interruption of regular business on January 1, 2000. This, along with a recently completed comprehensive technology study, will position us to better serve the needs of our customers far beyond the Year 2000.

Throughout our transition to a public holding company, we have been judicious in continuing to work closely with our directors who have been responsible for bringing us to this place. Three of them, with whom I have worked for over 30 year, have retired. Harwood Spaulding, Ed Burgess and Peter Potter are to be applauded for their combined wisdom in helping us make possible the future success of CNY Financial. We wish them well.

As we approach our first full year as a publicly traded company, our mission will remain: to profitably serve your needs and those of your fellow shareholders and to address the needs of the customers in the communties we call home. We will also work to continue to earn our reputation as a responsible, community-minded corporate citizen.

On behalf of our Directors and Management Team, CNY Financial welcomes you. I look forward to a long and mutually profitable partnership together.

Sincerely,

/s/ Wesley D. Stisser

Wesley D. Stisser
President, CNY Financial Corporation
[photo omitted]

CNY
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A STRONG COMMUNITY......
A STRONGER FUTURE

CNY Financial has built lasting ties to the communities it serves, through Cortland Savings Bank's efforts as a dedicated corporate citizen. This involvement is one of the primary contributors to our status as the largest independent bank in Cortland County. We continue to manifest our involvement in two important ways; solid financial services to enhance the viability and profitability of local businesses and industry; and civic leadership through innovative educational, cultural and volunteer efforts that have spanned generations.

CNY Financial shares Cortland Savings Bank's strong belief that a healthy business environment is an integral part of a growing economy. The Company has enhanced its ability to provide even better service to the business customer by extending its product line and hiring additional experienced commercial loan officers.

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Below are two examples of Cortland Savings Bank's flexibility in meeting the financial needs of varied types of business.

Financial support to Olde Homer House is just one illustration of Cortland Savings Bank's partnership with local businesses to support economic revitalization. Lisa Lindhorst and Jackie May, owners of Olde Homer House, are shown at their Main Street business which sells traditional furnishings and gifts.

Assistance from Cortland Savings Bank to the 1890 House Museum and Center for Victorian Arts will make it possible for the Museum to expand through acquisition of additional property. An increase in visitors is anticipated as the Museum becomes an official New York State tourism destination. This should help improve business for a variety of downtown merchants.

In addition to helping make a financial difference for businesses and families, the Bank also makes a visible contribution with its involvement in community events and sponsorships. This participation and exposure has made us the bank of choice in the area. A sampling of the civic events and campaigns in which the Bank has participated are; Chamber of Commerce Annual Business Showcase, the June Dairy Parade, Downtown Business Association and Board of Realtors' activities. This involvement provides opportunities for Bank personnel to meet with existing and potential customers in a friendly, community arena, while building community pride and assisting in promoting our attractive local communities to a much larger market area.

CNY Financial's commitment to build a strong community through lending and community involvement assists in creating a healthy business climate and an attractive community in which to live and work.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Financial Highlights" and the Consolidated Financial Statements of CNY Financial Corporation (the "Company"), including the accompanying notes, each appearing elsewhere in this Annual Report.

GENERAL

The Company's principal business is conducted by its wholly-owned subsidiary, Cortland Savings Bank (the "Bank") and consists of full service community banking. The Bank's results of operations depend principally on its net interest income, which is the difference between the income earned on its loans and securities and its cost of funds, principally interest paid on deposits. Net interest income is dependent on the amounts and yields of interest earning assets as compared to the amounts of and rates on interest bearing liabilities. Net interest income is sensitive to changes in market rates of interest and the Company's asset/liability management procedures in coping with such changes. Results of operations are also affected by the provision for loan losses, the volume of non-performing assets and the levels of non-interest income, and non-interest expense.

Sources of non-interest income include categories such as deposit account fees and other service charges, gains on the sale of securities and fees for banking services such as safe deposit boxes. The largest category of non-interest expense is compensation and benefits expense. Other principal categories of non-interest expense are occupancy expense and real estate owned expense, which represents expenses in connection with real estate acquired in foreclosure or in satisfaction of a debt owed to the Company.

SPECIAL MATTERS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS
CONVERSION.

The Company commenced operations on October 6, 1998, when the Bank converted from a state chartered mutual savings bank to a state chartered stock savings bank(the "Conversion"). On that date, the Company sold 5,251,629 shares of common stock in its initial public offering and received $50.3 million of net proceeds from the sale, which have been invested primarily in mortgage-backed securities and investment grade corporate bonds. The shares sold included 428,532 shares purchased by the Company's Employee Stock Ownership Plan (ESOP), which was funded by a loan from the Company. The Company contributed an additional 105,033 shares to the Cortland Savings Foundation as part of the Conversion and an expense of $1.0 million or approximately $614,000 after taxes, was recorded in October 1998 due to this donation. References to the business

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activities, financial condition and operations of the Company prior to October 6, 1998 refer to the Bank, while references to the Company on or after that date refer to both the Company and the Bank as consolidated, unless the context indicates otherwise.

Since late 1996, two interrelated problems have had a substantial direct effect on the Company's results of operations. Management worked aggressively to identify the scope of these problems, resolve them and recognize their financial consequences, so that management could focus its attention on future operations and the implementation of its strategy. The two problems are as follows:

OFFICER DEFALCATION. During the fourth quarter of 1996, the Company discovered that its then Senior Loan Officer had been involved in various schemes to defraud the Company. Upon the discovery of these matters, the officer was dismissed and subsequently convicted of criminal charges as a result of his actions. Immediately after the discovery of this matter, the Company undertook an investigation to identify uncollectable assets resulting from his activities. As a result of this investigation the Company charged off $607,000 of loans during the fourth quarter of 1996 which the Company believed either did not exist or were otherwise uncollectable. In addition, the Company identified approximately $349,000 of improper expenses and other losses attributable to the actions of the officer which, because they had already been recognized for financial statement purposes, did not require any additional expense. Furthermore, poor supervision while the officer in question was in charge of lending operations is believed to have contributed to the large volume of non-performing loans which were designated for sale during the fourth quarter of 1997 as described in the following discussion. The Company made a claim against its fidelity bond carrier in the amount of approximately $1.0 million as a result of this matter, and received $658,000 in settlement in 1998, bringing the matter to a close.

SALE OF PROBLEM LOANS. During the fourth quarter of 1997, the Company decided that its non-performing loans were creating too great a strain on management resources and the work necessary to collect those assets was diverting management from its core goal of running the Company in a profitable manner. Therefore, in order to improve overall asset quality and free

management from less productive tasks associated with the resolution of problem loans, the Company decided to seek to sell a substantial portion of its non-performing loans to a single unrelated purchaser. During December of 1997, the Company identified $4.3 million of loans as candidates for such a sale. These loans were all either non-performing or were performing but had been identified by management as potential problem loans. Approximately half of the loans were commercial mortgage loans and approximately half were residential mortgage loans.

When these loans were designated for prompt disposition, the Company charged off $1.7 million against its allowance for loan losses to reflect the fair value of the loans. This charge-off represented the difference between the carrying value of the loans and the amount which the Company believed, after consultation with loan brokers, could be realized upon a bulk sale of the loans.

During the first quarter of 1998, while identifying a purchaser for the loan package and negotiating the terms of the sale, the Company designated $661,000 of additional loans to include in the package being sold. The Company consummated the sale during the first quarter of 1998 with the proceeds of $3.1 million approximating the carrying value of the loans.

INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

The following table sets forth the average daily balances, net interest income, and expense and average yields and rates for the Company's earning assets and interest bearing liabilities for the indicated periods. No tax-equivalent adjustments were made.

<TABLE>
<CAPTION>

	Year Ended December 31,					
	1998			1997		
	Interest	Average Balance	Average Yield/ Cost	Average Interest	Balance	Average Yield/ Cost

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(Dollars in thousands)

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans (1)	$ 13,420	$ 156,649	8.57%	$13,582	$ 157,713	8.61%
Securities (2)	4,016	66,228	6.06%	3,769	60,226	6.26%
Other short-term investments	567	11.387	4.98%	316	6,019	5.25%
Total interest-earning assets	18,003	234,264	7.68%	17,667	223,958	7.89%
Non-interest-earning assets		29,141			12,254	
Total assets		$ 263,405			$ 236,212	
Savings accounts (3)	1,851	$ 66,709	2.77%	1,936	$ 64,576	3.00%
Money market accounts	220	8,176	2.69%	243	8,643	2.81%
NOW accounts	167	10,015	1.67%	166	9,457	1.76%
Certificates of deposit	5,723	106,860	5.36%	5,983	110,728	5.40%
Borrowings	25	430	5.81%	--	--	--
Total interest-bearing liabilities	7,986	192,190	4.16%	8,328	193,404	4.31%
Non-interest-bearing liabilities		18,900			12,002	
Total liabilities		211,090			205,406	
Stockholders' equity		52,315			30,806	
Total liabilities and equity		$ 263,405			$ 236,212	
Net interest income/spread	$ 10,017		3.53%	$ 9,339		3.58%
Net earning assets/ net interest margin		$ 42,074	4.28%		$ 30,554	4.17%
Ratio of average interest-earning assets to interest-bearing liabilities		1.22 x			1.16 x	

</TABLE>

----

(1) Average balances include loans held for sale and nonaccrual loans, net of the allowance for loan losses. Interest is recognized on nonaccrual loans only as and when received.

(2) Securities are included at amortized cost, with net unrealized gains or losses on securities available-for-sale included as a component of non-earning assets. Securities include Federal Home Loan Bank stock.

(3) Includes advance payments for taxes and insurance (mortgage escrow deposits).

CHANGES IN INTEREST INCOME AND EXPENSE

One method of analyzing net interest income is to consider how changes in average balances and average rates from one period to the next affect net interest income. The following table shows the dollar amount of changes in interest income and expense by major categories of interest income and expense by major categories of interest earning assets and interest bearing liabilities attributable to changes in volume or rate or both, for the periods indicated.

Volume variances are computed using the change in volume multiplied by the previous year's rate. Rate variances are computed using the changes in rate multiplied by the previous year's volume. The change in interest due to both rate and volume has been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

<TABLE>
<CAPTION>

	Year Ended December 31,					
	1998 vs. 1997			1997 vs. 1996		
	Increase (Decrease) Due To:			Increase (Decrease) Due To:		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
INTEREST-EARNING ASSETS:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans	$ (91)	$ (71)	$ (162)	$ (94)	$ (129)	$ (223)
Securities	367	(120)	247	102	47	149
Other short-term investments	268	(17)	251	(66)	20	(46)

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Total interest-earning assets	$ 544	$(208)	$ 336	(58)	$ (62)	$ (120)
INTEREST-BEARING LIABILITIES:						
Savings accounts	$ 62	$(147)	$ (85)	4	$ 10	$ 14
Money market accounts	(13)	(10)	(23)	(29)	(16)	(45)
NOW accounts	9	(8)	1	3	(31)	(28)
Certificates of deposit	(207)	(53)	(260)	(171)	(200)	(371)
Borrowings	25	--	25	--	--	--
Total interest-bearing liabilities	$(124)	$(218)	$(342)	$(193)	$ (237)	$ (430)
Net change in net interest income	$ 668	$ 10	$ 678	$ 135	$ 175	$ 310

</TABLE>

COMPARISONS OF FINANCIAL CONDITION AT DECEMBER 31, 1998 AND DECEMBER 31, 1997

Total assets at December 31, 1998 were $281.2 million compared to $233.7 million at December 31, 1997. The primary cause of the $47.5 million increase was the investment of the $50.3 million received from the Company's initial public offering. The majority of the proceeds were invested in investment grade mortgage-backed securities, corporate bonds and commercial paper, resulting in a $44.3 million increase in securities available for sale from the end of 1997. The Company generally classifies its new securities investments as available-for-sale in order to maintain flexibility in satisfying future investment and lending requirements. The remainder of the net conversion proceeds were invested in interest-bearing deposits at other banks, resulting in a $5.5 million increase in those assets. Net loans were $159.2 million at December 31, 1998, an increase of $3.8 million from the end of 1997. This growth occurred as the Company maintained its emphasis in residential lending and increased its level of loan originations. Loan closings, including undisbursed funds and refinancings, totaled $39.4 million in 1998, an increase of 19.8% from the 1997 total of $32.9 million.

LOAN ORGANIZATIONS
$in Millions
<TABLE>
<CAPTION>

1996			1997			1998		
Residential	Other	Consumer	Residential	Other	Consumer	Residential	Other	Consumer
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
$12.4	$8.1	$11.2	$14.7	$5.2	$13.0	$19.7	$6.0	$13.7

</TABLE>

Total deposits were $196.0 million at the end of 1998, compared to $199.8 million at December 31, 1997. This $3.8 million reduction is primarily attributable to the withdrawal of approximately $7.0 million deposits to purchase stock in the Company's initial public offering, partially offset by interest credited to deposits.

Stockholders' equity increased $48.3 million during 1998 and was $79.1 million at December 31, 1998. This increase reflects the net proceeds from the conversion and earnings for the year, offset by the 4.2 million contra-equity account related to unallocated ESOP shares. Book value per share outstanding at December 31, 1998 was $15.06

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 1998 AND DECEMBER 31, 1997

GENERAL. Net income for 1998 was $1.7 million compared to net income of $72,000 in 1997. The primary reason for the improvement was the reduction in the costs incurred to resolve the Company's problem assets, including a $3.0 million reduction in the provision for loan losses and a $572,000 reduction in the expense of real estate owned. Also affecting the improvement in net income was an improvement in net interest income of $678,000, a $694,000 increase in non-interest income and a $1.5 million increase in other operating expenses.

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NET INTEREST INCOME. Net interest income increased by $678,000 or 7.3% from 1997 to 1998. This improvement occurred primarily due to a $10.3 million increase in average total earning assets as a result of the Company's stock offering on October 6, 1998 offset partially by a reduction in the average rate earned on assets of 21 basis points. The reduction in rate is attributable to an increase in securities and other short-term investments and the overall decline in market interest rates. Securities and other short-term investments increased as the Company invested the proceeds of its stock offering in such investments pending redeployment in loans as appropriate opportunities arise. Loans generally have higher yields than the Company's other investments.

The Company also experienced a decline in the cost of interest-bearing liabilities to 4.16% in 1998 compared to 4.31% in 1997. The decline in market interest rates allowed the Company to reduce its deposit pricing while remaining competitive in its market. The infusion of capital from the Company's stock offering, and related increase in average net earning assets of $11.5 million in 1998, resulted in a improvement in the Company's net interest margin to 4.28% for 1998, compared to 4.17% in 1997. However, the investment of stock offering proceeds in lower-yielding securities rather than loans was the principal cause of a 6 basis point decline in the Company's interest rate spread.

PROVISION FOR LOAN LOSSES. The provision for loan losses results from management's analysis of the adequacy of the Company's allowance for loan losses. If management determines that an increase in the allowance is warranted, then the increase is accomplished through a provision for loan losses, which is charged as an expense on the Company's income statement. The provision for loan losses was $325,000 for the year ended December 31, 1998 compared to $3.3 million in 1997. A lower provision was appropriate in 1998 due to the significant improvement in the Company's asset quality as previously discussed. Despite the decrease in the provision, the allowance for loan losses increased from $2.1 million at year end 1997 to $2.5 million at year end 1998, when it represented 1.54% of total loans.

NON-INTEREST INCOME. The Company's primary source of recurring non-interest income is service charges, principally on deposit accounts. Service charges increased by $87,000 in 1998 versus 1997, which increase related primarily to fee changes on products and an increase in loan-related fees.

During 1998, the Company also received $658,000 in settlement of its insurance claim related to the officer defalcation, discussed previously.

NON-INTEREST EXPENSE. Non-interest expense increased $1.5 million from 1997 to 1998. The primary reasons for the increase were a $918,000 increase in salaries and employee benefits and a $1.0 million contribution to the Cortland Savings Foundation. The increase in salaries and employee benefits included a $406,000 expense related to the termination of the Company's defined benefit pension plan, $113,000 of severance expense for employee terminations, increased medical claims of $82,000, $51,000 of expense related to the Company's ESOP representing ESOP expense for approximately one quarter of the year, and normal merit increases. During the fourth quarter of 1998, the Company donated 105,033 share of its common stock to the Cortland Savings Foundation, a charitable foundation created in connection with the Conversion. The donation resulted in a $1.0 million financial statement expense during 1998.

Professional fees increased by $164,000 from 1997 to 1998, reflecting $210,000 of expenses related to the Company's unsuccessful attempt to acquire another financial institution during the fourth quarter of 1998.

Directors' fees increased $189,000, primarily due to the effect of a $150,000 retirement benefit to be paid to three directors who retired in 1998.

The Company recorded net revenues of $72,000 from its real estate owned in 1998 compared with a net expense of $500,000 in 1997. This improvement occurred as the level of real estate owned declined significantly during 1998 as the Company continued its efforts to resolve and reduce non-performing assets. The Company recorded a gain of $209,000 on the sale of one property, which gain exceeded the aggregate other expenses incurred on real estate owned.

INCOME TAXES. Income tax expense increased $1.3 million from 1997 to 1998, reflecting the improved earnings of the Company, as well as an $80,000 excise tax recorded for the termination of the defined benefit plan.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 1997 AND DECEMBER 31, 1996

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GENERAL. Net income for 1997 was $72,000 compared to net income of $1.4 million in 1996. The primary reason for the decline was a substantial increase in expenses related to the resolution of the Company's problem assets, including a $1.9 million increase in the provision for loan losses and a $240,000 increase in the expense of real estate owned. These factors more than offset an increase in net interest income of $310,000.

NET INTEREST INCOME. Net interest income increased by $310,000, or 3.4%, from 1996 to 1997.

The increase reflects a decline in interest expense which was only partially offset by a smaller decline in interest income.

INTEREST INCOME. Interest income declined by $120,000 form 1996 to 1997. The decline resulted from a decline in the average balance of loans, the Company's highest yielding asset category, and a decline in the average yield on loans.

The average yield on loans declined by eight basis points due to lower residential mortgage loan rates which affected refinances and new loan originations. Borrowers were motivated by low market interest rates to refinance their higher fixed-rate mortgages while borrowers with adjustable-rate loans also refinanced to lock in lower rates.

The decline in the average balance of loans was offset by an increase in the average balance of loans was offset by an increase in the average balance of securities. Management invested available funds which might otherwise have been used to make loans in securities investments.

INTEREST EXPENSE. Interest expense declined by $430,000 from 1996 to 1997. The decline resulted from the combined effect of a $3.8 million decline in the average balance of interest-bearing liabilities and a 13 basis point decline in the average cost of funds. Most of the activity was in the certificate of deposit category, with the average balance declining by $3.2 million and the average cost declining by 18 basis point. These declines were due to the combined effect of competitive pressures from non-deposit investment sources which offered customers the potential for high yields, coupled with a decision by management

to offer rates on deposits which, although competitive, were not the highest in the local market.

PROVISION FOR LOAN LOSSES. The provision for loan losses was $3.3 million during 1997, compared to $1.4 million in 1996. During the 1997, the Company charged off $3.3 million of loans, compared to recoveries of $170,000. Approximately $2.0 million of the charge-offs were taken on the loan package which was ultimately sold during the first quarter of 1998 while the remainder of the charge-offs resulted from an aggressive review of the Company's entire loan portfolio, in light of the credit administration problems discovered in connection with the officer defalcation discussed above. Based on local economic conditions and the status of the Company's loan portfolio, during the 1997 management revised the Company's method of calculating its allowance for loan losses to increase the percentages used to determine the appropriate allowance for certain performing loans for which no problems had been identified. The adjustment was made to reflect management's estimate of probable losses inherent in loans in the Company's portfolio. Taking these factors into account, the Company determined it needed to provide $3.3 million for loan losses during 1997 to bring the allowance to its year-end level of $2.1 million.

NON-INTEREST EXPENSE. Non-interest expense increased by $671,000 from 1996 to 1997. The principal causes of the increase were a $240,000 increase in the expense of real estate owned and a $303,000 increase in other operating expenses. Real estate owned is required to be carried on the Company's books at the lower of cost or fair value, representing market value less estimated costs of sale. During the 1997, the Company decided that general economic conditions, difficulties in disposing of real estate owned and expected operating costs, justified carrying those properties at 65% of appraised value which resulted in a $365,000 charge to the expense of real estate owned. Approximately $270,000 of this charge related to properties acquired in 1997. Other operating expenses increased principally because of increases in the cost of collecting past due loans and increases in other loan related expenses.

INCOME TAXES. Income tax expense declined by $869,000 from an expense of $853,000 in 1996 to a tax benefit of $16,000 in 1997. The decline was caused by the decline in pre-tax income.

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ASSET/LIABILITY MANAGEMENT MARKET RISK

As a continuing part of its financial strategy, the Company attempts to manage the impact of fluctuations in market interest rates on its net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Asset/liability management policies are established and monitored by management in conjunction with the Board of Directors of the Bank, subject to general oversight by CNY Financial Corporations's Board of Directors. The policies establish guidelines for acceptable limits on the sensitivity of the market value of assets and liabilities to changes in interest rates.

The Company's net income is dependent on its net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

The following table illustrates the Company's estimated interest rate sensitivity and periodic and cumulative gap positions as calculated as of December 31, 1998.

<TABLE>
<CAPTION>

	Amounts Estimated to Mature or Reprice Within:						
	Less Than Three Month	3-6 Months	6 Months to 1 Year	1-2 Years	3-5 Years	Over 5 Years	Total
			(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>		<C>
INTEREST-EARNING ASSETS:							
Short-term investments	$ 10,104	$ --	$ --	$ --	$ --	$ --	$ 10,104
Securities, including FHLB stock	13,677	5,976	9,599	17,237	25,403	28,166	100,058
Loans	16,483	10,685	15,978	18,246	36,289	61,526	159,207
Total interest-earning assets	40,264	16,661	25,577	35,483	61,692	89,692	269,369
INTEREST-BEARING LIABILITIES:							
Savings accounts, including escrow	1,506	3,013	4,519	9,039	27,116	18,077	63,270
Money market accounts	332	665	997	1,994	3,987	--	7,975
NOW accounts	371	741	1,112	2,224	6,674	--	11,122
Certificates of deposit	11,678	21,277	30,758	24,383	16,221	--	104,317
Borrowings	--	--	--	--	1,000	--	1,000
Total interest-bearing liabilities	13,887	25,696	37,386	37,640	54,998	18,077	187,684
Interest sensitivity gap	$ 26,377	$ (9,035)	$(11,809)	$ (2,157)	$ 6,694	$ 71,615	$ 81,685
Cumulative interest sensitivity gap	$ 26,377	$ 17,342	$ 5,533	$ 3,376	$ 10,070	$ 81,685	
Ratio of cumulative gap to total interest-earning assets	9.79%	6.44%	2.05%	1.25%	3.74%	30.32%	
Ratio of interest-earning assets to interest-bearing liabilities	289.94%	64.84%	68.41%	94.27%	112.17%	496.17%	143.52%

</TABLE>

While the gap position illustrated is a useful tool that management can assess for general positioning of the Company's balance sheet, management uses an additional measurement tool to evaluate its asset/liability sensitivity which determines exposure to changes in interest rates by measuring the estimated future percentage change in net interest income due to changes in rates over a one-year time horizon. Management measures such percentage change assuming an instantaneous permanent parallel shift in the yield curve of 100 and 200 basis points, both upward and downward. The model uses an option-based pricing approach to estimate the sensitivity of mortgage loans. The most significant embedded option in these types of assets is the prepayment option of the borrowers. The model uses various prepayment assumptions depending upon the type

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of mortgage instrument (residential mortgages, commercial mortgages, mortgage-backed securities, etc.). Prepayment rates for mortgage instruments ranged from 6% to 50% CPR (Constant Prepayment Rate) as of December 31, 1998. For administered rate core deposits (e.g. NOW and savings accounts), the model utilizes interest rate floors equal to 100 basis points below their current levels.

Utilizing this measurement concept, the estimated interest rate risk of the Company, expressed as a percentage change in projected net interest income over a one-year time horizon due to changes in interest rates, at December 31, 1998, was as follows:

Percentage change in net interest income due to an immediate change in interest rate over a one-year time horizon	Basis Point Change			
	+200	+100	-100	-200
	3.12%	1.60%	0.26%	(3.45%)

Actual results may differ from simulated results due to the inherent uncertainty of the assumptions, including the timing, magnitude and frequency of rate changes, customer buying patterns, economic conditions, and management strategies.

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk. Even though such activities may be permitted with the approval of the Board of Directors, the Company does not intend to engage in such activities in the immediate future.

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit activities. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities.

YEAR 2000 CONSEQUENCES

The information contained in this section represents a Year 2000 Readiness Disclosure under the Year 2000 Information and Readiness Disclosure Act.

The operations of the Company are substantially dependent upon computer data processing for its deposit accounts, loans, financial records and other matters. Many computer systems and other equipment containing microchips may not operate accurately after January 1, 2000. The Company has undertaken a comprehensive review of all systems believed to create potential risks in order to eliminate any Year 2000 operating difficulties.

The Company retained the services of an independent consultant, at a cost of $13,000 to evaluate the Company's Year 2000 risks. The Company's Board of Directors reviewed and approved the consultant's plan. The plan calls for comprehensive review and testing of all the Company's systems that could be affected by Year 2000 problems.

The Company has completed a review of all major non-computer based systems, such as vaults, building environmental systems and telephone systems, without any significant problems being discovered. The Company's principal data processing is performed by a Company-owned mini-computer operating software provided by an outside vendor. The hardware has been successfully tested. The software has been tested and modules requiring modification have been identified. The vendor is making necessary modifications. The Company expects that all modifications will be in place, and all testing completed, by mid-year 1999. The Company will continue to test minor systems, and replace them, if necessary, throughout the first three quarters of 1999.

The Company estimates that its total cost of Year 2000 compliance, excluding internal staffing costs will not exceed $100,000. The Company has not needed to hire additional staff to address Year 2000 compliance issues. The Company's cost estimate assumes that a

complete replacement of the Company's principal computer software will not be necessary. If a complete replacement is necessary, the Company will identify replacement software which is Year 2000 compliant during 1999 and convert to the new software. The Company has not evaluated the costs of complete replacement because the possibility that it will be necessary is considered to be remote. If

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complete replacement is necessary, the Company anticipates that it will be able to locate acceptable commercially-available software because the Company's mini-computer is commonly used by financial institutions. If interim operations are necessary before a new system is operational, the Company expects to utilize existing personal computers, commonly available business software and manual entries to bridge any gap. However, based upon the results of testing thus far, the Company believes that this "most reasonably likely worst case scenario" is unlikely to occur.

The Company has developed back-up or contingency plans for each of its mission critical systems. Virtually all of the Company's mission critical systems are dependent upon third party vendors or service providers; therefore, contingency plans include selecting a new vendor or service provider and converting to their system. In the event a current vendor's system fails during testing and it is determined that the vendor is unable or unwilling to correct the failure, the Company will convert to a new system from a pre-selected list of prospective vendors. In each such case, realistic trigger dates have been established to allow for orderly and successful conversion. For some systems, contingency plans consist of using spreadsheet software or reverting to manual systems until system problems can be corrected. Although the Company has been informed that each of its primary vendors anticipates that all mission critical systems either are or will timely be Year 2000 compliant, no warranties have been received from such vendors.

The Company's customers may also experience Year 2000 problem, which could adversely affect the ability of these customers to comply with their obligations to the Company. The Company has contacted all commercial loan customers to assess whether their Year 2000 compliance efforts are satisfactory. The Company currently requires all new commercial loan customers to complete a Year 2000-readiness questionnaire as part of the loan underwriting process in order to limit further exposure. Although Year 2000 readiness varies among the Company's customers, the Company does not expect that Year 2000 problems will have such a substantial effect on the Company's customers as to cause the Company to suffer material adverse financial consequences.

Furthermore, substantial recent media publicity regarding potential Year 2000 problems has increased public awareness of the problem, but may cause certain deposit customers to over-react and withdraw funds prior to the end of 1999 for fear that ATM machines and teller systems will not be operating after December 31, 1999. The Company intends to address this issue by increasing customer awareness of the Company's Year 2000 compliance program and also by maintaining sufficient liquidity to allow the Company to address any unusual cash demands in a timely fashion. The additional liquidity and cash could have an adverse effect on the Company's level of and average yield on earning assets, but the Company does not believe the adverse effect will be anything more than transitory. However, if major utilities, governmental functions or other local, statewide or national infrastructure components do not function properly, such as electric utilities, telephone service or the mail system, the adverse effects on the ability of the Company to continue to operate could be substantial. This could also increase customer panic and thus increase the outflow of funds even if the Company itself is fully Year 2000 compliant.

LIQUIDITY AND CAPITAL

The Company's primary sources of funds are deposits and payments received on loans and securities. While scheduled payments on loans and securities, either installment payments or payments at maturity, are relatively predictable sources of funds, deposit outflows and loan prepayments can fluctuate and are influenced by market interest rates, economic conditions and competition.

The Company's primary investing activities are the origination of loans and the purchase of securities. The Company's loans, net, after payments and charge-offs, increased by $4.1 million during 1998, decreased by $3.1 million during 1997 and increased by only $8,000 during 1996. Securities, excluding the effect of unrealized gains and losses,

increased by $41.0 million during 1998, decreased by $1.2 million during 1997 and increased by $4.5 million during 1996. In general, the Company invests available funds in securities, federal funds sold and short-term investments pending the investment of those funds in loans. Generally, the regular flow of deposits and loan repayments, along with payments on and maturities of securities, provide sufficient funds for new loan originations. The Company can also regulate the level of deposits and hence the flow of funds by adjusting the rates it offers on deposits, especially certificates of deposit. Federal funds sold and other short-term investments are transitory and also provide available

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funds when needed for other purposes. Furthermore, as part of its management of the loan origination process, the Company tracks the progress of loan applications and commitments so that the volume and timing of new securities purchases can be adjusted as funds are needed for other purposes. Finally, the Company has available lines of credit and borrowing capabilities to provide additional funds if the need arises. At December 31, 1998, the Company had available lines of credit and borrowing capabilities with the Federal Home Loan Bank of New York of $27.9 million.

At December 31, 1998, the Company and the Bank substantially exceeded all regulatory capital requirements of the Federal Reserve Board of Governors and the FDIC applicable to them. Compliance with minimum capital requirements does not currently have a material effect on the Bank or the Company. The Bank was classified as "well capitalized" at December 31, 1998 under FDIC regulations.

IMPACT OF INFLATION AND CHANGING PRICES

The Company prepares its financial statements and other financial disclosures according to Generally Accepted Accounting Principles, which in most cases require the measurement of financial condition and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. Inflation can increase operating costs and affect the value of collateral for loans in general, and real estate collateral in particular. Unlike industrial companies, nearly all of the Company's assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on net income than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services. However, interest rates generally increase during periods when the rate of inflation is increasing and decrease during periods of decreasing inflation. Periods of high inflation are ordinarily accompanied by high interest rates, which could have a negative effect on net income. Inflation can also increase the cost of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), SFAS 133 requires an entity to measure all derivarives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the entity's rights or obligations under the applicable derivative contract. The recognition of changes in fair value of a derivative that affect the income statement will depend on the intended use of the derivative. If the derivative does not qualify as a hedging instrument, the gain or loss on the derivative will be recognized currently in earnings. If the derivative qualifies for special hedge accounting, the gain or loss on the derivative will either (1) be recognized in income along with an offsetting adjustment to the basis of the item being hedged, or (2) be deferred in other comprehensive income and reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. SFAS 133 may not be applied retroactively to financial statements of prior periods. SFAS 133 is not expected to have material impact on the Company's consolidated results of operations, financial position or cash flows. SFAS No. 133 also permits certain reclassifications of securities among the trading, available-for-sale and held-to-maturity classifications. The Company has no current intention to reclassify any securities pursuant to SFAS No. 133

FORWARD-LOOKING STATEMENTS

In this annual report, the Company, when discussing the future, may use words like

"will probably result", "are expected to", "may cause", "is anticipated", "estimate", "project", or similar words. These words represent forward-looking statements. In addition, any analysis of the adequacy of the allowance for loan losses or the interest rate sensitivity of the Company's assets and liabilities, represent attempts to predict future events and circumstances and also represent forward-looking statements.

Many factors could cause future results to differ from what is anticipated in the forward-looking statements. For example, future financial results could be affected by (i) deterioration in local, regional, national or global economic conditions which could cause an increase in loan delinquencies, a decrease in property values, or a change in the housing turnover rate; (ii) changes in market interest rates or changes in the speed at which market interest rates

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change; (iii) changes in laws and regulations affecting the financial service industry; (iv) changes in competition; (v) changes in consumer preferences; and (vi) Year 2000 compliance problems of the Company's customers and suppliers.

Please do not place unjustified or excessive reliance on any forward-looking statements. They speak only as of the date made and are not guarantees, promises or assurances of what will happen in the future. Remember that various factors, including those described above, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to be materially different from what has been anticipated or projected.

[PHOTO OMITTED]
SENIOR MANAGEMENT TEAM
LEFT TO RIGHT:
Wesley D. Stisser,
Kerry D. Meeker,
Steven A. Covert
F. Michael Stapleton

KPMG [GRAPHIC LOGO OMITTED]

113 South Salina Street
Syracuse, NY 13202

Independent Auditors' Report

The Board of Directors and Stockholders
CNY Financial Corporation

We have audited the accompanying consolidated balance sheets of the CNY Financial Corporation and subsidiary as of a December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNY Financial Corporation and subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Syracuse, New York
January 15, 1999

[LOGO OMITTED] [KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

CNY Financial Corporation and Subsidiary
Consolidated Balance Sheets
December 31, 1998 and 1997
(In thousands, except share data)

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997

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ASSETS		
Cash and due from banks	$ 4,432	$ 4,093
Interest-bearing balances at financial institutions	6,104	586
Federal Funds sold	4,000	3,400
Securities available-for-sale, at fair value	88,437	44,140
Securities held-to-maturity (fair value of $10,404 in 1998 and $12,569 in 1997)	10,318	12,550
Loans held for sale	--	2,541
Loans, net of deferred fees	161,701	157,565
Less allowance for loan losses	2,494	2,143
Net loans	159,207	155,422
Premises and equipment, net	3,243	3,447
Federal Home Loan Bank stock, at cost	1,303	1,291
Other assets	4,142	6,259
	$ 281,186	$ 233,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing demand accounts	$ 10,780	$ 10,641
Savings accounts	61,820	62,732
Certificates of Deposit	104,317	108,258
Money Market accounts	7,975	8,435
NOW accounts	11,122	9,704
Total deposits	196,014	199,770
Advance payments by borrowers for property taxes and insurance	1,450	1,329
Borrowings	1,000	--
Other liabilities	3,652	1,890
Total liabilities	202,116	202,989
Commitments and contingencies (note 11)		
Stockholders' equity		
Common Stock, $0.01 per value, 8,500,000 shares authorized, 5,356,662 shares issued and outstanding in 1998	54	--
Additional paid-in capital	51,289	--
Retained earnings	31,848	30,169
Accumulated other comprehensive income	1,178	571
Treasury stock, at cost; 105,625 shares in 1998	(1,067)	--
Unallocated shares of Employee Stock Ownership Plan (ESOP) 423,175 shares in 1998	(4,232)	--
Total Stockholders' Equity	79,070	30,740
	$ 281,186	$ 233,729

See accompanying notes to consolidated financial statements.
</TABLE>

CNY Financial Corporation and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 1998, 1997
and 1996 (In thousands, except share data)

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997	<C> 1996
Interest income			
Loans	$ 13,420	$ 13,582	$ 13,805
Securities	4,016	3,769	3,620
Other short-term investments	567	316	362
Total interest income	18,003	17,667	17,787
Interest expense			
Deposits	7,961	8,328	8,758
Borrowings	25	--	--
Total interest expense	7,986	8,328	8,758
Net interest income	10,017	9,339	9,029
Provisions for loan loss	325	3,300	1,380

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Net interest income after provision for loan losses	9,692	6,039	7,649
Non-interest income			
Service charges	723	636	662
Net gain on sale of securities	6	46	15
Gain on loan sales	30	--	--
Insurance proceeds	658	--	--
Nationar recovery	--	45	--
Other	166	162	93
Total non-interest income	1,583	889	770
Non-interest expenses			
Salaries and employee benefits	3,846	2,928	2,862
Building, occupancy and equipment	905	981	990
Postage and supplies	349	323	306
Professional fees	525	361	394
Directors Fees	311	122	107
Real estate owned	(72)	500	260
Contribution to charitable foundation	1,023	--	--
Other	1,439	1,657	1,282
Total non-interest expenses	8,326	6,872	6,201
Income before income tax expense (benefit)	2,949	56	2,218
Income tax expense (benefit)	1,270	(16)	853
Net income	$ 1,679	$ 72	$ 1,365
Basic earnings per share (for 1998 calculated using post conversion net income) (see note 2)	$ --	N/A	N/A
Weighted average shares outstanding	4,928,044	N/A	N/A

</TABLE>

See accompanying notes consolidated financial statements.

CNY Financial Corporation and Subsidiary
Consolidated Statement of Stockholders' Equity and Comprehensive Income
Years Ended December 31, 1998, 1997
and 1996 (In thousand, except share data)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unallocated ESOP Shares	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	$ --	$ --	$ 28,732	$ 298	$ --	$ --	$ 29,030
Comprehensive income:							
Change in net unrealized gain (loss) on securities, net of tax	--	--	--	(50)	--	--	(50)
Net income	--	--	1,365	--	--	--	1,365
Total comprehensive income	--	--	1,365	(50)	--	--	1,315
Balance at December 31, 1996	--	--	30,097	248	--	--	30,345
Comprehensive income:							
Change in net unrealized gain (loss) on securities, net of tax	--	--	--	323	--	--	323
Net income	--	--	72	--	--	--	72
Total comprehensive income	--	--	72	323	--	--	395
Balance at December 31, 1997	--	--	30,169	571	--	--	30,740
Net proceeds from issuance of 5,251,629 shares of common stock	53	50,294	--	--	--	--	50,347
Common Stock acquired by ESOP (428,532 shares)	--	--	--	--	--	(4,285)	(4,285)
Charitable contribution of common stock to Cortland Savings Foundation (105,033 shares)	1	997	--	--	--	--	998
Treasury stock purchased (105,625 shares)	--	--	--	--	(1,067)	--	(1,067)
ESOP shares released for allocation (5,357 shares)	--	(2)	--	--	--	53	51

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Comprehensive income							
Change in net unrealized gain (loss) on securities, net of tax	--	--	--	607	--	--	607
Net income	--	--	1,679	--	--	--	1,679
Total comprehensive income	--	--	1,679	607	--	--	2,286
Balance at December 31, 1998	$ 54	$ 51,289	$ 31,848	$ 1,178	$ (1,067)	$ (4,232)	$ 79,070

</TABLE>

See accompanying notes to consolidated financial statements.

CNY Financial Corporation and Subsidiary
Consolidated Cash Flow Statements
Years Ended December 31, 1998, 1997 and 1996
(In thousands)

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997	<C> 1996
Cash flow from operating activity:			
Net income	$ 1,679	$ 72	$ 1,365
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	487	579	507
(Increase) decrease in accrued interest receivable	(306)	233	431
Provision for loan losses	325	3,300	1,380
Write-down of real estate owned	50	365	59
Net gains on sales of securities	(6)	(46)	(15)
Nationar recovery	--	(45)	--
Net (gains) losses on sale of real estate owned	(192)	(11)	37
Net amortization of premiums and discounts	55	104	251
Net gain on sale of loans held for sale	(30)	--	--
Proceeds from sale of loans held for sale	3,131	--	--
Increase (decrease) in other liabilities	807	148	(70)
Deferred income taxes	277	(869)	(342)
Decrease (increase) in other assets	1,032	(709)	1,597
Donation to charitable foundation	997	--	--
ESOP shares released for allocation	51	--	--
Net cash provided by operating activities	8,357	3,121	5,200
Cash flows from investing activities:			
Net increase in loans	(4,744)	(3,746)	(2,064)
Proceeds from recovery on Nationar	--	45	--
Proceeds from sales of securities available-for-sale	2,006	3,121	1,057
Proceeds from maturities and principle reductions of securities available-for-sale	18,337	18,040	21,959
Purchases of securities available-for-sale	(63,237)	(19,237)	(27,139)
Purchases of securities held-to-maturity	(2,484)	(3,847)	(2,964)
Proceeds from maturities and principle reductions of securities held-to-maturity	4,780	3,054	2,382
Proceeds from sale of real estate owned	920	340	274
Additions to premises and equipment	(283)	(371)	(291)
Purchase of FHLB stock	(12)	(63)	(1,228)
Net cash used in investing activities	(44,717)	(2,664)	(8,014)
Cash flows from financing activities:			
(Decrease) increase in deposits	(3,756)	(4,870)	1,530
Borrowings	1,000	--	--
Increase (decrease) in advance payments by borrowers for property taxes and insurance	121	(44)	(356)
Net Proceeds from issuance of common stock	50,347	--	--
Purchase of shares of common stock by ESOP	(4,285)	--	--
Par value of donation of stock to charitable foundation	1	--	--
Treasury stock purchases	(611)	--	--
Net cash provided by (used in) financing activities	42,817	(4,914)	1,174
Net increase (decrease) in cash and cash equivalents	6,457	(4,457)	(1,640)
Cash and cash equivalents at beginning of year	8,079	12,536	14,176
Cash and cash equivalents at end of year	$ 14,536	$ 8,079	$ 12,536

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</TABLE>

CNY Financial Corporation and Subsidiary
Consolidated Cash Flow Statements
Years Ended December 31, 1998, 1997 and 1996
(In thousands)

	1998	1997	1996
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Non-cash investing activities:			
Purchases of securities-available-for-sale not settled	$ 499	$ --	$ --
Treasury stock purchases not settled	456	--	--
Transfer of loans held-to-maturity to loans held-for-sale	661	2,541	--
Transfer of loans held-for-sale to loans held-to-maturity	101	--	--
Additions to real estate owned	74	1,095	711
Cash paid during the year for:			
Interest	7,991	8,321	8,761
Income taxes	$ 105	$ 1,125	$ 1,644

See accompanying notes to consolidated financial statements.
</TABLE>

CNY Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements
Years Ended December 31, 1998, 1997 and 1996

(1) BUSINESS

CNY Financial Corporation (the "Company") is a registered bank holding company, organized under the laws of Delaware and is the parent company of Cortland Savings Bank and subsidiary (the "Bank"). The Company commenced operations on October 6, 1998, when the Bank converted from a state chartered mutual savings bank to a state chartered stock savings bank (the "Conversion"). On that date, the Company sold 5,251,629 shares of common stock in its initial public offering and received $50.3 million of net proceeds from the sale. The shares sold included 428,532 shares purchased by the Company's Employee Stock Ownership Plan (ESOP), which was funded by a loan from the Company. The Company contributed an additional 105,033 shares to the Cortland Savings Foundation as part of the Conversion and an expense of $1.0 million or approximately $614,000 after taxes, was recorded in October 1998 due to this donation. The Company operates solely in the financial services industry and includes the provision of traditional community banking services primarily for individuals and small-to medium-sized businesses concentrated in Cortland County, New York and surrounding areas. The financial services subsidiary of the Bank has been inactive since its formation in 1986. The Company and its subsidiary financial institution are subject to the regulations of certain Federal and State agencies and undergo periodic examinations by those regulatory agencies.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain prior year amounts have been reclassified to conform to the current year's classifications. A description of the significant accounting policies is presented below. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) CASH AND CASH EQUIVALENTS

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Cash and cash equivalents include vault cash, amounts due from banks and Federal funds sold which represent short-term highly liquid investments.

(c) SECURITIES

The Company classifies its debt securities as either available-for-sale or held-to-maturity as the Company does not hold any securities considered to be trading. Equity securities are classified as available-for-sale. Held-to-maturity securities are those debt securities the Company has the ability and intent to hold until maturity. All other debt securities are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost. Unrealized holding gains and losses, net of the related tax effect on available-for-sale securities are excluded from earnings and reported as a component of accumulated other comprehensive income in stockholders' equity until realized.

A decline in the fair value of an available-for-sale or held-to-maturity security that is deemed to be other than temporary results in a charge to earnings resulting in the establishment of a new cost basis for that security.

(2) SUMMARY OF SIGNIFICANT ACCOUNT POLICIES, CONTINUED

(c) SECURITIES, CONTINUED

Purchases and sales are recorded on a trade date basis with settlement occurring shortly thereafter. Premiums and discounts are amortized or accredited over the life of the related security as an adjustment to yield using the interest method. Dividend and interest income are recognized when earned. Realized gains and losses on securities are included in earnings and are calculated using the specific identification method, for determining the cost of the securities sold.

(d) LOANS

Loans are reported at the principal amount outstanding, net of deferred fees. Fees and certain direct origination costs related to lending activities are recognized as an adjustment of yield using the interest method over the lives of the loans. The Company has the ability and intent to hold its loans to maturity except for education loans which are sold to a third party upon reaching repayment status.

Interest on loans is accrued and included in income at contractual rates applied to principal outstanding. The accrual of interest on loans (including impaired loans) is generally discontinued and previously accrued interest is reversed when loan payments are 90 days or more past due or when, by the judgement of management, collectibility becomes uncertain. Subsequent recognition of income occurs only to the extent that payment is received. Loans are returned to an accrual status when both principal and interest are current and the loan is determined to be performing in accordance with the applicable loan terms.

(e) ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses consists of the provision charged to operations based upon past loan loss experience, management's evaluation of the loan portfolio under current economic conditions and such other factors that require current recognition in estimating loan losses. Loan losses and recoveries of loans previously written-off are charged or credited to the allowance as incurred or realized, respectively.

The allowance for loan losses is maintained at a level believed

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by management to be sufficient to absorb probable future losses related to loans outstanding as of the balance sheet date. Management uses presently available information to recognize losses on loans; however, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgement of information available to them at the time of their examination.

The Company estimates losses on impaired loans based on the present value of expected future cash flows (discounted at the loan's effective interest rate) or the fair value of the underlying collateral if the loan is collateral dependent. An impairment loss exists if the recorded investment in a loan exceeds the value of the loan as measured by the aforementioned methods. Impairment losses are included as a component of the allowance for loan losses. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Generally, all commercial mortgage loans and commercial loans in a delinquent payment status (90 days or more delinquent) are considered impaired. Residential mortgage loans, consumer loans, home equity lines of credit and education loans are evaluated collectively since they are homogenous and generally carry smaller individual balances. The Company recognizes interest income on impaired loans using the cash basis of income recognition. Cash receipts on impaired loans are generally applied according to the terms of the loan agreement, or as a reduction of principal, based upon management judgment and the related factors discussed above.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) PREMISES AND EQUIPMENT

Land is carried at cost and buildings and improvements and furniture and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (3-39 years for building and improvements; 3-7 years for furniture and equipment.)

(g) REAL ESTATE OWNED

Real estate acquired in settlement of loans is carried at the lower of the unpaid loan balance or fair value less estimated costs to sell. Write-downs from the unpaid loan balance to fair value at the time of foreclosure are charged to the allowance for loan losses. Subsequent write-downs to fair value, net of disposal costs, are charged to other expenses.

(h) INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates isrecognized in income in the period that includes the enactment date.

(i) PENSION AND OTHER POSTRETIREMENT PLANS

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No.132, EMPLOYERS' DISCLOSURES ABOUT PENSION AND OTHER POSTRETIREMENT BENIFITS SFAS No. 132 revises employers' disclosure about pension and other postretirement benefit plans, SFAS No. 132 does not change the method of accounting for such plans. The Company maintained a

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non-contributory defined benefit pension plan that covered substantially all employees, but terminated the plan effective December 31, 1998. The benefits under the pension plan were based on the employee's years of service and compensation. The cost of this program was funded currently.

The Company also sponsors a defined benefit health care and life insurance plan that provides postretirement benefits to current and retired employees and certain eligible dependents who meet minimum age and service requirements. The estimated costs of providing benefits are accrued over the years the employees render services necessary to earn those benefits.

(j) OTHER EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution 401 (k) Savings Plan covering substantially all employees. Employees are permitted to contribute up to 6% of base pay to the Savings Plan, subject to certain limitations. The Company matches 50% of each employees contribution up to 6%.

The Company also sponsors a non-contributory Employee Stock Ownership Plan (ESOP) covering substantially all employees. The number of shares allocable to Plan participants is determined by the Board of Directors. Allocations to individual participant accounts are based on participant compensation. The Company accounts for ESOP shares purchased in accordance with Statement of Position No. 93-6, EMPLOYEE STOCK OWNERSHIP PLANS. Accordingly, as shares are committed to be released to participants, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings per share computations.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(k) COMPREHENSIVE INCOME

On January, 1, 1998, the Company adopted the provisions of SFAS No. 130, REPORTING COMPREHENSIVE INCOME. This statement establishes standards for reporting and display of comprehensive income and its components. At the Company, comprehensive income represents net income plus other comprehensive income, which consists of the net change in unrealized gains or losses on securities available-for-sale for the period, net of the related tax effect. Accumulated other comprehensive income represents the net unrealized holding gains or losses on securities available for sale as of the balance sheet dates, net of the related tax effect. Prior year consolidated financialstatements have been reclassified to conform to the requirements of SFAS No. 130.

(l) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company does not engage in the use of derivative financial instruments. The Company's only financial instruments with off-balance sheet risk are limited to commitments to extend credit and commitments under unused lines of credit.

(m) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year. Prior to the conversion to a stock savings bank, earnings per share are not applicable as the mutual savings bank had no shares outstanding. After the conversion, earnings per share is determined from October 6, 1998, the date of conversion, to the end of the reporting period based upon the weighted average number of shares outstanding for the period. The income included in the computation is based on the actual results of operations only for the post-conversion period. Unallocated shares held by the Company's ESOP are not included in the weighted average number of shares outstanding.

(n) SEGMENT REPORTING

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Effective January 1, 1998, the Company adopted the provisions of SFAS No. 131 DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. SFAS No.131 requires the Company to report financial and other information about key revenue producing segments of the Company for which such information is available and is utilized by the chief operating decision maker. Specific information to be reported for individual segments include profit and loss, certain revenue and expense items, and total assets. Reconciliation of segment financial information to amounts reported in the financial statements is also provided. The Company has determined that it has no reportable segments, and as such, adoption of SFAS No. 131 did not result in significant changes in the Company's reporting.

(3) SECURITIES

Securities are summarized as follows (in thousands):

	December 31, 1998			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government and sponsored enterprise securities	$ 13,037	$ 128	$ 1	$ 13,164
Mortgage-backed securities	42,801	265	25	43,041
State and municipal sub-divisions	917	10	--	927
Corporate debts securities	27,649	178	5	27,822
Total debt securities	84,404	581	31	84,954
Equity securities	2,072	1,470	59	3,483
	$ 86,476	$ 2,051	$ 90	$ 88,437
Held-to-maturity:				
U.S. Government and sponsored enterprise securities	$ 1,505	$ 2	$ --	$ 1,507
Mortgage-backed securities	5,208	69	22	5,255
State and municipal sub-division	747	17	--	764
Corporate debt securities	2,858	21	1	2,878
	$10,318	$ 109	$ 23	$ 10,404

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government and sponsored enterprise securities	$ 16,041	$ 105	$ --	$ 16,146
Mortgage-backed securities	12,144	120	53	12,211
Corporate debt securities	13,819	46	4	13,861
Total debt securities	42,004	271	57	42,218
Equity securities	1,192	748	18	1,922
	$ 43,196	$ 1,019	$ 75	$ 44,140
Held-to-maturity:				
U.S. Government and sponsored enterprise securities	$ 1,992	$ 3	$ --	$ 1,995
Mortgage-backed securities	8,279	87	92	8,274
State and municipal sub-divisions	425	5	--	430
Corporate debt securities	1,854	16	--	1,870
	$12,550	$ 111	$ 92	$ 12,569

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CNY Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements
Years Ended December 31, 1998, 1997 and 1996

(3) SECURITIES, CONTINUED

The following table presents the carrying value and fair value of debt securities at December 31, 1998, based on the earlier of call or maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. (in thousands):

	Amortized Cost	Fair Value
Available-for-sale:		
Due within one year	$ 18,011	$ 18,078
Due after one year through five years	22,675	22,908
Due after five years through ten years	917	927
Due after ten years	--	--
Mortgage-backed securities	42,801	43,041
	$ 84,404	$ 84,954
Held-to-Maturity:		
Due within one year	$ 1,501	$ 1,503
Due after one year through five years	3,348	3,378
Due after five years though ten years	261	268
Due after ten years	--	--
Mortgage-backed securities	5,208	5,255
	$ 10,318	$ 10,404

Gross gains of $6,000, $46,000 and $15,000 were realized on sales of securities in 1998, 1997 and 1996, respectively. There were no gross losses realized on sales of securities in 1998, 1997 and 1996.

Securities carried at $2.5 million at December 31, 1998 were pledged for other purposes required by law.

(4) LOANS

Loans are summarized as follows (in thousands):

	December 31,	
	1998	1997
Mortgage loans:		
Residential	$ 100,976	$ 96,328
Partially guaranteed by VA	337	444
Insured by FHA	717	847
Commercial	29,224	30,867
	131,254	128,486
Other loans:		
Commercial	6,588	7,049
Automobile	10,854	8,902
Home equity line of credit	6,804	5,924
Property improvement	709	907
Guaranteed student	1,016	1,507
Other consumer	4,597	5,031
	30,568	29,320
Total loans	161,822	157,806
Less: Net deferred origination fees	121	241
	$ 161,701	$ 157,565

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(4) LOANS, CONTINUED

In an effort to accelerate resolution of certain of its problem assets, in December 1997 the Company identified certain loans for bulk sale. Prior to December 31, 1997 the carrying value of the loans anticipated to be sold was approximately $4.2 million, of which approximately $3.5 million were then non-performing and approximately $763,000 were then performing.

In anticipation of the bulk sale, the loans to be sold in such transaction were included on the Company's consolidated balance sheet as of December 31, 1997 as loans held for sale at their fair value, based on an estimated sales price. The Company charged-off $1,698,000 against the allowance for loan losses to reflect the fair value of the loans. The proceeds of the sale approximated the carrying value of the loans.

Changes in the allowances for loan losses are summarized as follows (in thousands).

	Years Ended December 31		
	1998	1997	1996
Balance at beginning of year	$ 2,143	$ 1,952	$ 2,002
Provision charged to operations	325	3,300	1,380
Recoveries	206	170	283
Loans charged off	(180)	(3,279)	(1,713)
Balance at end of year	$ 2,494	$ 2,143	$ 1,952

At December 31, 1998 and 1997, impaired loans totaled $736,000 and $2.7 million (of which $1.2 million were loans held for sale), respectively. At December 31, 1998, impaired loans included $736,000 of loans for which the related allowance for loan losses was $194,000. At December 31, 1997, impaired loans included $895,000 of loans for which the related allowance for loan losses was $234,000. The average recorded investment in impaired loans was $1.1 million, $2.7 million and $3.5 million during the years ended December 31, 1998, 1997 and 1996, respectively. Interest income recognized on impaired loans was $147,000, $290,000 and $223,000 during the years ended December 31, 1998, 1997 and 1996, respectively, all of which was recognized using the cash basis of income recognition.

The principal balances of loans not accruing interest amounted to approximately $920,000, $3.8 million (of which $2.3 million were loans held for sale) at December 31, 1998 and 1997, respectively. Interest income that would have been recorded if the non-accruing loans had been performing in accordance with their original terms was approximately $115,000, $402,000 and $307,000 during the years ended December 31, 1998, 1997 and 1996, respectively.

In the ordinary course of business, the Company makes loans to directors, officers and employees, as well as to other related parties on substantially the same terms, including interest rate and collateral, as those prevailing at the same time for comparable transactions with other customers and do not involve more than normal risk of collectibility or present other unfavorable features.

A summary of the changes in these outstanding loans is as follows (in thousands):

	Years Ended December 31,	
	1998	1997
Balance at beginning of year	$ 2,207	$ 2,459
New loans and increase in existing loans	521	459
Loan principal repayments	(577)	(711)
Balance at end of year	$ 2,151	$ 2,207

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(5) PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows (in thousands):

	December 31, 1998	December 31, 1997
Land	$ 886	$ 836
Buildings and furniture	2,901	2,937
Furniture and equipment	1,962	2,825
	5,749	6,598
Less accumulated depreciation and amortization	2,506	3,151
	$ 3,243	$ 3,447

Depreciation and amortization expense amounted to $487,000, $579,000 and $507,000 during the years ended December 31, 1998, 1997 and 1996, respectively.

(6) DEPOSITS

At December 31, 1998 and 1997, the aggregate amounts of time deposits in denominations of $100,000 or more were approximately $13.0 million and $10.2 million, respectively.

Contractual maturities of certificates of deposit at December 31, are summarized as follows (in thousands):

	1998
Within one year	$ 58,441
One through two years	21,736
Two through three years	11,094
Three through four years	6,426
Four though five years	6,613
Five years and over	7
Total certificates of deposit	$ 104,317

Interest expense on deposits is summarized as follows (in thousands):

	Years Ended December 31, 1998	1997	1996
Savings accounts	$ 1,861	$ 1,936	$ 1,922
Certificates of deposit	5,713	5,983	6,354
Money market accounts	220	243	288
NOW accounts	167	166	194
	$ 7,961	$ 8,328	$ 8,758

(7) BORROWINGS

The Company is a member of the Federal Home Loan Bank (FHLB). As a member, the Company is required to own capital stock in the FHLB and is authorized to apply for advances from the FHLB.

At December 31, 1998 and 1997, advances from the FHLB were as follows (in thousands):

Maturity Date	Interest Rate	Fixed or Variable	Advance Amount 1998	Advance Amount 1997
7/30/01	5.52%	Fixed	$ 1,000	$ -

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Under the terms of a blanket collateral agreement with the FHLB, these outstanding balances are collateralized by certain qualifying assets not otherwise pledged (primarily first mortgage loans). At December 31, 1998 the Company may borrow up to an additional $27.9 million from the FHLB.

(8) INCOME TAXES

Income taxes were allocated as follows (in thousands):

	Years Ended December 31,		
	1998	1997	1996
Income before income tax expense (benefit)	$ 1,270	$ (16)	$ 853
Changes in stockholders' equity, for changes in unrealized gains on securities	410	206	(33)
	$ 1,680	$ 190	$ 820

The components of income tax expense (benefit) attributable to income from operations are (in thousands):

	Years Ended December 31,		
	1998	1997	1966
Current:			
Federal	$ 799	$ 672	$ 989
State	194	181	206
	993	853	1,195
Deferred:			
Federal	207	(698)	(298)
State	70	(171)	(44)
	277	(869)	(342)
	$ 1,270	$ (16)	$ 853

(8) INCOME TAXES, CONTINUED

Actual tax expense (benefit) attributable to income before income taxes differed from "expected" tax expense benefits), computed by applying the U.S. Federal statutory tax rate of 34% to income before income tax as follows (in thousands):

	Years Ended December 31,		
	1998	1997	1996
Computed "expected" tax expense	$ 1,003	$ 19	$ 754
Increase (decrease) in income taxes resulting from:			
State taxes, net of Federal tax benefits	175	7	107
Non-taxable interest income	(21)	(35)	(48)
Non-deductible expenses	48	16	20
Pension termination excise tax	80	--	--
Other items, net	(15)	(23)	20
	$ 1,270	$ (16)	$ 853

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are (in thousands):

	December 31,	
	1998	1997

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Deferred tax assets:		
Non-deductible reserves	$ --	$ 25
Non-accrual interest	14	126
Losses on real estate owned	27	124
Loan bulk sale	--	666
Allowance for loan losses	986	1,118
Net deferred loan fees	98	127
Postretirement benefit obligation	669	638
Deferred trustee fees	92	30
Foundation contribution carryforward	329	--
Other	15	31
Total gross deferred tax assets	2,230	2,885
Deferred tax liabilities:		
Accumulated depreciation on premises and equipment	(101)	(97)
Prepaid pension cost	--	(321)
Unrealized gains on securities	(783)	(373)
Securities discount accretion	(20)	(62)
Tax allowance for loan losses in excess of base year amount	(105)	(124)
Total gross deferred tax liabilities	(1,009)	(977)
Net deferred tax assets	$ 1,221	$ 1,908

(8) INCOME TAXES, CONTINUED

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Management believes that no valuation allowance is necessary.

Included in retained earnings at December 31, 1998 is approximately $3.7 million representing aggregate provisions for loan losses taken under the Internal Revenue Code. Use of these reserves to pay dividends in excess of earnings and profits or to redeem stock, or if the institution fails to qualify as a bank for Federal income tax purposes, would result in taxable income to the Company.

(9) PENSION AND OTHER POSTRETIREMENT PLANS

The following table presents changes in the Company's pension and postretirement plans' accumulated benefit obligations and plan assets and the plans funded status reconciled with amounts recognized in the Company's consolidated balance sheet at December 31, 1998, 1997 (in thousands):

<TABLE>
<CAPTION>

<S>	<C> Pension Benefits	<C>	<C> Other Benefits	<C>
	1998	1997	1998	1997
Change in benefit obligations:				
Benefit obligation at beginning of year	$ 3,490	$ 3,296	$ 1,597	$ 1,507
Service cost	84	87	42	37
Interest cost	244	242	108	107
Amendments	60	--	--	--
Curtailment	(591)	--	--	--
Contribution to qualifying replacement plan	216	--	--	--
Actuarial loss	938	9	238	17
Benefits paid	(150)	(144)	(95)	(71)
Benefit obligation at end of year	$ 4,291	$ 3,490	$ 1,890	$ 1,597
Change in plan assets:				

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Fair value of plan assets at beginning of year	$ 5,083	$ 4,194	$ --	$ --
Actual return on plan assets	7	970	--	--
Employer contribution	--	63	95	122
Benefits paid	(150)	(144)	(95)	(122)
Fair value of plan assets at end of year	$ 4,940	$ 5,083	$ --	$ --
Funded status	$ 649	$ 1,593	$(1,890)	$(1,597)
Unrecognized net actuarial (gain) loss	--	(788)	235	(2)
Prepaid (accrued) benefit cost	$ 649	$ 805	$(1,655)	$(1,599)
Weighted average assumptions:				
Discount rate	5.00%	7.25%	6.50%	7.25%
Expected return on plan assets	7.00%	8.00%	--	--
Rate of compensation increase	4.00%	5.00%	4.50%	5.00%

</TABLE>

(9) PENSION AND OTHER POSTRETIREMENT PLANS, CONTINUED

For measurement purposes, a 6.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 5% for 2003 and remain at that level thereafter. A one-percentage point increase or decrease in assumed health care cost trend rates does not have a material effect on the benefit obligation.

<TABLE>
<CAPTION>
<S> <C> <C> <C> <C> <C> <C>

	Pension Benefits			Other Benefits		
	1998	1997	1996	1998	1997	1996
Components of net periodic benefit cost:			(in thousands)			
Service cost	$ 84	$ 87	$ 84	$ 42	$ 37	$ 41
Interest cost	244	242	236	108	107	111
Expected return on plan assets	(391)	(350)	(284)	--	--	--
Recognized net actuarial gain	(32)	--	(37)	--	--	--
Curtailment charge	35	--	--	--	--	--
Net periodic benefit cost	$ (60)	$ (21)	$ (1)	$ 150	$ 144	$ 152

</TABLE>

The pension plan was terminated effective December 31, 1998 and related expense of $406,000 was recorded for the termination. Additionally, $80,000 of excise taxes were recorded in income tax expense for 1998.

(10) OTHER EMPLOYEE BENEFIT PLANS

Contributions to the defined contribution 401(k) Savings Plan were approximately $60,000, $64,000 and $63,000 during the years ended December 31, 1998, 1997 and 1996, respectively.

In connection with establishing the Employee Stock Ownership Plan (ESOP) in 1998, the ESOP borrowed $4.3 million from the Company to purchase 428,532 common shares of the Company. The loan bears interest at 8.25% and is payable in twenty equal annual installments. At December 31, 1998, 5,357 shares were released or committed to be released and 423,175 remained as unallocated shares. The fair value of the unallocated shares on December 31, 1998 was $4.2 million. The Company recognized compensation expense of $51,000 in 1998.

(11) COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance sheer risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and involve, to varying degrees, elements of credit, market and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. Credit risk represents the accounting loss that would be recognized at the reporting date if obligated counterparties failed

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completely to perform as contracted. Market risk represents risk that future changes in market prices make financial instruments less valuable.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's evaluation of the customer's financial position. Collateral held varies, but may include real estate accounts receivable, inventory, property, plan and equipment and income-producing commercial properties. Substantially all commitments to extend credit, if exercised, will represent loans secured by real estate.

(11) COMMITMENTS AND CONTINGENCIES, CONTINUED

The Company was committed to originate fixed and adjustable rate mortgages of approximately $3.9 million and $3.7 million at December 31, 1998 and 1997, respectively. Unused lines of credit, which includes home equity, consumer, commercial and credit cards, amounted to $10.7 million and $9.2 million at December 31, 1998 and 1997, respectively.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual or notional amount of these instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. The Company controls its credit risk through credit approvals, limits, and monitoring procedures.

In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, the aggregate amount involved in such proceedings is not material to the financial condition or results of operations of the Company.

(12) CONCENTRATIONS OF CREDIT

A substantial portion of the Company's loans are mortgage and consumer loans in Central New York State. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in this area. A majority of the Company's loan portfolio is secured by real estate.

The Company's concentrations of credit risk are disclosed in the schedule of loan classifications. Other than general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

(13) COMPREHENSIVE INCOME

The following summarizes the components of other comprehensive income (in thousands):

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Other comprehensive income, before tax:			
Net unrealized holding gain (loss) on securities	$ 1,023	$ 575	$ (98)
Reclassification adjustment for (gains) losses included in net income	(6)	(46)	(15)
Other comprehensive income, before tax	1,017	529	(83)
Income tax expense related to items of other comprehensive income	410	206	(33)
Other comprehensive income, net of tax	$ 607	$ 323	$ (50)

</TABLE>

(14) STOCKHOLDERS' EQUITY AND CAPITAL STANDARDS

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The Company and the Bank are subject to various regulatory requirements administered by the federal banking agencies and the Bank is further regulated by the New York State Banking Department.

Under capital adequacy guidelines the Company and Bank must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements.

(14) STOCKHOLDERS' EQUITY AND CAPITAL STANDARDS, CONTINUED

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), established capital levels for which insured institutions are categorized as well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized.

As of December 31, 1998 and 1997, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective actions. To be categorized as well capitalized, the Bank must meet the minimum ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 1998, that the Company and Bank meet all capital adequacy requirements to which they are subject.

The following is a summary of the Company's and Bank's actual capital amounts and ratios compared to the regulatory minimum capital adequacy requirements and the FDIC requirements for classification as a well capitalized institution under prompt corrective action provisions (dollars in thousands):

<TABLE>
<CAPTION>

	Actual		Minimum capital adequacy requirements		To be classfied as well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 1998:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
TOTAL CAPITAL (TO RISK WEIGHTED ASSETS):						
Company	$80,333	48.91%	$13,140	>8.00%	N/A	
Bank	$60,078	38.82%	$12,381	>8.00%	$15,476	>10.00%
TIER 1 CAPITAL (TO RISK WEIGHTED ASSETS):						
Company	$77,892	47.42%	$ 6,571	>4.00%	N/A	
Bank	$57,751	37.32%	$ 6,191	>4.00%	$ 9,286	>6.00%
TIER 1 CAPITAL (TO AVERAGE ASSETS):						
Company	$77,892	29.57%	$10,536	>4.00%	N/A	
Bank	$57,751	23.40%	$ 9,873	>4.00%	$12,341	>5.00%
At December 31, 1997:						
TOTAL CAPITAL (TO RISK WEIGHTED ASSETS):						
Bank	$31,938	22.56%	$11,325	>8.00%	$14,156	>10.00%
TIER 1 CAPITAL (TO RISK WEIGHTED ASSETS):						
Bank	$30,169	21.31%	$ 5,662	>4.00%	$ 8,493	>6.00%
TIER 1 CAPITAL (TO AVERAGE ASSETS):						
Bank	$30,169	12.89%	$ 9,363	>4.00%	$11,704	>5.00%

</TABLE>

On August 14, 1995, the FDIC performed a review of the Bank's compliance with governing consumer and civil rights laws, the Community Reinvestment Act (CRA) and the Bank Secrecy Act. The review encompassed: Truth in Lending, Truth in Savings; Real Estate Settlement Procedures; Fair Credit

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Reporting; Electronic Fund Transfers; Right to Financial Privacy; Expedited Funds Availability; Equal Credit Opportunity; Credit Practices Rule, Preservation of Consumer Claims and Defenses; Flood Insurance; Interest on Deposits; and Fair Housing. On December 26, 1995, the Bank received the FDIC's written report on the examination and a related Memorandum of Understanding.

(14) STOCKHOLDERS' EQUITY AND CAPITAL STANDARDS, CONTINUED

As recommended in the Memorandum of Understanding, the Board of Directors of the Bank developed a written compliance policy which included appropriate training of personnel in all Bank functions related compliance, implementing internal review procedures to ensure ongoing compliance, providing financial training for the compliance officer, and instituting a formal review process whereby loan disclosure statements are reviewed prior to issuance. As a result of the examination, the Bank is required to submit progress reports describing specific actions taken with regard to each violation on a quarterly basis, until further notice. No enforcement action by the FDIC is contemplated, however, nothing contained in the Memorandum of understanding prevents the FDIC from taking further supervisory action it deems appropriate. The Memorandum of Understanding did not have a material impact on the Company's consolidated financial statements.

In order to grant priority in the Conversion to the eligible depositors, the Bank established a special account at the time of conversion in an amount equal to its total net worth at September 30, 1998. In the event of a future liquidation of the converted bank (and only in such event), eligible account holders who continue to maintain accounts shall be entitled to receive a distribution from the special account. The total amount of the special account will be decreased (as the balances of eligible accounts are reduced) on annual determination dates. No cash dividends may be paid to the stockholders if such dividends reduce the Bank's stockholders' equity below the amount required for that special account. At December 31, 1998, the amount remaining in this liquidation account was $19.4 million.

(15) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

CASH AND CASH EQUIVALENTS: The fair values are considered to approximate the carrying values, as reported in the balance sheet.

SECURITIES: Fair values of securities are based on exchange quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of similar instruments.

LOANS AVAILABLE FOR SALE: The fair value of loans available for sale on an aggregate basis, are based on quoted market prices.

LOANS RECEIVABLE: For variable rate loans that reprice frequently and loans due on demand with no significant change in credit risk, fair values are considered to approximate carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are based on quoted market prices of similar loans sold on the secondary market, adjusted for differences in loan characteristics. The fair values for other loans (e.g., commercial real estate and rental property mortgage loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit rating. The carrying amount of accrued interest approximates its fair value.

FHLB STOCK: The carrying value of this instrument, which is redeemable at par, approximates fair value.

(15) FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

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OFF-BALANCE-SHEET INSTRUMENTS: Fair values for the Company's off-balance-sheet instruments (lines of credit and commitments to fund loans) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of these financial instruments is immaterial and has therefore been excluded from the table below.

DEPOSITS: The fair values of demand deposits (interest and non-interest checking), passbook, statements savings, club and money market accounts are, by definition, equal to the amount payable on demand at the reporting date(i.e., their carrying amounts). Fair values for fixed-rate certificates of deposits and individual retirement accounts are estimated using a discounted cash flow calculation that applies interest rates currently being offered on these products to a schedule of aggregated expected monthly maturities on time deposits.

BORROWINGS: The fair value of term advances from the Federal Home Loan Bank is estimated using discounted cash flow analysis based on the Company's current incremental borrowing rate for similar borrowing arrangements.

The estimated carrying values and fair values of the Company's financial instruments are as follows (in thousands):

	December 31,			
	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,536	$ 14,536	$ 8,079	$ 8,079
Securities	98,755	98,841	56,690	56,709
Loans held for sale	--	--	2,541	2,541
Loans, net	159,207	166,435	155,422	155,657
FHLB stock	1,303	1,303	1,291	1,291
Financial liabilities:				
Deposits:				
Demand accounts	10,780	10,780	10,641	10,641
Savings accounts	61,820	61,820	62,732	62,732
Certificates of deposit	104,317	104,575	108,258	108,099
Money market accounts	7,975	7,975	8,435	8,435
NOW accounts	11,122	11,122	9,704	9,704
Borrowings	$ 1,000	$ 997	$ --	$ --

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(16) CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

Presented below is the condensed balance sheet as of December 31, 1998 and statement of income and statement of cash flows for the year ended December 31, 1998 for CNY Financial Corporation (in thousands):

Condensed Balance Sheet	1998
Assets:	
Cash and due from banks	$ 11,929
Securities available-for-sale, at fair value	8,238
Investment in bank subsidiary	58,939

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Other assets	712
	$ 79,818
Liabilities:	
Other liabilities	$ 748
Total liabilities	748
Total stockholders' equity	79,070
Total Liabilities and Stockholders' Equity	$ 79,818

Condensed Statement of Income	1998
Interest from available-for-sale investments	$ --
Total operating income	--
Donation to charitable foundation	(1,023)
Other operating expenses	(192)
Total operating expenses	(1,215)
Income before undistributed income of subsidiary	(1,215)
Applicable income taxes	(485)
Equity in undistituted income of Bank	2,409
Net income	$ 1,679

Condensed Statement of Cash Flows	1998
Operating activities:	
Net Income	$ 1,679
Adjustments to reconcile net income to cash provided by operating activities:	
Equity in undistributed earnings of Bank	(2,409)
Increase in other assets	(712)
Increase in other liabilities	292
ESOP shares release for allocation	51
Donation to charitable foundation	997
Net cash used by operating activities	(102)
Investing activities;	
Purchase of securities	(33,421)
Net cash used in investing activities	(33,421)
Financing activities	
Par value of donation of stock to charitable foundation	1
Purchase of shares of common stock by ESOP	(4,285)
Treasury stock purchases	(611)
Net proceeds from issuance of common stock	50,347
Net cash provided by financing activities	45,452
Cash at December 31	$ 11,929

</TABLE>

CNY Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements
Years Ended December 31, 1998, 1997 and 1996

(17) UNAUDITED INTERIM FINANCIAL INFORMATION

The following table summarizes the Company's quarterly results for the years ended December 31, 1998 and 1997 (in thousands, except share data):

<TABLE>
<CAPTION>

	1998			
	First	Second	Third	Fourth
<S>	<C>	<C>	<C>	<C>
Interest income	$ 4,311	$ 4,337	$ 4,442	$ 4,913
Interest expense	2,010	2,003	2,064	1,909

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Net interest income	2,301	2,334	2,378	3,004
Provision for loan losses	75	75	100	75
Other operating income	245	278	817	253
Other operating expenses	1,645	1,693	1,953	3,045
Income before income taxes	826	844	1,142	137
Net Income	$ 493	$ 561	$ 566	$ 59(2)
Net income per common share (basic)	(1)	(1)	(1)	$ --

</TABLE>
<TABLE>
<CAPTION>

	1997			
	First	Second	Third	Fourth
<S>	<C>	<C>	<C>	<C>
Interest income	$ 4,417	$ 4,468	$ 4,434	$ 4,348
Interest expense	2,064	2,086	2,109	2,069
Net interest income	2,353	2,382	2,325	2,279
Provision for loan losses	225	225	200	2,650
Other operating income	219	189	236	255
Other operating expenses	1,625	1,555	1,604	2,098
Income (loss) before income taxes	722	791	757	(2,214)
Net income (loss)	$ 411	$ 436	$ 545	$(1,320)
Net income per common share (basic)	(1)	(1)	(1)	(1)

</TABLE>

(1) Not applicable because the Company converted from mutual to stock form of ownership in October 1998. Income per common share is presented from October 6, 1998, the date of the conversion, based upon the weighted average number of shares issued and outstanding since that date. The income included in the computation is based on the actual operating results only for the post-conversion period.

(2) The decrease in net income in the fourth quarter is related to the stock contribution to the Cortland Savings Foundation of $614,000 after taxes.

CNY FINANCIAL CORPORATION AND SUBSIDIARY
DIRECTORS AND OFFICERS

DIRECTORS OF CNY FINANCIAL CORPORATION

WESLEY D. STISSER,
President and Chief Executive Officer
HARVEY KAUFMAN,
Chairman
JOSEPH H. COMPAGNI
PATRICK J. HAYES, M.D.
ROBERT S. KASHDIN, CPA
DONALD P. REED
TERRACE D. STALDER

OFFICERS OF CNY FINANCIAL CORPORATION

WESLEY D. STISSER,
President and Chief Excutive Officer
STEVEN A. COVERT,
Executive Vice President and Chief Financial Officer
SANDY F. SAMSON
Corporate Secretary
F. MICHAEL STAPLETON,
Assistant Corporate Secretary

DIRECTORS OF CORTLAND SAVINGS BANK

WESLEY D. STISSER,
President and Chief Executive Officer
HARVEY KAUFMAN,
Chairman, Superintendent Emeritus Cortland City Schools
JOSEPH H. COMPAGNI,

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President, Economy Paving Co., Inc.
ROLAND FRAGNOLI,
President, Homer Men & Boys Store
EDWARD E. HATTER, JR.,
Investor
PATRICK J. HAYES, M.D.,
Physician
ROBERT S. KASHDIN, CPA
Managing Partner, Port, Kashdin & McSherry, CPA
DONALD P. REED,
Owner, Reed's Seeds
JUDITH F. RIEHLMAN
Cortland County Clerk
TERRANCE D. STALDER,
Associate Vice President for Finance & Management,
State University College at Cortland

OFFICERS OF CORTLAND SAVINGS BANK

WESLEY D. STISSER,
President and Chief Executive Officer
STEVEN A. COVERT,
Executive Vice President and Chief Financial Officer
F. MICHAEL STAPLETON,
Executive Vice President and Chief Operating Officer
KERRY D. MEEKER,
Senior Vice President, Senior Loan Officer

OFFICERS OF CORTLAND SAVINGS BANK, CONTINUED

KEVIN J. BERKLEY,
Vice President and Residential Loan Officer
JOHN A. MASON,
Vice President and Commercial Loan Officer
R. DAVID PATZ,
Vice President
MARILYN S. BENTRUP,
Assistant Vice President and Banking Floor Officer
THOMAS M. CARR,
Assistant Vice President and Controller
DEBBIE M. LUCHSINGER,
Assistant Vice President and Human Resources Officer
SANDY F. SAMSON,
Assistant Vice President and Corporate Secretary
DANIEL L. WILLIAMS,
Assistant Vice President and EDP Manager
KATHERYN M. COTTERILL,
Marketing Officer
DONALD L. HAY,
Compliance Officer and Bank Secrecy Act Officer
PAUL A. MAZZONE,
Bank Security Officer
PATRICIA M. WALTER,
Homer Branch Manager

==

EQUAL OPPORTUNITY EMPLOYER

It is the policy of CNY Financial Corporation to provide equal opportunity employment to all employees and applicants without regard to race, age, religion, color, sex, national origin, marital status or status as an individual with a disability and/or status as a disabled and/or Vietnam Era veteran or any other legally protected class. This policy is implemented in all aspects of personnel policies, programs, practices and operations and in all working conditions and relationships with employees and applicants for employment; and to promote the full realization of equal opportunity in employment.

==

MEMBER FDIC [LOGO OMITTED]

CORPORATE OFFICE
One North Main Street
Cortland, New York
Tel: (607) 756-5643 Fax: (607) 756-5839

ANNUAL REPORT ON FORM 10-K
A copy of CNY Financial Corporations's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge upon

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written request to Steven A. Covert, Executive Vice President & Chief Financial Officer, CNY Financial Corporation, One North Main Street, Cortland, New York 13045, or by calling 607-758-2227.

REGISTRAR/TRANSFER AGENT
Communications regarding change of address, transfer of stock and lost certificates should be sent to:

Registrar and Transfer Co.
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948

CORPORATE COUNSEL
Serchuk and Zelermyer, LLP
81 Main Street
White Plains, New York 10601

ACCOUNTANTS
KPMG, LLP
113 South Salina Street
Syracuse, New York 13202

DIVIDENDS

There were no dividends declared in 1998. However, the company declared its inital quarterly cash dividend of $0.04 per share in the first quarter of 1999.

STOCK LISTING
CNY Financial Corporation's common stock is traded on the Nasdaq National Market System under the symbol CNYF. At December 31, 1998, there were 5,251,037 shares of CNY Financial Corporation common stock issued and outstanding, and there were approximately 1,610 holders of record. The table below shows the high and low bid price on the common stock for each month since the common stock began trading on October 6, 1998. These prices do not represent actual transactions and do not include retail markups, markdowns or commissions.

	Bid	
Month Ended	High	Low
October 31, 1998 (1)	$10.00	$8.88
November 30, 1998	$10.19	$9.00
December 31, 1998	$10.06	$9.44

(1)Reflects the period from October 6 through October 31, 1998.

The stock price information set forth in the table above was provided by the National Association of Securities Dealers, Inc. High, low and closing prices and daily trading volume are reported in the most major newspapers.

MARKET MAKERS
CIBC Oppenhimer & Co. Inc.
Trident Securities, Inc.
Friedman Billings Ramsey & Co.
Tucker Anthony, Inc.

DIRECTORS

Joseph H. Compagni
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

Patrick J. Hayes
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

Donald P. Reed
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

Roland Fragnoli

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Cortland Savings Bank
[photo omitted]

Robert S. Kashdin
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

Judith F. Riehlman
Cortland Savings Bank

Wesley D. Stisser, President & CEO
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

Edward E. Hatter, Jr.
Cortland Savings Bank
[photo omitted]

Harvey Kaufman, Chairman
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

Terrance D. Stalder
CNY Financial Corporation
Cortland Savings Bank
[photo omitted]

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EXHIBIT 21.1
SUBSIDIARIES OF THE COMPANY

The Company has only one subsidiary, Cortland Savings Bank, which is wholly-owned. The business address of the Cortland Savings Bank is:

Cortland Savings Bank
One North Main Street
Cortland, NY 13045

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<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF CNY FINANCIAL CORPORATION AND SUBSIDIARY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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