

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

SKANEATELES BANCORP INC

CIK: **829282** | IRS No.: **161368745** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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SIC: **6022** State commercial banks

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-K

For Annual and Transition Reports Pursuant to
Sections 13 or 15(d) of the Securities Exchange Act of 1934

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

For the fiscal year ended December 31, 1998

or

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

For the transition period from ____ to ____

Commission file number 0-18513

SKANEATELES BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

16-1368745

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

33 E. Genesee St. Skaneateles, New York, 13152-0460

(Address of principal executive office-Zip Code)

Registrant's telephone number, including area code: (315) 685-2265

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01

Title of Class

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 twelve 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 days. 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 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.

As of March 10, 1999, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$33,018,000.

As of March 10, 1999, 1,452,372 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document -----	Part of 10-K into which incorporated -----
None	

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PART I.

Item 1. BUSINESS

GENERAL

Skaneateles Bancorp, Inc. (the "Company") is a Delaware-chartered bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"), the primary business of which is the ownership and operation of its sole subsidiary, Skaneateles Savings Bank ("Skaneateles" or the "Bank"). Skaneateles is a New York-chartered stock savings bank headquartered in the Village of Skaneateles, Onondaga County, New York. Deposit accounts of the Bank are insured by the Bank Insurance Fund ("BIF"), as administered by the Federal Deposit Insurance Corporation ("FDIC"). In continuous operation since 1866, the Bank conducts business from nine full-service banking offices located in Onondaga and Oswego counties of New York State. Historically, Skaneateles has been engaged in the business of attracting deposits from the general public and earning income on those funds through various lending and investment activities.

The Bank operated as a single office savings bank in Skaneateles, New York until 1967, when it opened its first branch office in Camillus, a suburb of Syracuse. During 1988, the Bank opened an office in downtown Syracuse. Since 1994, the Bank has acquired or opened six branch offices in and around Syracuse and Oswego, New York. Three of these branches are in-store facilities in newly constructed or renovated supermarkets. The in-store branches provide all of the same products and services as the Banks' traditional branches, with the exception of safe deposit boxes.

In September 1998, the Bank formed Skaneateles Preferred Capital Corporation ("SPCC"), a wholly-owned, real estate investment trust subsidiary. SPCC was formed for the purpose of purchasing real estate secured loans

originated by the Bank from time to time.

The Company was incorporated in the State of Delaware as Center Banks Incorporated on January 7, 1988. On April 15, 1997, the stockholders approved the Board of Director's proposal to change the Company's name to Skaneateles Bancorp, Inc. The name change became effective April 16, 1997 at which time the Company's stock began trading under the symbol "SKAN" on the NASDAQ National Market System.

On January 25, 1999, the Company entered into a definitive Agreement and Plan of Merger with BSB Bancorp, Inc. ("BSB"), which provides for the acquisition of the Company by BSB in a tax-free, stock-for-stock exchange to be accounted for as a pooling of interests. In the transaction, Skaneateles stockholders will receive 0.970 shares of BSB stock for each share of Skaneateles stock. Based on BSB's closing price on January 22, 1999 (the last trading day before the Agreement and Plan of Merger was signed), Skaneateles stockholders will receive \$27.89 per share in BSB stock, for a total transaction value of approximately \$41 million.

The definitive Agreement and Plan of Merger, which has been approved by both BSB's and the Company's boards of directors, is subject to approval by the Company's stockholders as well as by regulatory authorities. The transaction is expected to close in the Summer of 1999. In connection with the Agreement and Plan of Merger, Skaneateles Bancorp also granted BSB an option to purchase 290,142 newly issued shares (19.9% of the Company's outstanding stock). Also in connection with the Agreement and Plan of Merger, certain stockholders of the Company, including the Company's directors and executive officers, entered into a Stockholder Agreement pursuant to which each of such stockholders agreed to vote in favor of the Agreement and Plan of Merger.

The Company's financial performance depends primarily on the Bank's net interest income, which is the difference between interest income on interest-earning assets, primarily loans, investments and securities, and interest expense on interest-bearing liabilities, primarily deposits and borrowings. The relative amounts of interest-earning assets, deposits and borrowings also impact net interest income. In addition, the Company's financial performance is affected by the establishment of provisions for loan losses and the level of its other income, including fees on loans sold, deposit service charges, the results of foreclosed real estate activities, gains or losses

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from the sale of loans as well as its other operating expenses and income tax provisions. The Company's financial performance has historically been affected by local economic and competitive conditions, primarily in the market area of metropolitan Syracuse, New York. Changes in market interest rates, government legislation and policies concerning monetary and fiscal affairs, housing and financial institutions and the attendant actions of the regulatory authorities all have an impact on the performance of the Bank and the Company.

This Annual Report, including certain statements made in Management's Discussion and Analysis of Financial Condition and Results of Operations, may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements with regard to the Company's expectations as to its financial results, other aspects of its business, and general economic conditions, may constitute forward-looking statements. Although the Company makes such statements based on assumptions which it believes to be reasonable, there can be no assurance that actual results will not differ materially from the Company's expectations. Accordingly, the Company hereby identifies the following important factors, among others, which could cause its results to differ from any results which might be projected, forecasted or estimated based on such forward-looking statements: (i) general economic and competitive conditions in the markets in which the Company operates, and the risks inherent in its operations; (ii) the Company's ability to continue to control its provision for credit losses and non-interest expenses, increase earning assets and non-interest income, and maintain its margins; and (iii) the level of consumer demand for new and existing products. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company does not intend to update forward-looking statements.

Although the Company is a small business issuer, it has elected to make certain disclosures not normally required by small business issuers for the benefit of the Company's stockholders.

LENDING ACTIVITIES

The lending activities of Skaneateles are affected principally by the demand for loans, competition from other financial institutions and the supply of funds available for lending purposes. These factors are in turn affected by

general economic conditions, the monetary policies of the Federal government (including the Federal Reserve Board) legislative tax policies and governmental budgetary matters.

RESIDENTIAL REAL ESTATE LENDING. Most of Skaneateles' residential loan portfolio is secured by first mortgages on real estate located in the greater Syracuse area and, to a minor extent, the greater Rochester, New York area. Most residential loans are originated directly by Skaneateles. The Bank has also purchased loans for its portfolio from time to time, although no such purchases were made in 1998 or 1997.

It is Skaneateles' policy to require borrowers to obtain title insurance naming the Bank as the insured party on certain real estate loans. Borrowers are required to obtain hazard insurance prior to closing. Borrowers typically are required to advance funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which Skaneateles makes disbursements for items such as real estate taxes, hazard insurance and private mortgage insurance premiums as they become due.

The Bank originates both fixed and adjustable rate residential mortgages with a maximum maturity of 30 years and, for fixed rate loans, a monthly or bi-weekly payment option. These bi-weekly mortgages require the borrower to maintain a deposit account with the Bank from which mortgage payments are automatically deducted. Loans are granted in amounts up to 95% of appraised value; however, all loans with a loan-to-value ratio in excess of 80% are required to carry private mortgage insurance sufficient to reduce the Bank's exposure to 75% of appraised value.

Fixed rate mortgages are predominantly underwritten in accordance with secondary market standards, and therefore can be sold at any time in response to changes in interest rates or to meet liquidity needs. Prior to January, 1998, fixed rate mortgages with terms of 15 years or less were originated for portfolio, thereafter, beginning in January, the Bank began selling all conforming fixed rate mortgages at the time of origination due to the relatively

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low interest rate environment and the resulting increased interest rate risk associated with long term fixed rate assets. The Bank generally retains servicing rights on sold loans.

The Bank offers adjustable rate loans, indexed to the one-year or three-year U.S. Treasury Note, with rates that adjust annually (1 year ARM), or once every three years (3 year ARM). The Bank also offers a 5/1 ARM. The 5/1 ARM is a loan with a fixed rate of interest for the first five years. On the loan's fifth anniversary, the rate converts to the current rate for a 1-year ARM, and adjusts annually over the remaining term of the loan. Adjustable rate loans are generally retained for portfolio.

MULTI-FAMILY AND COMMERCIAL REAL ESTATE LENDING. Skaneateles originates loans secured by multi-family (over four residential units) and commercial properties, such as small office buildings, which are generally owner-occupied.

The majority of loans on income-producing property currently offered by Skaneateles carry an adjustable rate tied to the one-, three- or five-year U.S. Treasury Note, typically with a maximum amortization period of 20 years. In setting interest rates and origination fees on new loans and loan extensions, management considers both current conditions and its analysis of the risk associated with the particular project.

The Bank's underwriting policies with respect to loans on income producing properties are designed to ensure that a project's cash flow will be sufficient to cover operating expenses and debt service payments. A detailed analysis of each project is undertaken by the Bank's commercial real estate loan underwriters. Loan-to-value ratios on commercial real estate loans made by Skaneateles generally do not exceed 75%. All income producing properties are appraised by an independent appraiser approved by the Board of Directors. Skaneateles requires that the borrower obtain title insurance and hazard insurance in the amount of the loan, naming Skaneateles as loss payee.

COMMERCIAL LENDING. The Bank makes loans to small and medium-sized businesses in its primary market area of Onondaga County, eastern Cayuga County, New York and the city of Oswego, New York, offering mortgages, secured and unsecured working capital loans, term loans, leases and lines of credit. The Bank also offers revolving credit lines to local automobile, boat and recreational vehicle dealerships to finance inventory purchases through its dealer floor plan program. Rates, terms, compensatory balances, fees and charges are based upon market conditions and the risk involved for each loan. The risks involved are determined based upon a credit analysis performed on the potential borrower which emphasizes economic conditions, the availability of cash flow from operations to support the credits, and collateral.

Commercial loans generally involve a higher degree of risk than residential mortgage loans. Unlike residential mortgage loans, which are generally made on the basis of the borrower's ability to make repayment from employment and other income, and which are secured by real property whose value tends to be easily ascertainable, commercial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the business, and are generally secured by business assets, such as accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself. Furthermore, the collateral securing the loans may depreciate over time, may not be appraised with as much precision as residential real estate, and may fluctuate in value based on the success of the business. The Bank attempts to mitigate the risks inherent in commercial lending through its underwriting, documentation, financial analysis and monitoring of the borrower's financial performance.

CONSUMER LENDING. New York State law permits Skaneateles to engage in various types of consumer lending. Consumer loan products include auto and boat loans, unsecured personal loans, home equity loans and home equity lines of credit. All consumer loans offered by the Bank, except home equity lines of credit, carry fixed rates of interest and terms ranging from three years to fifteen years. The Bank's home equity line of credit program offers a credit line secured by a second mortgage of up to 75% of appraised market value less other mortgages outstanding on residential properties, repricing monthly indexed to the prime rate. Student loans originated by the Bank are held in its portfolio while the student is in school, then sold to the Student Loan Marketing Association under a continuing commitment at the time the loan is to go into repayment.

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The Bank also originates consumer loans through an indirect lending program through which it receives loan applications from Bank-approved automobile, boat and recreational vehicle dealerships on behalf of their customers to finance purchases. These applications are subject to the Bank's normal consumer loan underwriting criteria.

LOAN ORIGINATION FEES AND COSTS. Loan origination fees vary with the volume and type of loans made and with competitive conditions in the mortgage market. Loan demand, new construction activity and availability of money affect these market conditions. The Bank defers net loan fees (costs) and amortizes such net fees (costs) over the life of the loan as an adjustment of yield.

DELINQUENCIES. When a borrower fails to make a scheduled payment on a loan, Skaneateles takes steps to have the borrower cure the delinquency. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition precludes accrual. Generally, interest income is not recognized on loans which are delinquent over 90 days, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status. If the delinquency exceeds 90 days or is not cured through Skaneateles' normal collection procedures, Skaneateles will institute measures to enforce its remedies resulting from the default, including, in the case of mortgage loans, commencing a foreclosure action. In certain cases, the Bank will also consider accepting from the mortgagor a voluntary deed to the mortgaged premises in lieu of foreclosure. Property acquired by Skaneateles as a result of foreclosure or by deed in lieu of foreclosure is classified as "Real Estate Owned."

Other loan delinquencies are remedied in a similar fashion. The collateral is repossessed and sold with proceeds applied against the loan balance. In the case of unsecured installment and commercial business loans, Skaneateles either commences legal action to collect the balance or negotiates a "work-out" payment schedule over a period which may exceed the original term of the loan.

SECURITIES

Skaneateles has authority to purchase a wide range of securities, subject to various restrictions. See "Regulation - New York Law."

The Bank's investment strategy is primarily to hold securities for the purpose of providing liquidity and generating income. The Bank invests primarily in U.S. Treasury Notes, high grade corporate bonds and mortgage-backed securities (primarily fixed rate and variable rate pass through certificates issued and guaranteed by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC)). Pursuant to the Bank's investment policy, all purchases for the investment portfolio must be investment grade securities that are included in one of the top four bond rating categories.

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 that the Company has the ability and intent to hold until maturity. All other securities not included as held-to-maturity 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 gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized gains or losses associated with transfers of securities from held-to-maturity to available-for-sale are recorded as a separate component of stockholders' equity until realized. The unrealized gains or losses included in the separate component of equity for securities transferred from available-for-sale to held-for-maturity are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

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Presented below are the carrying values (in thousands) of the securities portfolio as of the dates indicated.

<TABLE>
<CAPTION>

	December 31,		
	1998	1997	1996
Securities Available for Sale:			
<S>	<C>	<C>	<C>
U.S. government and Federal agency obligations	\$13,100	6,026	5,027
Mortgage-backed securities:			
FNMA	648	752	0
Asset-backed securities	1,051	1,638	982
	-----	-----	-----
	\$14,799	8,416	6,009
=====			
Securities Held to Maturity:			
U.S. government and Federal agency obligations	\$ 1,019	3,007	4,992
Mortgage-backed securities:			
FNMA	103	130	145
FHLMC	2,087	2,998	3,674
Obligations of states and political subdivisions	806	1,470	1,782
Corporate bonds, notes and debentures	0	100	300
	-----	-----	-----
	\$ 4,015	7,705	10,893

</TABLE>

DEPOSITS

Skaneateles attracts both short-term and long-term deposits of individuals and businesses by providing a wide assortment of accounts. Included among these products are savings accounts, demand deposit accounts, NOW accounts, money market deposit accounts (MMDA) and certificates of deposit. Skaneateles has no brokered deposits. The Bank's most direct competition for deposits has historically come from commercial banks and other savings institutions located in its market area. The Bank faces additional significant competition for investors' funds from short-term money market mutual funds and issuers of corporate and government securities. Skaneateles competes for deposits principally by offering depositors a wide variety of deposit programs with competitive terms, convenient branch locations and hours, tax deferred retirement programs and other services. Skaneateles does not rely upon any individual group or entity for a material portion of its deposits.

Skaneateles offers fixed rate certificates of deposit with maturities of 91 days to seven years. A minimum of \$500 is required to open a certificate of deposit. Generally, interest rates on these certificates are determined by the combination of open market interest rates, rates offered by competitors, and the Bank's liquidity needs. Interest is compounded and credited monthly on such certificates.

The Bank currently offers a tiered money market deposit account. Accounts with balances \$50,000 and over earn an annual yield equal to 90% of the average discount rate set weekly at the 91-day Treasury Bill auction. Accounts with lower balances earn interest based on a graduated scale. Interest is

compounded and credited monthly on these accounts.

Regular savings accounts currently earn interest at an annual rate of 2.50%, which accrues daily and is compounded and credited monthly. No minimum balance is required to earn interest on these accounts.

Skaneateles offers a wide array of checking accounts, including a non-interest bearing account which has no minimum balance requirement, no monthly maintenance fee and no per check charge. The Bank also offers interest bearing checking accounts whose rates and fees vary based on the type of the account and amount on deposit.

Skaneateles also offers non-deposit products including annuities and mutual funds through an arrangement with a third party agent. These products are not insured by the Federal Deposit Insurance Corporation ("FDIC").

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REGULATION

As a bank holding company, Skaneateles Bancorp, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Company is also required to file certain reports and otherwise comply with the rules and regulations of the Securities and Exchange Commission (the "Commission") under the federal securities laws. Skaneateles Savings Bank is a banking corporation chartered under the laws of the State of New York, and its deposits are insured by the Bank Insurance Fund ("BIF"), as administered by the FDIC. It is also a member of the Federal Home Loan Bank System. As such, Skaneateles is subject to the regulation, examination and supervision of the Banking Department of the State of New York (the "Department") and the FDIC. The Bank is further subject to the regulation of the Federal Reserve Board with respect to reserves required to be maintained against deposits and certain other matters. The Federal Reserve Board, the Department and the FDIC issue regulations and require the filing of reports describing the activities and financial condition of the institutions under their jurisdiction. Each agency conducts periodic examinations to test compliance with various regulatory requirements and generally supervises the operations of such institutions. This supervision and regulation is intended primarily for the protection of depositors. Certain of the regulatory requirements applicable to the Company and to Skaneateles are referred to below or elsewhere herein.

FEDERAL BANK HOLDING COMPANY REGULATION. Skaneateles Bancorp, Inc. is required to file with the Federal Reserve Board annual reports and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the "BHCA"). The Federal Reserve Board may conduct examinations of Skaneateles Bancorp, Inc. and its subsidiary. Under the BHCA and regulations adopted by the Federal Reserve Board, a bank holding company and its subsidiaries are prohibited from requiring certain tie-in arrangements in connection with any extension of credit, lease, or sale of property or furnishing of services.

Under the BHCA, Federal Reserve Board approval is required for any action which causes a bank or other company to become a bank holding company and for any action which causes a bank to become a subsidiary of a bank holding company. A bank holding company must obtain Federal Reserve Board approval before it acquires direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, it will own or control directly or indirectly more than 5% of the voting stock of such bank unless it already owns a majority of the voting stock of such bank. Federal Reserve Board approval must also be obtained before a bank holding company acquires all or substantially all of the assets of a bank or merges or consolidates with another bank holding company. Any acquisition, directly or indirectly, by a bank holding company or its subsidiaries of more than 5% of the voting shares of, or interest in, or all or substantially all of the assets of any bank located outside of the state in which the operations of the bank holding company's banking subsidiaries are principally conducted may not be approved by the Federal Reserve Board unless the laws of the state in which the bank to be acquired is located expressly authorize such an acquisition.

A bank holding company is prohibited, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries.

The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing its applications to the Federal Reserve Board. In addition, the Federal Reserve Board has the power to issue capital directives (having the force of cease and desist orders) to

mandate the maintenance of adequate capital levels. The Company is in compliance with Federal Reserve Board capital requirements.

FEDERAL DEPOSIT INSURANCE CORPORATION. Skaneateles' deposit accounts are insured by the FDIC up to a maximum of \$100,000 per insured depositor. As an insured bank, Skaneateles is subject to certain FDIC requirements designed to maintain the safety and soundness of individual banks and the banking system. The FDIC periodically conducts examinations of insured institutions and, based upon evaluations, may revalue assets of an insured institution and require establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets. In addition, the FDIC has adopted regulations and a statement of

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policy which define and establish certain minimum requirements for capital adequacy. Under the regulations, insured state nonmember banks such as Skaneateles are required to maintain minimum risk-based capital and leverage capital. The Bank is in compliance with FDIC capital requirements.

The annual premium charge for FDIC insurance is based on the level of capital maintained by the institution and results of periodic regulatory examinations. The following table sets forth the annual premium charge for the periods indicated for FDIC insurance per \$100 of the Bank's total deposits.

<TABLE>

<CAPTION>

Date	Premium per \$100 of total deposits
January 1, 1996 to present (*)	\$.00
June 1, 1995 to December 31, 1995	\$.04
January 1, 1995 to May 30, 1995	\$.23
January 1, 1993 to December 31, 1994	\$.26

</TABLE>

(*) The Bank's FDIC insurance premium was reduced to the legal minimum of \$2,000 per year effective January 1, 1996. Effective January 1, 1997 the FDIC eliminated the \$2,000 per year legal minimum. Beginning January 1, 1997, the Bank is paying a fee for Financing Corporation (FICO) debt service at an annual rate of \$.013 per \$100 of insurable deposits. This fee is not an FDIC insurance premium.

FEDERAL RESERVE SYSTEM. Skaneateles is subject to regulation of certain matters by the Federal Reserve Board. The Federal Reserve Board requires depository institutions, including savings banks the deposits of which are insured by the FDIC, to maintain reserves in accordance with applicable regulations for the purpose of facilitating the implementation of monetary policy by the Federal Reserve System. Generally, the Federal Reserve Board establishes reserve requirements for net transaction accounts. It also has authority, subject to the satisfaction of certain conditions, to impose emergency reserve and supplemental reserve requirements. As of December 31, 1998, net transaction accounts (transaction accounts, primarily NOW and regular checking accounts, less certain permitted deductions) in the amount of \$0 to \$46.5 million are subject to a reserve requirement of 3% of said amount. Net transaction accounts over \$46.5 million are subject to a reserve requirement of \$1,395,000 plus 10% of the total in excess of \$46.5 million. However, \$4.9 million of otherwise reservable liabilities are subject to an exemption from reserve requirements. The amount of this exemption is subject to adjustment by the Federal Reserve Board each calendar year. The Bank was in compliance with its reserve requirements throughout 1998.

FEDERAL HOME LOAN BANK SYSTEM. In 1986, Skaneateles became a member of the Federal Home Loan Bank System, which consists of twelve regional Federal Home Loan Banks each subject to Federal Housing Finance Board supervision and regulation. The Federal Home Loan Banks provide a central credit facility primarily for member institutions. Skaneateles, as a member of the FHLB of New York, is required to acquire and hold shares of capital stock in that Bank in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its advances (borrowings) from the FHLB, whichever is greater. Skaneateles is in compliance with this requirement.

NEW YORK LAW. The Bank derives its lending and investment authority primarily from the applicable provisions of the New York Banking Law and the General Regulations of the Banking Board of the State of New York. Under these laws and regulations, savings banks may invest in real estate mortgage, commercial and consumer loans, home improvement and educational loans, certain types of debt securities, including certain corporate debt securities and the federal and state government and agency obligations, certain types of corporate equity securities and certain other assets.

Savings banks have the power to make commercial, corporate and business loans, to make secured and unsecured installment loans for personal, family and household purposes, and to exercise trust powers upon approval of the Banking Board. These lending powers are not subject to percentage of asset limitations, although there are limits applicable to single borrowers.

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FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

	1998	1997	December 31, 1996	1995	1994

(In Thousands)					
Balance Sheet Data:					
<S>	<C>	<C>	<C>	<C>	<C>
Total assets	\$ 276,148	256,101	242,182	210,647	201,841
Net loans	212,578	212,462	204,830	168,967	163,921
Securities	18,814	16,121	16,902	21,457	21,871
Federal funds sold	24,300	6,700	3,800	3,400	1,200
Deposits, including escrow	237,333	218,018	205,029	179,119	170,696
Borrowings	15,979	18,057	18,181	14,386	13,984
Stockholders' equity	19,101	17,671	16,230	14,939	13,791

</TABLE>

<TABLE>
<CAPTION>

	1998	Years ended December 31, 1997	1996	1995	1994

(Dollars in Thousands, Except Per Share Data)					
<S>	<C>	<C>	<C>	<C>	<C>
Operations Data:					
Total interest income	\$ 20,055	18,965	17,162	15,871	12,940
Total interest expense	9,519	9,435	9,111	8,608	6,349

Net interest income	10,536	9,530	8,051	7,263	6,591
Provision for loan losses	675	500	175	235	360
Other operating income	2,338	1,849	1,116	587	509
Other operating expenses	9,676	8,308	7,418	6,211	5,580

Net income	\$ 1,649	1,662	1,481	1,052	983

</TABLE>

<TABLE>
<CAPTION>

Share data:

<S>	<C>	<C>	<C>	<C>	<C>
Net income - basic	\$ 1.14	1.16	1.05	.76	.71
Net income - diluted	1.11	1.13	1.03	.74	.70
Dividends declared	.28	.27	.19	.13	.08
Book value	13.17	12.31	11.41	10.70	9.93
Shares outstanding	1,450,712	1,435,992	1,422,138	1,396,379	1,388,616

Selected other data:

Tier I Capital (to average assets)	6.78%	6.91%	6.46%	7.00%	7.16%
Total Capital (to risk weighted assets)	11.30%	11.31%	11.23%	12.68%	12.17%
Nonperforming assets to total assets	1.48%	1.90%	1.61%	1.20%	2.10%
Net loans charged off to average loans	0.17%	0.03%	0.62%	0.36%	0.17%
Loan loss allowance to nonperforming loans	90%	65%	67%	125%	94%
Earning asset yield	8.05%	8.17%	8.01%	8.07%	7.31%
Cost of interest bearing liabilities	4.32%	4.51%	4.63%	4.71%	3.90%
Interest rate spread	3.73%	3.66%	3.38%	3.36%	3.41%
Net interest margin	4.23%	4.11%	3.76%	3.69%	3.72%
Full service banking offices	9	9	8	7	5

</TABLE>

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

FINANCIAL CONDITION

GENERAL

Skaneateles Bancorp, Inc. (the "Company") is a bank holding company, with Skaneateles Savings Bank ("Skaneateles" or the "Bank") being its sole subsidiary. The financial condition and operating results of the Company are largely dependent on the Bank, its primary investment.

Total assets of the Company were \$276.1 million at December 31, 1998, compared with \$256.1 million at December 31, 1997, an increase of \$20 million, or 7.8%. Net loans were virtually unchanged, while federal funds sold increased \$17.6 million and securities increased \$2.7 million in 1998.

The pending acquisition of the Company by BSB Bancorp, Inc., scheduled to close in the Summer of 1999, is expected to negatively impact the Company's earnings in the first and second quarters in 1999 as merger related expenses are incurred.

LOANS

Net loans were \$212.6 million at December 31, 1998, an increase of \$116,000, or .1% from December 31, 1997. The Company experienced strong growth in its consumer and commercial loan portfolios in 1998, while the residential mortgage portfolio decreased by \$18.7 million due to an increased level of loan sales, coupled with a historically high level of refinancings and prepayments. Consumer and commercial loans grew a combined \$18.9 million.

Loan originations for 1998 totaled \$72.3 million, an increase of 44.6% from 1997's originations of \$50 million. Residential mortgage originations were \$18.8 million in 1998, an increase of 94.5% from 1997's originations. Residential mortgages represented 26% of 1998's total loan originations, up from 19.3% in 1997. Much of the growth was fueled by a surge in refinancings due to the historically low level of interest rates in 1998.

Approximately \$17.5 million or 93% of the residential loans originated in 1998 were for fixed rates of interest, compared with \$7.9 million and 81.4%, respectively, in 1997. Fixed rate mortgages with terms of 15 years or less were originated for portfolio prior to January 1998. Beginning in January 1998, the Bank began selling all conforming fixed rate mortgages at the time of origination due to the relatively low interest rate environment and the resulting increased interest rate risk associated with long term fixed rate assets. As a result, sales of residential mortgages increased to \$13.5 million in 1998, compared with \$4 million in 1997. The Bank generally retains servicing rights on sold loans.

Absent a marked increase in interest rates, it is likely that consumer demand will continue to be overwhelmingly in favor of fixed rate loans for the foreseeable future, thereby continuing to impede the Company's ability to grow its residential portfolio.

Consumer loan originations were \$27.5 million, or 38% of total loan originations in 1998, compared with \$20.8 million, or 41.6% in 1997. The Bank has seen a substantial increase in deposit customers through its Checking Account Marketing Program ("CHAMP"), which has directly correlated with the strong consumer loan growth in 1998.

Also contributing to the 38% increase in consumer loan originations is the Bank's indirect lending program. Through the indirect program, the Bank receives consumer loan applications from Bank-approved automobile, boat and recreational vehicle dealerships on behalf of their customers to finance purchases from the dealers. These applications are subject to the Bank's normal consumer loan underwriting criteria. Indirect consumer loans accounted for approximately 50% of the Bank's total consumer loan originations in 1998, compared with 33.5% in 1997.

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Commercial loan and commercial mortgage originations were \$26 million, or 36% of total loan originations in 1998, up from \$19.6 million or 39.1% in 1997. The increase resulted largely from greater penetration in the Bank's local market area due to an active calling program.

LOAN PORTFOLIO COMPOSITION. The following table sets forth the composition of Skaneateles' loan portfolio by loan type as of the dates indicated.

<TABLE>
<CAPTION>

At December 31,

	1998		1997		1996		1995		1994	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in Thousands)										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Loans secured by first mortgages										
on real estate:										
Residential	\$100,685	46.89%	119,350	55.63%	129,651	62.74%	116,320	67.80%	110,404	66.10%
Commercial	34,676	16.15%	33,962	15.83%	31,728	15.35%	27,357	15.94%	28,175	16.87%
Other loans:										
Commercial	27,788	12.94%	22,995	10.72%	18,861	9.13%	10,631	6.20%	13,274	7.95%
Home equity and improvement	20,658	9.62%	20,624	9.61%	17,599	8.52%	14,578	8.50%	13,219	7.92%
Guaranteed student	910	0.42%	1,059	0.49%	882	0.43%	858	0.50%	789	0.47%
Other consumer	30,028	13.98%	16,565	7.72%	7,924	3.83%	1,821	1.06%	1,148	0.69%
Total	\$214,745	100.00%	214,555	100.00%	206,645	100.00%	171,565	100.00%	167,009	100.00%

</TABLE>

The following table sets forth the contractual maturity of the commercial loan portfolio and real estate construction loans at December 31, 1998.

<TABLE>
<CAPTION>

	Within one year	One to five years	After five years	Total
(in Thousands)				
<S>	<C>	<C>	<C>	<C>
Commercial loans - adjustable rate	\$ 7,670	6,763	2,552	16,985
Commercial loans - fixed rate	973	8,885	945	10,803
Real estate construction loans - adjustable rate	1,892	0	0	1,892
Total	\$ 10,535	15,648	3,497	29,680

</TABLE>

DEPOSITS

Total deposits, including escrow, were \$237.3 million at December 31, 1998, an increase of \$19.3 million or 8.9% from the end of 1997. However, the Bank experienced an increase of \$6.1 million in December 1998 alone, much of which were short-term increases in personal and commercial demand accounts that were withdrawn in January 1999, resulting in a rate of growth for 1998 somewhat lower than indicated.

The Bank's strategy for deposit growth is focused on savings and checking accounts, which carry lower rates of interest than time accounts and tend to be less sensitive to changes in interest rates. The Bank offers seven checking account products, each targeted to specific demographic groups and supported by an active direct mail marketing campaign (CHAMP). Total checking account balances (NOW and demand) increased \$14.6 million, or 31.5% in 1998, following a \$9.5 million or 27.1% increase in 1997. The Bank opened more than 8,300 new checking accounts in 1998 as a result of the CHAMP program.

Savings account balances increased \$7.9 million or 18.7% in 1998, compared with an increase of \$3.8 million or 9.7% in 1997. The gains resulted primarily from cross-sales to new checking account customers.

Time certificates of deposit totaled \$100.1 million at December 31, 1998, compared with \$105.1 million at the end of 1997. The Bank generally kept its rates on time certificates in the mid range of rates offered in its market area during 1998, which, as expected, resulted in a decrease in these accounts. The Bank expects to continue this practice in 1999. Premium rates may be offered from time to time for specific branch promotions or in the event loan demand so justifies.

The following table sets forth deposits by type of account as of the dates indicated:

<TABLE>
<CAPTION>

	December 31,					
	1998		1997		1996	
	Amount	Percent of total deposits	Amount	Percent of total deposits	Amount	Percent of total deposits
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Savings and club accounts	\$ 50,399	21.23%	42,451	19.47%	38,690	18.86%
Time certificates	100,072	42.16%	105,072	48.19%	107,429	52.40%
Money market accounts	26,050	10.98%	24,234	11.12%	21,991	10.73%
NOW and escrow accounts	33,457	14.10%	26,025	11.94%	22,058	10.76%
Demand accounts	27,355	11.53%	20,236	9.28%	14,861	7.25%
Total	\$ 237,333	100.00%	218,018	100.00%	205,029	100.00%

</TABLE>

The Bank offers preferred rates on certificates of deposit of \$100,000 or more. These rates are determined daily based upon the factors noted above. The Bank does not rely heavily on these deposits. At December 31, 1998, 1997 and 1996, the aggregate amounts of certificates of deposit in denominations of \$100,000 or more were approximately \$15,224,000, \$13,427,000 and \$13,065,000, respectively.

The following table presents the amounts of certificates of deposit in denominations of \$100,000 or more at December 31, 1998 which mature during the periods indicated (in thousands):

Maturity	Amount
<S>	<C>
3 months or less	\$ 4,536
3 to 6 months	3,773
6 to 12 months	1,846
Over 12 months	5,069
Total	\$ 15,224

</TABLE>

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The following table sets forth the average amount of and the average rate paid on each category of interest-bearing deposits:

	Year ended December 31,					
	1998		1997		1996	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Savings and club accounts	\$ 45,955	2.80%	41,004	2.85%	36,576	2.84%
Time certificates	103,562	5.43%	104,447	5.53%	104,023	5.68%
Money market accounts	25,189	3.64%	22,551	3.64%	21,919	3.33%
NOW and escrow accounts	27,760	2.05%	22,911	2.10%	18,007	2.18%

</TABLE>

ASSET QUALITY

Nonperforming assets are comprised of nonaccrual loans and other real estate owned (REO). Management's policy is to place a loan on nonaccrual status with respect to interest income recognition when collection of the interest is

doubtful. Generally, this occurs when principal or interest payments are ninety days or more past due, although interest accruals may continue for certain loans that are adequately secured. The classification of a loan as nonaccruing does not necessarily indicate that the principal and interest ultimately will be uncollectable. The Bank's historical experience suggests that a portion of assets so classified will eventually be recovered. All nonperforming loans are in various stages of workout, settlement or foreclosure.

Nonperforming assets totaled \$4.1 million or 1.5% of total assets at December 31, 1998, compared with \$4.9 million or 1.9% of total assets at December 31, 1997. Included in nonperforming assets at December 31, 1998 were nonaccrual loans of \$3.2 million or 1.5% of gross loans, compared with \$3.9 million or 1.8% of gross loans at December 31, 1997.

The allowance for loan losses was \$2.9 million at December 31, 1998 compared with \$2.6 million at December 31, 1997. The ratio of the allowance to nonperforming loans was 90% at December 31, 1998, compared with 65% at the end of 1997. Loan loss provisions totaled \$675,000 in 1998, compared with \$500,000 in 1997. The loan loss provision was increased to reflect the higher credit risk inherent in consumer and commercial lending. Charge-offs net of recoveries amounted to \$373,000 in 1998, compared with \$54,000 in 1997, when the Bank recovered \$311,000 on a loan charged off in 1996.

Skaneateles uses the allowance method of accounting for loan losses. Under this method, provisions for loan losses are charged to operations and actual loan losses (recoveries) are charged (credited) to the allowance. The allowance for loan losses represents amounts provided to absorb probable future loan losses in the existing loan portfolio. The adequacy of the allowance for loan losses is evaluated monthly, and is determined primarily by management's informed judgment concerning the amount of risk inherent in the portfolio. Management's judgment is based upon a number of factors, including historical loan loss experience, the present and prospective financial condition of borrowers, estimated value of underlying collateral, industry and geographic concentrations, and current and prospective economic conditions.

The Bank utilizes a risk rating system in its credit quality evaluation process. This system involves an ongoing review of business loans and commercial real estate loans that culminates in loans being assigned a risk rating based upon various credit criteria. If the review indicates a sufficient level of risk, an allowance is established proportionate to the perceived risk for each loan. Loans not having an individually established allowance are aggregated by the type of loan and an allowance is estimated based upon aging statistics, past experience and economic factors.

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Generally, all commercial mortgage loans and commercial loans in a delinquent payment status (90 days or more delinquent) are considered impaired. The Bank 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. A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Residential mortgage loans, consumer loans, home equity lines of credit and education loans, respectively, are evaluated collectively since they are homogenous and generally carry smaller individual balances.

As with any financial institution, poor economic conditions, high interest rates, high unemployment and other matters outside of the Bank's control may lead to increased losses in the loan portfolio. Management has various controls in place which it designed in an effort to limit losses, such as: (i) a comprehensive "watch list" of possible loan problems; (ii) a fully documented policy concerning loan administration (loan file documentation, disclosures, approvals, etc.); and (iii) an independent loan review function to audit for adherence to established Bank controls and to review the quality and anticipated collectibility of the portfolio. Loan review reports are presented monthly to the Executive Committee of the Board of Directors, which in turn, reports to the full Board of Directors. Charge-offs are authorized by the Board of Directors based on management's recommendations after applying the credit review process described above.

Management believes the allowance for loan losses as of December 31, 1998 was adequate based upon the quality of the loan portfolio at that date. Future additions to the allowance will be based, among other factors, on changes in economic conditions and financial stress of the Company's borrowers.

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The following table sets forth information with respect to loans delinquent 90 days or more, nonaccrual loans, restructured loans, and real estate owned as of the dates indicated.

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Nonaccruing loans					
Residential real estate mortgages	\$ 1,112	1,091	1,359	271	317
Commercial (1)	1,763	2,573	1,626	1,757	2,894
Consumer	305	253	186	110	40
Total	3,180	3,917	3,171	2,138	3,251
Other loans past due 90 days or more and still accruing:					
Consumer (2)	0	0	29	1	0
Commercial (1)	0	0	370	0	447
Total	0	0	399	1	447
Restructured loans, not included above	0	0	0	1,125	932
Real estate owned	900	951	717	397	984
Total assets containing specific risk elements	4,080	4,868	4,287	3,661	5,614
Ratio of total loans past due 90 days or more to gross loans	1.48%	1.83%	1.73%	1.25%	2.21%
Ratio of assets containing specific risk elements to total assets	1.48%	1.90%	1.77%	1.74%	2.78%

</TABLE>

- (1) Includes commercial real estate loans.
(2) Consists primarily of Guaranteed Student Loans.

The following table sets forth the amounts of interest income not recognized on nonaccruing loans during each period (not including the effect of loans charged off during the period).

	Year ended December 31,				
	1998	1997	1996	1995	1994
	(in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Income that would have been accrued at original contract rates	\$ 298	274	283	155	172

Potential problem loans at December 31, 1998 amounted to \$1.2 million. "Potential problem loans" are defined as loans which are not included with past due and non-accrual loans discussed above, but about which management, through normal internal credit review procedures, has information about possible credit problems that may result in the borrower's inability to comply with the present loan repayment terms. There have been no loans classified for regulatory purposes as loss, doubtful, or substandard that are not included above or which caused management to have serious doubts as to the ability of the borrower to comply with repayment terms. In addition, there were no material commitments to lend additional funds to borrowers whose loans were classified as non-performing.

Impaired loans, which included troubled debt restructured loans, were \$1.5 million and \$2.1 million at December 31, 1998 and 1997, respectively. Included in these amounts are \$554,000 and \$1.9 million of impaired loans for which the related allowance for loan losses is \$205,000 and \$219,000, respectively. The average recorded investment in impaired loans during 1998, 1997 and 1996 was approximately \$2.1 million, \$1.5 million, and \$2.9 million, respectively. The amount of interest income recognized on impaired loans in 1998, 1997 and 1996 was approximately \$91,000, \$84,000, and \$166,000, respectively. The Bank is not committed to lend additional funds to these borrowers.

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 other factors.

The following table sets forth the activity in the allowance for loan losses for the periods indicated.

	Year ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Beginning Balance	\$ 2,560	2,114	2,667	3,040	2,938
Provision	675	500	175	235	360
CHARGE-OFFS					
Residential mortgages	(92)	(92)	(74)	0	(18)
Commercial mortgages	(95)	(237)	(168)	(569)	0
Commercial	(126)	(137)	(999)	(153)	(331)
Credit card	(4)	(1)	0	0	0
Other consumer	(150)	(106)	(60)	(10)	(17)
	(467)	(573)	(1,301)	(732)	(366)
RECOVERIES					
Residential mortgages	0	2	0	0	0
Commercial mortgages	34	5	0	0	0
Commercial	39	496	118	118	96
Other consumer	21	16	8	6	12
	94	519	126	124	108
Net Charge-offs	(373)	(54)	(1,175)	(608)	(258)
Allowance of acquired bank	0	0	447	0	0
Ending Balance	\$ 2,862	2,560	2,114	2,667	3,040
Ratio of net charge-offs during the year to average loans outstanding during the year	0.17%	0.03%	0.62%	0.36%	0.17%

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The following table sets forth the allocation of the allowance for loan losses as of the dates indicated.

	December 31,				
	1998	1997	1996	1995	1994
	(In Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Consumer	\$ 661	428	178	80	59
Commercial (1)	1,932	2,039	1,822	2,517	2,926
Residential	269	93	114	70	55

 \$ 2,862 2,560 2,114 2,667 3,040

</TABLE>

(1) Includes commercial real estate loans.

ASSET/LIABILITY MANAGEMENT

The goal of asset/liability management is to reduce the volatility of net interest income during periods of changing market interest rates (interest rate risk). The Company uses three methods to measure its interest rate risk: (i) gap; (ii) income simulation; and (iii) market value of equity analysis. Gap analysis measures the difference between assets and liabilities which reprice and/or mature within a given time frame, typically the cumulative one-year horizon. An asset-sensitive gap position could lead to an increase in net interest income in a rising rate environment, and a decrease in net interest income in a falling rate environment, as assets reprice or mature quicker than liabilities. Conversely, a liability-sensitive gap position could lead to a decrease in net interest income in a rising rate environment and an increase in net interest income in a falling rate environment. Income simulation measures the potential impact on net interest income of hypothetical changes in interest rates. Market value of equity analysis measures the potential impact on stockholders' equity of hypothetical changes in interest rates.

In February 1996, the Bank purchased an interest rate floor with a notional amount of \$18 million, to hedge a portion of its prime-based loan portfolio. Under the agreement, which expired in February 1999, the Bank received payments on a quarterly basis when the prime rate dropped below 8.25% (the "strike rate"), in the amount by which the prime rate fell below the strike rate multiplied by the notional amount of the floor. The fee paid for the floor was included in other assets and was amortized to interest income using the interest method over the life of the floor. The Bank did not replace this instrument upon its expiration.

The Company's cumulative one-year ratio of rate sensitive assets to rate sensitive liabilities (one-year gap) was 1.15 at December 31, 1998.

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The following table sets forth the amortization, maturity and repricing schedule of the Company's interest earning assets and interest bearing liabilities for all future time periods as of December 31, 1998.

<TABLE>

<CAPTION>

	0 to 3 Months	Over 3 to 12 Months	Over 1 to 5 Years	Over 5 to 10 Years	Over 10 Years	Total
----- (Dollars in Thousands) -----						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Federal funds sold	\$ 24,300	0	0	0	0	24,300
Securities	2,239	6,877	7,901	1,432	346	18,795
Federal Home Loan Bank stock	1,561	0	0	0	0	1,561
Mortgage loans	18,893	57,155	42,864	14,307	2,142	135,361
Consumer loans	10,965	8,766	29,167	2,698	0	51,596
Commercial loans	17,255	2,331	8,128	0	74	27,788
Total	75,213	75,129	88,060	18,437	2,562	259,401

Interest-bearing liabilities:						
Deposits:						
Savings and club accounts	5,040	15,120	20,155	10,084	0	50,399
Time certificates	25,953	40,727	32,077	1,315	0	100,072
Money market accounts	26,050	0	0	0	0	26,050
NOW and escrow accounts	1,599	5,595	22,021	4,242	0	33,457
Borrowings	7,773	3,000	4,265	665	276	15,979
Total	66,415	64,442	78,518	16,306	276	225,957

Gap	\$ 8,798	10,687	9,542	2,131	2,286	33,444
=====						
Cumulative gap	\$ 8,798	19,485	29,027	31,158	33,444	
=====						

Cumulative gap as a
 Percentage of
 Interest-earning

</TABLE>

STOCKHOLDER'S EQUITY

Stockholders' equity totaled \$19.1 million at December 31, 1998, compared with \$17.7 million at December 31, 1997. The change is the result of: (i) net income of \$1.6 million; (ii) proceeds of \$179,000 from issuance of stock under stock plans; (iii) cash dividends of \$404,000; and (iv) a \$6,000 increase in the fair value of securities, net of taxes.

The Company's and Bank's leverage capital ratio was 6.78% at December 31, 1998 compared with 6.91% at December 31, 1997. Total capital to risk-adjusted assets was 11.30% and 11.31%, respectively, at December 31, 1998 and 1997. Both capital measurements exceed the regulatory requirements of 5% and 10%, respectively, to be classified as a well-capitalized institution.

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LIQUIDITY AND CAPITAL RESOURCES

The purpose of liquidity management is to assure sufficient cash flow to meet all of the Company's financial requirements and to be able to capitalize on opportunities for increasing income. Liquidity is mainly provided by cash, securities available for sale, principal and interest collections on loans and mortgage-backed securities, deposits and borrowing facilities from correspondent banks. The Bank has overnight line of credit facilities with the Federal Home Loan Bank of New York ("FHLB") totaling \$25.6 million which can be used to meet the Bank's daily cash needs. In addition, the Bank can borrow additional amounts on a term basis from the FHLB.

The Bank occasionally borrows funds to invest in assets to manage its asset/liability position and its net interest income. Additionally, the Bank also borrowed \$2.0 million from the Federal Home Loan Bank of New York (FHLB) in 1987 at 10.51% for 15 years to fund the purchase of the downtown Syracuse banking center.

The following table sets forth the borrowings of Skaneateles as of the dates indicated.

<TABLE>
<CAPTION>

	December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Securities sold under repurchase agreements	\$ 1,773	2,204	2,516
Line of credit advances from the FHLB of New York	6,000	0	0
Advances from the FHLB of New York	7,465	14,486	14,000
Municipal securities sold with put options	741	1,367	1,665
	\$ 15,979	18,057	18,181
Weighted average interest cost of borrowings during the year	6.25%	6.47%	6.48%

</TABLE>

The Bank's liquidity position is monitored daily, and the Asset/Liability Committee of the Board of Directors is responsible for setting general guidelines to ensure maintenance of prudent levels of liquidity. At December 31, 1998, the Bank's approved commitments to extend credit amounted to \$27.1 million. Further information on commitments is in note 10 of Notes to Consolidated Financial Statements. The Company's liquidity is considered adequate to meet all of its cash flow requirements.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

GENERAL

The Company's and Bank's earnings are largely dependent upon net interest income, and are also affected by its provision for loan losses, other operating income and expenses, and taxes. All earnings per share information is calculated assuming dilution pursuant to Statement of Financial Accounting Standards No. 128, Earnings Per Share.

Net income was \$1.65 million or \$1.11 per diluted share in 1998, compared with \$1.66 million or \$1.13 per diluted share in 1997. A \$1 million increase in net interest income and a \$489,000 increase in other operating income was offset by a \$175,000 increase in loan loss provisions and a \$1.4 million increase in other expenses.

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NET INTEREST INCOME

Net interest income is affected by the difference between the yield earned on interest earning assets and the rates paid on deposits and borrowings. The relative amounts of interest earning assets, deposits, and borrowings also impact net interest income levels.

Net interest income was \$10.5 million in 1998, an increase of \$1 million, or 10.6% from 1997. Interest income increased \$1.1 million or 5.7% in 1998 due to a \$17 million increase in average interest earning assets which was partially offset by a 12 basis point decrease in the yield on those assets. Total average loans increased \$4.5 million or 2.1% while federal funds sold increased \$12.4 million or 352%.

The rate of growth in interest income and net interest income, although healthy, slowed compared with 1997 due to a sharp decline in the growth rate of average loans. Average loans increased 2.1% in 1998, compared with 11.4% in 1997. The impact of the slowdown in loan growth was partially mitigated by a significant change in the mix of the loan portfolio. The average balance of higher yielding consumer and commercial loans increased \$18.6 million or 35.3% in 1998, while mortgages decreased \$14.1 million or 9%. This trend is expected to continue into 1999 if interest rates do not rise appreciably in the near future.

The yield on loans was 8.41% in 1998, compared with 8.36% in 1997. The increase was due mainly to the increase in the average balance of other loans (consumer and commercial), which yielded 9.25% in 1998, compared with 9.22% in 1997.

Interest expense increased \$84,000 or .9% in 1998. An \$11.1 million increase in average interest-bearing liabilities was substantially offset by a 19 basis point decrease in the cost of these funds. The Bank's deposit mix continued to change in 1998 due to its strategy of emphasizing and promoting savings and checking accounts. Average interest-bearing transaction accounts (savings and NOW accounts) as a percentage of total interest-bearing deposits (including escrow) were 36.4% in 1998, compared with 33.5% in 1997. The average cost of interest-bearing transaction accounts was 2.52% in 1998, while the average cost of time deposits was 5.43%. This compares with 2.58% and 5.53%, respectively, in 1997. The overall cost of funds, including non interest-bearing demand accounts, was 3.93% in 1998, down from 4.17% in 1997.

Interest rates were, on average, lower in 1998 compared with 1997. The Bank's prime rate, which is directly impacted by movements in short term rates by the Federal Reserve, averaged 8.36% in 1998, compared with 8.44% in 1997. Treasury yields on maturities of 5 years or more decreased on average more than 100 basis points, while yields on shorter maturities declined by a lesser degree.

Market interest rates alone do not dictate the rates the Bank pays for its funds, although they are an important factor. Other factors that impact the Bank's cost of funds include liquidity needs, the desired mix of deposits and borrowings, local market competition and asset growth objectives.

The net interest margin, which is computed by dividing net interest income by average interest earning assets, increased to 4.23% in 1998, compared with 4.11% in 1997.

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ANALYSIS OF NET INTEREST INCOME

The following table sets forth, for the periods indicated, information regarding: (i) the total dollar amount of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) net yield on interest-earning assets; and (vii) ratio of interest-earning assets to interest-bearing liabilities. Nonaccruing loans,

which are immaterial, have been included in interest earning assets. No tax equivalent adjustments were made.

<TABLE>
<CAPTION>

	Year ended December 31,					
	1998			1997		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars In Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Mortgage loans	\$ 143,052	11,431	7.99%	157,177	12,681	8.07%
Other loans	71,468	6,610	9.25%	52,836	4,872	9.22%
Total loans	214,520	18,041	8.41%	210,013	17,553	8.36%
Securities	18,652	1,148	6.15%	18,537	1,198	6.46%
Federal funds sold	15,930	866	5.44%	3,524	214	6.07%
Total interest-earning assets	249,102	20,055	8.05%	232,074	18,965	8.17%
Non-interest earning assets	15,271	0		13,417	0	
Total assets	\$ 264,373	20,055		245,491	18,965	
Interest-bearing liabilities:						
Deposits:						
Savings and club accounts	\$ 45,955	1,287	2.80%	41,004	1,169	2.85%
Time certificates	103,562	5,628	5.43%	104,447	5,774	5.53%
Money market accounts	25,189	916	3.64%	22,551	821	3.64%
NOW and escrow accounts	27,760	568	2.05%	22,911	480	2.10%
Total interest-bearing deposits	202,466	8,399	4.15%	190,913	8,244	4.32%
Borrowings	17,930	1,120	6.25%	18,406	1,191	6.47%
Total interest-bearing liabilities	220,396	9,519	4.32%	209,319	9,435	4.51%
Non-interest-bearing deposits	21,537	0		16,892	0	
Non-interest-bearing liabilities	3,945	0		2,067	0	
Total liabilities	245,878	9,519		228,278	9,435	
Stockholders' equity	18,495	0		17,213	0	
Total liabilities and stockholders' equity	\$ 264,373	9,519		245,491	9,435	
Net interest income/ interest rate spread		10,536	3.73%		9,530	3.66%
Net interest-earning assets/ net yield on interest-earning assets	\$ 28,706		4.23%	22,755		4.11%
Ratio of interest-earning assets to interest-bearing liabilities			1.13			1.11

<CAPTION>

	Year ended December 31,		
	1996		
	Average Balance	Interest	Yield/ Rate
	(Dollars In Thousands)		
<S>	<C>	<C>	<C>
Interest-earning assets:			
Mortgage loans	152,455	12,156	7.97%
Other loans	36,053	3,346	9.28%
Total loans	188,508	15,502	8.22%
Securities	22,166	1,461	6.59%
Federal funds sold	3,591	199	5.54%

Total interest-earning assets	214,265	17,162	8.01%
Non-interest earning assets	12,998	0	
Total assets	227,263	17,162	
Interest-bearing liabilities:			
Deposits:			
Savings and club accounts	36,576	1,040	2.84%
Time certificates	104,023	5,908	5.68%
Money market accounts	21,919	730	3.33%
NOW and escrow accounts	18,007	392	2.18%
Total interest-bearing deposits	180,525	8,070	4.47%
Borrowings	16,054	1,041	6.48%
Total interest-bearing liabilities	196,579	9,111	4.63%
Non-interest-bearing deposits	12,310	0	
Non-interest-bearing liabilities	2,665	0	
Total liabilities	211,554	9,111	
Stockholders' equity	15,709	0	
Total liabilities and stockholders' equity	227,263	9,111	
Net interest income/ interest rate spread		8,051	3.38%
Net interest-earning assets/ net yield on interest-earning assets	17,686		3.76%
Ratio of interest-earning assets to interest-bearing liabilities			1.09

</TABLE>

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RATE/VOLUME ANALYSIS

The following table presents changes in interest income and expense attributable to (i) changes in volume (change in volume multiplied by old rate), and (ii) changes in rate (change in rate multiplied by old volume). The net change attributable to the combined impact of volume and rate has been allocated in proportion to the absolute change due to volume and the change due to rate. Interest earned on non-accruing loans is included in interest income on loans only when collected, but the average balances of such loans are included in the average balances of loans.

<TABLE>
<CAPTION>

	1998 vs. 1997			1997 vs. 1996		
	Volume	Increase (Decrease) Rate	Net	Volume	Increase (Decrease) Rate	Net
	(In Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income on interest-earning assets:						
Mortgage loans	\$ (1,126)	(124)	(1,250)	374	151	525
Other loans	1,722	16	1,738	1,548	(22)	1,526
Securities	7	(57)	(50)	(235)	(28)	(263)
Federal funds sold	676	(24)	652	(4)	19	15
Total	1,279	(189)	1,090	1,683	120	1,803
Interest expense on interest-bearing liabilities:						
Deposits:						
Savings and club accounts	\$ 139	(21)	118	125	4	129
Time certificates	(47)	(99)	(146)	24	(158)	(134)
Money market accounts	95	0	95	21	70	91
NOW and escrow accounts	100	(12)	88	103	(15)	88
Total deposits	287	(132)	155	273	(99)	174

Borrowings	(31)	(40)	(71)	152	(2)	150
Total	256	(172)	84	425	(101)	324
Net interest income	\$ 1,023	(17)	1,006	1,258	221	1,479

</TABLE>

OTHER OPERATING INCOME

Other operating income includes gain or loss from sale of loans and securities, and service charges and other income. Other operating income in 1998 was \$2.3 million, compared with \$1.8 million in 1997, an increase of \$489,000 or 26.4%. Much of the increase is attributable to higher service charges on deposits, which increased \$340,000 or 24.4% in 1998. This is a direct result of the growth in the Company's checking accounts. In addition, net gain on sale of loans increased \$125,000 or 154.3% in 1998 due to a higher volume of loan sales.

OTHER OPERATING EXPENSES

Other operating expenses were \$9.7 million in 1998, compared with \$8.3 million in 1997, an increase of \$1.4 million or 16.5%.

Salaries and employee benefits expense was \$4.1 million in 1998, compared with \$3.7 million in 1997, an increase of \$407,000 or 11.1%. The increase is attributable to staffing of a new branch opened in the North Medical Plaza in Liverpool in September 1997, higher benefits expense due to greater employee participation in the Company's benefit plans and normal salary increases.

Building, occupancy and equipment expense increased \$210,000 or 16.4% due to the cost of operating the new branch, and to depreciation on computer equipment purchased in early 1998. In addition, a \$38,000 write-off was recorded upon the disposition of obsolete equipment in 1998.

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Data processing expense increased \$294,000 or 67.9% in 1998. Approximately 51% of the increase was due to cost of the Bank's Year 2000 program, with the rest of the increase due to the Bank's growth.

Correspondent bank fees increased \$160,000 or 37.5% due to higher transaction volume resulting from the growth in the Bank's customer base.

Professional services increased \$140,000 or 65.7% in 1998, due to increased reliance on outside firms for information technology, internal audit and services related to the formation of a Real Estate Investment Trust subsidiary.

Other expenses increased \$113,000 or 10% in 1998. Real estate owned expense accounted for approximately 55% of the increase, due to anticipated losses in the portfolio.

The Company's efficiency ratio was 75.7% in 1998, compared with 71.5% in 1997. The efficiency ratio is equal to total operating expenses (net of real estate owned expense and amortization of intangibles) divided by net interest income plus other operating income (excluding securities gains). The degradation in the efficiency ratio reflects the high cost to the Company of offering competitive products and services in a fast changing banking environment.

INCOME TAXES

Income tax expense was \$874,000 for 1998 and \$909,000 for 1997. The decrease generally corresponds to lower income before income taxes. Effective income tax rates were 34.6% for 1998 and 35.4% for 1997. At December 31, 1998, the Company has deferred tax assets of \$1.3 million and deferred tax liabilities of \$698,000. Management has determined that a valuation allowance for the deferred tax assets is not needed at December 31, 1998. Additional information on income taxes is provided in the notes to consolidated financial statements.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

GENERAL

Net income was \$1.66 million, or \$1.13 per diluted share in 1997, compared with \$1.48 million, or \$1.03 per diluted share in 1996. A \$1.48 million increase in net interest income and a \$733,000 increase in other operating income was partially offset by a \$325,000 increase in loan loss provisions and an \$890,000 increase in other operating expenses. Income taxes increased \$816,000.

NET INTEREST INCOME

Net interest income was \$9.5 million in 1997, an increase of \$1.5 million, or 18.4% from 1996. Interest income increased \$1.8 million, or 10.5% in

1997 due to a \$17.8 million increase in average interest earning assets and a 16 basis point increase in the yield on those assets. Total average loans increased \$21.5 million, or 11.4% while securities and federal funds sold decreased \$3.7 million, or 14.4%.

The yield on loans was 8.36% in 1997, compared with 8.22% in 1996. The increase was due mainly to a \$16.8 million, or 46.6% increase in the average balance of other loans (consumer and commercial), which yielded 9.22% in 1997.

Interest rates were, on average, little changed between 1997 and 1996. The Bank's prime rate averaged 8.44% in 1997, compared with 8.27% in 1996. Treasury yields on maturities of 5 years or less increased on average less than 20 basis points, while yields were down slightly on longer maturities.

Interest expense increased \$324,000 or 3.6% in 1997 due to a \$12.7 million increase in average interest-bearing liabilities partially offset by a 12 basis point decrease in the cost of funds. Average interest-bearing transaction

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accounts (savings and NOW accounts) as a percentage of total interest-bearing deposits (including escrow) were 33.5% in 1997, compared with 30.2% in 1996. The average cost of interest-bearing transaction accounts was 2.58% in 1997, while the average cost of time deposits was 5.53%. This compares with 2.62% and 5.68%, respectively, in 1996. The overall cost of funds, including non interest-bearing demand accounts, was 4.17% in 1997, down from 4.36% in 1996.

The net interest margin increased to 4.11% in 1997, compared with 3.76% in 1996.

OTHER OPERATING INCOME

Other operating income in 1997 was \$1.8 million, compared with \$1.1 million in 1996, an increase of \$733,000 or 65.7%. Much of the increase is attributable to higher service charges on deposits, which increased \$655,000 or 88.4% in 1997. This is a direct result of the growth in the Company's checking accounts.

OTHER OPERATING EXPENSES

Other operating expenses were \$8.3 million in 1997, compared with \$7.4 million in 1996, an increase of \$890,000 or 12%. The increase in expenses was primarily growth related.

Salaries and employee benefits expense was \$3.7 million in 1997, compared with \$3.2 million in 1996, an increase of \$408,000 or 12.6%. Most of the increase is attributable to a full year of salary expense in 1997 for employees of the Cicero Bank branch that was acquired on July 1, 1996, and the hiring of 6 new full-time equivalent employees to staff the new North Medical branch, which opened in September, 1997. The remainder of the increase resulted primarily from salary adjustments and incentive bonuses.

Building, occupancy and equipment expense increased \$73,000 or 6.1% due primarily to a full year of depreciation and maintenance in 1997 on the branch acquired from Cicero Bank and to four months of expense on the North Medical branch.

Data processing and correspondent bank fees increased a combined \$238,000 or 38.3% in 1997 due primarily to transaction processing costs on the Bank's larger customer base.

Real estate owned expense was \$83,000 in 1997, compared with \$2,000 in 1996. The Bank recorded a provision totaling \$50,000 in the fourth quarter of 1997 on certain commercial properties.

The Company's efficiency ratio was 71.5% in 1997, down from 81% in 1996. The improvement in the efficiency ratio was driven by growth in net interest income and other operating income exceeding the increase in operating expenses.

INCOME TAXES

Statement of Financial Accounting Standards No. 109 was adopted by the Company in 1992. The statement requires that a valuation allowance be provided when it is more likely than not that some portion of deferred tax assets will not be realized. The Company recognized no immediate financial statement effect from adopting Statement No. 109 because a valuation allowance was provided on the deferred tax asset. The Company generated sufficient earnings in 1996 to fully recognize the deferred tax assets. The Company recorded income tax expense of \$909,000 in 1997, compared with \$93,000 in 1996. Additional information on income taxes is provided in the notes to consolidated financial statements.

The consolidated financial statements presented in the Annual Report have been prepared in accordance with generally accepted accounting principles. Measurement of financial position and operating results have been made in terms of historical dollars. Changes in the relative purchasing power of money due to inflation are not reflected.

In as much as virtually all of the assets and liabilities of a financial institution are monetary in nature, banks are more affected by changes in interest rates than by inflation. Interest rates do not necessarily reflect the direction or magnitude of changes in the price of goods and services which are primarily affected by inflation. In the current

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interest rate environment, liquidity and the maturity structure of the Company's assets and liabilities are of major importance in maintaining acceptable levels of performance.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes comprehensive accounting and reporting requirements for derivative instruments and hedging activities. The statement requires companies to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. The accounting for gains and losses resulting from changes in fair value of the derivative instrument depends on the intended use of the derivative and the type of risk being hedged. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, although earlier adoption is permitted. The Company does not have significant investments in derivative instruments, therefore the provisions of SFAS No. 133 are not expected to have a significant effect on the financial statements of the Company. 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.

YEAR 2000 ISSUE

The Year 2000 issue stems from date coding practices in both software and hardware. Specifically, hardware and software developers have often used two-digit numbers rather than four-digit numbers to represent years. This was done in a conscious effort to provide cost-effective and efficient business solutions, given resource constraints and requirements in the past. Consequently, when the year turns to 2000, the software may calculate the date as 1900 because the century has not been properly defined.

The Year 2000 problem creates risk for the Company from both unforeseen problems in its own information technology ("IT") systems and from problems in the IT systems of third parties (including vendors and service providers) with whom the Company deals on financial transactions. Failures of the Company's and/or third parties' IT systems could have a material adverse impact on the Company's ability to conduct its business. The Company has been actively communicating with third parties concerning the status of their Year 2000 readiness by, among other things, sending written Year 2000 inquiries, and has undertaken to evaluate the Year 2000 readiness of its commercial borrowers. The Company believes that its reasonably likely worst case Year 2000 scenario is: (i) a material increase in the Company's credit losses due to Year 2000 problems for the Company's borrowers and obligors; and (ii) disruption in financial markets causing liquidity stress to the Company. The magnitude of these potential credit losses or disruption cannot be determined at this time.

The Company's non-IT systems used to conduct business at its facilities consist primarily of office equipment (other than computer and communications equipment) and other equipment at the Company's leased office facilities. The Company has inventoried its non-IT systems and has sent Year 2000 questionnaires to its office equipment vendors and landlords to determine the status of their Year 2000 readiness.

The Company has an enterprise-wide program to prepare its IT systems for the year 2000. A senior management committee directs the Company's Year 2000 activities under the framework of the Federal Financial Institutions Examination Council's Five Step Program: (i) Awareness; (ii) Assessment; (iii) Renovation; (iv) Validation; and (v) Implementation. Approximately \$350,000 has been expended on the Year 2000 project as of December 31, 1998. This amount includes the costs of additional hardware, software and technology consultants necessary to achieve Year 2000 compliance for the Company's systems.

The Company's pending merger with BSB, expected to close by Summer 1999, has changed the scope of the Company's Year 2000 project. Most, if not all, of the Company's systems will be converted to BSB's systems prior to year-end. BSB has replaced or upgraded most of its mission critical IT systems, including its core processing systems, which has been certified Year 2000 compliant by the Information Technology Association of America. The weekend of July 10 and 11, 1999 has been tentatively reserved for the conversion of the Company's core data

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processing system to BSB's system. This date assumes the merger is closed by July 1. Contingency plans are being developed by BSB and will be completed in 1999.

As a result of the Company's pending merger with BSB, the Company has suspended remediation and testing of systems that will not be in use following the merger, and has ceased development of Year 2000 related contingency plans. The Company plans to continue to monitor the readiness of its larger commercial customers, and vendors as well as correspondents with whom the Company expects a continuing relationship following the merger.

In the unlikely event the acquisition of the Company by BSB Bancorp is not consummated, the Company would resume its Year 2000 project as originally planned. The Company does not expect that such a situation would negatively impact its ability to achieve Year 2000 compliance in a timely manner, nor does the Company believe that such costs would have a material impact on its financial position.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of Skaneateles Bancorp, Inc. is responsible for the accuracy and content of the financial information in this Annual Report. In order to meet this responsibility, the consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis.

The accounting systems which record, summarize and report financial data are supported by a system of internal controls, augmented by written policies, internal audits and an organizational structure which provides for an effective division of responsibilities. The system is also designed to provide reasonable assurance that transactions are executed in accordance with management's authorizations, and that assets are safeguarded from significant loss or unauthorized use.

The Examining Committee of the Board of Directors reviews the activities of the internal audit function and meets regularly with representatives of KPMG LLP, the Company's independent auditors. KPMG LLP has been appointed, upon recommendation of the Board of Directors, to conduct an independent audit and to express an opinion as to the fairness of the presentation of the consolidated financial statements of Skaneateles, in conformity with generally accepted accounting principles.

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Skaneateles Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Skaneateles Bancorp, Inc. and subsidiary as of 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 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 Skaneateles Bancorp, Inc. 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 8, 1999

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SKANEATELES BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31,	
	1998	1997
	(In Thousands, Except Share Data)	
	<C>	<C>
Cash and due from banks	\$ 9,338	9,658
Federal funds sold	24,300	6,700
Securities available-for-sale, at fair value	14,799	8,416
Securities held-to-maturity, fair value of \$4,171 in 1998 and \$7,935 in 1997	4,015	7,705
Federal Home Loan Bank stock, at cost	1,561	1,561
Loans, including deferred origination costs	215,440	215,022
Allowance for loan losses	(2,862)	(2,560)
Net loans	212,578	212,462
Premises and equipment, net	5,763	6,155
Real estate owned, net	900	951
Accrued interest receivable	1,534	1,372
Other assets	1,360	1,121
	\$ 276,148	256,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Interest bearing deposits	\$ 209,978	197,782
Demand deposits	27,355	20,236
Total deposits	237,333	218,018
Borrowings	15,979	18,057
Other liabilities	3,735	2,355
Total liabilities	257,047	238,430
Stockholders' equity:		
Preferred stock, par value \$.01 per share, authorized 500,000 shares, none issued	0	0
Common stock, par value \$.01 per share, authorized 4,000,000 shares, 1,450,712 and 1,435,992 shares issued in 1998 and 1997, respectively	15	14
Additional paid-in capital	9,297	9,119
Retained earnings	9,818	8,573
Accumulated other comprehensive income	(29)	(35)
Total stockholders' equity	19,101	17,671
	\$ 276,148	256,101

</TABLE>

See accompanying notes to consolidated financial statements.

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SKANEATELES BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	1998	1997	1996
(In Thousands, Except Per Share Data)			
<S>	<C>	<C>	<C>
Interest income:			
Mortgage loans	\$ 11,431	12,681	12,156
Other loans	6,610	4,872	3,346
Securities	1,148	1,198	1,461
Federal funds sold	866	214	199
Total interest income	20,055	18,965	17,162
Interest expense:			
Deposits	8,399	8,244	8,070
Borrowings	1,120	1,191	1,041
Total interest expense	9,519	9,435	9,111
Net interest income	10,536	9,530	8,051
Provision for loan losses	675	500	175
Net interest income after provision for loan losses	9,861	9,030	7,876
Other operating income:			
Service charges	1,734	1,394	739
Net gain on security transactions	0	0	77
Net gain on sale of loans	206	81	34
Other	398	374	266
Total other operating income	2,338	1,849	1,116
	12,199	10,879	8,992
Other operating expenses:			
Salaries and employee benefits	4,062	3,655	3,247
Building, occupancy and equipment	1,488	1,278	1,205
Data processing	727	433	372
Correspondent bank fees	587	427	250
Advertising and promotions	245	225	262
Postage and delivery	472	546	517
Stationery and supplies	233	206	216
ATM service fees	272	201	133
Professional services	353	213	203
Other	1,237	1,124	1,013
Total other operating expenses	9,676	8,308	7,418
Income before income tax expense	2,523	2,571	1,574
Income tax expense	874	909	93
Net income	\$ 1,649	1,662	1,481
Net income per common share - basic	\$ 1.14	1.16	1.05
Net income per common share - diluted	1.11	1.13	1.03

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>
<CAPTION>

	Common stock	Additional paid-in- capital	Retained earnings	Accumulated other comprehensive income	Treasury Stock	Total
(In Thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	\$ 10	9,526	6,083	33	(713)	14,939
Comprehensive income:						
Net income		0	1,481	0	0	1,481
Change in net unrealized gain on securities, net of taxes		0	0	(90)	0	(90)
Total comprehensive income						1,391
Sale of 20,775 shares under option						
	0	117	0	0	0	117
Issuance of 4,985 shares of stock under 1995 Non-employee Director's Stock Plan						
	0	47	0	0	0	47
Cash dividend declared on Common stock (\$0.19 per share)						
	0	0	(264)	0	0	(264)
Retirement of 154,050 shares of treasury stock						
	(1)	(712)	0	0	713	0
Balance at December 31, 1996	\$ 9	8,978	7,300	(57)	0	16,230
Comprehensive income:						
Net income		0	1,662	0	0	1,662
Change in net unrealized gain on securities, net of taxes		0	0	22	0	22
Total comprehensive income						1,684
Sale of 7,350 shares under option						
	1	46	0	0	0	47
Issuance of 3,473 shares of stock under 1995 Non-employee Director's Stock Plan						
	0	47	0	0	0	47
Issuance of 2,688 shares of stock under Dividend Reinvestment Plan						
	0	36	0	0	0	36
Issuance of 728 shares of stock under 1997 Employee Stock Purchase Plan						
	0	12	0	0	0	12
3-for-2 stock split						
	4	0	(4)	0	0	0
Cash paid for fractional shares on stock split						
	0	0	(4)	0	0	(4)
Cash dividend declared on Common stock (\$0.27 per share)						
	0	0	(381)	0	0	(381)
Balance at December 31, 1997	\$ 14	9,119	8,573	(35)	0	17,671
Comprehensive income:						
Net income		0	1,649	0	0	1,649
Change in net unrealized gain on securities, net of taxes		0	0	6	0	6
Total comprehensive income						1,655
Sale of 6,280 shares under option						
	1	41	0	0	0	42
Issuance of 3,619 shares of stock under 1995 Non-employee Director's Stock Plan						
	0	65	0	0	0	65
Issuance of 1,500 shares of stock under 1995 Non-employee Director's Warrant Plan						
	0	19	0	0	0	19
Issuance of 2,322 shares of stock under Dividend Reinvestment Plan						
	0	37	0	0	0	37
Issuance of 999 shares of stock under						

1997 Employee Stock Purchase Plan	0	16	0	0	0	16
Cash dividend declared on Common stock (\$.28 per share)	0	0	(404)	0	0	(404)
Balance at December 31, 1998	\$ 15	9,297	9,818	(29)	0	19,101

</TABLE>

See accompanying notes to consolidated financial statements.

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SKANEATELES BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years ended December 31,		
	1998	1997	1996
	(In Thousands)		
<S>	<C>	<C>	<C>
Operating activities			
Net Income	\$ 1,649	1,662	1,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	675	500	175
Provision for losses on real estate owned	110	50	0
Depreciation and amortization	846	692	628
Mortgage loans originated for sale	(15,225)	(3,363)	(4,454)
Proceeds from sale of mortgage loans originated for sale	13,720	4,090	4,861
Net gain on sale of loans	(206)	(81)	(34)
Net gain on security transactions	0	0	(77)
Net increase in interest receivable	(162)	(101)	(16)
Net increase (decrease) in other liabilities	1,380	(387)	549
Receipt of balance due from Nationar	0	0	1,057
Other, net	(552)	(132)	(105)
Total adjustments	586	1,268	2,584
Net cash provided by operating activities	2,215	2,930	4,065
Investing activities			
Proceeds from maturities of securities available for sale	4,000	3,000	3,004
Proceeds from sale of securities available for sale	0	0	2,462
Proceeds from maturities of securities held to maturity	2,836	2,490	6,175
Purchase of securities held to maturity	(70)	0	(5,135)
Purchase of securities available for sale	(11,124)	(5,756)	(3,096)
Principal collected on asset-backed securities available for sale	1,680	1,113	1,110
Purchase of Federal Home Loan Bank stock	0	(151)	(107)
Net decrease (increase) in loans made to customers	804	(8,982)	(22,664)
Net cash received from acquired bank	0	0	4,024
Proceeds from sale of real estate owned	284	164	196
Purchase of property and equipment, net	(377)	(602)	(298)
Net cash used in investing activities	(1,967)	(8,724)	(14,329)
Financing activities			
Net decrease in time certificates	(5,000)	(2,357)	(1,913)
Net increase in other deposits	24,315	15,346	8,719
Increase (decrease) in overnight borrowings	5,569	(312)	865
Increase in long-term borrowings	0	2,500	4,000
Repayment of long-term borrowings	(7,647)	(2,312)	(1,070)
Proceeds from issuance of stock pursuant to stock plans	179	142	164
Dividends paid	(404)	(381)	(264)
Net cash provided by financing activities	17,012	12,626	10,501
Net increase in cash and cash equivalents	17,280	6,832	237
Cash and cash equivalents at beginning of year	16,358	9,526	9,289
Cash and cash equivalents at end of year	\$ 33,638	16,358	9,526
Interest paid	\$ 9,554	9,433	9,116
Income taxes paid	\$ 820	1,075	92
Supplemental schedule of noncash investing activities:			
Mortgage loans foreclosed and transferred to real estate owned	\$ 365	452	515

See accompanying notes to consolidated financial statements.

SKANEATELES BANCORP, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998, 1997 and 1996

(1) Summary of Significant Accounting Policies

Business

Skaneateles Bancorp, Inc. (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956. The results of the Company are largely dependent upon the results of Skaneateles Savings Bank (the "Bank"), its sole subsidiary. Skaneateles Savings Bank is a full service retail bank.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain prior year amounts have been reclassified to conform to current year 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) Basis of Presentation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions are eliminated in consolidation.

(b) 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. Held-to-maturity securities are those debt securities that the Company has the ability and intent to hold until maturity. All other securities not included as held-to-maturity 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 gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as accumulated other comprehensive income, a component of stockholders' equity, until realized. The unrealized gains or losses included in the separate component of equity for securities transferred from available-for-sale to held-to-maturity are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

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

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

(c) Loans

Loans are reported at the principal amount outstanding, net of deferred origination fees and costs. Interest on loans is accrued and included in income at contractual rates applied to principal outstanding. Accrual of interest on a loan, including impaired loans, is discontinued when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition precludes accrual. Generally, interest income is not recognized on loans which are delinquent over 90 days, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments has improved, in which case the loan is returned to accrual status.

Net loan origination fees and costs are deferred as an adjustment of loan principal and amortized over the life of the related loan as an adjustment of yield using the interest method.

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.

Also, the Company originates some mortgage loans with the intent to sell. These loans are carried at the lower of aggregate cost or fair value. Gains or losses on sales of mortgages are recorded equal to the difference between sales proceeds and the carrying value of the loans. The Bank typically retains the servicing rights to mortgages sold.

(d) Allowance for Loan Losses

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

Management believes that the allowance for loan losses is adequate. The allowance for loan losses is maintained at a level believed by management to be sufficient to absorb probable future losses related to loans outstanding as of the balance sheet date. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors and requires material estimates including the amounts and timing of expected future cash flows on impaired loans. 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 judgment 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.

(e) Premises and Equipment

Land is carried at cost and buildings and improvements, furniture and equipment, and leasehold improvements are carried at cost less allowances for depreciation and amortization. Depreciation and amortization are provided on the straight-line method over the estimated service lives of the respective assets (40 years for building and improvements and 3 to 10 years for furniture and equipment) or lease terms.

(f) Real Estate Owned

Real estate acquired in settlement of loans is carried at the lower of the impaired loan balance at the date of acquisition or fair value less selling expenses of the property received. Write-downs from cost to fair value which are required at the time of foreclosure are charged to the allowance for loan losses. Subsequent write-downs to fair value, net of disposal costs, or the establishment of allowances are charged to other operating expenses.

(g) Other Assets

On July 1, 1996, the Bank acquired substantially all the assets and assumed the deposit liabilities of Cicero Bank. The excess of the purchase price over the fair value of assets acquired ("goodwill") amounted to \$494,000 and is included in other assets. Goodwill is being amortized over the expected period of benefit of seven years on a straight line basis. The amortization period is monitored to determine if events and circumstances require the estimated useful life to be reduced. Periodically, the Company reviews the goodwill for events or changes in circumstances that may indicate the carrying amount of the goodwill is impaired.

(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, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled and tax carryforwards are expected to be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) Per Common Share Data

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. Diluted earnings per share also includes the maximum dilutive effect of stock issuable upon conversion of stock options and warrants.

(j) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks and federal funds sold.

(k) Stock-Based Compensation

The Company continues to apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock-based compensation plans. Disclosures in the footnotes to the financial statements provide pro forma net income and earnings per share information as if the Company had adopted the fair value-based method of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock Based Compensation."

(l) Financial Instruments with Off-Balance Sheet Risk

The Company entered into an interest rate floor in 1996 as part of its interest rate risk management strategy. Interest rate floors are used to hedge exposure to falling interest rates and are accounted for at amortized cost. Fees paid by the Company at inception of interest rate floors are deferred and amortized using the interest method over the life of the floor. Income and expense on the floors are recorded in the same category as that of the related balance sheet item.

(m) Comprehensive Income

On January 1, 1998, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components. At the Company, comprehensive income represents net income and the net change in unrealized gains or losses on securities available for sale, net of taxes, and is presented in the Consolidated Statements of Stockholders' Equity and Comprehensive Income. Prior year consolidated financial statements have been reclassified to conform to the requirements of SFAS No. 130

(n) Segment Reporting

During 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires public companies to report certain financial and other information about key revenue-producing segments 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. As a community-oriented financial institution, substantially all of the Company's operations involve the delivery of loans and deposit products to customers. Management makes operating decisions

and assesses performance based on an ongoing review of these community banking operations, which constitute the Bank's only operating segment for financial reporting purposes. Therefore, adoption of SFAS No. 131 did not result in any changes in the Company's reporting.

(2) Securities

Securities available for sale at December 31 are summarized as follows (in thousands):

<TABLE>
<CAPTION>

				1998			
				Gross	Gross		
				Amortized	unrealized	unrealized	Fair
				cost	gains	losses	value

<S>	<C>	<C>	<C>	<C>
U.S. government and Federal agency obligations	\$ 13,116	40	(56)	13,100
Mortgage-backed securities-FNMA	622	26	0	648
Asset-backed securities	1,042	9	0	1,051
	\$ 14,780	75	(56)	14,799

</TABLE>

<TABLE>
<CAPTION>

<S>	<C>	1997			<C>
		Gross		Fair	
		Amortized	unrealized		
		cost	gains	losses	
U.S. government and Federal agency obligations	\$ 6,013	13	0	6,026	
Mortgage-backed securities-FNMA	733	19	0	752	
Asset-backed securities	1,630	10	(2)	1,638	
	\$ 8,376	42	(2)	8,416	

</TABLE>

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Securities held to maturity at December 31 are summarized as follows (dollars in thousands):

<TABLE>
<CAPTION>

<S>	<C>	1998			<C>
		Carrying	Gross	Gross	
		value	unrealized	unrealized	
		gains	losses	Fair	
				value	
U.S. government and Federal agency obligations	\$ 1,019	4	0	1,023	
Mortgage-backed securities:					
FNMA	103	4	0	107	
FHLMC	2,087	87	0	2,174	
Obligations of states and political subdivisions	806	61	0	867	
	\$ 4,015	156	0	4,171	

<CAPTION>

<S>	<C>	1997			<C>
		Carrying	Gross	Gross	
		value	unrealized	unrealized	
		gains	losses	Fair	
				value	
U.S. government and Federal agency obligations	\$ 3,007	10	0	3,017	
Mortgage-backed securities:					
FNMA	130	4	0	134	
FHLMC	2,998	168	0	3,166	
Obligations of states and political subdivisions	1,470	48	0	1,518	
Corporate bonds, notes and debentures	100	0	0	100	
	\$ 7,705	230	0	7,935	

</TABLE>

On January 1, 1995 the Company reclassified its entire portfolio of mortgage-backed securities from available-for-sale to held-to-maturity, at the securities' fair value of \$8.3 million. The \$234,000 unrealized loss on the securities was maintained and is being amortized into earnings over the remaining life of the securities as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the

associated securities.

There were no realized gains or losses in 1998 or 1997. Gross realized gains on the sale of securities were approximately \$77,000 in 1996.

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The contractual maturity distribution of securities at December 31, 1998 is as follows (in thousands):

<TABLE>
<CAPTION>

	Within one year	One to five years	Five to ten years	After ten years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Securities available for sale:					
U.S. government and Federal agency obligations	\$ 5,023	7,093	1,000	0	13,116
Mortgage-backed securities:					
FNMA	0	0	0	622	622
Asset-backed securities	0	357	685	0	1,042
	\$ 5,023	7,450	1,685	622	14,780
Fair value	\$ 5,035	7,421	1,694	649	14,799
Weighted average yield of securities	5.22%	4.88%	6.08%	6.55%	5.20%
Securities held to maturity:					
U.S. government and Federal agency obligations	\$ 999	20	0	0	1,019
Mortgage-backed securities:					
FNMA	0	0	0	103	103
FHLMC	0	0	68	2,019	2,087
Obligations of states and political subdivisions	0	257	215	334	806
	\$ 999	277	283	2,456	4,015
Fair value	\$1,003	298	311	2,559	4,171
Weighted average yield of securities	6.10%	6.43%	7.19%	7.14%	6.88%

</TABLE>

Securities carried at \$7,346,000 at December 31, 1998 were pledged for borrowings and other purposes required by law.

Accrued interest receivable on securities was \$201,000 and \$177,000 at December 31, 1998 and 1997, respectively.

The following summarizes the components of other comprehensive income for the years ended December 31, 1998, 1997 and 1996 (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Net unrealized holding gains (loss) on securities	\$ 10	36	(73)
Reclassification adjustment for net realized gains included in net income	0	0	(77)
Other comprehensive, before tax	10	36	(150)
Income tax expense	(4)	(14)	60
Other comprehensive income, net of tax	\$ 6	22	(90)

</TABLE>

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(3) Loans

Major categories of loans at December 31 are summarized as follows (in thousands):

	1998	1997
Loans secured by first mortgages on real estate:		
Residential	\$ 100,685	119,350
Commercial	34,676	33,962
	135,361	153,312
Other loans:		
Commercial	27,788	22,995
Guaranteed student	910	1,059
Home equity and improvement	20,658	20,624
Other consumer	30,028	16,565
	79,384	61,243
	214,745	214,555
Net deferred origination costs	695	467
	\$ 215,440	\$ 215,022

Changes in the allowance for loan losses for the years ended December 31 were as follows (in thousands):

	1998	1997	1996
Balance at January 1	\$ 2,560	2,114	2,667
Provision charged to operations	675	500	175
Recoveries	94	519	126
Loans charged off	(467)	(573)	(1,301)
Allowance of acquired bank	0	0	447
Balance at December 31	\$ 2,862	2,560	2,114

The principal balances of loans not accruing interest, including impaired loans, amounted to approximately \$3,180,000 and \$3,917,000 at December 31, 1998 and 1997, respectively. The effect of non-accrual loans on interest income for 1998, 1997 and 1996 was a reduction of approximately \$298,000, \$274,000 and \$283,000, respectively.

Impaired loans were \$1,485,000 and \$2,079,000 at December 31, 1998 and 1997, respectively. Included in these amounts are \$554,000 and \$1,911,000 of impaired loans for which the related allowance for loan losses is \$205,000 and \$219,000, at December 31, 1998 and 1997, respectively. The average recorded investment in impaired loans during 1998, 1997 and 1996 was approximately \$2,063,000, \$1,480,000, and \$2,923,000, respectively. The amount of interest income recognized on impaired loans in 1998, 1997 and 1996 was approximately \$91,000, \$84,000, and \$166,000, respectively. The Bank is not committed to lend additional funds to these borrowers.

Accrued interest receivable on loans was \$1,333,000 and \$1,194,000 at December 31, 1998 and 1997, respectively.

The Bank serviced loans for others aggregating approximately \$35,047,000, \$25,487,000 and \$23,820,000 at December 31, 1998, 1997 and 1996, respectively. Originated mortgage servicing rights of approximately \$127,000 are recorded on the balance sheet as of December 31, 1998. No mortgage servicing rights were recorded as of December 31, 1997 due to immateriality.

From time to time, the Bank entered into loan transactions with the Company's directors and officers (related parties). Such transactions were made on substantially the same terms as those prevailing at the same time for comparable loans to other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. An analysis of related party loan activity follows (in thousands):

<TABLE>

	1998	1997
<S>	<C>	<C>
Balance at January 1	\$ 1,017	1,172
Increases	158	113
Decreases	(114)	(268)
Balance at December 31	\$ 1,061	1,017

<TABLE>
<CAPTION>
(4) Premises and Equipment

A summary of premises and equipment at December 31 is as follows (in thousands):

	1998	1997
<S>	<C>	<C>
Land	\$ 532	532
Buildings and improvements	5,223	5,146
Furniture and equipment	3,609	3,539
Leasehold improvements	1,798	1,796
Less accumulated depreciation and amortization	11,162	11,013
	5,399	4,858
	\$ 5,763	6,155

</TABLE>

Depreciation and amortization of premises and equipment included in building, occupancy and equipment expense amounted to \$760,000, \$632,000 and \$584,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

(5) Deposits

Deposits at December 31 are summarized as follows (in thousands):

	1998	1997
<S>	<C>	<C>
Savings and club accounts	\$ 50,399	42,451
Time certificates	100,072	105,072
Money market accounts	26,050	24,234
NOW and escrow accounts	33,457	26,025
Demand accounts	27,355	20,236
	\$237,333	218,018

</TABLE>

At December 31, 1998 and 1997, the aggregate amounts of time certificate accounts in denominations of \$100,000 or more were approximately \$15,224,000 and \$13,427,000, respectively.

The following table presents the amount of time certificate accounts at December 31, 1998 which mature during the periods indicated (in thousands):

<S>	Maturing						Total
	Within One Year	Two Years	Three Years	Four Years	Five Years	After Five Years	
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 66,073	15,462	5,354	8,556	3,233	1,394	100,072	

</TABLE>

Interest expense on deposits for the years ended December 31 is summarized as

follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Savings and club accounts	\$ 1,287	1,169	1,040
Time certificates	5,628	5,774	5,908
Money market accounts	916	821	730
NOW and escrow accounts	568	480	392
	\$ 8,399	8,244	8,070

</TABLE>

(6) Borrowings

Borrowings at December 31 are summarized as follows (in thousands):

<TABLE>
<CAPTION>

	1998		1997	
	Amount	Rate	Amount	Rate
<S>	<C>	<C>	<C>	<C>
Securities sold under repurchase agreements	\$ 1,773	4.06%	2,204	4.76%
Advances from the FHLB of New York, Line of credit	6,000	5.63%	0	
due 1998	0	0	7,000	5.45-6.45%
due 1999	3,000	6.63%	3,000	6.63%
due 2000	2,000	6.26-6.31%	2,000	6.26-6.31%
due 2002	2,000	10.51%	2,000	10.51%
due 2007	465	7.08%	486	7.08%
Municipal securities sold with put options	741	5.99%	1,367	6.25%
	\$15,979	6.40%	18,057	6.40%

</TABLE>

The Bank enters into repurchase agreements with commercial demand deposit customers under which balances greater than \$25,000 earn interest at a rate of 90% of the weekly average auction yield of the 90 day U.S. Treasury Bill. These transactions are recorded as borrowings. At December 31, 1998, the Bank pledged U.S. Treasury Notes totaling \$2,500,000 as collateral for the repurchase agreements.

At December 31, 1998, Federal Home Loan Bank of New York (the "FHLB") advances are collateralized by the investment in stock of the FHLB of \$1,561,000 and residential mortgage loans with a carrying value approximating \$14,812,000. These advances carry fixed rates of interest.

The Bank maintains two lines of credit with the FHLB of New York. Borrowings under the lines bear interest at 0.125% above the federal funds rate. Additional borrowings of \$19,618,000 were available under the lines at December 31, 1998. The amount of each line is equal to 5% of the Bank's total assets and is set each year at March 31, the renewal date of the lines.

In 1985, the Bank sold certain municipal securities to a Municipal Investment Trust Fund which have a par value at December 31, 1998 of \$741,000. The trust has put options which require the Bank to repurchase the securities at par value on annual repurchase dates and on fourteen days' notice if any debt obligation is deemed to be taxable or in default. The put options are collateralized by approximately \$741,000 of municipal bonds and U.S. Treasury Notes of approximately \$1,000,000. This transaction has been recorded as a borrowing. The borrowing is reduced with proceeds from the maturity or call of the municipal securities, which have maturity dates ranging from May 2001 to November 2017.

(7) Income Taxes

Total income taxes for the year ended December 31 were allocated as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Income from operations	\$ 874	909	93

Stockholders' equity, for change in unrealized gain (loss) on securities	4	14	(60)
	\$ 878	923	33

</TABLE>

Actual income taxes applicable to income from operations differ from expected taxes, computed by applying the Federal corporate tax rate of 34% to income before income taxes as follows (in thousands):

	1998	1997	1996
Expected tax expense	\$ 858	874	535
State income taxes, net of Federal benefit	81	105	42
Change in valuation allowance for deferred tax assets	0	0	(572)
Other	(65)	(70)	88
Income tax expense	\$ 874	909	93

</TABLE>

The components of income tax expense applicable to operations are as follows (in thousands):

	1998	1997	1996
Current:			
Federal	\$ 934	817	72
State	153	(7)	14
	1,087	810	86
Deferred:			
Federal	(182)	(67)	179
State	(31)	166	(172)
	(213)	99	7
	\$ 874	909	93
Deferred tax expense (benefit), exclusive of the change in valuation allowance	\$ (213)	99	579
Change in valuation allowance	0	0	(572)
	\$ (213)	99	7

</TABLE>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are presented below (in thousands).

	1998	1997
Deferred tax assets:		
Allowance for loan losses	\$ 1,126	948
Unrealized loss on securities	20	24
Other	108	86
Total deferred tax assets	1,254	1,058
Deferred tax liabilities:		
Deferred loan origination costs	278	186
Increase in tax bad debt reserve over base	205	322
Accumulated depreciation	120	168
Capitalized servicing rights	51	0
Other	44	35

Total deferred tax liabilities	698	711
Net deferred tax asset	\$ 556	347

</TABLE>

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. The Company generated sufficient earnings in 1996 to fully recognize the deferred tax assets.

Based on its assessment, management determined that no valuation allowance was necessary for 1998 and 1997.

Included in retained earnings at December 31, 1998 is approximately \$987,000 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 the failure of the institution to qualify as a bank for Federal income tax purposes, would result in taxable income. However, it is not contemplated that the reserves will be used in a manner that will create tax liabilities.

(8) Stockholders' Equity and Regulatory Matters

The Company's principal source of funds to pay dividends on the Company's common stock is dividends received from the Bank. In any calendar year, approval of the Superintendent of Banks of the State of New York is required prior to the Bank declaring dividends in an amount in excess of net income for that year plus net income retained in the preceding two years. Under the regulations, the Bank has approximately \$4,149,000 available for payment of dividends to the Company at December 31, 1998.

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 1998, the Bank was required to maintain a minimum Tier I capital (as defined in the regulations) to average assets ratio of 4%, and minimum ratios of Tier I capital and total capital to risk weighted assets (as defined) of 4% and 8%, respectively.

Under its prompt corrective action regulations, the FDIC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution's financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized and critically under-capitalized. Generally, an institution is considered well-capitalized if it has a Tier I capital ratio (to average assets) of at least 5%, a Tier I capital ratio (to risk weighted assets) of at least 6%, and a total capital ratio (to risk weighted assets) of at least 10%.

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The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the FDIC about capital components, risk weighting and other factors.

Management believes that as of December 31, 1998, the Bank meets all capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since the notification that management believes have changed the Bank's capital classification.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, compared with the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution (dollars in thousands):

<TABLE>

<CAPTION>

Actual		Minimum Adequacy		For Classification As Well-Capitalized	
Amount	Ratio	Amount	Ratio	Amount	Ratio

<S>	----- <C>	----- <C>	----- <C>	----- <C>	----- <C>	----- <C>
1998						
Tier I Capital (to average assets)	\$ 18,612	6.78%	10,978	4.00%	13,722	5.00%
Tier I Capital (to risk weighted assets)	18,612	10.04%	7,415	4.00%	11,123	6.00%
Total Capital (to risk weighted assets)	20,941	11.30%	14,830	8.00%	18,538	10.00%
1997						
Tier I Capital (to average assets)	17,173	6.91%	9,937	4.00%	12,421	5.00%
Tier I Capital (to risk weighted assets)	17,173	10.06%	6,830	4.00%	10,246	6.00%
Total Capital (to risk weighted assets)	19,319	11.31%	13,661	8.00%	17,076	10.00%

The Company's capital amounts and ratios as of December 31, 1998 and 1997 were not materially different than those of the Bank.

(9) Employee Benefits and Stock Plans

The Company adopted a Stock Option Plan which was approved by the stockholders in 1987 (the "1987 Plan"). Under the 1987 Plan, 76,765 shares of authorized but unissued common stock were reserved for the granting of options to officers and key employees. Options are granted at the market price of shares at the date of grant, adjusted when applicable for the effect of stock dividends, become exercisable 20% per year after the date of grant and must be exercised within 10 years of the date of grant. All options available under the plan have been granted.

To supplement the 1987 Plan, the Company adopted a Stock Option Plan which was approved by the stockholders in 1991 (the "1991 Plan"). Under the 1991 Plan, 69,350 shares of authorized but unissued common stock were reserved for future issuance. The terms, conditions, and provisions of the 1991 Plan are substantially the same as those of the 1987 Plan described above, except that the vesting of options is determined by the Company's board of directors at the time of grant. At December 31, 1998, there were 4,313 options available for grant.

The Company adopted an additional Stock Option Plan which was approved by the stockholders in 1998 (the "1998 Plan"). Under the 1998 Plan, 71,500 shares of authorized but unissued common stock were reserved for future issuance. The terms, conditions, and provisions of the 1998 Plan are substantially the same as those of the 1991 Plan. At December 31, 1998, all 71,500 options were available for grant.

The 1995 Non-Employee Directors Warrant Plan (the "1995 Warrant Plan") was established to attract, retain and compensate for the services of highly qualified individuals who are not employees of Company or the Bank, as members of their respective boards of directors, and to enable them to increase their ownership in the Company's common stock. Shares subject to warrants granted may be authorized-but-unissued shares, treasury shares, shares

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purchased on the open market or shares issued pursuant to a rights offering or dividends. If any warrant is surrendered before exercise, or lapses without exercise, or for any other reason ceases to be exercisable, in whole or in part, the shares reserved for the unexercised portion thereof shall continue to be available for the grant of warrants hereunder. Each warrant that is granted vests and becomes exercisable over a three-year period in increments of one-third on each anniversary of the grant date. In 1998 and 1997, 15,000 and 13,500 warrants, respectively, were granted at exercise prices of \$19.59 and \$12.83, respectively. There were no warrants issued in 1996. The 1995 Warrant Plan expired on April 1, 1998.

The 1998 Non-Employee Directors Warrant Plan (the "1998 Warrant Plan") was established to replace the 1995 Warrant Plan. The total number of shares that may be issued pursuant to warrants granted under the 1998 Warrant Plan shall not exceed 65,000. The terms, conditions, and provisions of the 1998 Warrant Plan are substantially the same as those of the 1995 Warrant Plan described above. There were no warrants issued under the 1998 Warrant Plan in 1998.

Stock option and warrant activity during the periods indicated is summarized as follows:

<TABLE>

<CAPTION>

	Number of shares under option	Weighted average exercise price
<S>	<C>	<C>
Outstanding, December 31, 1995	88,050	\$ 6.39
Granted	22,000	9.17
Exercised	(20,775)	5.65
Outstanding, December 31, 1996	89,275	7.24
Granted	27,300	11.82
Exercised	(7,350)	6.24
Forfeited	(6,375)	8.27
Outstanding, December 31, 1997	102,850	8.46
Granted	26,000	19.45
Exercised	(7,780)	7.81
Forfeited	(2,520)	15.15
Outstanding December 31, 1998	118,550	\$ 10.77

</TABLE>

The range of exercise prices and weighted average remaining contractual life of outstanding options and warrants at December 31, 1998 is summarized as follows:

<TABLE>

<CAPTION>

Number of Shares Under Option	Exercise Price Range	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)
<S>	<C>	<C>	<C>
2,625	\$ 3.50	\$ 3.50	1.95
42,725	5.66 - 6.83	6.39	5.07
36,700	9.16 - 10.83	9.93	7.45
12,000	12.83	12.83	8.25
24,500	19.25 - 19.59	19.44	9.20

</TABLE>

At December 31, 1998, 61,255 options and warrants were exercisable, and the weighted-average exercise price was \$7.62.

The fair value of the stock options and warrants granted was arrived at using the Black Scholes option-pricing model. The results and the assumptions used for the options and warrants granted during 1998, 1997 and 1996 are summarized as follows:

<TABLE>

<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Weighted-average fair value	\$ 5.76	3.56	2.38
Expected dividend yield	1.92%	1.32%	2.55%
Risk free interest rate	5.50%	5.70%	6.10%
Expected life (years)	5	5	5
Volatility ratio	26.61%	26.61%	25.42%

</TABLE>

The Company applies APB Opinion No. 25 in accounting for its option and warrant plans, and accordingly, no compensation cost has been recognized for stock options and warrants in the accompanying consolidated financial statements. Had the Company determined compensation cost based on the fair value of its stock options and warrants at the grant date under SFAS No. 123, the Company's net income and earnings per share would have been reduced to pro forma amounts indicated below:

<TABLE>

<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Net income (in thousands):			
As reported	\$ 1,649	1,662	1,481
Pro forma	1,552	1,599	1,431

Earnings per share:			
Basic			
As reported	\$1.14	1.16	1.05
Pro forma	1.07	1.12	1.01
Diluted			
As reported	1.11	1.13	1.03
Pro forma	1.04	1.08	0.99

</TABLE>

The full impact of calculating compensation for stock options and warrants under SFAS No. 123 is reflected in the pro forma net income amounts because options and warrants are generally granted based upon past service.

The Company maintains an Employee Stock Ownership Plan (the "ESOP") which covers substantially all employees who have completed one year of service, with participants vesting in shares purchased by the ESOP based upon a graduated scale over a 7 year period. The Company pays all administrative expenses associated with the ESOP. In 1997, the Company contributed \$25,000 to the ESOP trust. No contributions were made by the Company in 1998 and 1996. At December 31, 1998, all shares in the plan were allocated to plan participants.

The Bank has a 401(k) Savings Plan which covers all full time salaried employees who have completed one year of service and are at least 21 years old. Expense of the Plan in 1998, 1997 and 1996 was approximately \$223,000, \$113,000 and \$109,000, respectively.

The 1995 Non-Employee Directors Stock Plan (the "Plan") was approved by stockholders and adopted by the Company in 1995. The Plan was established to attract, retain and compensate for the services of highly qualified individuals who are not employees of the Company or the Bank, as members of their respective boards of directors, and to enable them to increase their ownership in the Company's common stock through automatic, non-discretionary awards of shares in lieu of cash meeting fees otherwise payable to them. The total number of shares that may be awarded pursuant to the plan shall not exceed 37,500. Shares awarded may be authorized-but-unissued shares, treasury shares or shares purchased on the open market. The Plan terminates on December 31, 1999 unless terminated earlier by the board of directors or extended by the board with the approval of stockholders. During 1998, 1997 and 1996, 3,619, 3,473 and 4,985 shares were awarded, respectively. At December 31, 1998, 23,450 shares were available for award. The cost of shares issued in lieu of cash payments under the Plan was \$65,000, \$47,000 and \$47,000 in 1998, 1997 and 1996, respectively.

The Company maintains an Employee Stock Purchase Plan which allows, subject to certain limitations, eligible Company employees to purchase shares of Skaneateles Bancorp common stock for 95% of the market value of such stock through payroll deductions.

(10) Commitments

The Bank occupies six branches and other office space under noncancellable operating leases with remaining terms through 2010. A summary of future minimum rental commitments under the terms of such leases at December 31, 1998 follows (in thousands):

<TABLE>	
<CAPTION>	
Year	Amount

<S>	<C>
1999	\$ 396
2000	417
2001	380
2002	387
2003	387
Subsequent years	1,325

	\$ 3,292
=====	

</TABLE>

Rent expense amounted to approximately \$408,000, \$349,000, and \$371,000 for 1998, 1997 and 1996, respectively.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce exposure to fluctuations in interest rates. Those financial instruments include commitments to extend credit and an interest rate floor. Those instruments involve, to varying degrees, elements of credit and market

risk in excess of the amount recognized in the consolidated balance sheets. Credit risk represents the accounting loss that would be recognized at the reporting date if obligated counterparties failed completely to perform as contracted. Unless noted otherwise, the Company does not require collateral or other security to support off-balance sheet financial instruments with credit risk. Market risk represents the risk that future changes in market prices make a financial instrument less valuable.

Commitments to fund loans (including lines of credit) and outstanding letters of credit were approximately \$27,106,000 and \$171,000, respectively, at December 31, 1998, and \$20,479,000 and \$168,000, respectively, at December 31, 1997. Approximately \$4,339,000 of the loan commitments at December 31, 1998 were for fixed rates of interest.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments 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.

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses, and may require payment of a fee. The Company evaluates each customer's credit worthiness 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 credit evaluation. Collateral held varies, but may include real estate, accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

The Bank has an interest rate floor outstanding on \$18,000,000 of prime-based loans at December 31, 1998. Interest rate floors require the payment of a fee for the right to receive interest payments on the contract notional amount when a floating rate (typically prime) falls below a strike rate. The original term of the floor was three years with an expiration date of February 1999. Under the agreement, which expired in February 1999, the Bank received payments on a quarterly basis when the prime rate dropped below 8.25% (the "strike rate"), in the amount by which the prime rate fell below the strike rate multiplied by the notional amount of the floor (\$18,000,000). The impact on net interest income is the excess of the strike rate over the floating rate less the periodic amortization of the fee paid.

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In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, the proceedings should not have a material effect on the financial condition or results of operations of the Company.

(11) Concentrations of Credit

A substantial portion of the Company's loans are secured by real estate 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. Other than general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

(12) Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Securities: Fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable rate loans that reprice frequently and loans due on demand with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (i.e. 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 of other loans (i.e. commercial real estate, rental property mortgage loans and business loans) are estimated using discounted cash flow analyses based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest approximates its fair value.

Off-balance-sheet instruments: Fair values for the Company's off-balance-sheet instruments (letters of credit, commitments to fund loans and an interest rate floor contract) 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 values of loan origination commitments, lines of credit, standby letters of credit, and interest rate floor contracts were estimated based on an analysis of the interest rates, fees currently charged and market quotes, if available, for similar transactions. These fair values were not significantly different from the carrying amounts, which were not material, at December 31, 1998 and 1997.

Deposits: The fair values disclosed for demand deposits (interest and non-interest checking, savings accounts, 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 time certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of the time deposits.

These estimated fair values do not include the value of core deposit relationships which comprise a significant portion of the Company's deposit base. Management believes that the Company's core deposit relationships provide a relatively stable, low-cost funding source which has a substantial intangible value separate from the deposit balances.

Borrowings: The carrying amounts reported in the balance sheet for overnight borrowings approximate the fair values of those liabilities. The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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The following is a summary of the carrying values and estimated fair values of the Company's financial instruments at December 31, 1998 and 1997 (in thousands):

<TABLE>
<CAPTION>

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial assets:				
Cash and cash equivalents	\$ 33,638	33,638	16,358	16,358
Securities available for sale	14,799	14,799	8,416	8,416
Securities held to maturity	4,015	4,171	7,705	7,935
Federal Home Loan Bank stock	1,561	1,561	1,561	1,561
Loans	212,578	215,594	212,462	213,736
Financial liabilities:				
Demand, NOW, savings, escrow, and Money market accounts	137,261	137,261	112,946	112,946
Time certificates	100,072	100,789	105,072	105,565
Borrowings	15,979	16,546	18,057	18,607

</TABLE>

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 judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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(13) Parent Company Financial Information

The following presents the condensed balance sheets of the Company (parent only)

as of December 31, 1998 and 1997 and its condensed statements of income and cash flows for the years ended December 31, 1998, 1997 and 1996 (in thousands):

Condensed Balance Sheets

<TABLE>

<CAPTION>

	1998	1997
Assets:		
Cash	\$ 133	56
Investment in subsidiary	18,968	17,615
Total Assets	\$ 19,101	17,671
Stockholders' equity	\$ 19,101	17,671

Condensed Statements of Income

</TABLE>

<TABLE>

<CAPTION>

	1998	1997	1996
Income:			
Dividends from subsidiary	\$ 302	190	151
Equity in undistributed income of subsidiary	1,347	1,472	1,330
Net income	\$ 1,649	1,662	1,481

</TABLE>

<TABLE>

<CAPTION>

Condensed Statements of Cash Flows

	1998	1997	1996
Operating activities:			
Net income	\$ 1,649	1,662	1,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiary	(1,347)	(1,472)	(1,330)
Net cash provided by operating activities	302	190	151
Financing activities:			
Cash dividends paid on common stock	(404)	(385)	(264)
Proceeds from issuance of stock pursuant to stock plans	179	142	164
Net cash used in financing activities	(225)	(243)	(100)
Net increase (decrease) in cash	77	(53)	51
Cash at beginning of year	56	109	58
Cash at end of year	133	56	109

</TABLE>

(14) Earnings Per Share

The following table presents a reconciliation of the numerator and denominator of the earnings per share computations (in thousands except share and per-share amounts):

<TABLE>

<CAPTION>

	Year ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic earnings per share:			
Net income	\$ 1,649	1,444,264	\$ 1.14

Diluted earnings per share:

Income available to common shareholders

and assumed exercise of stock options and warrants

\$ 1,649	1,492,172	\$ 1.11
----------	-----------	---------

</TABLE>

<TABLE>

<CAPTION>

Year ended December 31, 1997

	Income (Numerator)	Shares (Denominator)	Per-share Amount
<S>	<C>	<C>	<C>
Basic earnings per share:			
Net income	\$ 1,662	1,430,177	\$ 1.16
Effect of assumed exercise of stock options and warrants	0	45,647	

Diluted earnings per share:

Income available to common shareholders

and assumed exercise of stock options and warrants

\$ 1,662	1,475,824	\$ 1.13
----------	-----------	---------

</TABLE>

<TABLE>

<CAPTION>

Year ended December 31, 1996

	Income (Numerator)	Shares (Denominator)	Per-share Amount
<S>	<C>	<C>	<C>
Basic earnings per share:			
Net income	\$ 1,481	1,411,565	\$ 1.05
Effect of assumed exercise of stock options	0	33,322	

Diluted earnings per share:

Income available to common shareholders

and assumed exercise of stock options

\$ 1,481	1,444,887	\$ 1.03
----------	-----------	---------

</TABLE>

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Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected quarterly data for the years ended December 31, 1998 and 1997 (in thousands, except for per share data):

<TABLE>

<CAPTION>

	1998 Quarter Ended				Total
	March 31	June 30	September 30	December 31	Year
<S>	<C>	<C>	<C>	<C>	<C>
Total interest income	\$ 4,884	5,065	5,083	5,023	20,044
Total interest expense	2,376	2,391	2,425	2,327	9,519
Net interest income	2,508	2,674	2,658	2,696	10,536
Provision for loan losses	100	150	200	225	675
Net interest income after					
provision for loan losses	2,408	2,524	2,458	2,471	9,861
Net gain on sale of loans	21	24	122	39	206
Other operating income	449	525	554	604	2,132
Other operating expense	2,341	2,422	2,480	2,433	9,676
Income before income taxes	537	651	654	681	2,523
Income tax expense	190	233	233	218	874

Net income	\$	347	418	421	463	1,649
Net income per common share - basic	\$.24	.29	.29	.32	1.14
Net income per common share - diluted	\$.23	.28	.28	.31	1.11

<CAPTION>

	1997 Quarter Ended				Total
	March 31	June 30	September 30	December 31	Year
Total interest income	\$ 4,572	4,710	4,853	4,830	18,965
Total interest expense	2,330	2,330	2,381	2,394	9,435
Net interest income	2,242	2,380	2,472	2,436	9,530
Provision for loan losses	100	100	200	100	500
Net interest income after					
provision for loan losses	2,142	2,280	2,272	2,336	9,030
Net gain on sale of loans	50	15	8	8	81
Other operating income	371	434	457	506	1,768
Other operating expense	1,939	2,035	2,076	2,258	8,308
Income before income taxes	624	694	661	592	2,571
Income tax expense	222	247	231	209	909
Net income	\$ 402	447	430	383	1,662
Net income per common share - basic	\$.28	.31	.30	.27	1.16
Net income per common share - diluted	\$.28	.30	.29	.26	1.13

</TABLE>

Summation of the quarterly earnings per common share does not necessarily equal the annual amount due to the averaging effect of the number of shares throughout the year.

Subsequent Events (Unaudited)

On January 25, 1999, the Company entered into a definitive Agreement and Plan of Merger with BSB Bancorp, Inc. ("BSB"), which provides for the acquisition of the Company by BSB in a tax-free, stock-for-stock exchange to be accounted for as a pooling of interests. In the transaction, Skaneateles Bancorp, Inc. stockholders

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will receive 0.970 shares of BSB stock for each share of Skaneateles stock. Based on BSB's closing price on January 22, 1999 (the last trading day before the Agreement and Plan of Merger was signed), Skaneateles stockholders will receive \$27.89 per share in BSB stock, for a total transaction value of approximately \$41 million.

The definitive Agreement and Plan of Merger, which has been approved by both BSB's and the Company's boards of directors, is subject to approval by the Skaneateles stockholders as well as by regulatory authorities. The transaction is expected to close in Summer of 1999. In connection with the Agreement and Plan of Merger, Skaneateles Bancorp also granted BSB an option to purchase 290,142 newly issued shares (19.9% of the Company's outstanding stock).

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SELECTED PERFORMANCE RATIOS

Selected performance ratios of the Company are as follows:

<TABLE>
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Return on Assets			
Net Income/Average Total Assets	.62%	.68%	.65%
Return on Equity			
Net Income/Average Stockholders' Equity	8.92%	9.66%	9.43%
Dividend Payout Ratio			
Cash Dividends Declared/Net Income	24.50%	22.92%	17.83%
Equity to Asset Ratio			
Average Stockholders' Equity/Average Total Assets	7.00%	7.01%	6.91%

</TABLE>

PERSONNEL

As of December 31, 1998 Skaneateles had 122 full-time equivalent employees. The employees are not represented by a collective bargaining unit, and Skaneateles considers its relationship with its employees to be good.

Item 2. PROPERTIES

Skaneateles conducts its business from nine full-service banking offices and one administrative office. The following table sets forth certain information relating to each of Skaneateles' offices as of December 31, 1998.

<TABLE>
<CAPTION>

Branch Office Location	Owned	Lease Expiration	Net Book
	or Leased	Date Including Options	Value at December 31, 1998
(In Thousands)			
<S>	<C>	<C>	<C>
33 E. Genesee Street Skaneateles, New York 13152	Owned	Not Applicable	\$ 408
431 E. Fayette Street Syracuse, New York 13202	Owned	Not Applicable	2,870
5791 East Seymour Street Cicero, New York 13039	Owned	Not Applicable	570
100 Kasson Road Camillus, New York 13031	Leased	2000	27
Teall Ave. & Grant Blvd. Syracuse, New York 13206	Leased	2014	146
3803 Brewerton Road North Syracuse, New York 13212	Leased	2009	165
7785 Frontage Road Cicero, New York 13039	Leased	2010	161
137 East State Street Oswego, New York 13126	Leased	2010	176
5100 West Taft Road Liverpool, New York 13088	Leased	2007	174
Administrative Office			

Item 3. LEGAL PROCEEDINGS

The Company is not involved in any material legal proceedings other than routine legal proceedings undertaken in the ordinary course of business. In the opinion of management, after consultation with counsel, the aggregate amount involved in such proceedings is not material to the financial condition or results of operations of the Company.

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

During the fourth quarter of 1998, there were no matters submitted to a vote of the stockholders of Skaneateles Bancorp, Inc.

PART II.

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The common stock of Skaneateles Bancorp, Inc. trades on the NASDAQ National Market System under the ticker symbol "SKAN".

The following table shows the range of high and low closing stock prices for each quarter of 1998 and 1997:

<TABLE>
<CAPTION>

Quarter	1998		1997	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
Fourth	\$ 16.00	12.50	22.13	18.00
Third	18.50	11.19	19.67	13.59
Second	20.75	17.19	14.00	12.25
First	22.38	18.75	13.33	10.67

On March 10, 1999, there were 1,452,372 shares of Common Stock issued and outstanding, held of record by 533 stockholders, and the Company had no other class of equity securities outstanding.

Quarterly cash dividends totaling \$.28 and \$.27 per share were declared in 1998 and 1997, respectively.

On January 22, 1999, the last day of trading prior to the announcement by Skaneateles of the proposed merger with BSB, the closing price of Skaneateles' common stock was \$19.00.

The effect of Skaneateles' proposed merger with BSB will have on: (i) ownership of common stock by any person (including any "group" as that term is used in section 13(d)(3) of the Securities Exchange Act of 1934, as amended) who is known to be the beneficial owner of more than 5% of the common stock of Skaneateles; (ii) each director; and (iii) all officers and directors as a group is set forth at Item 12 on page 62 under the caption "Principal Holders of Common Stock."

Item 6. SELECTED FINANCIAL DATA

The information required by this item is included in the section captioned "Five Year Summary of Selected Financial Data" in this report.

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

The information required by this item is included in the section captioned "Management's Discussion And Analysis Of Financial Condition And Results Of Operations" in this report.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is included in the section captioned "Asset/Liability Management" in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in the section captioned "Financial Statements And Supplementary Data" beginning at page 26 of this report.

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

None.

PART III.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS. The following information is supplied with respect to the directors of the Company as of December 31, 1998. Additional information required by this item is included in the section captioned "Security Ownership Of Certain Beneficial Owners And Management".

<TABLE>
<CAPTION>

Directors with a Term Expiring in 1999

Name	Age	Position with the Company and Principal Occupation During the Past Five Years (1)	Director of Bank Since
<S>	<C>	<C>	<C>
David E. Blackwell	60	Director; Retired, President, Auburn Steel Company, Inc., a steel manufacturer.	1993
Howard J. Miller	66	Director; Retired, Vice President, Distribution Crucible Service Centers, a steel manufacturer.	1993
Raymond C. Traver, Jr., M.D.	56	Director; Retired, Orthopedic Surgeon, Raymond C. Traver, Jr., M.D. P.C.	1990

</TABLE>

(1) None of the companies listed are affiliated with the Company.

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<TABLE>
<CAPTION>

Directors with a Term Expiring in 2000

Name	Age	Position with the Company and Principal Occupation During the Past Five Years (1)	Director of Bank Since
<S>	<C>	<C>	<C>
Israel Berkman	70	Director; Retired, Examining Officer of the Federal Reserve Bank of New York.	1992
Ann G. Higbee	56	Director; Managing Partner, Public Relations Services, Eric Mower and Associates, an advertising agency.	1993
Anne E. O'Connor	63	Director; Corporate Secretary, Kopp Billing Agency, a medical billing agency.	1995

</TABLE>

(1) None of the companies listed are affiliated with the Company.

<TABLE>
<CAPTION>

Directors with a Term Expiring in 2001

Name	Age	Position with the Company and Principal Occupation During the Past Five Years	Director of Bank Since (2)
<S> Walter D. Copeland	<C> 65	<C> Director; Retired, President, Walter D. Copeland Organization, Inc. (1), a real estate consulting company.	<C> 1994
John P. Driscoll	59	Chairman, President and Chief Executive Officer of the Company.	1992
Carl W. Gerst, Jr.	61	Director; Vice President and Chief Technical Officer, Anaren Microwave, Inc. (1), a manufacturer of microwave and electronic subsystems for commercial and defense applications.	1982
John Bernard Henry	70	Director; Distinguished Service Professor, State University of New York Health Science Center at Syracuse. (1)	1989

</TABLE>

(1) Not affiliated with the Company.

(2) Includes terms as Trustee prior to the Bank's conversion from a mutual to stock form of organization on May 30, 1986.

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<TABLE>

<CAPTION>

EXECUTIVE OFFICERS. The following information is supplied with respect to the executive officers of the Company:

Name	Age	Position with the Company and Principal Occupation During the Past Five Years	Number of Years in Current Position
<S> John P. Driscoll	<C> 59	<C> Chairman, President and Chief Executive Officer.	<C> 6
J. David Hammond	54	Executive Vice President & Secretary. Vice President Chase Manhattan Bank, NA.	3
J. Daniel Mohr	33	Vice President and Treasurer	6
William J. Welch	49	Vice President, Asst. Secretary & Asst. Treasurer	6

</TABLE>

Officers of the Company are re-elected annually by the Board of Directors.

Compliance with Section 16(a) of the Exchange Act

Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") requires the reporting of transactions by insiders in the Company's Common Stock to the Securities and Exchange Commission (the "Commission") within required time frames. All filings required under Section 16 of the Exchange Act during 1998 were made in a timely manner, except for a Form 4 due for the month of April 1998 for the following directors: Israel Berkman, David E. Blackwell, Walter D. Copeland, Carl W. Gerst, Jr., Ann G. Higbee, John Bernard Henry, Howard J. Miller, Anne E. O'Connor and Raymond C. Traver, Jr. The forms, reporting the issuance of stock by the Company pursuant to its 1995 Non-Employee Directors Stock Plan, were filed late due to an oversight. In making these statements, the Company has relied solely on a review of the forms submitted to it during 1998 and on written representations of its incumbent executive officers and directors.

Item 11. EXECUTIVE COMPENSATION

Since the formation of Skaneateles Bancorp, Inc., none of its executive officers has received any separate form of compensation from the Company. Officers receive compensation in their positions as officers of the Bank.

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The following table sets forth the compensation paid by the Bank to the Company's Chairman, President and Chief Executive Officer and to each executive officer whose aggregate annual salary and bonus exceeded \$100,000 for services rendered in all capacities during the last three fiscal years.

<TABLE>

<CAPTION>

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	All Other Compensation
		Salary (1)	Bonus	Other Annual Compensation	Securities Underlying Options (#)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
John P. Driscoll	1998	\$ 169,129 (2)	\$ 27,600 (3)	\$ 11,713 (4)	5,000	\$ 18,004 (5)
Chairman, President & CEO	1997	143,691	34,588	11,635	5,700	21,233
	1996	141,969	30,670	17,936	4,667	18,475
J. David Hammond	1998	101,924	9,857 (3)	0	1,500	10,878 (6)
Executive Vice President & Secretary	1997	94,248	13,436	0	3,000	6,165
	1996	92,777	9,170	0	1,500	1,492

</TABLE>

- (1) Includes the cost of shares allocated under the Company's Employee Stock Ownership Plan.
- (2) Includes \$14,200 payable under a defined contribution Supplemental Retirement Agreement dated January 1, 1998.
- (3) Bonuses were paid for the year ended December 31, 1998 in February 1999.
- (4) Comprised entirely of country club dues.
- (5) Includes contributions to the Company's 401(k) plan totaling \$10,877 and premium payments on an individual flexible premium deferred variable annuity totaling \$7,127.
- (6) Comprised entirely of contributions to the Company's 401(k) plan.

OPTION GRANTS IN 1998

The following table sets forth stock options granted to the Company's Chairman, President and Chief Executive Officer and named executive officers during 1998.

<TABLE>

<CAPTION>

Individual Grants

Name	Number of Securities Underlying Options Granted (1)	% of Total Options Granted to Employees in 1998	Exercise Price Per Share	Expiration Date	Grant Date Present Value (2)
<S>	<C>	<C>	<C>	<C>	<C>
John P. Driscoll	5,000	45.5	\$ 19.25	February 2008	\$ 28,495
J. David Hammond	1,500	13.6	19.25	February 2008	8,548

</TABLE>

- (1) Options were granted on February 11, 1998 under the Company's 1991 Long Term Incentive and Capital Accumulation Plan, and are exercisable 50% per year after date of grant.
- (2) The Black-Scholes option pricing model was used to calculate the grant date present value. Significant assumptions are as follows:
- expected stock price volatility 26.61%
 - risk-free rate of return 5.50%
 - expected dividend yield 1.92%
 - Expected time of exercise 5 years

AGGREGATED OPTION EXERCISES IN 1998 AND 1998 YEAR END OPTION VALUES

The following table sets forth information with respect to the Chief Executive Officer and named executive officers, concerning exercises of stock options during 1998 and the number and value of unexercised options held at December 31, 1998.

<TABLE>
<CAPTION>

Name	Shares Acquired on Exercise (#)	Value Realized(1)	Number of Securities Underlying Unexercised Options at December 31, 1998		Value of Unexercised In-the-Money Options at December 31, 1998 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
John P. Driscoll	100	\$ 822	34,950	14,450	\$ 278,533	55,430
J. David Hammond	0	0	6,900	7,350	32,860	28,293

</TABLE>

- (1) Market value of underlying securities at exercise, minus the exercise price.
(2) Market value of underlying securities at December 31, 1998, minus the exercise price.

COMPENSATION OF DIRECTORS

Directors who are not executive officers of the Company receive a fee of \$500 per Board meeting attended. In addition, non-officer members of committees of the Board receive a fee of \$250 per committee meeting attended. Directors who are also officers of the Company receive no compensation for attendance at Board or committee meetings.

The 1995 Non-Employee Directors Warrant Plan (the "1995 Warrant Plan") was established to attract, retain and compensate for the services of highly qualified individuals who are not employees of Company or the Bank, as members of their respective boards of directors, and to enable them to increase their ownership in the Company's Common Stock. Under the 1995 Warrant Plan, those outside directors receive warrants (or options) to

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purchase shares of Common Stock only if the Company achieves specified performance levels. The total number of shares that may be issued pursuant to warrants granted under the 1995 Warrant Plan shall not exceed 112,500. Each warrant that is granted vests and becomes exercisable over a three-year period in increments of one-third on each anniversary of the grant date. In April 1998, 15,000 warrants were granted at an exercise price of \$19.59 per share. This plan expired on April 1, 1998.

The 1998 Non-Employee Directors Warrant Plan (the "1998 Warrant Plan") replaced the 1995 Warrant Plan. The terms of the 1998 Warrant Plan are identical to those of the 1995 Warrant Plan, except for the specific performance measurements under which warrants are granted. The total number of shares that may be issued pursuant to warrants granted under the 1998 Warrant Plan shall not exceed 65,000.

EMPLOYMENT AGREEMENTS

Mr. Driscoll has an employment agreement with the Company and the Bank which provides for an annual adjustment in Mr. Driscoll's salary as determined by the Board of Directors based upon an annual review of his compensation. The Board of Directors has set Mr. Driscoll's base salary for 1999 at \$147,660. Mr. Driscoll is also entitled to receive cash bonuses based on the Company's attainment of specific levels of earnings per share, and as the Board, in its discretion, may award.

Under his agreement, Mr. Driscoll will receive a continuation of his salary and benefits for three years if his employment is terminated by the Company for any reason other than "cause", including a "change in control" of the Company.

The Company and the Bank also entered into agreements with J. David Hammond, Executive Vice President, and William Welch, J. Daniel Mohr and Karen Lockwood, Vice Presidents, pursuant to which they will receive a continuation of their respective salaries and benefits for eighteen months (twenty-four in the case of Mr. Hammond) if a "change in control" of the Company occurs.

The named executive officers, like all eligible employees of the Bank, are entitled to receive a bonus tied to specified target levels of the Company's earnings per share, as well as to individual and departmental goals.

PERFORMANCE GRAPH

The following graph compares cumulative total shareholder returns on the Company's stock over the last five years to the NASDAQ Stock Market Index for U.S. companies and the NASDAQ Bank Index. Total return values were calculated assuming a \$100 investment on December 31, 1993 and reinvestment of all dividends. The following graph shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the 1934 Act, and shall not be deemed filed under either such act.

<TABLE>

<CAPTION>

Total Return

DATE	SKANEATELES		NASDAQ US	NASDAQ Bank
	BANCORP			
<S>	<C>	<C>	<C>	<C>
1993	100		100	100
1994	120		98	100
1995	156		138	148
1996	183		170	196
1997	381		209	328
1998	274		293	325

</TABLE>

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

PRINCIPAL HOLDERS OF COMMON STOCK

The following table (with notes thereto) sets forth information as of the March 10, 1999 with respect to ownership of Common Stock by any person (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) who is known to the Company to be the beneficial owner of more than 5% of Common Stock and with respect to ownership of Common Stock by all directors and executive officers of the Company as a group (such information being based on information filed by or on behalf of the beneficial holder concerned).

<TABLE>

<CAPTION>

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)		Percent of Class
<S>	<C>	<C>	<C>
Jeffrey L. Gendell Tontine Partners, L.P. 31 West 52nd Street, 17th Floor New York, NY 10019	132,300	(2)	8.72%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	90,000	(3)	5.93%
Directors and executive officers of the Company 33 East Genesee Street Skaneateles, NY 13152	139,509	(4)	9.19%

</TABLE>

(1) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended ("1934 Act"), a person is deemed to be the beneficial owner for

purposes of this table of any shares of Common Stock (a) over which he or she has or shares voting or investment power, or (b) of which he or she has the right to acquire beneficial ownership at any time within 60 days from March 10, 1999. For purposes of the 1934 Act, "voting power" is the power to vote or direct the voting of shares, and "investment power" is the power to dispose or direct the disposition of shares. All shares shown in the table above have sole voting and investment power, except as otherwise indicated. This table includes shares of Common Stock subject to outstanding options granted pursuant to the Company's Employee Stock Option and Director's Warrant Plans. As of December 31, 1998, executive officers as a group held vested options to purchase 62,875 shares. There were 4,000 vested warrants as of this date. See "Compensation of Executive Officers."

- (2) As reported by Jeffrey L. Gendell and Tontine Financial Partners, L.P., a Delaware limited partnership ("Tontine"), in a statement as of September 28, 1995 on Schedule 13D under the Exchange Act. Of the 132,300 shares reported above, Mr. Gendell reported sole dispositive powers as to 52,500 shares, and both Mr. Gendell and Tontine reported shared voting and dispositive powers as to 79,800 shares.

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- (3) Dimensional Fund Advisors Inc. ("Dimensional"), an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other investment vehicles, including commingled group trusts. (These investment companies and investment vehicles are the "Portfolios"). In its role as investment advisor and investment manager, Dimensional possesses both voting and investment power over the securities of the Issuer that are owned by the Portfolios. All securities of the Issuer are owned by the Portfolios, and Dimensional disclaims beneficial ownership of such securities.

Sole Voting Power: 90,000
 Shared Voting Power: 0
 Sole Dispositive Power: 90,000
 Shared Dispositive Power: 0

- (4) Directors and executive officers of Skaneateles Bancorp, Inc. as a group reported beneficial ownership of 139,509 shares on Schedule 13D filed on February 16, 1999 in connection with the execution of a Stockholder Agreement (the "Agreement") with BSB Bancorp, Inc., dated as of January 25, 1999. Pursuant to the Agreement, each stockholder who executed the Agreement agreed to vote in favor of the Agreement and Plan of Merger By and Between Skaneateles Bancorp, Inc. and BSB Bancorp, Inc. The members of the group, their positions with the Company and their voting and dispositive powers is as follows:

<TABLE>
 <CAPTION>

Name Position	Common Stock Beneficially Owned	Percent Of Class	Sole Voting Power	Shared Voting Power	Sole Dispositive Power	Shared Dispositive Power	Pro forma Percent of Class After Proposed Merger (i)
<S> John P. Driscoll Chairman, President and Chief Executive Officer	<C> 44,341	<C> 2.91%	<C> 44,341	0	<C> 44,341	0	<C> .33%
J. David Hammond Executive Vice President and Secretary	14,623	96%	14,623	0	14,623	0	.11%
Karen E. Lockwood Vice President of Skaneateles Savings Bank	6,623	.44%	6,623	0	6,623	0	.05%
J. Daniel Mohr Vice President and Treasurer	3,168	.21%	3,168	0	3,168	0	.02%

William J. Welch Vice President, Assistant Secretary and Assistant Treasurer	14,993	.99%	14,993	0	14,993	0	.11%
Israel Berkman Director	3,934	.26%	3,934	0	3,934	0	.03%
David E. Blackwell Director	3,071	.20%	3,071	0	3,071	0	.02%
Walter D. Copeland (ii) Director	2,488	.16%	0	2,488	0	2,488	.02%
Carl W. Gerst, Jr. Director	7,007	.46%	7,007	0	7,007	0	.05%
John Bernard Henry, M.D. (iii) Director	4,443	.29%	0	4,443	0	4,443	.03%
Ann G. Higbee Director	7,103	.47%	7,103	0	7,103	0	.05%

</TABLE>

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<TABLE>
<CAPTION>

Name Position	Common Stock Beneficially Owned	Percent Of Class	Sole Voting Power	Shared Voting Power	Sole Dispositive Power	Shared Dispositive Power	Pro forma Percent of Class After Proposed Merger (i)
<S>	<C>	<C>	<C>		<C>	<C>	<C>
Howard J. Miller (iv) Director	4,431	.29%	3,681	0	3,681	0	.03%
Francis R. O'Connor (v) Former director; spouse of Anne E. O'Connor	10,916	.69%	10,416	0	10,416	0	.08%
Anne E. O'Connor Director	500	.03%	500	0	500	0	0%
Raymond C. Traver, Jr., M.D. (vi) Director	12,368	.81%	12,368	0	12,368	0	.09%
Directors and officers as a group	140,009	9.19%	131,828	6,931	131,828	6,931	1.02%

(i) Calculation is based upon 11,237,470 shares of BSB Common Stock outstanding as of December 31, 1998, as described in BSB's 10-K filed with the commission, 1,452,372 shares of the Company's Common Stock outstanding as of December 31, 1998, using the stated exchange ratio of .97 shares of BSB Common Stock for each share of the Company's Common Stock.

(ii) Shares owned by Walter D. Copeland and Concetta M. Copeland Revocable Living Trust dated October 11, 1995, Walter D. Copeland and Concetta M. Copeland, trustees.

(iii) All shares held jointly with Mr. Henry's wife, with whom Mr. Henry has shared voting and investment power.

(iv) Mr. Miller reports beneficially ownership of 4,431 shares, including 750 shares held by Mr. Miller's spouse.

(v) Mr. O'Connor reports beneficial ownership of 10,916, including 500 shares held by Mr. O'Connor's spouse.

(vi) Includes 6,075 shares held in trust under an employee defined contribution pension plan and 786 shares held by Dr. Traver as custodian for his children.

</TABLE>

Additional information required by this item is included in the section

captioned "Directors And Executive Officers Of The Registrant" at page 54 of this report.

On January 25, 1999 Skaneateles Bancorp entered into an Agreement and Plan of Merger with BSB Bancorp, Inc., which provides for the acquisition by BSB Bancorp, Inc. of Skaneateles in a tax-free, stock-for-stock exchange (the "merger"). The consummation of the merger is subject to certain conditions, including the approval of Skaneateles Bancorp, Inc.'s stockholders and the receipt of required regulatory approvals. In connection with the Agreement and Plan of Merger, BSB Bancorp, Inc. and Skaneateles entered into an option agreement pursuant to which Skaneateles granted BSB Bancorp an option, exercisable upon certain circumstances, to purchase an aggregate of 290,142 newly issued shares of Skaneateles Common Stock. Also in connection with the Agreement and Plan of Merger, certain stockholders of Skaneateles, including its directors and executive officers, entered into a Stockholder Agreement pursuant to which each of such stockholders agreed to vote in favor of the Merger, among other things.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Bank may make loans to directors and any executive officers of the Company to the extent permitted by banking law. Any extensions of credit, to directors or executive officers of the Company whether past or future, are made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectibility or present other unfavorable features.

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PART IV.

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

The following financial statements are filed as part of this report:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 1998 and 1997

Consolidated Statements of Income for the Years Ended December 31, 1998, 1997 and 1996

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

During the three-month period ended December 31, 1998, the Registrant filed no current reports on Form 8-K. On January 27, 1999, the Registrant filed a Form 8-K announcing a definitive merger agreement with BSB Bancorp, Inc. which provides for BSB Bancorp to acquire Skaneateles Bancorp, in a tax-free, stock-for-stock exchange. No financial statements were filed with this report.

The following exhibits are either filed as part of this annual report on Form 10-K, or are incorporated herein by reference:

No. Exhibit

--- -----

- 2.1 Agreement and Plan of Merger, dated January 25, 1999, by and between BSB Bancorp and Skaneateles Bancorp, Inc.
- 3.1 Certificate of Incorporation of Skaneateles Bancorp, Inc.(1)
- 3.2 Certificate of Amendment of Certificate of Incorporation of Skaneateles Bancorp, Inc.(2)
- 3.3 Bylaws of the Company (3)
- 10.1 Employment Agreement dated as of January 1, 1998 between Skaneateles Savings Bank and John P. Driscoll(2)

- 10.2 Employment Agreement dated as of March 25, 1998 between Skaneateles Savings Bank and J. David Hammond(2)
- 10.3 Employment Agreement dated as of March 25, 1998 between Skaneateles Savings Bank and Karen E. Lockwood(2)
- 10.4 Employment Agreement dated as of March 25, 1998 between Skaneateles Savings Bank and J. Daniel Mohr(2)
- 10.5 Employment Agreement dated as of March 25, 1998 between Skaneateles Savings Bank and William J. Welch(2)
- 10.6 Supplemental Retirement Agreement dated as of January 1, 1998 between Skaneateles Savings Bank and John P. Driscoll(2)
- 10.7 Trust Under Supplemental Retirement Agreement Dated January 1, 1998 between Skaneateles Savings Bank and John P. Driscoll(2)
- 10.8 Amendment to Long Term Incentive And Capital Accumulation Plan dated October 28, 1997(2)
- 10.9 Amendment to Long Term Incentive And Capital Accumulation Plan dated October 28, 1997(2)
- 10.10 Amendment to 1995 Non-Employee Directors Stock Plan dated October 28, 1997(2)
- 10.11 Amendment to 1995 Non-Employee Directors Warrant Plan dated October 28, 1997(2)
- 10.12 Amendment to Center Banks Incorporated Employee Stock Purchase Plan dated October 28, 1997(2)
- 10.13 Amendment to Center Banks Incorporated Dividend Reinvestment Plan dated October 28, 1997(2)
- 21 List of Registrant's Subsidiaries

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- 23 Consent of KPMG LLP
- 27 Financial Data Schedule
- 99.1 Option Agreement, dated as of January 25, 1999, by and between Skaneateles Bancorp, Inc. and BSB Bancorp, Inc.
- 99.2 Stockholder Agreement, dated as of January 25, 1999, by and between BSB Bancorp, Inc. and certain stockholders of Skaneateles Bancorp, Inc.

- (1) Exhibit is incorporated herein by reference to the identically numbered exhibit to the 1990 Form 10-K filed by the Company with the Securities and Exchange Commission on April 1, 1991.
- (2) Exhibit is incorporated herein by reference to the identically numbered exhibit to the 1997 Form 10-K filed by the Company with the Securities and Exchange Commission on March 30, 1998.
- (3) Exhibit is incorporated herein by reference to the identically numbered exhibit to the 1996 Form 10-K filed by the Company with the Securities and Exchange Commission on March 31, 1997.

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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.

SKANEATELES BANCORP, INC.

Registrant

By: /s/ John P. Driscoll Date: March 23, 1999

John P. Driscoll
Chairman, President and Chief Executive Officer

By: /s/ J. Daniel Mohr Date: March 23, 1999

J. Daniel Mohr
Chief Financial Officer and Treasurer

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.

/s/ Israel Berkman Date: March 23, 1999

Israel Berkman
Director

/s/ David E. Blackwell Date: March 23, 1999

David E. Blackwell
Director

/s/ Walter D. Copeland Date: March 23, 1999

Walter D. Copeland
Director

/s/ Carl W. Gerst Date: March 23, 1999

Carl W. Gerst
Director

/s/ John Bernard Henry Date: March 23, 1999

John Bernard Henry
Director

/s/ Ann G. Higbee Date: March 23, 1999

Ann G. Higbee
Director

/s/ Howard J. Miller Date: March 23, 1999

Howard J. Miller
Director

Date: -----

Raymond C. Traver, Jr., M.D.
Director

/s/ Anne E. O'Connor Date: March 23, 1999

Anne E. O'Connor
Director

AGREEMENT AND PLAN OF MERGER, DATED JANUARY 25, 1999, BY
AND BETWEEN BSB BANCORP AND SKANEATELES BANCORP, INC.

AGREEMENT AND PLAN OF MERGER
BY AND BETWEEN
BSB BANCORP, INC.
AND
SKANEATELES BANCORP, INC.
DATED AS OF
JANUARY 25, 1999

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EXHIBITS

- A Bank Plan of Merger
- B Option Agreement
- C Certificate of Merger
- D Stockholder Agreement
- E Index Group

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER, dated as of January 25, 1999 (this "Agreement"), is entered into by and between BSB BANCORP, INC., a Delaware corporation ("BSB Bancorp"), and SKANEATELES BANCORP, INC., a Delaware corporation ("SKAN").

WHEREAS, the Boards of Directors of BSB Bancorp and SKAN have determined that it is in the best interests of their respective companies and shareholders to consummate the business combination transaction provided for herein in which SKAN will, subject to the terms and conditions set forth herein, merge (the "Merger") with and into BSB Bancorp, with BSB Bancorp being the Surviving Corporation (as defined below);

WHEREAS, prior to consummation of the Merger, BSB Bancorp and SKAN will

respectively cause BSB Bank & Trust Company, a New York-chartered commercial bank and trust company and wholly owned subsidiary of BSB Bancorp ("BSB Bank"), and Skaneateles Savings Bank, a New York-chartered savings bank and wholly owned subsidiary of SKAN ("Skaneateles Bank"), to enter into a merger agreement, in the form attached hereto as Exhibit A (the "Bank Merger Agreement"), providing for the merger (the "Bank Merger") of Skaneateles Bank with and into BSB Bank, with BSB Bank being the surviving Bank of the Bank Merger, and it is intended that the Bank Merger be consummated immediately after consummation of the Merger;

WHEREAS, as an inducement to BSB Bancorp to enter into this Agreement, SKAN has entered into an option agreement, in the form attached hereto as Exhibit B (the "Option Agreement"), with BSB Bancorp concurrently with the execution of this Agreement pursuant to which SKAN has granted BSB Bancorp an option to purchase, under certain circumstances, an aggregate of 290,142 newly issued shares of common stock, par value \$.01 per share, of SKAN ("SKAN Common Stock") upon the terms and conditions therein contained (which number of shares is equal to 19.99% of the total number of outstanding shares of SKAN Common Stock on the date hereof); and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger as set forth hereinbelow.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I
THE MERGER

1.1 The Merger.

Subject to the terms and conditions of this Agreement, in accordance with the Delaware General Corporation Law (the "DGCL"), at the Effective Time (as defined in Section 1.2 hereof), SKAN shall merge with and into BSB Bancorp, with BSB Bancorp being the surviving corporation (hereinafter sometimes called the "Surviving Corporation") in the Merger. Upon consummation of the Merger, the corporate existence of SKAN shall cease and the Surviving Corporation shall continue to exist as a Delaware corporation.

Effective Time.

The Merger shall become effective on the Closing Date (as defined in Section 9.1 hereof), as set forth in the certificate of merger (the "Certificate of Merger") in the form attached as Exhibit C hereto which shall be filed with the Secretary of State of the State of Delaware on or before the Closing Date. The term "Effective Time" shall be the date and time when the Merger becomes effective on the Closing Date, as set forth in the Certificate of Merger.

1.3 Effects of the Merger.

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At and after the Effective Time, the Merger shall have the effects set forth in Sections 259 and 261 of the DGCL.

1.4 Conversion of SKAN Common Stock.

(a) At the Effective Time, subject to Sections 1.4(b), 2.2(e) and 8.1(h) hereof, each share of SKAN Common Stock issued and outstanding prior to the Effective Time shall, by virtue of this Agreement and without any action on the part of the holder thereof, be converted into and exchangeable for .970 shares of BSB Bancorp common stock, par value \$.01 per share ("BSB Bancorp Common Stock"). The ratio of the number of shares of BSB Bancorp Common Stock to be exchanged for each share of SKAN Common Stock issued and outstanding is hereinafter referred to as the "Exchange Ratio." For the purposes of this Agreement, references to BSB Bancorp Common Stock shall be deemed to include, where appropriate, references to the right to receive shares of BSB Bancorp's Series A Junior Participating Preferred Stock pursuant to the Rights Agreement,

dated as of May 22, 1989, as amended, between BSB Bancorp and American Stock Transfer & Trust Company (the "Rights Agreement").

(b) All of the shares of SKAN Common Stock converted into BSB Bancorp Common Stock pursuant to this Article I shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each certificate (each a "Certificate") previously representing any such shares of SKAN Common Stock shall thereafter represent the right to receive (i) the number of whole shares of BSB Bancorp Common Stock and (ii) cash in lieu of fractional shares into which the shares of SKAN Common Stock represented by such Certificate have been converted pursuant to Section 1.4(a) and Section 2.2(e) hereof. Certificates previously representing shares of SKAN Common Stock shall be exchanged for certificates representing whole shares of BSB Bancorp Common Stock and cash in lieu of fractional shares issued in consideration therefor upon the surrender of such Certificates in accordance with Section 2.2 hereof, without any interest thereon. If prior to the Effective Time BSB Bancorp should split or combine its common stock, or pay a dividend or other distribution in such common stock, then the Exchange Ratio shall be appropriately adjusted to reflect such split, combination, dividend or distribution.

(c) At the Effective Time, all shares of SKAN Common Stock that are owned by SKAN as treasury stock and all shares of SKAN Common Stock that are owned directly or indirectly by BSB Bancorp or SKAN or any of their respective Subsidiaries (other than shares of SKAN Common Stock held directly or indirectly in trust accounts, managed accounts and the like or otherwise held in a fiduciary capacity that are beneficially owned by third parties (any such shares, and shares of BSB Bancorp Common Stock which are similarly held, whether held directly or indirectly by BSB Bancorp or SKAN, as the case may be, being referred to herein as "Trust Account Shares") and other than any shares of SKAN Common Stock held by BSB Bancorp or SKAN or any of their respective Subsidiaries in respect of a debt previously contracted (any such shares of SKAN Common Stock, and shares of BSB Bancorp Common Stock which are similarly held, whether held directly or indirectly by BSB Bancorp or SKAN, being referred to herein as "DPC Shares")) shall be canceled and shall cease to exist and no stock of BSB Bancorp or other consideration shall be delivered in exchange therefor. All shares of BSB Bancorp Common Stock that are owned by SKAN or any of its Subsidiaries (other than Trust Account Shares and DPC Shares) shall become treasury stock of BSB Bancorp.

(d) Certificates for fractions of shares of BSB Bancorp Common Stock will not be issued. In lieu of a fraction of a share of BSB Bancorp Common Stock, each holder of SKAN Common Stock otherwise entitled to a fraction of a share of BSB Bancorp Common Stock shall be entitled to receive an amount of cash equal to (i) the fraction of a share of the BSB Bancorp Common Stock to which such holder would otherwise be entitled, multiplied by (ii) the actual market value of the BSB Bancorp Common Stock, which shall be deemed to be the average of the daily closing prices per share for BSB Bancorp Common Stock for the twenty consecutive trading days on which shares of BSB Bancorp Common Stock are actually traded (as reported on the Nasdaq Stock Market National Market System) ending on the third trading day preceding the Closing Date. Following consummation of the Merger, no holder of SKAN Common Stock shall be entitled to dividends or any other rights in respect of any such fraction.

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Options.

At the Effective Time, each option or warrant granted by SKAN to purchase shares of SKAN Common Stock which is outstanding and unexercised immediately prior thereto shall be converted automatically into an option to purchase shares of BSB Bancorp Common Stock in an amount and at an exercise price determined as provided below (and otherwise subject to the terms of the 1995 Non-Employee Directors Warrant Plan and 1998 Non-Employee Directors Warrant Plan, the 1998 Stock Option Plan, the 1991 Long Term Incentive and Capital Accumulation Plan and the 1987 Long Term Incentive and Capital Accumulation Plan (collectively, all such plans are referred to as the "SKAN Stock Plans");

- (1) The number of shares of BSB Bancorp Common Stock to be subject to the option or warrant immediately after the Effective Time shall be equal to the product of the number of shares of SKAN Common

Stock subject to the option or warrant immediately before the Effective Time, multiplied by the Exchange Ratio, provided that any fractional shares of BSB Bancorp Common Stock resulting from such multiplication shall be rounded down to the nearest share; and

- (2) The exercise price per share of BSB Bancorp Common Stock under the option or warrant immediately after the Effective Time shall be equal to the exercise price per share of SKAN Common Stock under the option or warrant immediately before the Effective Time divided by the Exchange Ratio, provided that such exercise price shall be rounded down to the nearest cent.

The adjustment provided herein shall be and is intended to be effected in a manner which is consistent with Section 424(a) of the Internal Revenue Code of 1986, as amended (the "Code"). The duration and other terms of the option or warrant immediately after the Effective Time shall be the same as the corresponding terms in effect immediately before the Effective Time, except that all references to SKAN or Skaneateles Bank in the SKAN Stock Plans (and the corresponding references in the option or warrant agreement documenting such option or warrant) shall be deemed to be references to BSB Bancorp. Nothing herein shall be construed as preventing option or warrant holders from exercising the same prior to the Effective Time in accordance with the terms thereof.

1.6 Certificate of Incorporation.

At the Effective Time, the Certificate of Incorporation of BSB Bancorp, as in effect at the Effective Time, shall become the Certificate of Incorporation of the Surviving Corporation.

1.7 Bylaws.

At the Effective Time, the Bylaws of BSB Bancorp, as in effect immediately prior to the Effective Time, shall become the Bylaws of the Surviving Corporation.

Directors and Officers.

At the Effective Time, the directors and officers of BSB Bancorp immediately prior to the Effective Time shall become the directors and officers of the Surviving Corporation. As of the Effective Time, BSB Bancorp shall amend its Bylaws to increase the size of its Board of Directors by two members, and promptly thereafter invite two members of the SKAN Board of Directors (as constituted on the date hereof) to serve as members of the Board of Directors of BSB Bancorp

1.9 Tax Consequences.

It is intended that the Merger shall constitute a reorganization within the meaning of Section 368(a) of the Code, and that this Agreement shall constitute a "plan of reorganization" for the purposes of the Code.

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ARTICLE II EXCHANGE OF SHARES

2.1 BSB Bancorp to Make Shares Available.

At or prior to the Effective Time, BSB Bancorp shall deposit, or shall cause to be deposited, with BSB Bancorp's transfer agent, American Stock Transfer & Trust Company, or such other bank, trust company or transfer agent as BSB Bancorp may select (the "Exchange Agent"), for the benefit of the holders of Certificates, for exchange in accordance with this Article II, certificates representing the shares of BSB Bancorp Common Stock and the cash in lieu of fractional shares (such cash and certificates for shares of BSB Bancorp Common Stock, being hereinafter referred to as the "Exchange Fund") to be issued pursuant to Section 1.4 and paid pursuant to Section 2.2(a) hereof (collectively, sometimes referred to herein as the "Shares") in exchange for

outstanding shares of SKAN Common Stock.

2.2 Exchange of Shares.

(a) As soon as practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a Certificate or Certificates a form letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent) and instructions for use in effecting the surrender of the Certificates in exchange for certificates representing the shares of BSB Bancorp Common Stock and the cash in lieu of fractional shares into which the shares of SKAN Common Stock represented by such Certificate or Certificates shall have been converted pursuant to this Agreement. SKAN shall have the right to review both the letter of transmittal and the instructions prior to such documents being finalized. Upon surrender of a Certificate for exchange and cancellation to the Exchange Agent, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive promptly in exchange therefor (x) a certificate representing that number of whole shares of BSB Bancorp Common Stock to which such holder of SKAN Common Stock shall have become entitled pursuant to the provisions of Article I hereof and (y) a check representing the amount of cash in lieu of fractional shares, if any, which such holder has the right to receive in respect of the Certificate surrendered pursuant to the provisions of Article I, and the Certificate so surrendered shall forthwith be canceled. No interest will be paid or accrued on the cash in lieu of fractional shares and unpaid dividends and distributions, if any, payable to holders of Certificates.

(b) No dividends or other distributions declared after the Effective Time with respect to BSB Bancorp Common Stock and payable to the holders of record thereof shall be paid to the holder of any unsurrendered Certificate until the holder thereof shall surrender such Certificate in accordance with this Article II. After the surrender of a Certificate in accordance with this Article II, the record holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore had become payable with respect to shares of BSB Bancorp Common Stock represented by such Certificate. No holder of an unsurrendered Certificate shall be entitled, until the surrender of such Certificate, to vote the shares of BSB Bancorp Common Stock into which his SKAN Common Stock shall have been converted.

(c) If any certificate representing shares of BSB Bancorp Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it shall be a condition of the issuance thereof that the Certificate so surrendered shall be properly endorsed (or accompanied by an appropriate instrument of transfer) and otherwise in proper form for transfer, and that the person requesting such exchange shall pay to the Exchange Agent in advance any transfer or other taxes required by reason of the issuance of a certificate representing shares of BSB Bancorp Common Stock in any name other than that of the registered holder of the Certificate surrendered, or shall establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

(d) As of the Effective Time, there shall be no transfers on the stock transfer books of SKAN of the shares of SKAN Common Stock which were issued and outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates representing such shares are presented for transfer to the Exchange Agent, they shall be

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canceled and exchanged for certificates representing shares of BSB Bancorp Common Stock as provided in this Article II.

(e) Any portion of the Exchange Fund that remains unclaimed by the shareholders of SKAN for nine months after the Effective Time may be returned to BSB Bancorp. After such funds have been returned to BSB Bancorp, any shareholders of SKAN who have not theretofore complied with this Article II shall thereafter look only to BSB Bancorp for payment of their shares of BSB Bancorp Common Stock, cash in lieu of fractional shares and unpaid dividends and distributions on BSB Bancorp Common Stock deliverable in respect of each share

of SKAN Common Stock such shareholder holds as determined pursuant to this Agreement, in each case, without any interest thereon. Notwithstanding the foregoing, none of BSB Bancorp, SKAN, the Exchange Agent or any other person shall be liable to any former holder of shares of SKAN Common Stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(f) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by BSB Bancorp, the posting by such person of a bond in such amount as BSB Bancorp may reasonably direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the shares of BSB Bancorp Common Stock and cash in lieu of fractional shares deliverable in respect thereof pursuant to this Agreement.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SKAN

SKAN hereby makes the following representations and warranties to BSB Bancorp as set forth in this Article III, each of which is being relied upon by BSB Bancorp as a material inducement to enter into and perform this Agreement. All of the disclosure schedules of SKAN referenced below and thereby required of SKAN pursuant to this Agreement, which disclosure schedules shall be cross-referenced to the specific sections and subsections of this Agreement and delivered herewith, are referred to herein as the "SKAN Disclosure Schedule."

3.1 Corporate Organization.

(a) SKAN is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. SKAN has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of any material business conducted by it or the character or location of any material properties or assets owned or leased by it makes such licensing or qualification necessary. SKAN is duly registered as a bank holding company with the Board of Governors of the Federal Reserve System ("FRB") under the Bank Holding Company Act of 1956, as amended ("BHCA"). The Certificate of Incorporation and Bylaws of SKAN, copies of which have previously been delivered to BSB Bancorp, are true, correct and complete copies of such documents as in effect as of the date of this Agreement. Skaneateles Bank and Skaneateles Preferred Capital Corp., a New York corporation ("SPCC"), are the only Subsidiaries of SKAN.

(b) Skaneateles Bank is a New York-chartered savings bank duly organized and validly existing and in good standing under the laws of New York. The deposit accounts of Skaneateles Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") through the Bank Insurance Fund (the "BIF") to the fullest extent permitted by law, and all premiums and assessments required in connection therewith have been paid by Skaneateles Bank. Skaneateles Bank has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted and is duly licensed or qualified to do business in each jurisdiction in which the nature of any material business conducted by it or the character or the location of any material properties or assets owned or leased by it makes such licensing or qualification necessary. The Certificate of Incorporation and Bylaws of Skaneateles Bank, copies of which have previously been delivered to BSB Bancorp, are true, correct and complete copies of such documents as in effect as of the date of this Agreement.

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(c) SPCC is a New York corporation duly organized and validly existing and in good standing under the laws of New York. SPCC is a subsidiary of Skaneateles Bank. SPCC has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted and is duly licensed or qualified to do business in each jurisdiction in which the nature of any material business conducted by it or the character or the location of any material properties or assets owned or leased by it makes

such licensing or qualification necessary. The Certificate of Incorporation and Bylaws of SPCC, copies of which have previously been delivered to BSB Bancorp, are true, correct and complete copies of such documents as in effect as of the date of this Agreement.

3.2 Capitalization.

(a) The authorized capital stock of SKAN consists of 4,000,000 shares of SKAN Common Stock and 500,000 shares of serial preferred stock, par value \$.01 per share (the "SKAN Preferred Stock"). As of the date hereof, there are (x) 1,450,712 shares of SKAN Common Stock issued and outstanding and no shares of SKAN Common Stock are held in SKAN's treasury, (y) no shares of SKAN Common Stock reserved for issuance upon exercise of outstanding stock options or otherwise, except for (i) 345,163 shares of SKAN Common Stock reserved for issuance pursuant to the SKAN Stock Plans other than those referred to in clause (ii) (of which options for 120,350 shares are currently outstanding), (ii) 203,150 shares of SKAN Common Stock reserved for issuance pursuant to the 1998 Directors Stock Purchase Plan and Employee Stock Purchase Plan (collectively, the "Purchase Plan") and the Skaneateles Bancorp, Inc. Dividend Reinvestment Plan (the "SKAN DRIP"), and (iii) 290,142 shares of SKAN Common Stock reserved for issuance upon exercise of the option issued to BSB Bancorp pursuant to the Option Agreement, and (z) no shares of SKAN Preferred Stock issued or outstanding, held in SKAN's treasury or reserved for issuance upon exercise of outstanding stock options or otherwise. All of the issued and outstanding shares of SKAN Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. Except for the Option Agreement and the SKAN Stock Plans, SKAN does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of SKAN Common Stock or SKAN Preferred Stock or any other equity security of SKAN or any securities representing the right to purchase or otherwise receive any shares of SKAN Common Stock or any other equity security of SKAN. The names of the optionees, the date of each option to purchase SKAN Common Stock granted, the number of shares subject to each such option, the expiration date of each such option, and the price at which each such option may be exercised under the SKAN Stock Plans are set forth in Section 3.2(a)(i) of the SKAN Disclosure Schedule. Except as set forth at Section 3.2(a)(ii) of the SKAN Disclosure Schedule, since December 31, 1997 SKAN has not issued any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock.

(b) Section 3.2(b) of the SKAN Disclosure Schedule sets forth a true, correct and complete list of all direct or indirect Subsidiaries of SKAN as of the date of this Agreement. Except as set forth at Section 3.2(b) of the SKAN Disclosure Schedule, SKAN owns, directly or indirectly, all of the issued and outstanding shares of capital stock of each of its Subsidiaries, free and clear of all liens, charges, encumbrances and security interests whatsoever, and all of such shares are duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. No SKAN Subsidiary has or is bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of capital stock or any other equity security of such Subsidiary or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of such Subsidiary.

3.3 Authority; No Violation.

(a) SKAN has full corporate power and authority to execute and deliver this Agreement and the Option Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Option Agreement and the consummation of the transactions contemplated hereby and thereby

have been duly and validly approved by the Board of Directors of SKAN. The Board of Directors of SKAN has directed that this Agreement and the transactions contemplated hereby be submitted to SKAN's shareholders for approval at a special meeting of such shareholders and, except for the adoption of this

Agreement by the requisite vote of SKAN's shareholders, no other corporate proceedings on the part of SKAN (except for matters related to setting the date, time, place and record date for the special meeting) are necessary to approve this Agreement or the Option Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been, and the Option Agreement will be, duly and validly executed and delivered by SKAN and (assuming due authorization, execution and delivery by BSB Bancorp of this Agreement and by BSB Bancorp of the Option Agreement) will constitute valid and binding obligations of SKAN, enforceable against SKAN in accordance with their terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

(b) Skaneateles Bank has full corporate power and authority to execute and deliver the Bank Merger Agreement and to consummate the transactions contemplated thereby. The execution and delivery of the Bank Merger Agreement and the consummation of the transactions contemplated thereby have been duly and validly approved by the Board of Directors of Skaneateles Bank and by SKAN as the sole shareholder of Skaneateles Bank. No other corporate proceedings on the part of Skaneateles Bank will be necessary to consummate the transactions contemplated thereby. The Bank Merger Agreement, upon execution and delivery by Skaneateles Bank, will be duly and validly executed and delivered by Skaneateles Bank and will (assuming due authorization, execution and delivery by BSB Bank) constitute a valid and binding obligation of Skaneateles Bank, enforceable against Skaneateles Bank in accordance with its terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

(c) Neither the execution and delivery of this Agreement and the Option Agreement by SKAN or the Bank Merger Agreement by Skaneateles Bank, nor the consummation by SKAN or Skaneateles Bank, as the case may be, of the transactions contemplated hereby or thereby, nor compliance by SKAN or Skaneateles Bank with any of the terms or provisions hereof or thereof, will (i) violate any provision of the Certificate of Incorporation or Bylaws of SKAN or the Certificate of Incorporation or Bylaws of Skaneateles Bank, or (ii) assuming that the consents and approvals referred to in Section 3.4 hereof are duly obtained, (x) violate any Laws (as defined in Section 9.13) applicable to SKAN or Skaneateles Bank or any of their respective properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any lien, pledge, security interest, charge or other encumbrance upon any of the respective properties or assets of SKAN or Skaneateles Bank under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which SKAN or Skaneateles Bank is a party, or by which they or any of their respective properties or assets may be bound or affected.

3.4 Consents and Approvals.

(a) Except for (i) the filing of applications, notices and waiver requests, as applicable, as to the Merger and the Bank Merger with the FRB under the BHCA, the FDIC under the Bank Merger Act and the Superintendent of Banks of New York State (the "New York Superintendent"), and approval of the foregoing applications, notices and waiver requests, (ii) the filing of any required applications or notices with the FDIC and the New York Superintendent as to the subsidiary activities of Skaneateles Bank which become subsidiaries of BSB Bank and approval of such applications and notices, (iii) the filing with the Securities and Exchange Commission ("SEC") of a registration statement on Form S-4 to register the shares of BSB Bancorp Common Stock to be issued in connection with the Merger (including the shares of BSB Bancorp Common Stock that may be issued upon the exercise of the options referred to in Section 1.5 hereof), which will include the proxy statement/prospectus to be used in soliciting the approval of SKAN's shareholders at a special meeting to be held in connection with this Agreement and the transactions contemplated hereby (the "Proxy Statement/Prospectus"), (iv) the approval of this Agreement by the requisite vote of the shareholders of SKAN, (v) the filing of the Certificate of Merger with the Secretary of State of

Delaware pursuant to the DGCL, (vi) the filings required by the Bank Merger Agreement, and (vii) such filings, authorizations or approvals as may be set forth in Section 3.4 of the SKAN Disclosure Schedule, no consents or approvals of or filings or registrations with any court, administrative agency or commission or other governmental authority or instrumentality (each a "Governmental Entity"), or with any third party are necessary in connection with (1) the execution and delivery by SKAN of this Agreement and the Option Agreement, (2) the consummation by SKAN of the Merger and the other transactions contemplated hereby, (3) the execution and delivery by Skaneateles Bank of the Bank Merger Agreement, (4) the consummation by SKAN of the Option Agreement; and (5) the consummation by Skaneateles Bank of the Bank Merger and the transactions contemplated thereby, except, in each case, for such consents, approvals or filings, the failure of which to obtain will not have a material adverse effect on the ability of BSB Bancorp to consummate the transactions contemplated hereby.

(b) SKAN hereby represents to BSB Bancorp that it has no knowledge of any reason why approval or effectiveness of any of the applications, notices or filings referred to in Section 3.4(a) cannot be obtained or granted on a timely basis.

3.5 Loan Portfolio; Reports.

(a) Except as set forth at Section 3.5(a) of the SKAN Disclosure Schedule, as of December 31, 1998 and thereafter through and including the date of this Agreement, neither SKAN nor Skaneateles Bank is a party to any written or oral loan agreement, note or borrowing arrangement (including, without limitation, leases, credit enhancements, commitments, guarantees and interest-bearing assets) (collectively, "Loans"), with any Affiliated Person (as defined in Section 9.13).

(b) SKAN and Skaneateles Bank have timely filed all reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since December 31, 1993 with (i) the FRB, (ii) the FDIC, (iii) the New York Superintendent and any other state banking commissions or any other state regulatory authority (each a "State Regulator"), (iv) the SEC and (v) any other self-regulatory organization ("SRO") (collectively "Regulatory Agencies"). Except for normal examinations conducted by a Regulatory Agency in the regular course of the business of SKAN and its Subsidiaries, no Governmental Entity is conducting, or has conducted, any proceeding or investigation into the business or operations of SKAN or Skaneateles Bank since December 31, 1993, other than as set forth at Section 3.5(b) of the SKAN Disclosure Schedule.

3.6 Financial Statements; Exchange Act Filings; Books and Records.

SKAN has previously delivered to BSB Bancorp true, correct and complete copies of the consolidated balance sheets of SKAN and its Subsidiaries as of December 31 for the fiscal years 1996 and 1997 and the related consolidated statements of earnings, shareholders' equity and cash flows for the fiscal years 1995 through 1997, inclusive, as reported in SKAN's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 filed with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in each case accompanied by the audit report of KPMG LLP, independent auditors, and the interim financial statements of SKAN as of and for the nine months ended September 30, 1997 and 1998, as included in the SKAN quarterly report on Form 10-Q for the period ended September 30, 1998 as filed with the SEC. The financial statements referred to in this Section 3.6 (including the related notes, where applicable) fairly present, and the financial statements referred to in Section 6.8 hereof will fairly present (subject, in the case of the unaudited statements, to recurring audit adjustments normal in nature and amount), the results of the consolidated operations and consolidated financial condition of SKAN and its Subsidiaries for the respective fiscal periods or as of the respective dates therein set forth; each of such statements (including the related notes, where applicable) comply, and the financial statements referred to in Section 6.8 hereof will comply, with applicable accounting

requirements and with the published rules and regulations of the SEC with respect thereto and each of such statements (including the related notes, where applicable) has been, and the financial statements referred to in Section 6.8 hereof will be prepared in accordance with generally accepted accounting principles consistently applied during the periods involved ("GAAP"), except in each case as indicated in such statements or in the notes thereto or, in the case of unaudited statements, as permitted

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by Form 10-Q. SKAN's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all reports filed under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act since December 31, 1995 comply in all material respects with the appropriate requirements for such reports under the Exchange Act, and SKAN has previously delivered or made available to BSB Bancorp true, correct and complete copies of such reports. SKAN has made all filings required of it under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act. The books and records of SKAN and Skaneateles Bank have been, and are being, maintained in all material respects in accordance with GAAP and any other applicable legal and accounting requirements.

3.7 Broker's Fees.

Neither SKAN nor any SKAN Subsidiary nor any of their respective officers or directors has employed any broker or finder or incurred any liability for any broker's fees, commissions or finder's fees in connection with any of the transactions contemplated by this Agreement, the Bank Merger Agreement or the Option Agreement, except that SKAN has engaged, and will pay a fee or commission to McConnell, Budd & Downes, Inc. ("MBD") in accordance with the terms of a letter agreement between MBD and SKAN, dated December 17, 1998, a true, complete and correct copy of which is attached at Section 3.7 of the SKAN Disclosure Schedule.

3.8 Absence of Certain Changes or Events.

(a) Except as set forth at Section 3.8 of the SKAN Disclosure Schedule, or as disclosed in SKAN's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, since December 31, 1997 (i) neither SKAN nor any of its Subsidiaries has incurred any material liability, except as contemplated by the Agreement or in the ordinary course of their business consistent with their past practices, and (ii) no event has occurred which has had, or is likely to have, individually or in the aggregate, a Material Adverse Effect (as defined in Section 9.13) on SKAN

(b) Except for (i) the organization of SPCC, and (ii) the transactions contemplated by this Agreement, since December 31, 1997 SKAN and its Subsidiaries have carried on their respective businesses in the ordinary and usual course consistent with their past practices.

3.9 Legal Proceedings.

(a) Except as set forth at Section 3.9 of the SKAN Disclosure Schedule, neither SKAN nor any of its Subsidiaries is a party to any, and there are no pending or to the knowledge of SKAN, threatened, legal, administrative, arbitration or other proceedings, claims, actions or governmental or regulatory investigations of any nature against SKAN or any of its Subsidiaries in which, to the knowledge of SKAN, there is a reasonable probability of any material recovery against or other material effect upon SKAN or any of its Subsidiaries or which challenge the validity or propriety of the transactions contemplated by this Agreement, the Bank Merger Agreement or the Option Agreement as to which there is a reasonable probability of success.

(b) There is no injunction, order, judgment, decree, or regulatory restriction (other than regulations of general application) imposed upon SKAN, any of its Subsidiaries or the assets of SKAN or any of its Subsidiaries.

3.10 Taxes and Tax Returns.

(a) Each of SKAN and its Subsidiaries has duly filed all Tax Returns required to be filed by it on or prior to the date hereof (all such returns

being accurate and complete in all material respects) and has duly paid or made provision on the financial statements referred to in Sections 3.6 and 6.8 hereof in accordance with GAAP for the payment of all material Taxes which have been incurred or are due or claimed to be due from it by Taxing Authorities on or prior to the date hereof other than Taxes (a) which (x) are not yet delinquent or (y) are being contested in good faith and set forth in Section 3.10 of the SKAN Disclosure Schedule and (b) which have not been finally determined. All liability with respect to the Tax Returns of SKAN and its Subsidiaries has been satisfied for all years to and including 1997. The Internal Revenue Service ("IRS") has not notified SKAN of, or otherwise

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asserted, that there are any material deficiencies with respect to the federal income Tax Returns of SKAN subsequent to 1993. There are no material disputes pending, or claims asserted for, Taxes or assessments upon SKAN or any of its Subsidiaries, nor has SKAN or any of its Subsidiaries been requested to give any currently effective waivers extending the statutory period of limitation applicable to any federal or state income Tax Return for any period. In addition, Tax Returns which are accurate and complete in all material respects have been filed by SKAN and its Subsidiaries for all periods for which returns were due with respect to income tax withholding, Social Security and unemployment taxes and the amounts shown on such Tax Returns to be due and payable have been paid in full or adequate provision therefor in accordance with GAAP has been included by SKAN in the financial statements referred to in Sections 3.6 and 6.8 hereto. All SKAN Tax Returns relating to federal income taxes have been examined by the relevant Taxing Authorities, or closed without audit by applicable statutes of limitations, and all deficiencies proposed as a result of such examinations have been paid or settled, for all periods before and including the taxable year ended 1992. Neither SKAN nor any of its Subsidiaries has consented to any waiver or extension of any statute of limitations with respect to any Tax. Neither SKAN nor any SKAN Subsidiary has made an election under Section 341(f) of the IRC. SKAN has provided or made available to BSB Bancorp complete and correct copies of its Tax Returns and all material correspondence and documents, if any, relating directly or indirectly to taxes for each taxable year or other relevant period as to which the applicable statute of limitations has not run on the date hereof. For this purpose, "correspondence and documents" include, without limitation, amended Tax Returns, claims for refunds, notices from Taxing Authorities of proposed changes or adjustments to Taxes or Tax Returns, consents to assessment or collection of Taxes, acceptances of proposed adjustments, closing agreements, rulings and determination letters and requests therefor, and all other written communications to or from Taxing Authorities relating to any material Tax liability of SKAN or any SKAN Subsidiary. SKAN will not be a "foreign person" as that term is used in ss. 1.1445-2 of the Treasury Regulations promulgated under the IRC. Skaneateles Bank is not a "United States real property holding corporation" within meaning of ss. 897 of the IRC and was not a "United States real property holding corporation" on any "determination date" (as defined in ss. 1.897-2(c) of such Regulations) that occurred during any relevant period.

(b) For all taxable years commencing with December 31, 1998, SPCC has been subject to taxation as a real estate investment trust within the meaning of Section 856 of the Code ("REIT") and has satisfied all requirements to qualify as a REIT for such years, (B) has operated, and intends to continue to operate, in such a manner as to qualify as a REIT for the tax year ending December 31, 1999, and (C) has not taken or omitted to take any action which would reasonably be expected to result in a challenge to its status as a REIT, and to SKAN's knowledge, no such challenge is pending or threatened. SPCC does not hold any asset (x) the disposition of which would be subject to rules similar to Section 1374 of the Code as a result of an election under IRS Notice 88-19 or (y) that is subject to a consent filed pursuant to Section 341(f) of the Code and the regulations thereunder.

(c) For purposes of this Agreement:

"Tax" means any tax (including any income tax, capital gains tax, value-added tax, sales tax, property tax, gift tax, or estate tax), levy, assessment, tariff, duty (including any customs duty), deficiency, or other fee, and any related charge or amount (including any fine, penalty, interest, or addition to

tax), imposed, assessed, or collected by or under the authority of any Taxing Authority or payable pursuant to any tax-sharing agreement or any other contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee. "Tax Return" means any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Taxing Authority in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any law, regulation or other legal requirement relating to any Tax. "Taxing Authority" means any:

(i) nation, state, county, city, town, village, district, or other jurisdiction of any nature;

(ii) federal, state, local, municipal, foreign, or other government;

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(iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal);

(iv) multi-national organization or body; or

(v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

3.11 Employee Plans.

(a) Section 3.11(a) of the SKAN Disclosure Schedule sets forth a true and complete list of each employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), arrangement or agreement that is maintained or contributed to as of the date of this Agreement, or that has within the last six years been maintained or contributed to, by SKAN or any of its Subsidiaries or any other entity which together with SKAN would be deemed a "single employer" within the meaning of Section 4001 of ERISA or Code Sections 414(b), (c) or (m) or under which SKAN or any such Subsidiary has any liability (collectively, the "Plans").

(b) SKAN has heretofore delivered or made available to BSB Bancorp true, correct and complete copies of each of the Plans and all related documents, including but not limited to (i) the actuarial report for such Plan (if applicable) for each of the last five years, (ii) the most recent determination letter from the IRS (if applicable) for such Plan, (iii) the current summary plan description and any summaries of material modification, (iv) all annual reports (Form 5500 series) for each Plan filed for the preceding five plan years, (v) all agreements with fiduciaries and service providers relating to the Plan, and (vi) all substantive correspondence relating to any such Plan addressed to or received from the Internal Revenue Service, the Department of Labor, the Pension Benefit Guaranty Corporation or any other governmental agency.

(c) Except as set forth at Section 3.11(c) of the SKAN Disclosure Schedule, (i) Each of the Plans has been operated and administered in all material respects in compliance with applicable Laws, including but not limited to ERISA and the Code, (ii) each of the Plans intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified, (iii) with respect to each Plan which is subject to Title IV of ERISA, the present value of accrued benefits under such Plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such Plan's actuary with respect to such Plan, did not, as of its latest valuation date, exceed the then current value of the assets of such Plan allocable to such accrued benefits, (iv) no Plan provides benefits, including, without limitation, death or medical benefits (whether or not insured), with respect to current or former employees of SKAN or any SKAN Subsidiary beyond their retirement or other termination of service, other than (v) coverage mandated by applicable Law, (x) death benefits or retirement benefits under a Plan that is an "employee pension

plan," as that term is defined in Section 3(2) of ERISA, (y) deferred compensation benefits under a Plan that are accrued as liabilities on the books of SKAN or any SKAN Subsidiary, or (z) benefits the full cost of which is borne by the current or former employee (or his beneficiary), (v) no liability under Title IV of ERISA has been incurred by SKAN or any SKAN Subsidiary that has not been satisfied in full, and no condition exists that presents a material risk of SKAN or any SKAN Subsidiary incurring a material liability thereunder, (vi) no Plan is a "multi employer pension plan," as such term is defined in Section 3(37) of ERISA, (vii) all contributions or other amounts payable by SKAN or any SKAN Subsidiary as of the Effective Time with respect to each Plan and all other liabilities of each such entity with respect to each Plan, in respect of current or prior plan years have been paid or accrued in accordance with generally accepted accounting practices and Section 412 of the Code, (viii) neither SKAN nor any SKAN Subsidiary has engaged in a transaction in connection with which SKAN or any SKAN Subsidiary could be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code, (ix) to the knowledge of SKAN, there are no pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any of the plans or any trusts related thereto, and (x) all Plans (other than Plans providing for the payment of benefits from the general assets of SKAN or any SKAN Subsidiary) could be terminated as of the Effective Time without material liability; (xi) no Plan, program, agreement or other arrangement, either individually or collectively, provides for any payment by SKAN or any SKAN Subsidiary that would not be deductible under Code Sections 162(a)(1), 162(m) or 404 or that would constitute a "parachute payment" within the meaning of Code Section 280G; (xii) no "accumulated funding

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deficiency" as defined in Section 302(a)(2) of ERISA or Section 412 of the Code, whether or not waived, and no "unfunded current liability" as determined under Section 412(l) of the Code exists with respect to any Plan; and (xiii) no Plan has experienced a "reportable event" (as such term is defined in Section 4043(b) of ERISA) that is not subject to an administrative or statutory waiver from the reporting requirement.

3.12 Certain Contracts.

(a) Except as set forth at Section 3.12 of the SKAN Disclosure Schedule, neither SKAN nor any of its Subsidiaries is a party to or bound by any contract, arrangement or commitment (i) with respect to the employment of any directors, officers, employees or consultants, (ii) which, upon the consummation of the transactions contemplated by this Agreement or the Bank Merger Agreement will (either alone or upon the occurrence of any additional acts or events) result in any payment (whether of severance pay or otherwise) becoming due from BSB Bancorp, SKAN, Skaneateles Bank, BSB Bank or any of their respective Subsidiaries to any director, officer or employee thereof, (iii) which materially restricts the conduct of any line of business by SKAN or Skaneateles Bank, (iv) with or to a labor union or guild (including any collective bargaining agreement) or (v) except as set forth on Section 3.12(a)(v) of the SKAN Disclosure Schedule, any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated by the occurrence of any of the transactions contemplated by this Agreement or the Bank Merger Agreement, or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement or the Bank Merger Agreement (including as to this clause (v), any stock option plan, stock appreciation rights plan, restricted stock plan or stock purchase plan). Except as set forth at Section 3.12 of the SKAN Disclosure Schedule, there are no employment, consulting and deferred compensation agreements to which SKAN or any of its Subsidiaries is a party. Section 3.12(a) of the SKAN Disclosure Schedule sets forth a list of all material contracts (as defined in Item 601(b)(10) of Regulation S-K) of SKAN and its Subsidiaries. Each contract, arrangement or commitment of the type described in this Section 3.12(a), whether or not set forth in Section 3.12(a) of the SKAN Disclosure Schedule, is referred to herein as a "SKAN Contract," and neither SKAN nor any of its Subsidiaries has received notice of, nor do any executive officers of such entities know of, any violation of any SKAN Contract.

(b) (i) Each SKAN Contract is valid and binding and in full force and effect, (ii) SKAN and each of its Subsidiaries has in all material respects

performed all obligations required to be performed by it to date under each SKAN Contract, and (iii) no event or condition exists which constitutes or, after notice or lapse of time or both, would constitute, a material default on the part of SKAN or any of its Subsidiaries under any such SKAN Contract.

3.13 Agreements with Regulatory Agencies.

Neither SKAN nor Skaneateles Bank is subject to any cease-and-desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or has adopted any board resolutions at the request of (each, whether or not set forth on Section 3.13 of the SKAN Disclosure Schedule, a "Regulatory Agreement") any Governmental Entity that restricts the conduct of its business or that in any manner relates to its capital adequacy, its credit policies, its management or its business, nor has SKAN or Skaneateles Bank been advised by any Governmental Entity that it is considering issuing or requesting any Regulatory Agreement.

3.14 State Takeover Laws; Certificate of Incorporation.

The Board of Directors of SKAN has approved the offer of BSB Bancorp to enter into this Agreement, the Bank Merger Agreement and the Option Agreement, and has authorized and approved this Agreement, the Bank Merger Agreement and the Option Agreement, and the consummation of the transactions contemplated hereby and thereby, such that under applicable law and SKAN's Certificate of Incorporation the only vote of SKAN shareholders necessary to consummate the transactions contemplated hereby (including the Bank Merger and issuance under the Option Agreement) is the approval of two-thirds of the outstanding shares of SKAN Common Stock. Assuming that the consents and approvals referred to in Section 3.4 hereof are obtained, the Board of Directors of SKAN has conclusively determined that the provisions of Articles 10 and 12 of the Certificate of Incorporation of SKAN

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does not apply to this Agreement, the Bank Merger Agreement or the Option Agreement, or any of the transactions contemplated hereby or thereby.

3.15 Environmental Matters.

(a) Each of SKAN and the SKAN Subsidiaries is in compliance in all material respects with all applicable federal and state laws and regulations relating to pollution or protection of the environment (including without limitation, laws and regulations relating to emissions, discharges, releases and threatened releases of Hazardous Materials (as hereinafter defined), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials;

(b) There is no suit, claim, action, proceeding, investigation or notice pending or, to the knowledge of SKAN, threatened (or, to the knowledge of SKAN, past or present actions or events that could form the basis of any such suit, claim, action, proceeding, investigation or notice), in which SKAN or any SKAN Subsidiary has been or, with respect to threatened suits, claims, actions, proceedings, investigations or notices may be, named as a defendant (i) for alleged material noncompliance (including by any predecessor), with any environmental law, rule or regulation or (ii) relating to any material release or threatened release into the environment of any Hazardous Material, occurring at or on a site owned, leased or operated by SKAN or any SKAN Subsidiary, or to the knowledge of SKAN, relating to any material release or threatened release into the environment of any Hazardous Material, occurring at or on a site not owned, leased or operated by SKAN or any SKAN Subsidiary;

(c) During the period of SKAN's or any SKAN Subsidiary's ownership or operation of any of its properties, there has not been any material release of Hazardous Materials in, on, under or affecting any such property.

(d) To the knowledge of SKAN, neither SKAN nor any SKAN Subsidiary has made or participated in any loan to any person who is subject to any suit, claim, action, proceeding, investigation or notice, pending or threatened, with respect to (i) any alleged material noncompliance as to any property securing such loan with any environmental law, rule or regulation, or (ii) the release or

the threatened release into the environment of any Hazardous Material at a site owned, leased or operated by such person on any property securing such loan.

(e) For purposes of this section 3.15, the term "Hazardous Material" means any hazardous waste, petroleum product, polychlorinated biphenyl, chemical, pollutant, contaminant, pesticide, radioactive substance, or other toxic material, or other material or substance (in each such case, other than small quantities of such substances in retail containers) regulated under any applicable environmental or public health statute, law, ordinance, rule or regulation.

3.16 Reserves for Losses.

All reserves or other allowances for possible losses reflected in SKAN's most recent financial statements referred to in Section 3.6 complied with all Laws and are adequate under GAAP. Neither SKAN nor Skaneateles Bank has been notified by the FRB, the FDIC, the New York Superintendent or SKAN's independent auditor, in writing or otherwise, that such reserves are inadequate or that the practices and policies of SKAN or Skaneateles Bank in establishing such reserves and in accounting for delinquent and classified assets generally fail to comply with applicable accounting or regulatory requirements, or that the FRB, the FDIC, the New York Superintendent or SKAN's independent auditor believes such reserves to be inadequate or inconsistent with the historical loss experience of SKAN or Skaneateles Bank. SKAN has previously furnished BSB Bancorp with a complete list of all extensions of credit and other real estate owned ("OREO") that have been classified by any bank or trust examiner (regulatory or internal) as other loans specially mentioned, special mention, substandard, doubtful, loss, classified or criticized, credit risk assets, concerned loans or words of similar import. SKAN agrees to update such list no less frequently than monthly after the date of this Agreement until the earlier of the Closing Date or the date that this Agreement is

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terminated in accordance with Section 8.1. All OREO held by SKAN or Skaneateles Bank is being carried net of reserves at the lower of cost or net realizable value.

3.17 Properties and Assets.

Section 3.17 of the SKAN Disclosure Schedule lists (i) all real property owned by SKAN and each SKAN Subsidiary; (ii) each real property lease, sublease or installment purchase arrangement to which SKAN or any SKAN Subsidiary is a party; (iii) a description of each contract for the purchase, sale, or development of real estate to which SKAN or any SKAN Subsidiary is a party; and (iv) all items of SKAN's or any SKAN Subsidiary's tangible personal property and equipment with a book value of \$10,000 or more or having any annual lease payment of \$10,000 or more. Except for (a) items reflected in SKAN's consolidated financial statements as of December 31, 1997 referred to in Section 3.6 hereof, (b) exceptions to title that do not interfere materially with SKAN's or any SKAN Subsidiary's use and enjoyment of owned or leased real property (other than OREO), (c) liens for current real estate taxes not yet delinquent, or being contested in good faith, properly reserved against (and reflected on the financial statements referred to in Section 3.6 above), (d) properties and assets sold or transferred in the ordinary course of business consistent with past practices since December 31, 1997, and (e) items listed in Section 3.17 of the SKAN Disclosure Schedule, SKAN and each SKAN Subsidiary have good and, as to owned real property, marketable and insurable title to all their properties and assets, free and clear of all liens, claims, charges and other encumbrances. SKAN and each SKAN Subsidiary, as lessees, have the right under valid and subsisting leases to occupy, use and possess all property leased by them, and neither SKAN nor any SKAN Subsidiary has experienced any material uninsured damage or destruction with respect to such properties since December 31, 1997. All properties and assets used by SKAN and each SKAN Subsidiary are in good operating condition and repair suitable for the purposes for which they are currently utilized and comply in all material respects with all Laws relating thereto now in effect or scheduled to come into effect. SKAN and each SKAN Subsidiary enjoy peaceful and undisturbed possession under all leases for the use of all property under which they are the lessees, and all leases to which SKAN or any SKAN Subsidiary is a party are valid and binding obligations in

accordance with the terms thereof. Neither SKAN nor any SKAN Subsidiary is in material default with respect to any such lease, and there has occurred no default by SKAN or any SKAN Subsidiary or event which with the lapse of time or the giving of notice, or both, would constitute a material default under any such lease. There are no Laws, conditions of record, or other known impediments which interfere with the intended use by SKAN or any SKAN Subsidiary of any of the property owned, leased, or occupied by them.

3.18 Insurance.

Section 3.18 of the SKAN Disclosure Schedule contains a true, correct and complete list of all insurance policies and bonds maintained by SKAN and any SKAN Subsidiary, including the name of the insurer, the policy number, the type of policy and any applicable deductibles, and all such insurance policies and bonds (or other insurance policies and bonds that have, from time to time, in respect of the nature of the risks insured against and amount of coverage provided, been substantially similar in kind and amount to that customarily carried by parties similarly situated who own properties and engage in businesses substantially similar to that of SKAN and any SKAN Subsidiary) are in full force and effect and have been in full force and effect. As of the date hereof, neither SKAN nor any SKAN Subsidiary has received any notice of cancellation or amendment of any such policy or bond or is in default under any such policy or bond, no coverage thereunder is being disputed and all material claims thereunder have been filed in a timely fashion. The existing insurance carried by SKAN and SKAN Subsidiaries is and will continue to be, in respect of the nature of the risks insured against and the amount of coverage provided, substantially similar in kind and amount to that customarily carried by parties similarly situated who own properties and engage in businesses substantially similar to that of SKAN and the SKAN Subsidiaries, and is sufficient for compliance by SKAN and the SKAN Subsidiaries with all requirements of Law and agreements to which SKAN or any of the SKAN Subsidiaries is subject or is a party. True, correct and complete copies of all such policies and bonds reflected at Section 3.18 of the SKAN Disclosure Schedule, as in effect on the date hereof, have been delivered to BSB Bancorp.

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3.19 Compliance with Applicable Laws.

Each of SKAN and any SKAN Subsidiary has complied in all material respects with all Laws applicable to it or to the operation of its business. Neither SKAN nor any SKAN Subsidiary has received any notice of any material alleged or threatened claim, violation, or liability under any such Laws that has not heretofore been cured and for which there is no remaining liability.

3.20 Loans.

As of the date hereof:

(a) All loans owned by SKAN or any SKAN Subsidiary, or in which SKAN or any SKAN Subsidiary has an interest, comply in all material respects with all Laws, including, but not limited to, applicable usury statutes, underwriting and recordkeeping requirements and the Truth in Lending Act, the Equal Credit Opportunity Act, and the Real Estate Procedures Act, and other applicable consumer protection statutes and the regulations thereunder.

(b) All loans owned by SKAN or any SKAN Subsidiary, or in which SKAN or any SKAN Subsidiary has an interest, have been made or acquired by SKAN in accordance with board of director-approved loan policies. Each of SKAN and each SKAN Subsidiary holds mortgages contained in its loan portfolio for its own benefit to the extent of its interest shown therein; such mortgages evidence liens having the priority indicated by their terms, subject, as of the date of recordation or filing of applicable security instruments, only to such exceptions as are discussed in attorneys' opinions regarding title or in title insurance policies in the mortgage files relating to the loans secured by real property or are not material as to the collectability of such loans; and all loans owned by SKAN and each SKAN Subsidiary are with full recourse to the borrowers (except as set forth at Section 3.20(b) of the SKAN Disclosure Schedule), and each of SKAN and any SKAN Subsidiary has taken no action which

would result in a waiver or negation of any rights or remedies available against the borrower or guarantor, if any, on any loan. All applicable remedies against all borrowers and guarantors are enforceable except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights and except as may be limited by the exercise of judicial discretion in applying principles of equity. Except as set forth at Section 3.20(b) of the SKAN Disclosure Schedule, all loans purchased or originated by SKAN or any SKAN Subsidiary and subsequently sold by SKAN or any SKAN Subsidiary have been sold without recourse to SKAN or any SKAN Subsidiary and without any liability under any yield maintenance or similar obligation. True, correct and complete copies of loan delinquency reports as of December 31, 1998 prepared by SKAN and each SKAN Subsidiary, which reports include all loans delinquent or otherwise in default, have been furnished to BSB Bancorp. True, correct and complete copies of the currently effective lending policies and practices of SKAN and each SKAN Subsidiary also have been furnished to BSB Bancorp.

(c) Except as set forth at Section 3.20(c) of the Disclosure Schedule each outstanding loan participation sold by SKAN or any SKAN Subsidiary was sold with the risk of non-payment of all or any portion of that underlying loan to be shared by each participant (including SKAN or any SKAN Subsidiary) proportionately to the share of such loan represented by such participation without any recourse of such other lender or participant to SKAN or any SKAN Subsidiary for payment or repurchase of the amount of such loan represented by the participation or liability under any yield maintenance or similar obligation. SKAN and any SKAN Subsidiary have properly fulfilled in all material respects its contractual responsibilities and duties in any loan in which it acts as the lead lender or servicer and has complied in all material respects with its duties as required under applicable regulatory requirements.

(d) SKAN and each SKAN Subsidiary have properly perfected or caused to be properly perfected all security interests, liens, or other interests in any collateral securing any loans made by it.

3.21 Affiliates.

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Each director, executive officer and other person who is an "affiliate" (for purposes of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), and for purposes of qualifying the Merger for "pooling-of-interests" accounting treatment) of SKAN is listed at Section 3.21 of the SKAN Disclosure Schedule, and except as indicated thereon each such person has delivered to BSB Bancorp, concurrently with the execution of this Agreement, a stockholder agreement in the form of Exhibit D hereto (the "SKAN Stockholder Agreement"). The SKAN Stockholder Agreement has been duly and validly executed and delivered by each person that is a party thereto and, assuming due authorization, execution and delivery by BSB Bancorp, constitutes the valid and binding obligation of such person, enforceable against such person in accordance with their terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

3.22 Ownership of BSB Bancorp Common Stock.

Except as set forth at Section 3.23 of the SKAN Disclosure Schedule, neither SKAN nor, to its knowledge, any of its directors, officers or affiliates (as used above in Section 3.21) (i) beneficially own, directly or indirectly, or (ii) is a party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, any shares of outstanding capital stock of BSB Bancorp (other than those agreements, arrangements or understandings specifically contemplated hereby).

3.23 Fairness Opinion.

SKAN has received an oral opinion from MBD to the effect that, in its opinion as of the date hereof, the Exchange Ratio is fair to SKAN's shareholders

from a financial point of view (the "MBD Fairness Opinion"). MBD has agreed to furnish a written opinion to such effect (the "MBD Fairness Opinion") for inclusion, and has consented to such inclusion, in the Registration Statement (as hereinafter defined).

3.24 SKAN DRIP and Purchase Plan.

Except as disclosed in Section 3.24 of the SKAN Disclosure Schedule, SKAN has taken such action as is necessary to terminate the SKAN DRIP and the Purchase Plan such that from the date hereof, no issuances or purchases of SKAN Common Stock under the SKAN DRIP or the Purchase Plan shall be permitted, nor shall any other obligations thereunder accrue.

3.25 Accounting Matters.

Neither SKAN nor, to its knowledge, any of its affiliates (as such term is defined in Rule 145 under the Securities Act), has through the date of this Agreement taken or agreed to take any action that would prevent SKAN from accounting for the business combination contemplated by this Agreement as a "pooling of interests".

3.26 Accuracy of Information.

No representation or warranty by SKAN in this Agreement or any exhibit, schedule or certificate delivered or to be delivered by SKAN to BSB Bancorp pursuant hereto contains, or when so delivered will contain, any untrue statement of a material fact, or omits, or when so delivered will omit, a material fact necessary in order to make the statement(s) of facts contained herein or therein (in light of the circumstances under which they were made) not misleading.

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ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BSB BANCORP

BSB Bancorp, on behalf of itself and its wholly owned subsidiary, BSB Bank hereby makes the following representations and warranties to SKAN as set forth in this Article IV, each of which is being relied upon by SKAN as a material inducement to enter into and perform this Agreement.

4.1 Corporate Organization.

(a) BSB Bancorp is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. BSB Bancorp has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary. BSB Bancorp is duly registered as a bank holding company with the FRB under the BHCA. The Certificate of Incorporation and Bylaws of BSB Bancorp, copies of which have previously been made available to SKAN, are true, correct and complete copies of such documents as in effect as of the date of this Agreement.

(b) BSB Bank is a New York-chartered commercial duly organized and validly existing and in good standing under the laws of New York. The deposit accounts of BSB Bank are insured by the FDIC through the BIF to the fullest extent permitted by law, and all premiums and assessments required in connection therewith have been paid by BSB Bank. BSB Bank has the corporate power and authority to own or lease all of its properties and assets and to carry on business as is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary. The Charter and Bylaws of

BSB Bank, copies of which have previously been made available to SKAN, are true, correct and complete copies of such documents as in effect as of the date of this Agreement.

4.2 Capitalization.

(a) The authorized capital stock of BSB Bancorp consists of (i) 30,000,000 shares of BSB Bancorp Common Stock, of which 8,646,977 shares were outstanding (net of 2,604,180 treasury shares) at January 8, 1999 and (ii) 2,500,000 shares of serial preferred stock, par value \$.01 per share ("BSB Bancorp Preferred Stock"), none of which were outstanding at January 8, 1999. At such date, there were 697,351 shares of BSB Bancorp Common Stock reserved for issuance pursuant to options. All of the issued and outstanding shares of BSB Bancorp Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof, and upon issuance in accordance with the terms hereof, the Shares will be duly authorized and validly issued, and fully paid, nonassessable and free of preemptive rights. As of the date of this Agreement, except as set forth above, BSB Bancorp does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of BSB Bancorp Common Stock or BSB Bancorp Preferred Stock or any other equity securities of BSB Bancorp or any securities presenting the right to purchase or otherwise receive any shares of BSB Bancorp Common Stock or BSB Bancorp Preferred Stock, other than pursuant to the Rights Agreement.

(b) All of the outstanding shares of common stock of BSB Bank are owned by BSB Bancorp free and clear of all liens, charges, encumbrances and security interests whatsoever, and all of such shares are duly authorized and validly issued and fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to ownership thereof.

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4.3 Authority; No Violation.

(a) BSB Bancorp has full corporate power and authority to execute and deliver this Agreement and the Option Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Option Agreement and the consummation of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of BSB Bancorp. No other corporate proceedings on the part of BSB Bancorp are necessary to approve this Agreement or the Option Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been, and the Option Agreement will be, duly and validly executed and delivered by BSB Bancorp and (assuming due authorization, execution and delivery by SKAN) will constitute valid and binding obligations of BSB Bancorp, enforceable against BSB Bancorp in accordance with their terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar law affecting creditors' rights and remedies generally.

(b) BSB Bank has full corporate power and authority to execute and deliver the Bank Merger Agreement and to consummate the transactions contemplated thereby. The execution and delivery of the Bank Merger Agreement and the consummation of the transactions contemplated thereby have been duly and validly approved by the Board of Directors of BSB Bank and by BSB Bancorp as the sole shareholder of BSB Bank. All corporate proceedings on the part of BSB Bank necessary to consummate the transactions contemplated thereby have been taken. The Bank Merger Agreement, upon execution and delivery by BSB Bank, will be duly and validly executed and delivered by BSB Bank and will (assuming due authorization, execution and delivery by Skaneateles Bank) constitute a valid and binding obligation of BSB Bank, enforceable against BSB Bank in accordance with its terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

(c) Neither the execution and delivery of this Agreement or the Option

Agreement by BSB Bancorp or the Bank Merger Agreement by BSB Bank, nor the consummation by BSB Bancorp or BSB Bank, as the case may be, of the transactions contemplated hereby or thereby, nor compliance by BSB Bancorp or BSB Bank with any of the terms or provisions hereof or thereof, will (i) violate any provision of the Certificate of Incorporation or Bylaws of BSB Bancorp or the Charter or Bylaws of BSB Bank, as the case may be, or (ii) assuming that the consents and approvals referred to in Section 4.4 are duly obtained, (x) violate any Laws applicable to BSB Bancorp, BSB Bank or any of their respective properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any lien, pledge, security interest, charge or other encumbrance upon any of the respective properties or assets of BSB Bancorp or BSB Bank under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which BSB Bancorp or BSB Bank is a party, or by which they or any of their respective properties or assets may be bound or affected.

4.4 Regulatory Approvals.

(a) Except for (i) the filing of applications, notices and waiver requests, as applicable, as to the Merger and the Bank Merger with the FRB and the New York Superintendent and approval of such applications, notices and waiver requests, (ii) the filing of any required applications or notices with the FDIC and the New York Superintendent as to the subsidiary activities of Skaneateles Bank which become service corporation or operating subsidiaries of BSB Bank and approval of such applications and notices, (iii) the filing with the SEC of a registration statement on Form S-4 to register the shares of BSB Bancorp Common Stock to be issued in connection with the Merger (including the shares of BSB Bancorp Common Stock that may be issued upon the exercise of the options referred to in Section 1.5 hereof), which will include the Proxy Statement/Prospectus, (iv) the approval of this Agreement by the requisite vote of the shareholders of SKAN, (v) the filing of the Certificate of Merger with the Secretary of State of Delaware pursuant to the DGCL, (vi) the filings required by the Bank Merger Agreement, and

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(vii) such filings and approvals as are required to be made or obtained under the securities or "Blue Sky" laws of various states or with Nasdaq (or such other exchange as may be applicable) in connection with the issuance of the shares of BSB Bancorp Common Stock pursuant to this Agreement, no consents or approvals of or filings or registrations with any Governmental Entity or with any third party are necessary in connection with (1) the execution and delivery by BSB Bancorp of this Agreement and the Option Agreement, (2) the consummation by BSB Bancorp of the Merger and the other transactions contemplated hereby, (3) the execution and delivery by BSB Bank of the Bank Merger Agreement, and (4) the consummation by BSB Bank of the transactions contemplated by the Bank Merger Agreement except for such consents, approvals or filings the failure of which to obtain will not have a material adverse effect on the ability of SKAN to consummate the transactions contemplated thereby.

(b) BSB Bancorp hereby represents to SKAN that it has no knowledge of any reason why approval or effectiveness of any of the applications, notices or filings referred to in Section 4.4(a) cannot be obtained or granted on a timely basis.

4.5 Financial Statements; Exchange Act Filings; Books and Records.

(a) BSB Bancorp's consolidated balance sheets as of December 31, 1996 and 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows are as reported in BSB Bancorp's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 filed with the SEC under the Exchange Act, in each case accompanied by the audit report of BSB Bancorp's independent auditors, and the interim financial statements of BSB Bancorp as of and for the nine months ended September 30, 1997 and 1998, are as included in BSB Bancorp's quarterly report on Form 10-Q for the period ended

September 30, 1998, as filed with the SEC. The financial statements referred to in this Section 4.5 (including the related notes, where applicable) fairly present, and the financial statements referred to in Section 6.8 hereof will fairly present (subject, in the case of the unaudited statements, to recurring audit adjustments normal in nature and amount), the results of the consolidated operations and consolidated financial condition of BSB Bancorp and its Subsidiaries for the respective fiscal periods or as of the respective dates therein set forth; each of such statements (including the related notes, where applicable) comply, and the financial statements referred to in Section 6.8 hereof will comply, with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto; and each of such statements (including the related notes, where applicable) has been, and the financial statements referred to in Section 6.8 hereof will be, prepared in accordance with GAAP consistently applied during the periods involved, except as indicated in the notes thereto or, in the case of unaudited statements, as permitted by Form 10-Q. BSB Bancorp's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all subsequently filed reports under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act comply in all material respects with the appropriate requirements for such reports under the Exchange Act, and BSB Bancorp has previously delivered to SKAN true, correct and complete copies of such reports. BSB Bancorp has made all filings required of it under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act. The books and records of BSB Bancorp and BSB Bank have been, and are being, maintained in all material respects in accordance with GAAP and any other applicable legal and accounting requirements and reflect only actual transactions.

(b) Neither BSB Bancorp nor any of its Subsidiaries is an "affiliate" (as such term is defined in DGCLss.203(c) (1)) or an "associate" (as such term is defined in DGCLss.203(c) (2)) of SKAN.

4.6 Agreements with Regulatory Agencies.

Neither BSB Bancorp nor any of its affiliates is subject to any cease-and-desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or has adopted any board resolutions at the request of any Governmental Entity that restricts the conduct of its business or that in any manner relates to its capital adequacy, its credit policies, its management or its business, nor has BSB Bancorp, nor BSB Bank been advised by any Governmental Entity that it is considering issuing or requesting any Regulatory Agreement.

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4.7 Legal Proceedings.

(a) Neither BSB Bancorp nor any of its Subsidiaries is a party to any, and there are no pending or, to BSB Bancorp's knowledge, threatened, legal, administrative, arbitration or other proceedings, claims, actions or governmental or regulatory investigations of any nature against BSB Bancorp or any of its Subsidiaries in which, to BSB Bancorp's knowledge, there is a reasonable probability of any material recovery against or other material effect upon BSB Bancorp or any of its Subsidiaries or which challenge the validity or propriety of the transactions contemplated by this Agreement, the Bank Merger Agreement or the Option Agreement as to which there is a reasonable probability of success.

(b) There is no injunction, order, judgment, decree, or regulatory restriction (other than regulations of general application) imposed upon BSB Bancorp, any of its Subsidiaries or the assets of BSB Bancorp or any of its Subsidiaries.

4.8 Compliance with Applicable Laws.

Each of BSB Bancorp and any BSB Bancorp Subsidiary has complied in all material respects with all Laws applicable to it or to the operation of its business. Neither BSB Bancorp nor any BSB Bancorp Subsidiary has received any notice of any material alleged or threatened claim, violation, or liability

under any such Laws that has not heretofore been cured and for which there is no remaining liability.

4.9 Accounting Matters.

Neither BSB Bancorp nor, to its knowledge, any of its affiliates (as such term is defined in Rule 145 under the Securities Act), has through the date of this Agreement taken or agreed to take any action that would prevent BSB Bancorp from accounting for the business combination contemplated by this Agreement as a "pooling of interests".

4.10 Ownership of SKAN Common Stock.

Except for BSB Bancorp's right to acquire share of SKAN Common Stock pursuant to the Option Agreement, neither BSB Bancorp nor any of its affiliates or associates beneficially owns, directly or indirectly, more than 5% of the outstanding shares of SKAN Common Stock.

4.11 Insurance of Deposits.

Deposit accounts in BSB Bank are insured by the Federal Deposit Insurance Corporation in accordance with the Federal Deposit Insurance Act ("FDIA"). BSB Bank has paid all assessments and filed all reports required under the FDIA and is in compliance with all regulatory requirements imposed in connection with the insurance of its deposits.

ARTICLE V COVENANTS RELATING TO CONDUCT OF BUSINESS

5.1 Covenants of SKAN

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During the period from the date of this Agreement and continuing until the Effective Time, except as expressly contemplated or permitted by this Agreement, the Bank Merger Agreement or the Option Agreement or with the prior written consent of BSB Bancorp, SKAN and each SKAN Subsidiary shall carry on their respective businesses in the ordinary course consistent with past practices and consistent with prudent banking practices. SKAN will use its reasonable efforts to (x) preserve its business organization and that of each SKAN Subsidiary intact, (y) keep available to itself and BSB Bancorp the present services of the employees of SKAN and each SKAN Subsidiary and (z) preserve for itself and BSB Bancorp the goodwill of the customers of SKAN and each SKAN Subsidiary and others with whom business relationships exist. Without limiting the generality of the foregoing, and except as set forth in Section 5.1 of the SKAN Disclosure Schedule or as otherwise contemplated by this Agreement or consented to by BSB Bancorp in writing, SKAN shall not, and shall not permit any SKAN Subsidiary to:

(a) declare or pay any dividends on, or make other distributions in respect of, any of its capital stock (except for the payment of regular quarterly cash dividends by SKAN not to exceed \$.07 per share on the SKAN Common Stock with declaration, record and payment dates corresponding to the quarterly dividends paid by SKAN during its fiscal year ended December 31, 1998 and except that any SKAN Subsidiary may declare and pay dividends and distributions to SKAN; provided, however, that SPCC may make any required distributions to holders of its capital stock within 30 days after the end of calendar year 1998 pursuant to a distribution declared and payable to holders of record prior to the end of calendar year 1998; provided further, however, that under no circumstances shall SKAN declare, set aside or pay any dividends if it would result in the holders of SKAN Common Stock receiving more than four cash dividend payments in fiscal 1998, when considered with anticipated BSB Bancorp dividends based on past practice, nor shall SKAN be prohibited from declaring, setting aside or paying dividends consistent herewith if the Closing Date is such that holders of SKAN Common Stock would receive fewer than four cash dividends in 1999, when considered with anticipated BSB Bancorp dividends based on past practice, it being understood that the parties hereto intend for SKAN to

pay its regular quarterly cash dividends to shareholders as to any completed fiscal quarter prior to the Effective Time;

(b) (i) split, combine or reclassify any shares of its capital stock or issue, authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock except upon the exercise or fulfillment of rights or options issued or existing pursuant to the SKAN Stock Plans in accordance with their present terms, all to the extent outstanding and in existence on the date of this Agreement, and except pursuant to the Option Agreement, or (ii) repurchase, redeem or otherwise acquire (except for the acquisition of Trust Account Shares and DPC Shares, as such terms are defined in Section 1.4(c) hereof), any shares of the capital stock of SKAN or any SKAN Subsidiary, or any securities convertible into or exercisable for any shares of the capital stock of SKAN or any SKAN Subsidiary;

(c) issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or any securities convertible into or exercisable for, or any rights, warrants or options to acquire, any such shares, or enter into any agreement with respect to any of the foregoing, other than (i) the issuance of SKAN Common Stock pursuant to stock options or similar rights to acquire SKAN Common Stock granted pursuant to the SKAN Stock Plans and outstanding prior to the date of this Agreement, in each case in accordance with their present terms, (ii) pursuant to the Option Agreement and (iii) the issuance of 10% Cumulative Preferred Stock in accordance with the subscriptions therefor accepted by SPCC through January 7, 1999;

(d) amend its Certificate of Incorporation, Bylaws or other similar governing documents;

(e) authorize or permit any of its officers, directors, employees or agents to, directly or indirectly, (i) solicit, initiate or encourage any inquiries relating to, or the making of any proposal from, (ii) engage in discussions or negotiations with or (iii) provide any information to, any person, entity or group (other than BSB Bancorp) concerning any Acquisition Transaction (as defined below). Notwithstanding the foregoing, SKAN may enter into discussions or negotiations or provide information in connection with a possible Acquisition Transaction if the Board of Directors of SKAN, based upon a written opinion of counsel, reasonably determines in the exercise of its fiduciary duty that such discussions or negotiations must be commenced or such information must be furnished. SKAN shall promptly communicate to BSB Bancorp the material terms of any proposal, whether written or oral, which it may

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receive in respect of any such Acquisition Transaction and whether it is having discussions or negotiations with a third party about an Acquisition Transaction with, or providing information in connection with, or which may lead to, an Acquisition Transaction with a third party. SKAN will promptly cease and cause to be terminated any existing activities, discussions or negotiations previously conducted with any parties other than BSB Bancorp with respect to any of the foregoing. As used in this Agreement, Acquisition Transaction shall mean any offer, proposal or expression of interest relating to (I) any tender or exchange offer, (II) merger, consolidation or other business combination involving SKAN or any SKAN Subsidiary, or (III) the acquisition in any manner of a substantial equity interest in, or a substantial portion of the assets out of the ordinary course of business of, SKAN or Skaneateles Bank other than the transactions contemplated or permitted by this Agreement, the Bank Merger Agreement and the Option Agreement;

(f) make capital expenditures aggregating in excess of \$10,000;

(g) enter into any new line of business;

(h) acquire or agree to acquire, by merging or consolidating with, or by purchasing an equity interest in or the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire any assets, other than in connection with foreclosures, settlements in lieu of foreclosure or troubled loan or debt restructurings, or in the ordinary course of business consistent with prudent banking practices;

(i) take any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in this Agreement being or becoming untrue or in any of the conditions to the Merger set forth in Article VII not being satisfied, or in a violation of any provision of this Agreement or the Bank Merger Agreement, except, in every case, as may be required by applicable law;

(j) change its methods of accounting in effect at December 31, 1997 except as required by changes in GAAP or regulatory accounting principles as concurred to by BSB Bancorp's independent auditors;

(k) (i) except as required by applicable law or to maintain qualification pursuant to the Code, adopt, amend, renew or terminate any Plan or any agreement, arrangement, plan or policy between SKAN or any SKAN Subsidiary and one or more of its current or former directors or officers, (ii) increase in any manner the compensation of any employee or director or pay any benefit not required by any plan or agreement as in effect as of the date hereof (including, without limitation, the granting of stock options, stock appreciation rights, restricted stock, restricted stock units or performance units or shares), (iii) enter into, modify or renew any contract, agreement, commitment or arrangement providing for the payment to any director, officer or employee of compensation or benefits, (iv) hire any new employee at an annual compensation in excess of \$20,000, (v) pay expenses of any employees or directors for attending conventions or similar meetings which conventions or meetings are held after the date hereof, (vi) promote to a rank of vice president or more senior any employee, or (vii) pay any retention or other bonuses to any employees;

(l) except for short-term borrowings with a maturity of one year or less in the ordinary course of business consistent with past practices, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity;

(m) sell, purchase, enter into a lease, relocate, open or close any banking or other office, or file an application pertaining to such action with any Governmental Entity;

(n) make any equity investment or commitment to make such an investment in real estate or in any real estate development project, other than in connection with foreclosure, settlements in lieu of foreclosure, or troubled loan or debt restructuring, in the ordinary course of business consistent with past banking practices;

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(o) make any new loans to, modify the terms of any existing loan to, or engage in any other transactions (other than routine banking transactions) with, any Affiliated Person of SKAN or any SKAN Subsidiary other than transfers of loans to SPCC;

(p) make any investment, or incur deposit liabilities, other than in the ordinary course of business consistent with past practices, including deposit pricing, and which would not change the risk profile of Skaneateles Bank based on its existing deposit and lending policies or make any equity investments;

(q) purchase any loans or sell, purchase or lease any real property, except for the sale of real estate that is the subject of a casualty loss or condemnation or the sale of OREO on a basis consistent with past practices;

(r) originate (i) any loans except in accordance with existing Skaneateles Bank lending policies, (ii) conforming residential mortgage loans in excess of \$200,000, (iii) unsecured consumer loans in excess of \$25,000, (iv) commercial business loans in excess of \$100,000 as to any loan or \$100,000 in the aggregate as to related loans, or loans to related persons, (v) commercial real estate first mortgage loans in excess of \$100,000 as to any loan or \$100,000 in the aggregate as to related loans, or loans to related persons, or (vi) land acquisition loans to borrowers who intend to construct a residence on such land in excess of the lesser of 75% of the appraised value of such land or \$25,000, except in each case for loans for which written applications have been

received by Skaneateles Bank as of the date hereof (each of which is set forth at Section 5.1(r) of the SKAN Disclosure Schedule);

(s) make any investments in any equity or derivative securities, or any debt securities issued or guaranteed by any municipality or otherwise exempt to any extent from federal, state or local taxation, or engage in any forward commitment, futures transaction, financial options transaction, hedging or arbitrage transaction or covered asset trading activities or make any investments in any investment security with a maturity of greater than one year;

(t) sell or purchase any mortgage loan servicing rights other than selling servicing rights associated with FHA loans; or

(u) agree or commit to do any of the actions set forth in (a) - (t) above.

The consent of BSB Bancorp to any action by SKAN or any SKAN Subsidiary that is not permitted by any of the preceding paragraphs shall be evidenced by a writing signed by the Chairman, President or any Senior Vice President of BSB Bancorp.

5.2 Merger Covenants.

Notwithstanding that SKAN believes that it has established all reserves and taken all provisions for possible loan losses required by GAAP and applicable laws, rules and regulations, SKAN recognizes that BSB Bancorp may have adopted different loan, accrual and reserve policies (including loan classifications and levels of reserves for possible loan losses). In that regard, and in general, from and after the date of this Agreement to the Effective Time, SKAN and BSB Bancorp shall consult and cooperate with each other in order to formulate the plan of integration for the Merger, including, among other things, with respect to conforming, based upon such consultation, SKAN's loan, accrual and reserve policies to those policies of BSB Bancorp to the extent appropriate.

5.3 Compliance with Antitrust Laws.

Each of BSB Bancorp and SKAN shall use its reasonable best efforts to resolve objections, if any, which may be asserted with respect to the Merger under antitrust laws, including, without limitation, the Hart-Scott-Rodino Act. In the event a suit is threatened or instituted challenging the Merger as violative of antitrust laws, each of BSB Bancorp and SKAN shall use its reasonable best efforts to avoid the filing of, or resist or resolve

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such suit. BSB Bancorp and SKAN shall use their reasonable best efforts to take such action as may be required: (a) by the Antitrust Division of the Department of Justice or the Federal Trade Commission in order to resolve such objections as either of them may have to the Merger under antitrust laws, or (b) by any federal or state court of the United States, in any suit brought by a private party or governmental entity challenging the Merger as violative of antitrust laws, in order to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order, or other order which has the effect of preventing the consummation of the Merger. Reasonable best efforts shall not include, among other things and to the extent BSB Bancorp so desires, the willingness of BSB Bancorp to accept an order agreeing to the divestiture, or the holding separate, of any assets of BSB Bancorp or SKAN.

5.4 Termination of 401(k) Plan and ESOP.

As soon as practicable after the date of this Agreement, but in no event less than 24 hours prior to the Effective Time, SKAN and each SKAN Subsidiary shall adopt all corporate resolutions necessary to: (i) freeze participation and benefit accruals under all Plans that are intended to be "qualified" under Code section 401 (the "Qualified Plans"), effective no later than 24 hours prior to the Effective Time; and (ii) terminate such Qualified Plans, effective no later than 24 hours prior to the Effective Time. As soon as practicable after the date of this Agreement, but in no event less than 24 hours prior to the Effective Time, SKAN and each SKAN Subsidiary shall contribute to

each Qualified Plan all contributions, including but not limited to employee deferrals and related matching contributions, required or necessary under the terms of such Qualified Plan covering the benefits that have accrued as of the Effective Time.

ARTICLE VI
ADDITIONAL AGREEMENTS

6.1 Regulatory Matters.

(a) Upon the execution and delivery of this Agreement, BSB Bancorp and SKAN (as to information to be included therein pertaining to SKAN) shall promptly cause to be prepared and filed with the SEC a registration statement of BSB Bancorp on Form S-4, including the Proxy Statement/Prospectus (the "Registration Statement") for the purpose of registering the BSB Bancorp Common Stock to be issued in the Merger, and for soliciting the approval of this Agreement and the Merger by the shareholders of SKAN. BSB Bancorp and SKAN shall use their reasonable best efforts to have the Registration Statement declared effective by the SEC as soon as possible after the filing. The parties shall cooperate in responding to and considering any questions or comments from the SEC staff regarding the information contained in the Registration Statement. If at any time after the Registration Statement is filed with the SEC, and prior to the Closing Date, any event relating to SKAN is discovered by SKAN which should be set forth in an amendment of, or a supplement to, the Registration Statement, including the Prospectus/Proxy Statement, SKAN shall promptly inform BSB Bancorp, and shall furnish BSB Bancorp with all necessary information relating to such event whereupon BSB Bancorp shall promptly cause an appropriate amendment to the Registration Statement to be filed with the SEC. Upon the effectiveness of such amendment, each of BSB Bancorp and SKAN (if prior to the meeting of shareholders pursuant to Section 6.3 hereof) will take all necessary action as promptly as practicable to permit an appropriate amendment or supplement to be transmitted to its shareholders entitled to vote at such meeting. If at any time after the Registration Statement is filed with the SEC, and prior to the Closing Date, any event relating to BSB Bancorp is discovered by BSB Bancorp which should be set forth in an amendment of, or a supplement to, the Registration Statement, including the Prospectus/Proxy Statement, BSB Bancorp shall promptly inform SKAN, and BSB Bancorp shall promptly cause an appropriate amendment to the Registration Statement to be filed with the SEC. Upon the effectiveness of such amendment, each of BSB Bancorp and SKAN (if prior to the meeting of shareholders pursuant to Section 6.3 hereof) will take all necessary action as promptly as practicable to permit an appropriate amendment or supplement to be transmitted to its shareholders entitled to vote at such meeting. BSB Bancorp shall also use reasonable efforts to obtain all necessary state securities law or "Blue Sky" permits and approvals required to carry out the transactions contemplated by this Agreement and the Bank Merger Agreement and SKAN shall furnish

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all information concerning SKAN and the holders of SKAN Common Stock as may be reasonably requested in connection with any such action.

(b) The parties hereto shall cooperate with each other and use their best efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, and to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and Governmental Entities which are necessary or advisable to consummate the transactions contemplated by this Agreement (including without limitation the Merger and the Bank Merger). SKAN and BSB Bancorp shall have the right to review in advance, and to the extent practicable each will consult the other on, in each case subject to applicable laws relating to the exchange of information, all the information relating to SKAN or BSB Bancorp, as the case may be, which appears in any filing made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement; provided, however, that nothing contained herein shall be deemed to provide either party with a right to review any information provided to any Governmental Entity on a confidential basis in connection with the transactions contemplated hereby. In exercising the foregoing right, each of the parties hereto shall act reasonably and as promptly as practicable. The parties hereto agree that they will consult with each other with respect to the

obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other apprised of the status of matters relating to contemplation of the transactions contemplated herein.

(c) SKAN shall, upon request, furnish BSB Bancorp with all information concerning SKAN and its directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with the Registration Statement or any other statement, filing, notice or application made by or on behalf of BSB Bancorp to any Governmental Entity in connection with the Merger or the other transactions contemplated by this Agreement.

(d) SKAN shall provide all information relating to SKAN and its Subsidiaries necessary for inclusion in the Registration Statement, and such information shall not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. Each of SKAN and BSB Bancorp shall cause the portions of the Registration Statement relating to it or any of its Subsidiaries to comply in all material respects with the provisions of the Securities Act, Exchange Act and the rules and regulations thereunder.

(e) BSB Bancorp and SKAN shall promptly advise each other upon receiving any communication from any Governmental Entity whose consent or approval is required for consummation of the transactions contemplated by this Agreement which causes such party to believe that there is a reasonable likelihood that any Requisite Regulatory Approval (defined in Section 7.1(c) hereof) will not be obtained or that the receipt of any such approval will be materially delayed.

6.2 Access to Information.

(a) Upon reasonable notice and subject to applicable Laws relating to the exchange of information, SKAN shall accord to the officers, employees, accountants, counsel and other representatives of BSB Bancorp, access, during normal business hours during the period prior to the Effective Time, to all its and its Subsidiaries' properties, books, contracts, commitments and records and, during such period, SKAN shall make available to BSB Bancorp (i) a copy of each report, schedule, registration statement and other document filed or received by it (including Skaneateles Bank) during such period pursuant to the requirements of federal securities laws or federal or state banking laws and (ii) all other information concerning its (including Skaneateles Bank) business, properties and personnel as BSB Bancorp may reasonably request. BSB Bancorp shall receive notice of all meetings of the SKAN and Skaneateles Bank Board of Directors and any committees thereof, and of any management committees (in all cases, at least as timely as all SKAN and Skaneateles Bank, as the case may be, representatives to such meetings are required to be provided notice). Up to two representatives of BSB Bancorp shall be permitted to attend all meetings

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of the Board of Directors (except for the portion of such meetings which relate to the Merger or an Acquisition Transaction or such other matters deemed confidential ("Confidential Matters") of SKAN or Skaneateles Bank, as the case may be) and such meetings of committees of the Board of Directors and management of SKAN and Skaneateles Bank which BSB Bancorp desires. BSB Bancorp will hold all such information in confidence to the extent required by, and in accordance with, the provisions of that certain confidentiality agreement between BSB Bancorp and SKAN dated January 15, 1999 (the "Confidentiality Agreement").

(b) No investigation by either of the parties or their respective representatives shall affect the representations and warranties of the other set forth herein.

(c) SKAN shall provide BSB Bancorp with true, correct and complete copies of all financial and other information provided to directors of SKAN and Skaneateles Bank in connection with meetings of their Boards of Directors or committees thereof.

6.3 Shareholder Meeting.

SKAN shall take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders within 35 days after the Registration Statement becomes effective for the purpose of voting upon the approval of this Agreement and the Merger (the "Special Meeting"). Management and the Board of Directors of SKAN shall recommend to SKAN's shareholders approval of this Agreement, including the Merger, and the transactions contemplated hereby, together with any matters incident thereto, and shall oppose any third party proposal or other action that is inconsistent with this Agreement or the consummation of the transactions contemplated hereby, unless the Board of Directors of SKAN reasonably determines, based upon the written advice of SKAN's legal counsel, that such recommendation or opposition, as the case may be, would constitute a breach of the exercise of its fiduciary duty. SKAN and BSB Bancorp shall coordinate and cooperate with respect to the foregoing matters.

6.4 Legal Conditions to Merger.

Each of BSB Bancorp and SKAN shall use their reasonable best efforts (a) to take, or cause to be taken, all actions necessary, proper or advisable to comply promptly with all legal requirements which may be imposed on such party with respect to the Merger and, subject to the conditions set forth in Article VII hereof, to consummate the transactions contemplated by this Agreement and (b) to obtain (and to cooperate with the other party to obtain) any consent, authorization, order or approval of, or any exemption by, any Governmental Entity and any other third party which is required to be obtained by SKAN or BSB Bancorp in connection with the Merger and the other transactions contemplated by this Agreement.

6.5 Stock Exchange Listing.

BSB Bancorp shall cause the shares of BSB Bancorp Common Stock to be issued in the Merger and pursuant to options referred to herein to be approved for quotation on the Nasdaq Stock Market National Market System (or such other exchange on which the BSB Bancorp Common Stock has become listed, or approved for listing) prior to or at the Effective Time.

6.6 Employees and Advisory Directors.

(a) To the extent permissible under the applicable provisions of the Code and ERISA, for purposes of crediting periods of service for eligibility to participate under employee pension benefit plans (within the meaning of

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ERISA Section 3(2)) maintained by BSB Bancorp or BSB Bank, as applicable, and in the case of BSB Bank's 401(k) Plan, for purposes of vesting, individuals who are employees of SKAN or any SKAN Subsidiary at the Effective Time will be credited with periods of service with SKAN or any SKAN Subsidiary before the Effective Time as if such service had been with BSB Bancorp or BSB Bank, as applicable; provided, however, that no such service credit shall be given for purposes of benefit accrual and (except in the case of BSB Bank's 401(k) Plan) vesting. Similar service credit shall also be given by BSB Bancorp or BSB Bank in determining eligibility to participate in other retirement, vacation and similar benefits provided to such employees of SKAN or Skaneateles Bank after the Merger.

(b) After the Effective Time, employees of SKAN or its Subsidiaries who continue to be employed by BSB Bancorp or any of its Subsidiaries, will be eligible for benefits that BSB Bancorp or such Subsidiary, as the case may be, provides to its employees generally and on substantially the same basis to such employees. BSB Bancorp will cause BSB Bank to use its reasonable best efforts to offer a position of at-will employment to each of the non-officer and non-managerial branch office personnel of SKAN or its Subsidiaries who is in good standing as of the Effective Time (a "SKAN Employee") at or within 25 miles

of his or her place of employment as of the Effective Time. In addition, BSB Bancorp will cause BSB Bank to use its reasonable best efforts in connection with reviewing applicants for employment positions to give SKAN Employees who are not offered positions at the Effective Time the same consideration as is afforded BSB Bancorp or BSB Bank employees for such position in accordance with its policies in effect at such time. BSB Bancorp or BSB Bank will use their reasonable best efforts to provide reasonable and appropriate on-the-job training to SKAN Employees whose positions are eliminated as a result of the Merger or the Bank Merger. For purposes of the severance policies of BSB Bank (as now in effect or hereafter amended), employees of SKAN and its Subsidiaries who become employees of BSB Bancorp or BSB Bank as a result of the Merger or the Bank Merger (other than any such employee who is a party to a written agreement with BSB Bancorp or BSB Bank relating to employment or severance, including any such agreement with SKAN or any Subsidiary that is assumed as a result of the Merger or the Bank Merger) shall be credited with periods of service with SKAN and such Subsidiaries as if such service had been with BSB Bancorp or BSB Bank, as appropriate. BSB Bancorp will or will cause BSB Bank to (i) give credit to employees of SKAN and its Subsidiaries, with respect to the satisfaction of the limitations as to pre-existing condition exclusions and waiting periods for participation and coverage which are applicable under the welfare benefit plans of BSB Bancorp or BSB Bank, equal to the credit that any such employee had received as of the Effective Time towards the satisfaction of any such limitations and waiting periods under the comparable welfare benefit plans of SKAN or its Subsidiaries.

(c) Following the Merger, BSB Bancorp agrees that it shall honor the existing written deferred compensation, employment, change of control and severance contracts with directors and employees of SKAN and its Subsidiaries that are specifically listed at Section 3.12(a) of the SKAN Disclosure Schedule; provided, however, that in making the foregoing agreement, except as otherwise required by law, BSB Bancorp will honor such contracts only to the extent that, as represented at Section 3.11 hereof, none of such deferred compensation, employment, change of control and severance contracts, nor any other Plan, program, agreement or other arrangement, either individually or collectively, provides for any payment by SKAN or any Subsidiary that would not be deductible under Code Sections 162(a)(1), 162(m) or 404 or that would constitute a "parachute payment" within the meaning of Code Section 280G.

(d) Following the Merger, BSB Bancorp shall offer to any Skaneateles Bank employee who, as of the Bank Merger, has a title at BSB Bank of Administrative Vice President or higher, a Change of Control Severance Agreement in the form offered to other such senior officers of BSB Bank.

(e) The non-employee directors of Skaneateles Bank serving immediately prior to the Effective Time will be invited to serve on an advisory board to BSB Bank after the Bank Merger for a period of at least 12 months. Such advisory directors each will be paid an annual retainer for such service of \$2,000.

6.7 Indemnification.

(a) In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, in which any person who is now, or has been at any time prior to the date of this

Agreement, or who becomes prior to the Effective Time, a director or officer or employee of SKAN (the "Indemnified Parties") is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer or employee of SKAN or any of their respective predecessors or (ii) this Agreement or any of the transactions contemplated hereby, whether in any case asserted or arising before or after the Effective Time, the parties hereto agree to cooperate and defend against and respond thereto to the extent permitted by applicable law and the Certificate of Incorporation and Bylaws of SKAN. It is understood and agreed that after the Effective Time, BSB Bancorp shall indemnify and hold harmless, as and to the fullest extent permitted by applicable law and the Certificate of Incorporation and Bylaws of BSB Bancorp as in effect on the date hereof (subject to change as required by law), each such Indemnified Party against any losses, claims, damages, liabilities, costs, expenses (including reasonable attorney's

fees and expenses in advance of the final disposition of any claim, suit, proceeding or investigation to each Indemnified Party to the fullest extent permitted by law upon receipt of any undertaking required by applicable law), judgments, fines and amounts paid in settlement in connection with any such threatened or actual claim, action, suit, proceeding or investigation, and in the event of any such threatened or actual claim, action, suit, proceeding or investigation (whether asserted or arising before or after the Effective Time), the Indemnified Parties may retain counsel reasonably satisfactory to BSB Bancorp; provided, however, that (1) BSB Bancorp shall have the right to assume the defense thereof and upon such assumption BSB Bancorp shall not be liable to any Indemnified Party for any legal expenses of other counsel or any other expenses subsequently incurred by any Indemnified Party in connection with the defense thereof, except that if BSB Bancorp elects not to assume such defense or counsel for the Indemnified Parties reasonably advises the Indemnified Parties that there are issues which raise conflicts of interest between BSB Bancorp and the Indemnified Parties, the Indemnified Parties may retain counsel reasonably satisfactory to BSB Bancorp, and BSB Bancorp shall pay the reasonable fees and expenses of such counsel for the Indemnified Parties, (2) BSB Bancorp shall be obligated pursuant to this paragraph to pay for only one firm of counsel for each Indemnified Party, (3) BSB Bancorp shall not be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld or delayed), and (4) BSB Bancorp shall not be obligated pursuant to this paragraph to the extent that a final judgment determines that any such losses, claims, damages, liabilities, costs, expenses, judgments, fines and amounts paid in settlement are as a result of the gross negligence, willful misconduct or malfeasance of the Indemnified Party. BSB Bancorp shall have no obligation to advance expenses incurred in connection with a threatened or pending action, suit or proceeding in advance of final disposition of such action, suit or proceeding, unless (i) BSB Bancorp would be permitted to advance such expenses pursuant to the DGCL and BSB Bancorp's Certificate of Incorporation or Bylaws, and (ii) BSB Bancorp receives an undertaking by the Indemnified Party to repay such amount if it is determined that such party is not entitled to be indemnified by BSB Bancorp pursuant to the DGCL and BSB Bancorp's Certificate of Incorporation or Bylaws. Any Indemnified Party wishing to claim indemnification under this Section 6.7, upon learning of any such claim, action, suit, proceeding or investigation, shall notify BSB Bancorp thereof; provided, however, that the failure to so notify shall not affect the obligations of BSB Bancorp under this Section 6.7 except to the extent such failure to notify materially prejudices BSB Bancorp. BSB Bancorp's obligations under this Section 6.7 continue in full force and effect for a period of three years from the Effective Time; provided, however, that all rights to indemnification in respect of any claim asserted or made within such period shall continue until the final disposition of such claim.

(b) BSB Bancorp shall use commercially reasonable efforts to cause the persons serving as officers and directors of SKAN immediately prior to the Effective Time to be covered by a directors' and officers' liability insurance policy ("Tail Insurance") of substantially the same coverage and amounts containing terms and conditions which are generally not less advantageous than SKAN's current policy with respect to acts or omissions occurring prior to the Effective Time which were committed by such officers and directors in their capacity as such for an aggregate premium cost for the Tail Insurance reasonably consistent with the aggregate premium cost for SKAN's current policy and for a period not less than one year.

6.8 Subsequent Interim and Annual Financial Statements.

As soon as reasonably available, but in no event more than 45 days after the end of each fiscal quarter (other than the fourth fiscal quarter, as to which the time period shall be 90 days), BSB Bancorp will deliver to SKAN and

SKAN will deliver to BSB Bancorp their respective Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K, as filed with the SEC under the Exchange Act. Each party shall deliver to the other any Current Reports on Form 8-K promptly after filing such reports with the SEC.

6.9 Additional Agreements.

In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, or to vest the Surviving Corporation or the Surviving Bank with full title to all properties, assets, rights, approvals, immunities and franchises of any of the parties to the Merger, or the constituent banks to the Bank Merger, as the case may be, the proper officers and directors of each party to this Agreement and BSB Bancorp's and SKAN's Subsidiaries shall take all such necessary action as may be reasonably requested by BSB Bancorp.

6.10 Advice of Changes.

BSB Bancorp and SKAN shall promptly advise the other party of any change or event that, individually or in the aggregate, has or would be reasonably likely to have a Material Adverse Effect on it or to cause or constitute a material breach of any of its representations, warranties or covenants contained herein. From time to time prior to the Effective Time, each party will promptly supplement or amend its disclosure schedule delivered in connection with the execution of this Agreement to reflect any matter which, if existing, occurring or known at the date of this Agreement, would have been required to be set forth or described in such disclosure schedule or which is necessary to correct any information in such disclosure schedule which has been rendered inaccurate thereby. No supplement or amendment to such disclosure schedule shall have any effect for the purpose of determining satisfaction of the conditions set forth in Sections 7.2(a) or 7.3(a) hereof, as the case may be, or the compliance by SKAN with the covenants set forth in Section 5.1 hereof.

6.11 Current Information.

During the period from the date of this Agreement to the Effective Time, SKAN will cause one or more of its designated representatives to confer on a regular and frequent basis (not less than monthly) with representatives of BSB Bancorp and to report the general status of the ongoing operations of SKAN. SKAN will promptly notify BSB Bancorp of any material change in the normal course of business or in the operation of the properties of SKAN and of any governmental complaints, investigations or hearings (or communications indicating that the same may be contemplated), or the institution or the threat of litigation involving SKAN, and will keep BSB Bancorp fully informed of such events.

6.12 Execution and Authorization of Bank Merger Agreement.

Prior to the Effective Time, (a) BSB Bancorp and SKAN each shall execute and deliver the Certificate of Merger substantially in the form at Exhibit C, and (b) BSB Bancorp and SKAN each shall cause BSB Bank and Skaneateles Bank, respectively, to execute and deliver the Bank Merger Agreement, in substantially the form at Exhibit A.

6.13 Change in Structure.

BSB Bancorp may elect to modify the structure of the transactions contemplated by this Agreement as noted herein so long as (i) there are no material adverse federal income tax consequences to the SKAN shareholders as a

result of such modification, (ii) the consideration to be paid to the SKAN shareholders under this Agreement is not thereby changed or reduced in kind or amount, and (iii) such modification will not be reasonably likely to delay materially or jeopardize receipt of any required regulatory approvals. In the event that BSB Bancorp elects to change the structure of the Merger, the Bank Merger or any other transactions contemplated hereby, the parties agree to modify this Agreement and the various exhibits hereto, or enter into any other agreements, to reflect such revised structure. In such event, BSB Bancorp shall prepare appropriate amendments to this Agreement and the exhibits hereto, or other documents, for execution by the parties hereto. BSB Bancorp and SKAN agree

to cooperate fully with each other to effect such amendments or other documents.

6.14 Transaction Expenses of SKAN.

(a) For planning purposes, SKAN shall, within 15 days from the date hereof, provide BSB Bancorp with its estimated budget of transaction-related expenses reasonably anticipated to be payable by SKAN in connection with this transaction, including the fees and expenses of counsel, accountants, investment bankers and other professionals. SKAN shall promptly notify BSB Bancorp if or when it determines that it will expect to exceed its budget.

(b) Promptly after the execution of this Agreement, SKAN shall ask all of its attorneys and other professionals to render current and correct invoices for all unbilled time and disbursements. SKAN shall accrue and/or pay all of such amounts which are actually due and owing as soon as possible.

(c) SKAN shall advise BSB Bancorp monthly of all out-of-pocket expenses which SKAN has incurred in connection with this transaction.

(d) BSB Bancorp, in reasonable consultation with SKAN, shall make all arrangements with respect to the printing and mailing of the Proxy Statement/Prospectus. SKAN shall, if BSB Bancorp reasonably deems necessary, also engage a proxy solicitation firm to assist in the solicitation of proxies for their respective the Special Meeting. SKAN agrees to cooperate as to such matters.

ARTICLE VII CONDITIONS PRECEDENT

7.1 Conditions to Each Party's Obligation To Effect the Merger.

The respective obligation of each party to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) Shareholder Approval.

This Agreement, including the Certificate of Merger, and the Merger shall have been approved and adopted by the affirmative vote of the holders of a two-thirds of the outstanding shares of SKAN Common Stock entitled to vote thereon.

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(b) Stock Exchange Listing.

The shares of BSB Bancorp Common Stock which shall be issued in the Merger (including the BSB Bancorp Common Stock that may be issued upon exercise of the options referred to in Section 1.5 hereof) upon consummation of the Merger shall have been authorized for quotation on the Nasdaq Stock Market National Market System (or such other exchange on which the BSB Bancorp Common Stock may become listed).

(c) Other Approvals.

All regulatory approvals required to consummate the transactions contemplated hereby shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired (all such approvals and the expiration of all such waiting periods being referred to herein as the "Requisite Regulatory Approvals"). No Requisite Regulatory Approval shall contain a non-customary condition that BSB Bancorp reasonably determines to be burdensome or otherwise alter the benefits for which it bargained in this Agreement.

(d) Registration Statement.

The Registration Statement shall have become effective under the

Securities Act, and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(e) No Injunctions or Restraints; Illegality.

No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or any of the other transactions (an "Injunction") contemplated by this Agreement or the Certificate of Merger shall be in effect. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits, restricts or makes illegal consummation of the Merger.

(f) Federal Tax Opinion.

BSB Bancorp and SKAN shall have received from [Hogan & Hartson L.L.P., counsel to BSB Bancorp], an opinion in form and substance reasonably satisfactory to BSB Bancorp, substantially to the effect that on the basis of facts, representations, and assumptions set forth in such opinion which are consistent with the state of facts existing at the time of such opinion, the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, such counsel may require and, to the extent such counsel deems necessary or appropriate, may rely upon representations made in certificates of officers of SKAN, BSB Bancorp, their respective affiliates and others.

(g) Pooling of Interests.

BSB Bancorp shall have received (i) advice of PricewaterhouseCoopers LLP and KPMG LLP, independent accountants, within two weeks of the date hereof, to the effect that the Merger will be accounted for as a pooling of interests, and (ii) as of the Effective Time, a written opinion of each of PricewaterhouseCoopers LLP and KPMG LLP to the effect that the Merger will be accounted for as a pooling-of-interests.

7.2 Conditions to Obligations of BSB Bancorp.

The obligation of BSB Bancorp to effect the Merger is also subject to the satisfaction or waiver by BSB Bancorp at or prior to the Effective Time of the following conditions:

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(a) Representations and Warranties.

The representations and warranties of SKAN set forth in this Agreement shall be true and correct as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date; provided, however, that for purposes of this paragraph, such representations and warranties shall be deemed to be true and correct, unless the failure or failures of such representations and warranties to be so true and correct, individually or in the aggregate, would have a Material Adverse Effect on SKAN. Such determination of aggregate Material Adverse Effect shall be made as if there were no materiality qualifications in such representations and warranties. BSB Bancorp shall have received a certificate signed on behalf of SKAN by each of the President and Chief Executive Officer and the Chief Financial Officer of SKAN to the foregoing effect.

(b) Performance of Covenants and Agreements of SKAN

SKAN shall have performed in all material respects all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date. BSB Bancorp shall have received a certificate signed on behalf of SKAN by each of the President and Chief Executive Officer and the Chief Financial Officer of SKAN to such effect.

(c) Consents under Agreements.

(i) The consent, approval or waiver of each person (other than the Governmental Entities referred to in Section 7.1(c) hereof) whose consent or approval shall be required in order to permit the succession by the Surviving Corporation pursuant to the Merger to any obligation, right or interest of SKAN under any loan or credit agreement, note, mortgage, indenture, lease, license or other agreement or instrument shall have been obtained except for those, the failure of which to obtain, will not result in a Material Adverse Effect on the Surviving Corporation.

(ii) The consent, approval or waiver of each person (other than the Governmental Entities referred to in Section 7.1(c) hereof) whose consent or approval shall be required in order to permit the succession by the Surviving Bank pursuant to the Bank Merger to any obligation, right or interest of Skaneateles Bank under any loan or credit agreement, note, mortgage, indenture, lease, license or other agreement or instrument shall have been obtained except for those, the failure of which to obtain, will not result in a Material Adverse Effect on the Surviving Bank.

(d) No Pending Governmental Actions.

No proceeding initiated by any Governmental Entity seeking an Injunction shall be pending.

(e) No Material Adverse Change.

There shall have been no changes, other than changes contemplated by this Agreement, in the business, operations, condition (financial or otherwise), assets or liabilities of SKAN or any SKAN Subsidiary (regardless of whether or not such events or changes are inconsistent with the representations and warranties given herein) that individually or in the aggregate has had or would have a Material Adverse Effect on SKAN.

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(f) Legal Opinion.

BSB Bancorp shall have received the opinion of Harter, Secrest & Emery LLP, counsel to SKAN, dated the Closing Date, as to such matters as BSB Bancorp may reasonably request. As to any matter in such opinion which involves matters of fact, such counsel may rely upon the certificates of officers and directors of SKAN and of public officials, reasonably acceptable to BSB Bancorp.

(g) Accountant's Comfort Letter.

SKAN shall have caused to be delivered on the respective dates thereof to BSB Bancorp "comfort letters" from KPMG LLP, SKAN's independent auditors, dated the date on which the Registration Statement or last amendment thereto shall become effective, and dated the date of the Closing (defined in Section 9.1 hereof), and addressed to BSB Bancorp and SKAN, with respect to SKAN's financial data presented in the Proxy Statement/Prospectus, which letters shall be based upon Statements on Auditing Standards Nos. 72 and 76.

7.3 Conditions to Obligations of SKAN.

The obligation of SKAN to effect the Merger is also subject to the satisfaction or waiver by SKAN at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties.

The representations and warranties of BSB Bancorp set forth in this Agreement shall be true and correct as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date; provided, however, that for purposes of this paragraph, such representations and warranties shall be deemed to be true and correct, unless the failure or failures of such representations and warranties to be so true and correct, individually or in the aggregate, would have a Material Adverse Effect on BSB

Bancorp. Such determination of aggregate Material Adverse Effect shall be made as if there were no materiality qualifications in such representations and warranties. SKAN shall have received a certificate signed on behalf of BSB Bancorp by each of the President and the Chief Financial Officer of BSB Bancorp to the foregoing effect.

(b) Performance of Covenants and Agreements of BSB Bancorp.

BSB Bancorp shall have performed in all material respects all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date. SKAN shall have received a certificate signed on behalf of BSB Bancorp by each of the President and the Chief Financial Officer of BSB Bancorp to such effect.

(c) Consents under Agreements.

The consent or approval or waiver of each person (other than the Governmental Entities referred to in Section 7.1(c)) whose consent or approval shall be required in connection with the transactions contemplated hereby under any loan or credit agreement, note, mortgage, indenture, lease, license or other agreement or instrument to which BSB Bancorp is a party or is otherwise bound shall have been obtained.

(d) No Pending Governmental Actions.

No proceeding initiated by any Governmental Entity seeking an Injunction shall be pending.

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(e) Legal Opinion.

SKAN shall have received the opinion of Hogan & Hartson L.L.P., counsel to BSB Bancorp, as to the authorization, validity and non-assessibility of the BSB Bancorp Common Stock to be issued pursuant to this Agreement. As to any matter in such opinion which involves matters of fact, such counsel may rely upon the certificates of officers and directors of BSB Bancorp and of public officials and opinions of local counsel, reasonably acceptable to SKAN

(f) No Material Adverse Change.

There shall have been no changes, other than changes contemplated by this Agreement, in the business, operations, condition (financial or otherwise), assets or liabilities of BSB Bancorp or any BSB Bancorp Subsidiary (regardless of whether or not such events or changes are inconsistent with the representations and warranties given herein) that individually or in the aggregate has had or would have a Material Adverse Effect on BSB Bancorp.

ARTICLE VIII
TERMINATION AND AMENDMENT

8.1 Termination.

This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval of the matters presented in connection with the Merger by the shareholders of SKAN:

(a) by mutual consent of BSB Bancorp and SKAN in a written instrument, if the Board of Directors of each so determines by a vote of a majority of the members of its entire Board;

(b) by either BSB Bancorp or SKAN upon written notice to the other party (i) 30 days after the date on which any request or application for a Regulatory Approval shall have been denied or withdrawn at the request or recommendation of the Governmental Entity which must grant such Regulatory Approval, unless within the 30-day period following such denial or withdrawal the parties agree to file, and have filed with the applicable Governmental Entity, a petition for rehearing or an amended application, provided, however, that no party shall have the right to terminate this Agreement pursuant to this Section 8.1(b), if such denial or

request or recommendation for withdrawal shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(c) by either BSB Bancorp or SKAN if the Merger shall not have been consummated on or before December 31, 1999, unless the failure of the Closing to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(d) by either BSB Bancorp or SKAN (provided that SKAN is not in breach of its obligations under Section 6.3 hereof) if the approval of the shareholders of SKAN required for the consummation of the Merger shall not have been obtained by reason of the failure to obtain the required vote at a duly held meeting of shareholders or at any adjournment or postponement thereof;

(e) by either BSB Bancorp or SKAN (provided that the terminating party is not then in breach of any representation, warranty, covenant or other agreement contained herein that, individually or in the aggregate, would give the other party the right to terminate this Agreement) if there shall have been a breach of any of the representations or warranties set forth in this Agreement on the part of the other party, if such breach, individually or in the aggregate, has had or is likely to have a Material Adverse Effect on the breaching party, and such breach shall

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not have been cured within 30 days following receipt by the breaching party of written notice of such breach from the other party hereto or such breach, by its nature, cannot be cured prior to the Closing;

(f) by either BSB Bancorp or SKAN (provided that the terminating party is not then in breach of any representation, warranty, covenant or other agreement contained herein that, individually or in the aggregate, would give the other party the right to terminate this Agreement) if there shall have been a material breach of any of the covenants or agreements set forth in this Agreement on the part of the other party, and such breach shall not have been cured within 30 days following receipt by the breaching party of written notice of such breach from the other party hereto or such breach, by its nature, cannot be cured prior to the Closing;

(g) by BSB Bancorp, if the management of SKAN or its Board of Directors, for any reason, (i) fails to call and hold within 35 days of the effectiveness of the Registration Statement a special meeting of SKAN's shareholders to consider and approve this Agreement and the transactions contemplated hereby, (ii) fails to recommend to shareholders the approval of this Agreement and the transactions contemplated hereby, (iii) fails to oppose any third party proposal that is inconsistent with the transactions contemplated by this Agreement or (iv) violates Section 5.1(e) of this Agreement;

(h)

(1) by SKAN, if (either before or after its approval by the shareholders of SKAN) both (A) its Board of Directors so determines by a vote of at least two-thirds of the members of its entire Board, at any time during the ten-day period commencing with the Determination Date, and (B) the BSB Bancorp Common Stock Average Price on the Determination Date shall be less than the lesser of \$23.00, or \$25.30 multiplied by the Index Ratio.

(2) Notwithstanding the foregoing, if SKAN elects to exercise its termination right pursuant to subsection (h)(1), it shall give prompt written notice to BSB Bancorp (provided that such notice of election to terminate may be withdrawn at any time within the aforementioned ten-day period). During the seven-day period commencing with its receipt of such notice, BSB Bancorp shall have the option of increasing the consideration to be received by the holders of SKAN Common Stock hereunder by increasing the Exchange Ratio to equal the lesser of (A) a number (rounded to four decimals) equal to a quotient, the numerator of which is \$28.75 multiplied by the Exchange Ratio (as then in effect) and the denominator of which is the BSB Bancorp Common Stock Average Price (defined below), and (B) a number equal to a quotient, the numerator of which is the

Index Ratio multiplied by \$28.75, and then multiplied by the Exchange Ratio (as then in effect) and the denominator of which is the BSB Bancorp Common Stock Average Price (defined below). If BSB Bancorp makes an election contemplated by the preceding sentence, within such seven-day period, it shall give prompt written notice to SKAN of such election and the revised Exchange Ratio, whereupon no termination shall have occurred pursuant to subsection (h)(1) and this Agreement shall remain in effect in accordance with its terms (except as the Exchange Ratio shall have been so modified), and any references in this Agreement to "Exchange Ratio" shall thereafter be deemed to refer to the Exchange Ratio as adjusted pursuant to this subsection (h)(2).

For purposes of this subsection (h), the following terms shall have the meanings indicated:

"BSB Bancorp Common Stock Average Price" means the average of the daily closing sales prices of BSB Bancorp Common Stock as reported on the Nasdaq Stock Market's National Market Tier for the 20 consecutive full trading days in which such shares are reported on the Nasdaq Stock Market ending at the close of trading on the Determination Date.

"BSB Bancorp Ratio" means the number obtained by dividing the BSB Bancorp Common Stock Average Price on the Determination Date by the closing price on the Starting Date.

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"Determination Date" means the date on which the approval of the FDIC required for consummation of the Merger shall be received or, if no FDIC approval is required, then the date of the last federal or state bank regulatory approval required of BSB Bancorp is received.

"Index Price" on a given date means the sum of the average closing sale prices of the companies comprising the Index Group (as defined below) for the 15 trading days ending on such date, in each case, multiplied by the weighting assigned to such company (weighted in accordance with the factors listed below). If any company belonging to the Index Group or BSB Bancorp declares or effects a stock dividend, reclassification, recapitalization, split-up, combination, exchange of share or similar transaction between the Starting Date and the Determination Date, the prices for the common stock of such company or BSB Bancorp will be appropriately adjusted for use in the Index.

"Starting Date" means the first Nasdaq Stock Market trading day preceding the date of this Agreement.

"Index Ratio" means the number obtained by dividing the Index Price at the close of business on the Determination Date by the Index Price at close of business on the Starting Date.

"Index Group" means the 18 bank holding companies listed at Exhibit F hereto, the common stock of all of which will be publicly traded and as to which there will not have been, since the Starting Date and before the Determination Date, any public announcement of a proposal for such company to be acquired or for such company to acquire another company or companies in transactions with a value exceeding 25% of the acquirors market capitalization as of the Starting Date. In the event that the common stock of any such company ceases to be publicly traded or such an announcement is made, such company will be removed from the Index Group, and the weights (which were determined based on the number of outstanding shares of common stock) redistributed proportionately for the purposes of determining the Index Price. The 18 holding companies and the weights attributed to them are as set forth at Exhibit F.

(i) by BSB Bancorp if SKAN has complied with Section 5.1(e) above, and has given written notice to BSB Bancorp that SKAN has agreed to enter into an Acquisition Transaction other than as contemplated hereby; provided, however, that such termination under this Section 8.1(i) shall not be effective unless and until SKAN shall have complied with the expense provisions of Section 9.3 below, and shall have acknowledged in the written notice to be provided in accordance herewith that the Option granted pursuant to the Option Agreement shall then be exercisable in accordance with terms thereof.

8.2 Effect of Termination.

In the event of termination of this Agreement by either BSB Bancorp or SKAN as provided in Section 8.1 hereof, this Agreement shall forthwith become void and have no effect except (i) the last sentences of Sections 6.2(a) and 6.2(b) and Sections 8.2, 9.2 and 9.3 hereof shall survive any termination of this Agreement, and (ii) notwithstanding anything to the contrary contained in this Agreement, no party shall be relieved or released from any liabilities or damages arising out of its willful or intentional breach of any provision of this Agreement.

8.3 Amendment.

Subject to compliance with applicable law, this Agreement may be amended by the parties hereto, by action taken or authorized by their respective Board of Directors, at any time before or after approval of the matters presented in connection with the Merger by the shareholders of SKAN; provided, however, that after any approval of the transactions contemplated by this Agreement by SKAN's shareholders, there may not be, without further approval of such shareholders, any amendment of this Agreement which reduces the amount or changes the form of the consideration to be delivered to SKAN shareholders hereunder other than as contemplated by this Agreement. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

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8.4 Extension; Waiver.

At any time prior to the Effective Time, the parties hereto, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

ARTICLE IX
GENERAL PROVISIONS

9.1 Closing.

Subject to the terms and conditions of this Agreement, the closing of the Merger (the "Closing") will take place at 10:00 a.m. at the main offices of BSB Bancorp on (i) the fifth day after the last Requisite Regulatory Approval and shareholder approvals are received and all applicable waiting periods have expired, or (ii) such other date, place and time as the parties may agree (the "Closing Date").

9.2 Nonsurvival of Representations, Warranties and Agreements.

None of the representations, warranties, covenants and agreements in this Agreement or in any instrument delivered pursuant to this Agreement (other than pursuant to the Option Agreement, which shall terminate in accordance with its terms) shall survive the Effective Time, except for those covenants and agreements contained herein and therein which by their terms apply in whole or in part after the Effective Time.

9.3 Expenses.

All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expense, except that all filing and other fees paid to the SEC and the New York Superintendent in connection with this Agreement shall be borne by BSB Bancorp.

Except as set forth in the next sentence, in the event that this Agreement is terminated by either BSB Bancorp or SKAN by reason of a material breach pursuant to Sections 8.1(e) or (f) hereof or by BSB Bancorp or SKAN pursuant to Section 8.1(g) hereof, the other party shall pay all documented, reasonable costs and expenses up to \$250,000 incurred by the terminating party in connection with this Agreement and the transactions contemplated hereby. In the event that this Agreement is terminated by BSB Bancorp under Section 8.1(d) by reason of SKAN shareholders not having given any required approval, or in the event this Agreement is terminated by BSB Bancorp by reason of a willful material breach pursuant to Sections 8.1(e) or (f) hereof, SKAN shall pay all documented, reasonable costs and expenses up to \$250,000 incurred by BSB Bancorp in connection with this Agreement and the transactions contemplated hereby. In the event that this Agreement is terminated by BSB Bancorp under Section 8.1(i) by reason of SKAN having agreed to enter into an Acquisition Transaction other than as contemplated hereby, SKAN shall pay all documented, reasonable costs and expenses up to \$250,000 incurred by BSB Bancorp in connection with this Agreement and the transactions contemplated hereby.

9.4 Notices.

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All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, mailed by registered or certified mail (return receipt requested) or delivered by an express courier (with confirmation) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to BSB Bancorp, to:

BSB Bancorp, Inc.
58-68 Exchange Street
Binghamton, NY 13902
Attn.: President and Chief Executive Officer

with a copy (which shall not constitute notice) to:

Hogan & Hartson L.L.P.
Columbia Square
555 Thirteenth Street, N.W.
Washington, DC 20004-1109
Attn.: Stuart G. Stein, Esq.

and

(b) if to SKAN, to:

Skaneateles Bancorp, Inc.
33 East Genesee Street
P.O. Box 460
Skaneateles, NY 13152-0460
Attn.: President and Chief Executive Officer

with a copy (which shall not constitute notice) to:

Harter, Secrest & Emery LLP
700 Midtown Tower
Rochester, NY 14604
Attn.: Gary L. Karl, Esq.

9.5 Interpretation.

When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or an Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be

deemed to be followed by the words "without limitation".

9.6 Counterparts.

This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

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9.7 Entire Agreement.

This Agreement (including the disclosure schedules, documents and the instruments referred to herein) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, other than the Confidentiality Agreement, the Certificate of Merger, the Option Agreement and the Stockholder Agreement.

9.8 Governing Law.

This Agreement shall be governed and construed in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law rules.

9.9 Enforcement of Agreement.

The parties hereto agree that irreparable damage would occur in the event that the provisions of this Agreement were not performed in accordance with its specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions thereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

9.10 Severability.

Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

9.11 Publicity.

Except as otherwise required by law or the rules of the Nasdaq Stock Market National Market System (or such other exchange on which the SKAN Common Stock or BSB Bancorp Common Stock is or may become listed), so long as this Agreement is in effect, neither BSB Bancorp nor SKAN shall, or shall permit any of BSB Bancorp's or SKAN's Subsidiaries to, issue or cause the publication of any press release or other public announcement with respect to, or otherwise make any public statement concerning, the transactions contemplated by this Agreement, the Certificate of Merger, the Option Agreement or the Stockholder Agreement without the consent of the other party, which consent shall not be unreasonably withheld.

9.12 Assignment; Limitation of Benefits.

Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Except as otherwise specifically provided in Section 6.7 hereof, this Agreement (including the documents and instruments referred to herein) is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder, and the covenants, undertakings and

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agreements set out herein shall be solely for the benefit of, and shall be enforceable only by, the parties hereto and their permitted assigns.

9.13 Additional Definitions.

In addition to any other definitions contained in this Agreement, the following words, terms and phrases shall have the following meanings when used in this Agreement.

"AFFILIATED PERSON": any director, officer or 5% or greater shareholder, spouse or other person living in the same household of such director, officer or shareholder, or any company, partnership or trust in which any of the foregoing persons is an officer, 5% or greater shareholder, general partner or 5% or greater trust beneficiary.

"KNOWLEDGE": with respect to SKAN, refers to the knowledge of both of SKAN's and Skaneateles Bank's directors and officers in the ordinary course of their duties in such positions.

"LAWS": any and all statutes, laws, ordinances, rules, regulations, orders, permits, judgments, injunctions, decrees, case law and other rules of law enacted, promulgated or issued by any Governmental Entity.

"MATERIAL ADVERSE EFFECT": with respect to BSB Bancorp or SKAN, as the case may be, means a condition, event, change or occurrence that is reasonably likely to have a material adverse effect upon (A) the financial condition, results of operations, business or properties of BSB Bancorp or SKAN (other than as a result of changes in laws or regulations or accounting rules of general applicability or interpretations thereof), or (B) the ability of BSB Bancorp or SKAN to perform its obligations under, and to consummate the transactions contemplated by, this Agreement, the Certificate of Merger and, in the case of SKAN, the Option Agreement.

"SUBSIDIARY": with respect to any party means any corporation, partnership or other organization, whether incorporated or unincorporated, which is consolidated with such party for financial reporting purposes.

[SIGNATURES PAGE FOLLOWS]

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IN WITNESS WHEREOF, BSB Bancorp and SKAN have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

<TABLE>
<CAPTION>

<S>

BSB BANCORP, INC.
<C>

ATTEST:

By: /s/ Larry G. Denniston

Name: Larry G. Denniston
Title: Senior Vice President and
Corporate Secretary

By: /s/ Alex S. DePersis

Name: Alex S. DePersis
Title: President and Chief Executive
Officer

SKANEATELES BANCORP, INC.

ATTEST:

By: /s/ J. David Hammond

Name: J. David Hammond
Title: Executive Vice President
and Secretary

By: /s/ John P. Driscoll

Name: John P. Driscoll
Title: Chairman of the Board, President
and Chief Executive Officer

</TABLE>

Proposed Peer Group Index

=====

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Institution -----	Ticker -----	Current Weighing -----
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Arrow Financial Corporation	AROW	2.52%
BT Financial Corporation	BTFC	5.25%
Chittenden Corporation	CHZ	11.39%
CNB Financial Corp	CNBF	3.06%
Community Bank Systems, Inc.	CBU	2.95%
First Commonwealth Financial Corporation	FCF	12.48%
Iroquois Bancorp, Inc.	IROQ	0.97%
NBT Bancorp, Inc.	NBTB	5.05%
Premier National Bancorp	PNB	6.33%
S&T Bancorp, Inc.	STBA	11.17%
State Bancorp, Inc.	STBC	2.63%
Suffolk Bancorp	SUBK	2.46%
Tompkins County Trustco, Inc.	TMP	1.96%
TrustCo Bank Corp NY	TRST	10.82%

U.S.B. Holding Company, Incorporated	UBH	6.40%
USBANCORP, Inc.	UBAN	5.51%
Vermont Financial Services Corp.	VFSC	5.19%
York Financial Corp.	YFED	3.86%

</TABLE>

LIST OF REGISTRANT'S SUBSIDIARIES

List of Registrant's Subsidiaries

Skaneateles Savings Bank, New York State-chartered.

Skaneateles Preferred Capital Corp., a New York state incorporated Real Estate Investment Trust, subsidiary of Skaneateles Savings Bank.

CONSENT OF INDEPENDENT AUDITORS

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CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Skaneateles Bancorp, Inc.:

We consent to incorporation by reference in the registration statement Nos. 33-37281, 33-37282, 33-92198, 333-20445 and 333-52925 on Form S-8 and 333-18287 on Form S-3 of Skaneateles Bancorp, Inc. of our report dated January 8, 1999, relating to the consolidated balance sheets of Skaneateles Bancorp, Inc. and subsidiary as of 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, which report has been incorporated by reference in the December 31, 1998 annual report on Form 10-K of Skaneateles Bancorp, Inc..

/s/ KPMG LLP

Syracuse, New York

March 23, 1999

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<ARTICLE> 9

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STATEMENTS INCLUDED WITHIN THE COMPANY'S 1998 ANNUAL REPORT TO STOCKHOLDERS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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OPTION AGREEMENT, DATED AS OF JANUARY 25, 1999, BY AND BETWEEN SKANEATELES BANCORP, INC. AND BSB BANCORP, INC.

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OPTION AGREEMENT

THE TRANSFER OF THE OPTION GRANTED
BY THIS AGREEMENT IS SUBJECT TO RESALE RESTRICTIONS.

This OPTION AGREEMENT, dated as of January 25, 1999 (this "Agreement"), is entered into by and between SKANEATELES BANCORP, INC., a Delaware corporation ("Issuer") and BSB BANCORP, INC., a Delaware corporation ("Grantee").

WITNESSETH:

WHEREAS, concurrently herewith Grantee and Issuer have entered into an Agreement and Plan of Merger, dated as of January 25, 1999 (the "Plan"); and

WHEREAS, as a condition and inducement to Grantee's entering into the Plan and in consideration therefor, Issuer has agreed to grant Grantee the Option (as defined below).

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and in the Plan, the parties hereto agree as follows:

SECTION 1. Issuer hereby grants to Grantee an unconditional, irrevocable option (the "Option") to purchase, subject to the terms hereof, up to 290,142 fully paid and nonassessable shares of common stock, par value \$.01 per share of Issuer ("Issuer Common Stock") (which number of shares is equal to 19.99% of the total of the number of outstanding shares of Issuer Common Stock on the date hereof), at a price per share equal to \$15.00 (the "Initial Price"); provided, however, that in the event Issuer issues or agrees to issue any additional shares of Issuer Common Stock (other than shares issued upon the exercise of options outstanding as of the date of the Plan in accordance with their terms pursuant to existing stock option plans and pursuant to the SKAN DRIP and the Purchase Plan (both terms as defined in the Plan)), or grants one or more options to purchase additional shares of Issuer Common Stock at a price less than the Initial Price, as adjusted pursuant to Section 5(b) hereof, such price shall be equal to such lesser price (such price, as adjusted, is hereinafter referred to as the "Option Price"). The number of shares of Issuer Common Stock that may be received upon the exercise of the Option and the Option Price are subject to adjustment as herein set forth.

SECTION 2. (a) Grantee may exercise the Option, in whole or part, at any time and from time to time following the occurrence of a Purchase Event (as defined below); provided, however, that the Option shall terminate and be of no further force and effect upon the earliest to occur of the following events (which are collectively referred to as an "Exercise Termination Event"):

(i) The time immediately prior to the Effective Time;

(ii) 12 months after the first occurrence of a Purchase Event;

(iii) 12 months after the termination of the Plan following the occurrence of a Preliminary Purchase Event (as defined below), unless clause (vii) of this Section 2(a) is applicable;

(iv) upon the termination of the Plan, prior to the occurrence of a Purchase Event or Preliminary Purchase Event, by Issuer pursuant to Sections 8.1(d), (e), (f), (g) or (h) of the Plan, both parties pursuant to Section 8.1(a) of the Plan, or by either party pursuant to Section 8.1(b) or (c) of the Plan;

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(v) 12 months after the termination of the Plan, by either party pursuant to Section 8.1(d) of the Plan based on the required vote of Issuer's shareholders not being received, if no Purchase Event or Preliminary Purchase Event has occurred prior to the meeting of shareholders (or any adjournment or postponement thereof) held to vote

on the Plan;

(vi) 12 months after the termination of the Plan, by Grantee pursuant to Section 8.1(e) or (f) thereof as a result of a breach by Issuer, unless such breach was willful or intentional; or

(vii) 24 months after the termination of the Plan, by Grantee pursuant to Section 8.1(e) or (f) thereof as a result of a willful or intentional breach by Issuer, or by Grantee pursuant to Section 8.1(g) or (i) of the Plan.

(b) The term "Preliminary Purchase Event" shall mean any of the following events or transactions occurring on or after the date hereof and prior to an Exercise Termination Event:

(i) Issuer without having received Grantee's prior written consent, shall have entered into any letter of intent or definitive agreement to engage in an Acquisition Transaction (as defined below) with any Person (as defined below) other than Grantee or any of its subsidiaries (each a "Grantee Subsidiary") or the Board of Directors of Issuer shall have recommended that the shareholders of Issuer approve or accept any Acquisition Transaction with any Person (as the term "person" is defined in Section 3(a)9 and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations thereunder) other than Grantee or any Grantee Subsidiary. For purposes of this Agreement "Acquisition Transaction" shall mean (x) a merger, consolidation or other business combination involving Issuer, (y) a purchase, lease or other acquisition of all or substantially all of the assets of Issuer, (z) a purchase or other acquisition (including by way of merger, consolidation, share exchange or otherwise) of Beneficial Ownership (as the term "beneficial ownership" is defined in Regulation 13d-3(a) of the Exchange Act) of securities representing 10.0% or more of the voting power of Issuer; provided, however, that "Acquisition Transaction" shall not include a transaction entered into after the termination of the Plan in which the Issuer is the surviving entity, if in connection with such transaction, no person acquires Beneficial Ownership of 10.0% or more of the total voting power of the Issuer to be outstanding after giving effect to such transaction and in which the aggregate voting power of Issuer acquired by all persons is less than 15% of the total voting power of Issuer;

(ii) Any Person (other than Grantee, any Grantee Subsidiary or any current affiliate of Issuer) shall have acquired Beneficial Ownership of 10.0% or more of the outstanding shares of Issuer Common Stock;

(iii) (a) Any Person (other than Grantee or any Grantee Subsidiary) shall have made a bona fide proposal to Issuer or, by a public announcement or written communication that is or becomes the subject of public disclosure, to Issuer's shareholders to engage in an Acquisition Transaction (including, without limitation, any situation

in which any Person other than Grantee or any Grantee Subsidiary shall have commenced (as such term is defined in Rule 14d-2 under the Exchange Act), or shall have filed a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to a tender offer or exchange offer to purchase any shares of Issuer Common Stock such that, upon consummation of such offer, such person would have Beneficial Ownership of 10.0% or more of the then outstanding shares of Issuer Common Stock (such an offer being referred to herein as a "Tender Offer" or an "Exchange Offer", respectively)), and (b) the shareholders of Issuer do not approve the Merger, as defined in the Plan, at the Special Meeting, as defined in the Plan;

(iv) There shall exist a willful or intentional breach under the Plan by Issuer and such breach would entitle Grantee to terminate the Plan;

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(v) The special meeting of Issuers' shareholders held for the purpose of voting on the Plan shall not have been held pursuant to the Plan or shall have been canceled prior to termination of the Plan, or for any reason whatsoever Issuer's Board of Directors shall have failed to recommend, or shall have withdrawn or modified in a manner adverse to Grantee the recommendation of Issuer's Board of Directors, that Issuer's shareholders approve the Plan, or if Issuer or Issuer's Board of Directors fails to oppose any proposal by any Person (other than Grantee or any Grantee Subsidiary); or

(vi) Any Person (other than Grantee or any Grantee Subsidiary) shall have filed an application or notice with the Board of Governors of the Federal Reserve System (the "FRB"), the Federal Deposit Insurance Corporation (the "FDIC"), the Superintendent of Banks of New York State (the "New York Superintendent"), or other regulatory or administrative agency or commission (each, a "Governmental Authority") for approval to engage in an Acquisition Transaction.

(c) The term "Purchase Event" shall mean any of the following events or transactions occurring on or after the date hereof and prior to an Exercise Termination Event:

(i) The acquisition by any Person (other than Grantee or any Grantee Subsidiary) of Beneficial Ownership (other than on behalf of the Issuer) of 25% or more of the then outstanding Issuer Common Stock;

(ii) The occurrence of a Preliminary Purchase Event described in Section 2(b)(i) except that the percentage referred to in clause (z) thereof shall be 25%; or

(iii) The termination of the Plan by Grantee pursuant to

Section 8.1(e) or (f) thereof as a result of a willful or intentional breach by Issuer, or by Grantee pursuant to Section 8.1(g) or (i) of the Plan.

(d) Issuer shall notify Grantee promptly in writing of the occurrence of any Preliminary Purchase Event or Purchase Event known to Issuer; provided, however, that the giving of such notice by Issuer shall not be a condition to the right of Grantee to exercise the Option.

(e) In the event that Grantee is entitled to and wishes to exercise the Option, it shall send to Issuer a written notice (the "Option Notice," the date of which being hereinafter referred to as the "Notice Date") specifying (i) the total number of shares of Issuer Common Stock it will purchase pursuant to such exercise and (ii) the time (which shall be on a business day that is not less than three nor more than 10 business days from the Notice Date) on which the closing of such purchase shall take place (the "Closing Date"); such closing to take place at the principal office of the Issuer; provided, however, that, if prior notification to or approval of the FDIC, the FRB, or the New York Superintendent or any other Governmental Authority is required in connection with such purchase (each, a "Notification" or an "Approval," as the case may be), (a) Grantee shall promptly file the required notice, application or waiver request for approval ("Notice/Application"), (b) Grantee shall expeditiously process the Notice/Application and (c) for the purpose of determining the Closing Date pursuant to clause (ii) of this sentence, the period of time that otherwise would run from the Notice Date shall instead run from the later of (x) in connection with any Notification, the date on which any required notification periods have expired or been terminated and (y) in connection with any Approval, the date on which such approval has been obtained and any requisite waiting period or periods shall have expired. For purposes of Section 2(a) hereof, any exercise of the Option shall be deemed to occur on the Notice Date relating thereto. On or prior to the Closing Date, Grantee shall have the right to revoke its exercise of the Option by written notice to the Issuer given not less than three business days prior to the Closing Date.

(f) At the closing referred to in Section 2(e) hereof, Grantee shall pay to Issuer the aggregate purchase price for the number of shares of Issuer Common Stock specified in the Option Notice in immediately available funds by wire transfer to a bank account designated by Issuer; provided, however, that failure or refusal of Issuer to designate such a bank account shall not preclude Grantee from exercising the Option.

(g) At such closing, simultaneously with the delivery of immediately available funds as provided in Section 2(f) hereof, Issuer shall deliver to Grantee a certificate or certificates representing the number of shares of Issuer Common Stock specified in the Option Notice and, if the Option should be exercised in part only, a new Option evidencing the rights of Grantee thereof to purchase the balance of the shares of Issuer Common Stock purchasable hereunder.

(h) Certificates for Issuer Common Stock delivered at a closing hereunder shall be endorsed with a restrictive legend substantially as follows:

The transfer of the shares represented by this certificate is subject to resale restrictions arising under the Securities Act of 1933, as amended, and applicable state securities laws and to certain provisions of an agreement between BSB Bancorp, Inc. and Skaneateles Bancorp, Inc. dated as of January 25, 1999. A copy of such agreement is on file at the principal office of BSB Bancorp, Inc., and will be provided to the holder hereof without charge upon receipt by BSB Bancorp, Inc. of a written request therefor.

It is understood and agreed that: (i) the reference to the resale restrictions of the Securities Act in the above legend shall be removed by delivery of substitute certificate(s) without such reference if Grantee shall have delivered to Issuer a copy of a letter from the staff of the Securities and Exchange Commission (the "SEC") or Governmental Authority responsible for administering any applicable state securities laws or an opinion of counsel, in form and substance satisfactory to Issuer's counsel, to the effect that such legend is not required for purposes of the Securities Act or applicable state securities laws; (ii) the reference to the provisions of this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) are both satisfied. In addition such certificates shall bear any other legend as may be required by law.

(i) Upon the giving by Grantee to Issuer of an Option Notice and the tender of the applicable purchase price in immediately available funds on the Closing Date, unless prohibited by applicable law, Grantee shall be deemed to be the holder of record of the number of shares of Issuer Common Stock specified in the Option Notice, notwithstanding that the stock transfer books of Issuer shall then be closed or that certificates representing such shares of Issuer Common Stock shall not then actually be delivered to Grantee. Issuer shall pay all expenses and other charges that may be payable in connection with the preparation, issuance and delivery of stock certificates under this Section 2 in the name of Grantee.

SECTION 3. Issuer agrees: (i) that it shall at all times until the termination of this Agreement have reserved for issuance upon the exercise of the Option that number of authorized and reserved shares of Issuer Common Stock equal to the maximum number of shares of Issuer Common Stock at any time and from time to time issuable hereunder, all of which shares will, upon issuance pursuant hereto, be duly authorized, validly issued, fully paid, non-assessable, and delivered free and clear of all claims, liens, encumbrances and security interests and not subject to any preemptive rights; (ii) that it will not, by amendment of its certificate of incorporation or through reorganization, consolidation, merger, dissolution or sale of assets, or by any other voluntary act, avoid or seek to avoid the observance or performance of any of the

covenants, stipulations or conditions to be observed or performed hereunder by Issuer; (iii) promptly to take all reasonable action as may from time to time be requested by the Grantee, at Grantee's expense (including (x) complying with all premerger notification, reporting and waiting period requirements specified in 15 U.S.C. ss. 18a and regulations promulgated thereunder and (y) in the event prior approval of or notice to the FDIC, the FRB, the New York Superintendent or any other Governmental Authority, under the Change in Bank Control Act of 1978, as amended, the Bank Holding Company Act, as amended, or any other applicable federal or state banking law, is necessary before the Option may be exercised, cooperating with Grantee in preparing such applications or notices and providing such information to each such Governmental Authority as it may require in order to permit Grantee to exercise the Option and Issuer duly and effectively to issue shares of Issuer Common Stock pursuant hereto; and (iv) to take all action provided herein to protect the rights of Grantee against dilution.

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SECTION 4. This Agreement (and the Option granted hereby) are exchangeable, without expense, at the option of Grantee, upon presentation and surrender of this Agreement at the principal office of Issuer, for other agreements providing for Options of different denominations entitling the holder thereof to purchase, on the same terms and subject to the same conditions as are set forth herein, in the aggregate the same number of shares of Issuer Common Stock purchasable hereunder. The terms "Agreement" and "Option" as used herein include any agreements and related options for which this Agreement (and the Option granted hereby) may be exchanged. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer will execute and deliver a new Agreement of like tenor and date.

SECTION 5. The number of shares of Issuer Common Stock purchasable upon the exercise of the Option shall be subject to adjustment from time to time as follows:

(a) In the event of any change in the type or number of shares of Issuer Common Stock by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, subdivisions, conversions, exchanges of shares or other issuances of additional shares (other than pursuant to the exercise of the Option), the type and number of shares of Issuer Common Stock purchasable upon exercise hereof shall be appropriately adjusted and proper provision shall be made so that, in the event that any additional shares of Issuer Common Stock are to be issued or otherwise become outstanding as a result of any such change (other than pursuant to an exercise of the Option), the number of shares of Issuer Common Stock that remain subject to the Option shall be increased or decreased (as applicable) so that, after such issuance and together with the shares of Issuer Common Stock previously issued pursuant to the exercise of the Option (as adjusted on account of any of the foregoing changes in the Issuer

Common Stock), the Option shall equal the sum of 19.99% of the total of the number of shares of Issuer Common Stock then issued and outstanding.

(b) Whenever the number of shares of Issuer Common Stock purchasable upon exercise hereof is adjusted as provided in this Section 5, the Option Price shall be adjusted by multiplying the Option Price by a fraction, the numerator of which shall be equal to the number of shares of Issuer Common Stock purchasable prior to the adjustment and the denominator of which shall be equal to the number of shares of Issuer Common Stock purchasable after the adjustment.

SECTION 6. (a) Upon the occurrence of a Purchase Event that occurs prior to an Exercise Termination Event, Issuer shall, at the request of Grantee (whether on its own behalf or on behalf of any subsequent holder of the Option (or part thereof) or of any of the shares of Issuer Common Stock issued pursuant hereto), promptly prepare, file and keep current a shelf registration statement with the SEC, under the Securities Act covering any shares issued and issuable pursuant to the Option and shall use its reasonable best efforts to cause such registration statement to become effective, and to remain current and effective for a period not in excess of 180 days from the day such registration statement first becomes effective, in order to permit the sale or other disposition of any shares of Issuer Common Stock issued upon total or partial exercise of the Option ("Option Shares") in accordance with any plan of disposition requested by Grantee. Grantee shall have the right to demand two such registrations which right shall be transferable. Grantee shall provide all information reasonably requested by Issuer for inclusion in any offering circular or, if applicable, registration statement to be filed hereunder. In connection with any such offering circular or, if applicable, registration statement, Issuer and Grantee shall provide each other with representations, warranties, indemnities and other agreements customarily given in connection with such registration. If requested by Grantee in connection with such registration, Issuer and Grantee shall become a party to any underwriting agreement relating to the sale of such shares, but only to the extent of obligating themselves in respect of representations, warranties, indemnities and other agreements customarily included in such underwriting agreements. Notwithstanding the foregoing, if Grantee revokes any exercise notice or fails to exercise any Option with respect to any exercise notice pursuant to Section 2(e) hereof, Issuer shall not be obligated to continue any registration process with respect to the sale of Option Shares issuable upon the exercise of such Option and Grantee shall not be deemed to have demanded registration of Option Shares.

(b) In the event that Grantee requests Issuer to prepare an offering circular or, if applicable, to file a registration statement following the failure to obtain any approval required to exercise the Option as described in Section 9 hereof, the closing of the sale or other disposition of the Issuer Common Stock or other securities pursuant to such offering circular or, if applicable, registration statement shall occur substantially simultaneously with the exercise of the Option.

(c) Concurrently with the preparation and filing of a registration statement under Section 6(a) hereof, Issuer shall also make all filings required to comply with state securities laws in such number of states as Grantee may reasonably request.

SECTION 7. (a) Upon the occurrence of a Purchase Event that occurs prior to an Exercise Termination Event, (i) at the request (the date of such request being the "Option Repurchase Request Date") of Grantee, Issuer shall repurchase, subject to compliance with applicable law and out of funds legally available therefor, the Option from Grantee at a price (the "Option Repurchase Price") equal to the amount by which (A) the market/offer price (as defined below) exceeds (B) the Option Price, multiplied by the number of shares for which the Option may then be exercised and (ii) at the request (the date of such request being the "Option Share Repurchase Request Date") of the owner of Option Shares from time to time (the "Owner"), Issuer shall repurchase such number of the Option Shares from the Owner as the Owner shall designate at a price (the "Option Share Repurchase Price") equal to the market/offer price multiplied by the number of Option Shares so designated. The term "market/offer price" shall mean the highest of (i) the price per share of Issuer Common Stock at which a tender offer or exchange offer therefor has been made after the date hereof and on or prior to the Option Repurchase Request Date or the Option Share Repurchase Request Date, as the case may be, (ii) the price per share of Issuer Common Stock paid or to be paid by any third party pursuant to an agreement with Issuer (whether by way of a merger, consolidation or otherwise), (iii) the average of the 20 highest last sale prices for shares of Issuer Common Stock as reported within the 90-day period ending on the Option Repurchase Request Date or the Option Share Repurchase Request Date, as the case may be, and (iv) in the event of a sale of all or substantially all of Issuer's assets, the sum of the price paid in such sale for such assets and the current market value of the remaining assets of Issuer as determined by an investment banking firm selected by Grantee or the Owner, as the case may be, and reasonably acceptable to Issuer, divided by the number of shares of Issuer Common Stock outstanding at the time of such sale. In determining the market/offer price, the value of consideration other than cash shall be the value determined by an investment banking firm selected by Grantee or the Owner, as the case may be, and reasonably acceptable to Issuer. The investment banking firm's determination shall be conclusive and binding on all parties.

(b) Grantee or the Owner, as the case may be, may exercise its right to require Issuer to repurchase the Option and/or any Option Shares pursuant to this Section 7 by surrendering for such purpose to Issuer, at its principal office, a copy of this Agreement or certificates for Option Shares, as applicable, accompanied by a written notice or notices stating that Grantee or the Owner, as the case may be, elects to require Issuer to repurchase the Option and/or the Option Shares in accordance with the provisions of this Section 7. As promptly as practicable, and in any event within 30 business days after the surrender of the Option and/or certificates representing Option Shares and the receipt of such notice or notices relating thereto, Issuer shall deliver or cause to be delivered to Grantee the Option Repurchase Price or to the Owner the Option Share Repurchase Price.

(c) Issuer hereby undertakes to use its reasonable best efforts to obtain all required regulatory, shareholder and legal approvals and to file any required notices as promptly as practicable in order to accomplish any repurchase contemplated by this Section 7. Nonetheless, to the extent that Issuer is prohibited under applicable law or regulation from repurchasing any Option and/or any Option Shares in full, Issuer shall promptly so notify Grantee and/or the Owner and thereafter deliver or cause to be delivered, from time to time, to Grantee and/or the Owner, as appropriate, the portion of the Option Repurchase Price and the Option Share Repurchase Price, respectively, that it is no longer prohibited from delivering, within five business days after the date on which Issuer is no longer so prohibited; provided, however, that if Issuer at any time after delivery of a notice of repurchase pursuant to Section 7(b) hereof is prohibited as referred to above, from delivering to Grantee and/or the Owner, as appropriate, the Option Repurchase Price or the Option Share Repurchase Price, respectively, in full, Grantee or the Owner, as appropriate, may revoke its notice of repurchase of the Option or the Option

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Shares either in whole or in part whereupon, in the case of a revocation in part, Issuer shall promptly (i) deliver to Grantee and/or the Owner, as appropriate, that portion of the Option Purchase Price or the Option Share Repurchase Price that Issuer is not prohibited from delivering after taking into account any such revocation and (ii) deliver, as appropriate, either (A) to Grantee, a new Agreement evidencing the right of Grantee to purchase that number of shares of Issuer Common Stock equal to the number of shares of Issuer Common Stock purchasable immediately prior to the delivery of the notice of repurchase less the number of shares of Issuer Common Stock covered by the portion of the Option repurchased or, (B) to the Owner, a certificate for the number of Option Shares covered by the revocation.

(d) Issuer shall not enter into any agreement with any Person (other than Grantee or a Grantee Subsidiary) for an Acquisition Transaction unless the other Person assumes all the obligations of Issuer pursuant to this Section 7 in the event that Grantee or the Owner elects, in its sole discretion, to require such other Person to perform such obligations.

SECTION 8. (a) In the event that prior to an Exercise Termination Event, Issuer shall enter into a letter of intent or definitive agreement (i) to consolidate or merge with any Person (other than Grantee or a Grantee Subsidiary), and Issuer shall not be the continuing or surviving corporation of such consolidation or merger, (ii) to permit any Person (other than Grantee or a Grantee Subsidiary) to merge into Issuer, and Issuer shall be the continuing or surviving corporation, but, in connection with such merger, the then outstanding shares of Issuer Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property or the then outstanding shares of Issuer Common Stock shall after such merger represent less

than 50% of the outstanding shares and share equivalents of the merged company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any Person (other than Grantee or a Grantee Subsidiary) then, and in each such case, such letter of intent or definitive agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option (the "Substitute Option"), at the election of Grantee, of either (x) the Acquiring Corporation (as defined below) or (y) any person that controls the Acquiring Corporation (the Acquiring Corporation and any such controlling person being hereinafter referred to as the "Substitute Option Issuer").

(b) The Substitute Option shall be exercisable for such number of shares of Substitute Common Stock (as is hereinafter defined) as is equal to the market/offer price (as defined in Section 7 hereof) multiplied by the number of shares of Issuer Common Stock for which the Option was theretofore exercisable, divided by the Average Price (as hereinafter defined). The exercise price of the Substitute Option per share of the Substitute Common Stock (the "Substitute Purchase Price") shall then be equal to the Option Price multiplied by a fraction in which the numerator is the number of shares of Issuer Common Stock for which the Option was theretofore exercisable and the denominator is the number of shares for which the Substitute Option is exercisable.

(c) The Substitute Option shall otherwise have the same terms as the Option, provided, that if the terms of the Substitute Option cannot, for legal reasons, be the same as the Option, such terms shall be as similar as possible and in no event less advantageous to Grantee, provided, further that the terms of the Substitute Option shall include (by way of example and not limitation) provisions for the repurchase of the Substitute Option and Substitute Common Stock by the Substitute Option Issuer on the same terms and conditions as provided in Section 7 hereof.

(d) The following terms have the meanings indicated:

(i) "Acquiring Corporation" shall mean (i) the continuing or surviving corporation of a consolidation or merger with Issuer (if other than Issuer), (ii) Issuer in a merger in which Issuer is the continuing or surviving corporation, and (iii) the transferee of all or any substantial part of Issuer's assets.

(ii) "Substitute Common Stock" shall mean the common stock issued by the Substitute Option Issuer upon exercise of the Substitute Option.

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(iii) "Average Price" shall mean the average closing price of a share of Substitute Common Stock for the one-year period immediately preceding the consolidation, merger or sale in question, but in no

event higher than the closing price of the shares of Substitute Common Stock on the day preceding such consolidation, merger or sale; provided, that if Issuer is the issuer of the Substitute Option, the Average Price shall be computed with respect to a share of Issuer Common Stock issued by Issuer, the corporation merging into Issuer or by any company which controls or is controlled by such merging corporation, as Grantee may elect.

(e) In no event, pursuant to any of the foregoing paragraphs, shall the Substitute Option be exercisable for more than 19.99% of the shares of Substitute Common Stock outstanding immediately prior to the issuance of the Substitute Option. In the event that the Substitute Option would be exercisable for more than such number of shares of Substitute Common Stock but for this clause (e), the Substitute Option Issuer shall make a cash payment to Grantee equal to the excess of (i) the value of the Substitute Option without giving effect to the limitation in this clause (e) over (ii) the value of the Substitute Option after giving effect to the limitation in this clause (e). This difference in value shall be determined by a nationally recognized investment banking firm selected by Grantee and the Substitute Option Issuer. In addition, the provisions of Section 5(a) hereof shall not apply to the issuance of any Substitute Option and for purposes of applying Section 5(a) hereof thereafter to any Substitute Option, the percentage referred to in Section 5(a) hereof shall thereafter equal the percentage that the percentage of the shares of Substitute Common Stock subject to the Substitute Option bears to the number of shares of Substitute Common Stock outstanding.

SECTION 9. Notwithstanding Sections 2, 6 and 7 hereof, if Grantee has given the notice referred to in one or more of such Sections, the exercise of the rights specified in any such Section shall be extended (a) if the exercise of such rights requires obtaining regulatory approvals (including any required waiting periods) to the extent necessary to obtain all regulatory approvals for the exercise of such rights, and (b) to the extent necessary to avoid liability under Section 16(b) of the Exchange Act by reason of such exercise; provided, that in no event shall any closing date occur more than 12 months after the related notice date, and, if the closing date shall not have occurred within such period due to the failure to obtain any required approval by the FRB, the FDIC, the New York Superintendent or any other Governmental Authority despite the best efforts of Issuer or the Substitute Option Issuer, as the case may be, to obtain such approvals, the exercise of the rights shall be deemed to have been rescinded as of the related notice date. In the event (a) Grantee receives official notice that an approval of the FRB, the FDIC, the New York Superintendent or any other Governmental Authority required for the purchase and sale of the Option Shares will not be issued or granted or (b) a closing date has not occurred within 12 months after the related notice date due to the failure to obtain any such required approval, Grantee shall be entitled to exercise the Option in connection with the concurrent resale of the Option Shares pursuant to a registration statement as provided in Section 6 hereof. Nothing contained in this Agreement shall restrict Grantee from specifying alternative means of exercising rights pursuant to Sections 2, 6 or 7 hereof in the event that the exercising of any such rights shall not have occurred due to the failure to obtain any required approval referred to in this Section 9.

SECTION 10. Issuer hereby represents and warrants to Grantee as follows:

(a) Issuer has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved by the Board of Directors of Issuer and no other corporate proceedings on the part of Issuer are necessary to authorize this Agreement or to consummate the transactions so contemplated. This Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, Issuer, enforceable against Issuer in accordance with its terms, subject to any required Governmental Approval, and except as enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and except that the availability of the equitable remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding may be brought.

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(b) Issuer has taken all necessary corporate action to authorize and reserve and to permit it to issue, and at all times from the date hereof through the termination of this Agreement in accordance with its terms will have reserved for issuance upon the exercise of the Option, that number of shares of Issuer Common Stock equal to the maximum number of shares of Issuer Common Stock at any time and from time to time issuable hereunder, and all such shares, upon issuance pursuant hereto, will be duly authorized, validly issued, fully paid, non-assessable, and will be delivered free and clear of all claims, liens, encumbrances and security interests and not subject to any preemptive rights.

SECTION 11. (a) Neither of the parties hereto may assign any of its rights or delegate any of its obligations under this Agreement or the Option created hereunder to any other Person without the express written consent of the other party, except that Grantee may assign this Agreement to a wholly owned subsidiary of Grantee and Grantee may assign its rights hereunder in whole or in part after the occurrence of a Preliminary Purchase Event. The term "Grantee" as used in this Agreement shall also be deemed to refer to Grantee's permitted assigns.

(b) Any assignment of rights of Grantee to any permitted assignee of Grantee hereunder shall bear the restrictive legend at the beginning thereof substantially as follows:

The transfer of the option represented by this assignment and the related option agreement is subject to resale restrictions arising under the Securities Act of 1933, as amended, and applicable state securities laws and to certain provisions of an agreement between BSB

Bancorp, Inc. and Skaneateles Bancorp, Inc., dated as of January ____, 1999. A copy of such agreement is on file at the principal office of BSB Bancorp, Inc., and will be provided to any permitted assignee of the Option without charge upon receipt of a written request therefor.

SECTION 12. Each of Grantee and Issuer will use its reasonable efforts to make all filings with, and to obtain consents of, all third parties and Governmental Authorities necessary to the consummation of the transactions contemplated by this Agreement, including, without limitation, applying to the FDIC, the FRB, the New York Superintendent and any other Governmental Authority for approval to acquire the shares issuable hereunder.

SECTION 13. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement by either party hereto and that the obligations of the parties hereto shall be enforceable by either party hereto through injunctive or other equitable relief. Both parties further agree to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such equitable relief and that this provision is without prejudice to any other rights that the parties hereto may have for any failure to perform this Agreement.

SECTION 14. If any term, provision, covenant or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired or invalidated. If for any reason such court or regulatory agency determines that Grantee is not permitted to acquire, or Issuer is not permitted to repurchase pursuant to Section 7 hereof, the full number of shares of Issuer Common Stock provided in Section 1 hereof (as adjusted pursuant hereto), it is the express intention of Issuer to allow Grantee to acquire or to require Issuer to repurchase such lesser number of shares as may be permissible without any amendment or modification hereof.

SECTION 15. All notices, requests, claims, demands and other communications hereunder shall be deemed to have been duly given when delivered in the manner and at the respective addresses of the parties set forth in the Plan.

SECTION 16. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto shall be governed by and construed in accordance with the laws of the State of Delaware (but not including the choice of law rules thereof).

SECTION 17. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement and shall be effective at the time of execution and

delivery.

SECTION 18. Except as otherwise expressly provided herein, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder.

SECTION 19. Except as otherwise expressly provided herein or in the Plan, this Agreement contains the entire agreement between the parties with respect to the transactions contemplated hereunder and supersedes all prior arrangements or understandings with respect thereof, written or oral. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, and their respective successors except as assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

SECTION 20. Capitalized terms used in this Agreement and not defined herein but defined in the Plan shall have the meanings assigned thereto in the Plan.

SECTION 21. Nothing contained in this Agreement shall be deemed to authorize or require Issuer or Grantee to breach any provision of the Plan or any provision of law applicable to the Grantee or Issuer.

SECTION 22. In the event that any selection or determination is to be made by Grantee or the Owner hereunder and at the time of such selection or determination there is more than one Grantee or Owner, such selection shall be made by a majority in interest of such Grantees or Owners.

SECTION 23. In the event of any exercise of the option by Grantee, Issuer and such Grantee shall execute and deliver all other documents and instruments and take all other action that may be reasonably necessary in order to consummate the transactions provided for by such exercise.

SECTION 24. Except to the extent Grantee exercises the Option, Grantee shall have no rights to vote or receive dividends or have any other rights as a shareholder with respect to shares of Issuer Common Stock covered hereby.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties has caused this Option Agreement to be executed and delivered on its behalf by their respective officers thereunto duly authorized, all as of the date first above written.

SKANEATELES BANCORP, INC.

By: /s/ John P. Driscoll

Name: John P. Driscoll
Title: Chairman, President & CEO

BSB BANCORP, INC.

By: /s/ Alex S. DePersis

Name: Alex S. DePersis
Title: President & CEO

STOCKHOLDER AGREEMENT, DATED AS OF JANUARY 25, 1999, BY AND BETWEEN BSB BANCORP, INC. AND CERTAIN STOCKHOLDERS OF SKANEATELES BANCORP, INC.

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SKANEATELES BANCORP, INC.

STOCKHOLDER AGREEMENT

This STOCKHOLDER AGREEMENT, dated as of January 25, 1999, is entered into by and among BSB Bancorp, Inc., a Delaware corporation ("BSB Bancorp"), and the stockholders of Skaneateles Bancorp, Inc., a Delaware corporation ("Skaneateles"), identified on Schedule I hereto (collectively, the "Stockholders"), who are directors, executive officers or other affiliates of Skaneateles (for purposes of Rule 145 under the Securities Act of 1933, as amended, and for purposes of qualifying the Merger (defined below) for "pooling-of-interests" accounting treatment).

WHEREAS, BSB Bancorp and Skaneateles have entered into an Agreement and Plan of Merger, dated as of January 25, 1999 (the "Agreement"), which is conditioned upon the execution of this Stockholder Agreement and which provides for, among other things, the merger of Skaneateles with and into BSB Bancorp, in a stock-for-stock transaction (the "Merger"); and

WHEREAS, in order to induce BSB Bancorp to enter into and consummate the Agreement, each of the Stockholders agrees to, among other things, vote in favor of the Agreement, the Merger and the other transactions contemplated by the Agreement in his or her capacity as a stockholder of Skaneateles;

NOW, THEREFORE in consideration of the premises, the mutual covenants and agreements set forth herein and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Ownership of Skaneateles Common Stock. Each Stockholder represents and warrants that the number of shares of Skaneateles common stock, par value \$.01 per share ("Skaneateles Common Stock"), set forth opposite such Stockholder's name on Schedule I hereto is the total number of shares of Skaneateles Common Stock over which such person has "beneficial ownership" within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, except that the provisions of Rule 13d-3(d)(1)(i) shall be considered

without any limit as to time.

2. Agreements of the Stockholders. Each Stockholder covenants and agrees that:

(a) Such Stockholder shall, at any meeting of the holders of any or all classes or series of Skaneateles Common Stock called for the purpose (or in connection with any action taken by written consent), vote or cause to be voted all shares of Skaneateles Common Stock with respect to which such Stockholder has voting power (including the power to vote or to direct the voting of) whether owned as of the date hereof or hereafter acquired (i) in favor of the Agreement, the Merger and the other transactions contemplated by the Agreement and (ii) against any plan or proposal pursuant to which Skaneateles is to be acquired by or merged with, or pursuant to which Skaneateles proposes to sell all or substantially all of its assets and liabilities to, any person, entity or group (other than BSB Bancorp or any affiliate thereof) or any other action that is inconsistent with the Agreement or the transactions contemplated thereby. Notwithstanding the foregoing, or any other provision of this Stockholder Agreement, BSB Bancorp shall have no agreement, arrangement or understanding with any Stockholder as to directing the voting of any shares of Skaneateles Common Stock to the extent it would result in BSB Bancorp, individually or with any of its Affiliates (as defined in the next sentence) or Associates (as defined in the next sentence) becoming the Beneficial Owner (as defined in the next sentence) of five percent or more of the Voting Stock (as defined in the next sentence) of Skaneateles. The terms "Affiliates," "Associates," "Beneficial Owner," and "Voting Stock" are as defined or referenced in Article 12 of the Skaneateles Certificate of Incorporation. In determining which, if any, Stockholder that BSB Bancorp shall have no agreement, arrangement or understanding with as to directing the voting of any shares of Skaneateles Common Stock, reference shall be made to the Stockholders in order of the amount of Skaneateles Common Stock set forth opposite such Stockholder's name on Schedule I hereto, beginning with the Stockholder who reports the fewest number of shares, and continuing in ascending order therefrom.

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(b) Except as otherwise expressly permitted hereby, such Stockholder shall not sell, pledge, transfer or otherwise dispose of his or her shares of Skaneateles Common Stock; provided, however, that this Section 2(b) shall not apply to a pledge existing as of January 1, 1999.

(c) Such Stockholder shall not in his or her capacity as a stockholder of Skaneateles directly or indirectly encourage or solicit, initiate or hold discussions or negotiations with, or provide any information to, any person, entity or group (other than BSB Bancorp or an affiliate thereof) concerning any merger, sale of all or substantially all of the assets or liabilities not in the ordinary course of business, sale of shares of capital stock or similar transaction involving Skaneateles or otherwise inconsistent with the Agreement or the transactions contemplated thereby. Nothing herein shall impair such Stockholder's fiduciary obligations as a director of Skaneateles.

(d) Stockholder shall use his or her best efforts to take or cause to be taken all action, and to do or cause to be done all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Merger contemplated by the Agreement.

(e) Such Stockholder shall not, prior to the public release by BSB Bancorp of an earnings report to its stockholders covering at least one month of operations after consummation of the Merger (the "Restricted Period"), sell, pledge (other than the replacement of a pledge existing on January 1, 1999 of Skaneateles Common Stock), transfer or otherwise dispose of the shares of BSB Bancorp common stock, par value \$.01 per share (the "BSB Bancorp Common Stock"), to be received by him or her for his or her shares of Skaneateles Common Stock upon consummation of the Merger, it being agreed that BSB Bancorp shall use commercially reasonable efforts to publish such earnings report within 45 days after the end of the first month after the Merger becomes effective in which there are at least 30 days of post-Merger combined operations..

(f) Such Stockholder shall comply with all applicable federal and state securities laws in connection with any sale of BSB Bancorp Common Stock received in exchange for Skaneateles Common Stock in the Merger, including the trading and volume limitations as to sales by affiliates contained in Rule 145 under the Securities Act of 1933, as amended.

3. Successors and Assigns. A Stockholder may sell, pledge, transfer or otherwise dispose of his or her shares of Skaneateles Common Stock only with the prior written consent of BSB Bancorp and if the acquirer of such Skaneateles Common Stock agrees in writing to be bound by this Stockholder Agreement.

4. Termination. The parties agree and intend that this Stockholder Agreement be a valid and binding agreement enforceable against the parties hereto and that damages and other remedies at law for the breach of this Stockholder Agreement are inadequate. This Stockholder Agreement may be terminated at any time prior to the consummation of the Merger by the written consent of the parties hereto and shall be automatically terminated in the event that the Agreement is terminated in accordance with its terms; provided, however, that if the holders of Skaneateles Common Stock fail to approve the Agreement or Skaneateles fails to hold a stockholders' meeting to vote on the Agreement, then (i) Section 2(a) clause (ii) hereof shall continue in effect as to any plan or proposal received by Skaneateles from any person, entity or group (other than BSB Bancorp or any affiliate thereof) prior to the termination of the Agreement or within 240 days after such termination ("Plan or Proposal") and (ii) Section 2(b) hereof shall continue in effect to preclude a sale (other than pursuant to normal brokers transactions on the Nasdaq Stock Market), pledge (other than to a bona fide financial institution or recognized securities dealer), transfer or other disposition directly or indirectly to any such person, entity or group in connection with any such Plan or Proposal, except upon consummation of such Plan or Proposal.

5. Notices. Notices may be provided to BSB Bancorp and the Stockholders in the manner specified in the Agreement, with all notices to the Stockholders being provided to them at the addresses set forth at Schedule I.

6. Governing Law. This Stockholder Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof.

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7. Counterparts. This Stockholder Agreement may be executed in one or more counterparts, all of which shall be considered one and the same and each of which shall be deemed an original.

8. Headings. The Section headings contained herein are for reference purposes only and shall not affect in any way the meaning or interpretation of this Stockholder Agreement.

9. Regulatory Approval. If any provision of this Stockholder Agreement requires the approval of any regulatory authority in order to be enforceable, then such provision shall not be effective until such approval is obtained; provided, however, that the foregoing shall not affect the enforceability of any other provision of this Stockholder Agreement.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, BSB Bancorp, by a duly authorized officer, and each of the Stockholders have caused this Stockholder Agreement to be executed and delivered as of the day and year first above written.

BSB BANCORP, INC.

By: /s/ Alex S. DePersis

Alex S DePersis

<TABLE>
<CAPTION>
STOCKHOLDERS:

<S> /s/ John P. Driscoll ----- /s/ Raymond C. Traver, Jr. M.D. ----- /s/ Howard J. Miller ----- /s/ Israel Berkman ----- /s/ Ann G. Higbee ----- /s/ J. Daniel Mohr ----- /s/ Karen E. Lockwood ----- </TABLE>	<C> /s/ J. David Hammond ----- /s/ Anne E. O'Connor ----- /s/ David E. Blackwell ----- /s/ Carl W. Gerst ----- /s/ Walter D. Copeland ----- /s/ John Bernard Henry ----- /s/ William J. Welch -----
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SCHEDULE I
AS OF DECEMBER 31, 1998

<TABLE>
<CAPTION>

Name and Address of Stockholder	Number of Shares of Skaneateles Common Stock Beneficially Owned			
	Direct	Indirect	Options/ Warrants Outstanding	Total
<S> John P. Driscoll 4 West Lake Street Skaneateles, NY 13152	<C> 3,017	<C> 1,024.13 (ESOP)	<C> 49,400	<C> 53,441.13

J. David Hammond 231 Beach Road, RD #4 Auburn, NY 13021	4,630.8987	732 (401k) 110.33 (ESOP)	14,250	19,723.2287
Karen E. Lockwood RD#3, Route 326 Auburn, NY 13021	1,539	1,334.06 (ESOP)	6,000	8,873.06
J. Daniel Mohr 3427 Netherstone Ct. Baldwinsville, NY 13027	231.9845	523.89 ESOP 162.4421 401(k)	5,400	6,318.3166
William J. Welch 60 East Elizabeth Street Skaneateles, NY 13152	5,065.5326	2,501.97	9,675	17,242.5026
Israel Berkman 101 Farmington Drive Camillus, NY 13031	3,434	0	3,000	6,434
David E. Blackwell 80 West Lake Street Skaneateles, NY 13152	3,071.0275	0	1,500	4,571.0275
Walter D. Copeland 223 Emann Drive Camillus, NY 13031	0	1,987.7004 (Revocable Living Trust)	3,000	4,987.7004
Carl W. Gerst, Jr. 115 East Genesee Street Skaneateles, NY 13152	6,507	0	3,000	9,507
John Bernard Henry, M.D. 4728 Amerman Road Skaneateles, NY 13152	3,943	0	3,000	6,943
Ann G. Higbee Sturdy Lane 3391 East Lake Road Skaneateles, NY 13152	6,603.4526	0	3,000	9,603.4526
Howard J. Miller 137 Northwood Way Camillus, NY 13031	3,181	750 (by wife)	3,000	6,931
Francis R. O'Connor 7646 Linkside Drive Manlius, NY 13104	10,416	0	3,000 (*)	13,416
Raymond C. Traver, Jr., M.D. 2637 East Lake Road Skaneateles, NY 13152	5,007.0104	6,075 (pension plan) 393 (for child) 393 (for child)	3,000	14,868.0104
			Total	182,859.4288

</TABLE>

(*) In name of Anne O'Connor.