Summary of Questions:

Question: Has CLBC received any unsolicited offers for the Bank and what is the process the Bank follows in assessing the sale option?

Answer: CLBC has not received any offers for the purchase of the Company, to the knowledge of any of the members of the Board or current Senior Management, nor to our knowledge was Bill Ryan approached during his tenure at the Bank. As is normal and customary within the banking business, we do receive inquiries from outside entities as to whether we would be open to discussions in that vein from time to time. This is not unique to the banking industry, as it occurs regularly in all businesses. During our planning retreat this issue was discussed at length. While we firmly believe that our shareholders wish for us to continue as an independent entity, as evidenced by their rejection of a sale as far back as 1974, we recognize and embrace the simple charge given the Board and Executive Management by our shareholders: to Preserve, Protect and Enhance Shareholder Wealth. Cognizant of the fact that we may be presented with inquiries as noted above, Board and Management will fully explore them to ensure that an opportunity which could substantially benefit our shareholders and our communities is appropriately and thoroughly considered. Our rolling five-year strategic plan will include a section related to this very topic and will not only seek to identify potential acquirors who demonstrate qualities which may be beneficial to both our shareholders and our communities, and from whom an expression of interest should be explored, but also will identify potential targets for CLBC, whereby we may be able to expand our Company via an acquisition of another entity, branch or even a business ancillary to banking. The Board will constantly seek to be well informed on trends within the merger and acquisition market for our industry, the pricing trends for these transactions, and more importantly, what we can reasonably expect to generate in shareholder value over rolling five-year time horizons as an independent entity. Should we receive an expression of interest which exhibits the potential to exceed the results which we hope to deliver independently, the Board and Management will look long and hard at such an arrangement. As needed, we will bring in outside expertise to properly examine the benefits which a proposed business combination may bring to our shareholders. Should any proposal meet the standard for presentation to the stockholders for consideration, we will so present it.

Question: To what percent is the pension plan funded, how will you make up the shortfall and do you intend on keeping the Defined Benefit pension plan going forward?

Answer: As of December 31, 2017, the pension was underfunded by a total of $2,221,230. A fully funded pension required $5,271,412 and CLNB had assets in the plan totaling $3,050,182 or 58% of being fully funded. Once this was discovered in October of 2018, we sought to obtain information as to the current status as of that date, which would have required an actuarial report be specially prepared at significant expense. It was determined that, in light of the fact that the 2018 Actuarial Report would be delivered by early to mid-February 2019, this expenditure was not prudent and we had sufficient information available to begin to address this issue while we awaited the new report. In 2018 we made a substantial contribution to the pension totaling $707,308, which compares to an average annual contribution from the five previous years of $100,000. Our intention is to bring this plan to a fully funded status in the next two to three years, if not sooner. As to whether this plan remains in force, this topic was discussed at length during our extensive planning session in October and the Bank will likely seek to freeze this plan once fully funded. In its stead we will develop a more robust, self-directed 401K program for our staff; in all probability we will also begin an ESOP (Employee Stock Ownership Plan). Most banks, as well as corporations, have over the last fifteen to twenty years abandoned Defined Benefit plans such as the CLNB plan in favor of other retirement plans described above. This strategy eliminates the impacts a Defined plan can have on a company's financials due to market fluctuations and plan inefficiencies.

Question: Could you please confirm your dividend plan for 2019 and beyond? A 50% reduction in the cash dividend is a big pill for shareholders to swallow.

Answer: For the past decade CLBC has been declaring cash dividends to its shareholders averaging 85% of net income. The average payout for similar community banking enterprises was only 35%. CLBC was not looking to the future with such a generous payout of its earnings and was only able to do so due to less than stellar growth during this time period. Banking has changed dramatically over the past two decades. Competition for both the deposits which fund our investable and loanable monies, and for the loans which drive our income, has increased substantially and it is not limited to the area banks. We compete more today for these customers with every financial entity across the country than with the bank down the street.

As a result, the major source of our income—our Net Interest Income—is shrinking rapidly. This is the difference between what we pay our depositors for their business and what we can get from investing their funds in quality loans and other investment vehicles. This margin for all banks has gone from 5-6% in the seventies and eighties to 3-3.5% presently. The outlook going forward is that it will continue to compress to the 2- 2.5% level over the next five to ten years. As such, to survive and prosper a successful community bank needs more size and to more efficiently handle that size via more assets per full-time equivalent employee. Growth requires capital to support the increased asset levels at ratios deemed sufficient by our regulatory agencies and at a level considered prudent and customary within the industry. Currently that required level is 8.5% primary capital or $8,500,000 per $100,000,000 of total assets. Capital is retained earnings.

For 2019 we have determined that we can reasonably pay out a total of $492,000 in cash. We recognize that some of our shareholders may be dependent upon this cash dividend and as such we have declared a cash dividend for January 15, 2019 to shareholders of record as of December 31, 2018 for this full amount of $40/share. This will be the total cash dividend which will be declared for 2019. Commencing in July of 2019 we will institute a stock dividend program in the 3-5% range and will supplement any cash dividend declared annually in January of each year with a July stock dividend. In essence the stock dividend gives the shareholder the option of retaining these shares for long-term investment or if cash is desired, the ability to sell these shares to augment the cash dividend payment received.

Going forward the Board will consider cash dividends much differently than was done in the past. Realistic pro-forma, rolling five-year projections as to total assets, income and capital levels will determine the Company's need to retain earnings to support future growth and business activities. If surplus cash is identified, that will be considered for declaration of a cash dividend to stockholders. We cannot predict or guarantee what if any cash dividends might be for the Company going forward, as they are dependent on a number of factors. Clearly, if our plan were to hit on all cylinders and we experience 15% growth, for instance, we may find the need to retain all earnings to support this growth. Other considerations may be the need to retain capital to facilitate a purchase of another entity or ancillary business, hence the inability to pay a cash dividend for that period. We do expect 2019 and 2020 to be rebuilding years as we invest in people, facilities and technology necessary to implement the many initiatives we have outlined as necessary for the long-term success of the Company. For that reason we have determined it appropriate to retain income from 2019.

Simply put, cash dividends are not a guarantee and the lack of paying a cash dividend or reduction from past cash dividend payments is not necessarily a bad omen. Many entities in a growth mode do not pay cash dividends. A great example would be Microsoft, which until recently retained 100% of its earnings year after year to support its growth and acquisition strategy and that did not turn out all that bad for early investors. Our policy going forward is to pay realistic dividends based upon a rolling five-year outlook for the Company's capital retention needs and to regularly communicate the Company's intentions in that regard to our shareholders.

Question: If someone wishes to sell CLBC stock how does he or she accomplish this?

Answer: The stock of CLBC is infrequently traded and the stock of the Company is not listed or traded on any national exchange, nor is the Company required to file any information relative to its operations with the Securities and Exchange Commission. The Company is, however, subject to Securities and Exchange Commission rules relative to non-reporting companies and its stock transactions. Prior to January 2019, when an existing shareholder contacted the Company wanting to sell all or a portion of his stock ownership in the Company, the Company would endeavor to place these shares with interested purchasers at the then "book value" of the Company stock. This was a very inefficient as well as arbitrary way to trade the Company stock and in reality, never allowed for the development of a true market value for CLBC stock. Commencing January 2019, in an effort to ensure that all parties interested in an ownership position in the Company stock are afforded the opportunity to acquire shares, and to ensure that stockholders wishing to sell are afforded the opportunity to receive competitive pricing for their shares, the Company will facilitate the "blind" introduction of sellers and buyers in a sealed-bid process. Persons who complete and file the enclosed form with the Company will be advised of future availability of CLBC stock and enabled to participate in the bidding. The form and accompanying cover letter provide further information on this procedure.

We believe that this process, which is followed by a number of institutions similar to CLBC, is a much fairer way to allow for the sale of stock and ensures all interested parties have an equal opportunity to acquire shares. It also ensures that stockowners receive competitive bids for the shares they wish to sell. We cannot predict what the future holds for the valuation of CLBC stock under this method as it will be—as it should be—subject to the appetite of purchasers. What we can say is that peer data for banks suggest that community bank stock sells at a historical average of 8 to 10 X earnings and approximately 1.20 X book. At our current book value of $1,100/share these figures equate to a range of $975 - $1,320/share. Clearly, there are exceptions to this rule and the stock sales under our new proposed method will be more indicative of the true stand-alone value of the shares via a competitive bidding process. The Company will not set market or be involved in the process beyond the blind introduction of buyers and sellers and the delivery of sealed bids to the selling shareholder for his consideration and completion of the transaction. Further, neither the Company nor the Bank will receive any remuneration for their efforts.

Finally, any shareholder may choose to sell her shares in a private transaction or through a broker via the "Pink Sheets." As brokers are unaware of individuals interested, they would normally call the Bank to determine any purchase interest. The competitive bidding process is therefore eliminated and an acquiror may purchase from the broker at whatever reasonable price may be negotiated. Broker fees would apply to the seller.

Please see the enclosed paper headed "Cayuga Lake Bank Corporation Stock Sales Process" for additional important information. We urge all current shareholders to consider completing the form if they have an interest in being advised of the availability of shares for purchase. Registration does not obligate the individual to participate or bid.

Question: Do you feel the Aurora Branch is a less than adequate facility to service the needs of your customers from within this market and may be a potential liability to the bank?

Answer: The Aurora office of course has great historical significance to CLBC as it is the site at which our founders, commencing in 1864, first opened our doors for business. That said, we must acknowledge the challenges this facility presents in serving an ever-expanding market of customers demanding modern and convenient banking products and services. We are studying the options available to us at all our locations, and potential new locations, whereby we can expand our offerings and convenience to our customers. Aurora is a key facility. We are giving significant thought as to the most appropriate course of action.

Question: You refer to a Vision Statement and Business Plan. Will an overview of this plan be presented to shareholders?

Answer: At the Annual Meeting in May the Board and our Executive Management team will present an overview of the business plan and vision for the Company going forward for the next five years and beyond. As noted in the cover letter, this has been an exhaustive and introspective process. We have taken a long and hard look at the Company and the banking industry in order that we may chart a course for continued success as an independent community bank serving Greater Cayuga County. We are excited both by the prospects and challenges that the implementation of this plan presents. We hope all our shareholders attend this important meeting to hear and comment on this endeavor.