PATHFINDER BANCORP INC
Form 10-Q
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 2003

SEC Exchange Act No. 000-23601

Pathfinder Bancorp, Inc.
(Exact name of Company as specified in its charter)

Federal
(State or jurisdiction of incorporation or organization)

16-1540137
(I.R.S. Employer Identification Number)

214 W. 1st Street
Oswego, New York — 13126
(Address of principal executive office) — (Zip Code)

Company's telephone number, including area code: (315) 343-0057

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: There were 2,441,882 shares of the Company's common stock outstanding as of May 9, 2003.

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PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION
MARCH 31, 2003 (UNAUDITED) AND DECEMBER 31, 2002

ASSETS	March 2003
Cash and due from banks	$ 8,486
Interest earning deposits	6,898
Total cash and cash equivalents	15,384
Investment securities	61,675
Mortgage loans held-for-sale	3,238
Loans:	
Real estate residential	123,388
Real estate commercial	32,055
Consumer	15,273
Commercial	12,626
Total Loans	183,344
Less: Allowance for loan losses	1,515
Loans receivable, net	181,829
Premises and equipment, net	5,655
Accrued interest receivable	1,469
Other real estate	1,459
Goodwill	3,840
Intangible asset, net	1,016
Other assets	7,068
Total assets	$282,638

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:	
Interest bearing	$195,206
Non-interest bearing	16,238
Total deposits	211,445
Borrowed funds	41,860
Company obligated mandatorily redeemable preferred securities of subsidiary, Pathfinder Statutory Trust I, holding solely junior subordinated debentures of the Company	5,000
Other liabilities	3,423
Total liabilities	261,729
Shareholders' equity:	
Preferred stock, authorized shares 1,000,000; no shares issued or outstanding	
Common stock, par value $.01 and $.10 per share; authorized 10,000,000 shares; 2,894,220 shares issued; and 2,441,882 and 2,610,496 shares outstanding, respectively	29
Additional paid in capital	7,129
Retained earnings	19,996
Accumulated other comprehensive income	143
Unearned ESOP shares	(112
Treasury Stock, at cost; 472,787 and 304,173 shares, respectively	(6,277
Total shareholders' equity	20,908
Total liabilities and shareholders' equity	$282,638

The accompanying notes are an integral part of the consolidated financial statements.

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PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the three months ended March 31, 2003	For the three months ended March 31, 2002
INTEREST INCOME:		
Loans	$ 3,265,807	$ 3,257,362
Interest and dividends on investments:		
U.S. Treasury and agencies	39,284	38,049
State and political subdivisions	61,556	79,203
Corporate obligations	258,652	317,313
Marketable equity securities	54,696	23,831
Mortgage-backed securities	309,321	269,473
Federal funds sold and interest-bearing deposits	11,671	3,852
Total interest income	4,000,987	3,989,083

INTEREST EXPENSE:				
Interest on deposits		1,027,471		1,220,329
Interest on borrowed funds		572,729		569,893
Total interest expense		1,600,200		1,790,222
Net interest income		2,400,787		2,198,861
Provision for loan losses		105,856		162,233
Net interest income after provision for loan losses		2,294,931		2,036,628
OTHER INCOME:				
Service charges on deposit accounts		161,473		142,021
Loan servicing fees		49,795		45,322
Increase in value of bank owned life insurance		42,867		74,582
Net gain on securities		165,394		43,956
Net gain(loss) on loans/real estate		42,306		(6,082)
Other charges, commissions & fees		102,144		104,552
Total other income		563,979		404,351
OTHER EXPENSES:				
Salaries and employee benefits		1,112,607		783,876
Building occupancy		257,227		179,739
Data processing expenses		198,081		218,012
Professional and other services		163,177		181,034
Amortization of intangible asset		56,435		-
Other expenses		414,131		327,229
Total other expenses		2,201,658		1,689,890
Income before income taxes		657,252		751,089
Provision for income taxes		164,313		200,540
NET INCOME	$	492,939	$	550,549
NET INCOME PER SHARE - BASIC	$	0.20	$	0.22
NET INCOME PER SHARE - DILUTED	$	0.20	$	0.21

The accompanying notes are an integral part of the consolidated financial statements.

PATHFINDER BANCORP, INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2003

Common Stock Issued Shares	Amount	Additional Paid in Capital

BALANCE, DECEMBER 31, 2002.	2,914,669	$ 29,146	$7,113,811
Comprehensive income:			
Net income.			
Other comprehensive income, net of tax			
Unrealized gains on securities:			
Unrealized holding losses arising during period.			
Reclassification adjustment for gains included in net income.			
Other comprehensive loss, before tax.			
Income tax provision.			
Other comprehensive loss, net of tax.			
Comprehensive income:			
ESOP shares earned.			15,984
Treasury stock purchased			
Dividends declared ($.10 per share)			
BALANCE, MARCH 31, 2003	2,914,669	$ 29,146	$7,129,795

	Accumulated Other Comprehensive Income(Loss)	Unearned ESOP Shares	Treasury Stock	Total
BALANCE, DECEMBER 31, 2002.	$ 280,905	$ (124,467)	$(3,815,024)	$23,230,022
Comprehensive income:				
Net income.				$ 492,939
Other comprehensive loss, net of tax.	(137,654)			(137,654)
ESOP shares earned.		11,753	27,737	
Treasury stock purchased.			(2,462,260)	(2,462,260)
Dividends declared ($.10 per share) . .				(242,278)
BALANCE, MARCH 31, 2003	$ 143,251	$ (112,714)	$(6,277,284)	$20,908,506

The accompanying notes are an integral part of the consolidated financial statements.

PATHFINDER BANCORP, INC.
STATEMENTS OF CASH FLOWS
March 31, 2003 and March 31, 2002 (Unaudited)

	March 31, 2003	March 31, 2002
OPERATING ACTIVITIES:		
Net income	$ 492,939	$ 550,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	105,856	162,233
ESOP and other stock-based compensation earned	27,737	27,176
Deferred income tax expense (benefit)	60,893	(60,856)
Proceeds from sale of loans	2,607,490	5,779,247
Originations of loans held-for-sale	(2,184,270)	(6,551,469)
Realized loss/(gain) on:		
Sale of real estate loans through foreclosure	5,807	(3,053)
Loans	(44,675)	13,403
Available-for-sale investment securities	(165,394)	(43,956)
Depreciation	121,190	124,140
Amortization of intangible	56,436	-
Amortization of deferred financing costs	7,551	-
Increase in surrender value of life insurance	(42,867)	(74,582)
Net accretion of premiums and discounts on investment securities	27,888	(12,959)
(Increase) decrease in interest receivable	(134,935)	112,227
Net change in other assets and liabilities	(257,462)	(291,598)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	684,184	(269,498)
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(6,749,290)	(1,281,563)
Proceeds from maturities and principle reductions of investment securities available-for-sale	5,455,683	3,280,472
Proceeds from sale:		
Real estate acquired through foreclosure	54,193	154,279
Available-for-sale investment securities	2,031,303	1,225,602
Net increase in loans	(3,057,537)	(7,488,511)
Purchase of premises and equipment	(154,995)	(277,501)
NET CASH USED IN INVESTING ACTIVITIES	(2,420,643)	(4,387,222)
FINANCING ACTIVITIES		
Net increase in demand deposits, NOW accounts savings accounts, money market deposit accounts and escrow deposits	4,047,866	4,271,034
Net increase (decrease) in time deposits	2,875,881	(76,438)
Net repayments from borrowings	(1,000,000)	630,000
Proceeds from exercise of stock options	-	34,545
Cash dividends	(82,365)	(69,334)
Treasury stock purchased	(2,462,260)	(48,835)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,379,122	4,740,972
INCREASE IN CASH AND CASH EQUIVALENTS	1,644,573	84,252
Cash and cash equivalents at beginning of period	13,740,405	7,445,844
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$15,384,978	$ 7,530,096

CASH PAID DURING THE PERIOD FOR:		
Interest	$ 1,594,561	$ 1,757,969
Income taxes paid.	-	400,000
NON-CASH INVESTING ACTIVITY:		
Transfer of loans to other real estate	123,664	69,500
Decrease (increase) in unrealized gains and losses on available-for-sale investments securities.	229,423	(311,493)
NON-CASH FINANCING ACTIVITY:		
Dividends declared and unpaid.	244,188	71,243

The accompanying notes are an integral part of the consolidated financial statements

PATHFINDER BANCORP, INC.

Notes to Financial Statements

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements were prepared in accordance with the instructions for Form 10-Q and Regulation S-X and, therefore, do not include information for footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. The following material under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" is written with the presumption that the users of the interim financial statements have read, or have access to, the Company's latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2002 and for the three year period then ended. Therefore, only material changes in financial condition and results of operations are discussed in the remainder of part 1.

Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

(2) EARNINGS PER SHARE

Basic earnings per share have been computed based upon net income for the three months ended March 31, 2003 and 2002, using 2,446,387 and 2,571,520 weighted average common shares outstanding. Diluted earnings per share for the three month period ending March 31, 2003 and 2002 have been computed using 2,490,657 and 2,621,986 weighted average common shares outstanding. Dilutive earnings per share gives effect to weighted average shares that would be outstanding assuming the exercise of issued stock options using the treasury stock method.

(3) STOCK-BASED COMPENSATION

The Company's stock-based compensation plan is accounted for based on the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related provisions. Compensation expense for employee stock options is generally not recognized if the exercise price of the option equals or exceeds the fair value of the stock on the date of the grant. Compensation expense for restricted share awards is ratably recognized over the period of vesting, usually the restricted period, based on the fair value of the stock on the grant date.

The following table illustrates the effect on net income and earnings per share as if the Black-Scholes fair value method described in SFAS No. 123, "Accounting for Stock-Based Compensation", as amended, had been applied to the Company's stock-based compensation plan:

	For the quarter ended March 31, 2003	2002
Net Income:		
As reported	$492,939	$550,549
Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model, net of tax effect.	7,070	27,192
Pro forma net income.	$485,869	$523,357

	For the quarter ended March 31, 2003		2002	
Earnings per share:	Basic	Diluted	Basic	Diluted
As reported	$ 0.20	$ 0.20	$ 0.22	$ 0.21
Pro forma	$ 0.20	$ 0.20	$ 0.20	$ 0.20

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. Therefore, the foregoing pro forma results are not likely to be representative of the effects of reported net income of future periods due to additional years of vesting. Since changes in the subjective input assumptions can materially affect the fair value estimates, the existing model, in management's opinion does not necessarily provide a single reliable measure of the fair value of its stock options. In addition, the pro forma effect on reported net income and earnings per share for the periods presented should not be considered representative of the pro forma effects on reported net income and earnings per share for future periods.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which provides alternative methods of transition for an entity that voluntary changes to the fair value based method of accounting for stock-based employee compensation. It also amends to disclosure provisions of FASB Statement No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. This statement also amends APB No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. The Company will continue to account for stock-based compensation in accordance with APB Opinion No. 25.

(4) RECLASSIFICATIONS
Certain prior period information has been reclassified to conform to the current period's presentation. These reclassifications had no affect on net income as previously reported.

(5) DIVIDEND RESTRICTIONS

The Company maintains a restricted capital account with a $570,000 balance, representing Pathfinder Bancorp, M.H.C.'s portion of dividends waived as of March 31, 2003.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This Quarterly Report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically declines any obligation, to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

GENERAL

Throughout the Management's Discussion and Analysis the term, "the Company", refers to the consolidated entity of Pathfinder Bancorp, Inc. Pathfinder Bank and Pathfinder Statutory Trust I are wholly owned subsidiaries of Pathfinder Bancorp, Inc. Pathfinder Commercial Bank, Pathfinder REIT, Inc. and Whispering Oaks Development Corp. are wholly owned subsidiaries of Pathfinder Bank. At March 31, 2003, Pathfinder Bancorp, Inc.'s only business was the 100% ownership of Pathfinder Bank and Pathfinder Statutory Trust I. At March 31, 2003, 1,583,239 shares, or 64.8%, of the Company's common stock were held by Pathfinder Bancorp, M.H.C., the Company's mutual holding company parent and 858,643 shares, or 35.2%, were held by the public.

The Company's net income is primarily dependent on its net interest income, which is the difference between interest income earned on its investments in mortgage loans, investment securities and other loans, and its cost of funds consisting of interest paid on deposits and borrowed funds. The Company's net income also is affected by its provision for loan losses, as well as by the amount of noninterest income, including income from fees and service charges, net gains and losses on sales of securities, loans and other real estate, and non interest expense such as employee compensation and benefits, occupancy and equipment costs, data processing and income taxes. Earnings of the Company also are affected significantly by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities, which events are beyond the control of the Company. In particular, the general level of market rates tends to be highly cyclical.

The following discussion reviews the Company's financial condition at March 31, 2003 and the results of operations for the three months ended March 31, 2003.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow practices within the banking industry. Application of these principles requires

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management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements included in the 2002 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses in considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Note 1 to the consolidated financial statements in the Annual Report on Form 10-K describes the methodology used to determine the allowance for loan losses.

FINANCIAL CONDITION

ASSETS

Total assets increased approximately $3.6 million, or 1%, to $282.6 million at March 31, 2003 from $279.1 million at December 31, 2002. The increase in total assets was primarily the result of an increase in net loans receivable of $2.8 million and a $1.6 million increase in cash and cash equivalents. These increases were partially offset by an $830,000 decrease in investment securities and a $379,000 decrease in mortgage loans held for sale. The increase in cash and cash equivalents resulted from proceeds from calls and the maturities of investment securities, amortization of mortgage-backed securities and loan sales. The excess liquidity is being utilized to fund continued loan demand and the acquisition of additional investment securities. The increase in net loans receivable is primarily due to a $3.8 million increase in residential real estate loans, and a $206,000 increase in consumer loans, partially offset by a decrease in commercial real estate and commercial loans of $1.2 million.

LIABILITIES

Total liabilities increased by $5.9 million, or 2%, to $261.7 million at March 31, 2003 from $255.8 million at December 31, 2002. The increase is primarily attributable to a $6.9 million, or 3%, increase in deposits, offset by a decrease of $1.0 million, or 2%, in borrowed funds. The increase in deposits was comprised of a $6.4 million increase in interest-bearing deposits, and a $475,000 increase in noninterest-bearing deposits. The increase in interest-bearing deposits was comprised of a $2.9 million increase in money management accounts, a $2.9 million increase in time deposits, and a $1.2 million increase in savings accounts, partially offset by a decrease of $540,000 in NOW deposit accounts. The increase in deposit accounts is primarily due to an increase in municipal deposit accounts and the Company's active efforts in sales training and relationship building during a period when consumers are seeking the safety and fixed returns of bank deposits.

LIQUIDITY AND CAPITAL RESOURCES

Shareholders' equity decreased $2.3 million, or 10%, to $20.9 million at March 31, 2003 from $23.2 million at December 31, 2002. The decrease in shareholders' equity is primarily the result of a $2.5 million increase in treasury stock, offset by an increase in retained earnings of $251,000. The increase in treasury stock represented from the Company's privately negotiated purchase of 160,114 shares of common stock for a price of $2.3 million, or $14.60 per share, on January 13, 2003, from Jewelcor Management Inc. The repurchase represents approximately 6.1% of the Company's outstanding common stock as of December 31, 2002. The increase in retained earnings is the result of net income of $493,000, offset by dividends declared of $242,000 during the first three months of 2003. The Company's mutual holding company parent, Pathfinder Bancorp, M.H.C, accepted the dividends for the quarter ended March 31, 2003.

The Company's primary sources of funds are deposits, amortization and prepayment of loans and maturities of investment securities and other short-term investments, earnings and funds provided from operations and borrowings. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company manages the pricing of deposits to maintain a desired deposit balance. In addition, the Company invests excess funds in short-term interest-bearing instruments and other assets, which provide liquidity to meet lending requirements. For additional information about cash flows from the Company's operating, financing, and investing activities, refer to the Statements of Cash Flows included in the Financial Statements. The Company adjusts its liquidity levels in order to meet funding needs of deposit outflows, loan commitments, the acquisition of fixed assets and the general operating needs of the Company. At the quarter ended March 31, 2003, the Company has $24.6 million in outstanding commitments to extend credit and management believes the Company has the ability to meet these outstanding credit commitments. The Company also adjusts liquidity as appropriate to meet its assets and liability management objectives. The available liquidity as a percentage of core deposits and total assets exceed the minimum standards established by the liquidity management policy.

RESULTS OF OPERATIONS

The Company recorded net income of approximately $493,000 for the three months ended March 31, 2003, as compared to $550,000 for the same period during 2002. The decrease in net income of $58,000, or 11%, for the three months ended March 31, 2003, resulted primarily from an increase of $512,000, or 30%, in operating expenses, offset by an increase of $258,000, or 13%, in net interest income after provision for loan losses, an increase in other income of $160,000, or 40%, and a decrease of $36,000, or 18%, in provision for income taxes.

Annualized return on average assets and return on average shareholders' equity were 0.70% and 9.42%, respectively, for the three months ended March 31, 2003 compared to 0.90% and 9.67% for the first quarter of 2002. Earnings per share - basic was $0.20 for the first quarter of 2003 compared to $0.22 for the same period in 2002.

INTEREST INCOME

Interest income, on a tax-equivalent basis, remained relatively consistent, at $4.0 million for the quarter ended March 31, 2003, as compared to the quarter ended March 31, 2002. The average balance of interest-earning assets increased to $254.0 million for the three months ended March 31, 2003 from $226.2 million in the prior year period, offset by a decrease in the tax equivalent yield on average interest-earning assets to 6.36% from 7.13%. The decrease in the tax equivalent yield resulted from the continued period of historically low market interest rate environment. The decrease in the average yield was somewhat mitigated by increased originations of residential and commercial real estate loans, consumer loans and an increase in the average balance of investment securities. The increase in loans was primarily due to the Company's continued emphasis on residential real estate financing and the Company competitively pricing home equity loans and lines of credit combined with a marketing effort to increase demand for those loans. The increase in investment securities was primarily due to the investment of excess liquidity arising from the assumption of deposits in connection with the acquisition of the Lacona, New York branch of Cayuga Bank in October of 2002 and proceeds from residential mortgage loan sales.

Interest income on loans receivable remained constant at $3.3 million for the three months ended March 31, 2003 as compared to the same period in the prior year. The average balance of loans receivable increased $11.9 million, or 7%, to $185.2 million at March 31, 2003 from $173.3 million at March 31, 2002, partially offset by a decrease in the average yield on loans receivable to 7.06% from 7.52%.

Interest income on the mortgage-backed securities portfolio increased by $40,000, or 15%, to $309,000 for the three months ended March 31, 2003, from $269,000 for the three months ended March 31, 2002. The increase in interest income on mortgage-backed securities resulted from an increase in the average balance on mortgage-backed securities of $8.5 million, partially offset by a decrease in the average yield on mortgage-backed securities to 4.87% from 6.37%.

Interest income on investment securities, on a tax equivalent basis, decreased $46,000 or 9%, for the three months ended March 31, 2003 to $453,000 from $499,000 for the same period in 2002. The decrease resulted primarily from a decrease in the tax equivalent yield of investment securities to 4.95% from 5.68%, partially offset by an increase in the average balance of investment securities of $1.0 million, or 4%.

Interest income on interest-earning deposits increased $8,000, to $12,000 from $4,000 for the three months ended March 31, 2003 and 2002, respectively. The increase is the result of a $5.9 million increase in the average balance of interest-earning deposits, partially offset by a decrease in the average yield to 0.71% from 1.82% for the same period in the prior year.

INTEREST EXPENSE

Interest expense for the quarter ended March 31, 2003 decreased by approximately $190,000, or 11%, to $1.6 million from $1.8 million when compared to the same quarter for 2002. The decrease in interest expense for the period was principally the result of the decrease in the average cost of interest-bearing

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deposits to 2.15% from 3.10%, partially offset by an increase of $33.7 million in the average balance of interest-bearing deposits. The average cost of borrowings increased to 4.79% from 4.47%, partially offset by a $3.1 million decrease in the average balance of borrowings. The increase in the cost of borrowings and the average balance of borrowings was primarily due to the June 2002 issuance of the $5.0 million in debentures underlying the mandatory redeemable trust preferred security.

NET INTEREST INCOME

Net interest income, on a tax equivalent basis, increased $200,000, or 9%, to $2.4 million for the quarter ended March 2003, when compared to the same period in the prior year.

Net interest margin for the quarter ended March 31, 2003 decreased to 3.84% from 3.96% when compared to the same period in the prior year.

PROVISION FOR LOAN LOSSES

The Company maintains an allowance for loan losses based upon a quarterly evaluation of known and inherent risks in the loan portfolio, which includes a review of the balances and composition of the loan portfolio as well as analyzing the level of delinquencies in each segment of the loan portfolio. Loan loss reserves are based upon a methodology that uses loss factors applied to loan balances and reflects actual loss experience, delinquency trends, and current economic conditions, as well as standards applied by the FDIC. The Company established a provision for possible loan losses for the three months ended March 31, 2003 of $106,000, as compared to a provision of $162,000 for the three months ended March 31, 2002.

In the first six months of 2002, the Company took actions to increase reserves to recognize the deterioration in credit quality of two significant commercial lending relationships. During the second half of 2002, the Company foreclosed on the assets of one of the borrowers and transferred the net realizable value of the assets to other real estate owned and charged-off the other relationship.

The Company's allowance for loan losses to nonperforming loans ratio improved to 81.99% at March 31, 2003 as compared to 47.42% at March 31, 2002. Similar improvement was noted when comparing the ratio of nonperforming loans to total loans of 1.01% at March 31, 2003 to the March 31, 2002 ratio of 2.20%. The Company had nonperforming loans of $1.8 million at March 31, 2003. The Company has experienced a reduction in delinquent loans (greater than 30 days past due) to $3.4 million from $6.1 million at December 31, 2002. $2.0 million of the reduction in delinquencies related to the modification of a commercial lending relationship that is now current under the new terms. The decrease in delinquent loans is attributable to management's efforts to improve loan collection procedures, loss mitigation efforts, the hiring of a senior commercial loan officer and the retention of a third party loan review firm.

NONINTEREST INCOME

The Company's noninterest income is principally comprised of fees on deposit accounts and transactions, loan servicing, commissions, and net gains and losses on the sale of securities, loans and other real estate gains and losses. Noninterest income, net of gains and losses from the sale of securities, loans and other real estate, decreased 3% to $356,000 for the quarter ended March 31, 2003 compared to $366,000 for the same period in the prior year. The decrease in noninterest income is primarily attributable to a $32,000 decrease in the value of bank owned life insurance, partially offset by a $19,000 increase in service charges on deposit accounts and a $4,000 increase in loan servicing fees. Net

gains and losses from the sale of securities, loans and other real estate increased $170,000 to $208,000 for the quarter ended March 31, 2003 compared to $38,000 for the same period in the prior year primarily resulting from a $103,000 gain recognized on the sale of equity securities and a $58,000 increase in the net gains recognized on the sale of loans.

NONINTEREST EXPENSE

Noninterest expenses increased 30% to $2.2 million for the quarter ended March 31, 2003, when compared to the same period in the prior year. The increase in noninterest expenses was due to a $329,000 increase in salary and employee benefits, a $77,000 increase in building occupancy expenses, a $56,000 increase in the amortization of intangible asset and an $87,000 increase in other expenses. These increases were partially offset by a $20,000 decrease in data processing expenses and an $18,000 decrease in professional and other services. The increase in salaries and employee benefits was primarily due to the salaries and benefits associated with the addition of the Lacona, New York branch location, an increase in pension benefit costs, an increase in health insurance benefits and the hiring of a senior commercial loan officer in the second quarter of 2002. The increase in building occupancy expenses is primarily due to the operation of the additional branch location.

INCOME TAXES

Income taxes decreased $36,000 for the quarter ended March 31, 2003 as compared to the same period in the prior year. This decrease was primarily attributable to a $94,000 decrease in the Company's pre-tax income.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's most significant form of market risk is interest rate risk, as the majority of the Company's assets and liabilities are sensitive to changes in interest rates. The Company's mortgage loan portfolio, consisting primarily of loans on residential real property located in Oswego County, is subject to risks associated with the local economy. The Company's interest rate risk management program focuses primarily on evaluating and managing the composition of the Company's assets and liabilities in the context of various interest rate scenarios. Factors beyond management's control, such as market interest rates and competition, also have an impact on interest income and interest expense.

The extent to which such assets and liabilities are "interest rate sensitive" can be measured by an institution's interest rate sensitivity "gap". An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and that amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income while a positive gap would tend to positively affect net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to positively affect net interest income while a positive gap would tend to adversely affect net interest income.

Generally, the Company tends to fund longer-term loans and mortgage-backed securities with shorter-term time deposits, repurchase agreements, and advances. The impact of this asset/liability mix creates an inherent risk to earnings in a rising interest rate environment. In a rising interest rate environment, the Company's cost of shorter-term deposits may rise faster than its earnings on longer-term loans and investments. Additionally, the prepayment of principal on real estate loans and mortgage-backed securities tends to decrease as rates rise, providing less available funds to invest in the higher rate environment. Conversely, as interest rates decrease, the prepayment of principal on real-estate loans and mortgage-backed securities tends to increase, causing the Company to invest funds in a lower rate environment. The potential impact on earnings from this mismatch is mitigated to a large extent by the size and stability of the Company's savings accounts. Savings accounts have traditionally provided a source of relatively low cost funding that has demonstrated a historically low sensitivity to interest rate changes. The Company generally matches a percentage of these, which are deemed core, against longer-term loans and investments. In addition, the Company has sought to extend the terms of its time deposits. In this regard, the Company has, on occasion, offered certificates of deposits with three and four year terms which allow depositors to make a one-time election, at any time during the term of the certificate of deposit, to adjust the rate of the certificate of deposit to the then prevailing rate for a certificate of deposit with the same term.

The Company has further sought to reduce the term of a portion of its rate sensitive assets by originating one year ARM loans, three year/one year and five year/one year ARM loans (mortgage loans which are fixed rate for the first three or five years and adjustable annually thereafter) and by maintaining a relatively short term investment securities (original maturities of three to five years) portfolio with staggered maturities. The Company generally maintains in its portfolio fixed interest rate loans with terms less than 20 years. By policy, the Company may only maintain up to 5% of the loan portfolio in fixed rate loans exceeding 20 years. Thirty-year fixed rate loans not held in portfolio are held for sale into the secondary market. The Company manages interest rate and credit risk associated with the mortgage loans held for sale and outstanding loan commitments through utilization of forward sale commitments of mortgage-backed securities for the purpose of passing along these risks to acceptable third parties. Management generally enters into forward sale commitments to minimize the exposure to longer term fixed rate mortgages in mortgage loans held for sale and mortgage commitments where interest rate locks have been granted. At March 31, 2003, there were $1.0 million in outstanding forward sale commitments. To manage interest rate risk within the loan portfolio, ARM loans are originated with terms that provide that the interest rate on such loans cannot adjust below the initial rate.

The Company manages its interest rate sensitivity by monitoring (through simulation and net present value techniques) the impact on its GAP position, net interest income, and the market value of portfolio equity to changes in interest rates on its current and forecast mix of assets and liabilities. The Company has an Asset-Liability Management Committee which is responsible for reviewing the Company's assets and liability policies, setting prices and terms on rate-sensitive products, and monitoring and measuring the impact of interest rate changes on the Company's earnings. The Committee meets monthly on a formal basis and reports to the Board of Directors on interest rate risks and trends, as well as liquidity and capital ratios and requirements. The Company does not have a targeted gap range, rather the Board of Directors has set parameters of percentage change by which net interest margin and the market value of portfolio equity are affected by changing interest rates. The Board and management deem these measures to be a more significant and realistic means of measuring interest rate risk.

GAP ANALYSIS. At March 31, 2003, the total interest bearing liabilities maturing or repricing within one year exceeded total interest-earning assets maturing or repricing in the same period by $19.8 million, representing a cumulative one-year gap ratio of a negative 6.99%.

CHANGES IN NET INTEREST INCOME AND NET PORTFOLIO VALUE. The following table measures the Company's interest rate risk exposure in terms of the percentage change in its net interest income and net portfolio value as a result of hypothetical changes in 50 basis point increments in market interest rates. Net portfolio value (also referred to as market value of portfolio equity) represents the fair value of net assets (determined as the market value of assets minus the market value of liabilities). The table quantifies the changes in net interest income and net portfolio value to parallel shifts in the yield curve. The column "Net Interest Income Percent Change" measures the change to the next twelve months' projected net interest income, due to parallel shifts in the yield curve. The column "Net Portfolio Value Percent Change" measures changes in the current net mark-to-market value of assets and liabilities due to parallel shifts in the yield curve. The base case assumes March 31, 2003 interest rates. The Company uses these percentage changes as a means to measure interest rate risk exposure and quantifies those changes against guidelines set by the Board of Directors as part of the Company's Interest Rate Risk policy. The Company's current interest rate risk exposure is within those guidelines set forth.

CHANGE IN INTEREST RATES INCREASE (DECREASE) BASIS POINTS (RATE SHOCK)	NET INTEREST INCOME PERCENTAGE CHANGE	NETPORTFOLIO VALUE PERCENTAGE CHANGE
300	-6.09%	-14.99%
200	-3.71%	- 8.64%

100	-1.42%	- 3.26%
Base Case		
(100)	0.31%	0.10%
(200)	- 0.26%	4.01%
(300)	- 4.49%	9.36%

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ITEM 4 - CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

CHANGES IN INTERNAL CONTROLS. There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

See the Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which immediately precedes the signature page.

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PART II - OTHER INFORMATION

LEGAL PROCEEDINGS

From time to time, the Company is involved as a plaintiff or defendant in various legal actions incident to its business. None of these actions individually or in the aggregate is believed to be material to the financial condition of the Company.

On November 28, 2001, the Company and its Board of Directors were named as defendants in Jewelcor Management, Inc. ("Jewelcor") v. Pathfinder Bancorp, Inc., et al. This action was filed in the United States District Court, Northern District. In its complaint, Jewelcor alleged that the Company's directors breached their fiduciary duties to the Company by failing to consider an offer from Fulton Savings Bank for the sale of the Company. Jewelcor was seeking damages in excess of $1 million, punitive damages in excess of $10 million and equitable relief.

On January 13, 2003, the Company completed the purchase of 160,114 shares of common stock at a price of $2.3 million, or $14.60 per share, from Jewelcor ("the Repurchase"). As part of the repurchase agreement, Jewelcor agreed to stipulate to the discontinuance with prejudice of the lawsuit entitled "Jewelcor Management, Inc. v. Pathfinder Bancorp, Inc.", and withdrew a shareholder proposal previously submitted by Jewelcor. In addition, Mr. Holtzman and Jewelcor, as well as those persons and entities who signed the Schedule 13D with Mr. Holtzman with respect to the Company's common stock, agreed in writing, that neither they nor their affiliates will purchase shares of the Company's common stock for a period of five years.

CHANGES IN SECURITIES

Not applicable

DEFAULTS UPON SENIOR SECURITIES

Not applicable

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

OTHER INFORMATION

On March 18, 2003, the Board of Directors declared a $.10 cash dividend to shareholders of record as of March 31, 2003, payable on April 14, 2003.

EXHIBITS AND REPORTS ON FORM 8-K

The Company has two Current Reports on Form 8-K during the first quarter ending March 31, 2003 dated January 8, 2003 and January 13, 2003 reporting press releases regarding the relocation of the Fulton branch and the announcement of the Company's privately negotiated purchase of 160,114 shares of its common stock from Jewelcor Management Inc., respectively.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas W. Schneider, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3 . Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003	/s/ Thomas W. Schneider
Date	President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James A. Dowd, Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3 . Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003 /s/ James A. Dowd

Date Vice President and Chief Financial Officer

SIGNATURES

Under the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PATHFINDER BANCORP, INC.

/s/ Thomas W. Schneider

Date: May 14, 2003

Thomas W. Schneider
President, Chief Executive Officer

/s/ James A. Dowd

Date: May 14, 2003 — James A. Dowd
Vice President, Chief Financial Officer

Exhibit 99.1

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Thomas W. Schneider, President and Chief Executive Officer and James A. Dowd, Vice President and Chief Financial Officer of Pathfinder Bancorp, Inc. (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the quarterly report of the Company on Form 10-Q for the quarter ended September 30, 2002 and that to the best of his knowledge:

1) the report fully complies with the requirements of Sections 13(a) of the Securities Exchange Act of 1934; and

2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

May 14, 2003	/s/Thomas W. Schneider
Date	President and Chief Executive Officer
May 14,2003	/s/ James A. Dowd
Date	Vice President and Chief Financial Officer