PATHFINDER BANCORP INC
Form 10-Q
May 14, 2002

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, 2002

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 2,603,580 shares of the Company's common stock outstanding as of May 10, 2002.

PATHFINDER
BANCORP, INC. INDEX

PART 1 FINANCIAL INFORMATION PAGE

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION
March 31, 2002 (unaudited) and December 31, 2001

	March 31, 2002	Dec
ASSETS		
Cash and due from banks	$6,132,207	
Interest earning deposits	1,397,889	
Total cash and cash equivalents	7,530,096	
Investment securities	50,566,046	
Mortgage loans held-for-sale	6,029,818	
Loans:		
Real estate residential	122,742,915	1
Real estate commercial	31,097,795	
Consumer	3,191,114	
Commercial	14,631,617	
Total loans	171,663,441	1
Less: Allowance for loan losses	1,819,115	
Loans receivable, net	169,844,326	1
Premises and equipment, net	5,082,794	
Accrued interest receivable	1,353,120	
Other real estate	550,739	
Intangible assets, net	2,262,915	
Other assets	6,515,022	

Total assets	$249,734,876	$2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Interest bearing	$160,834,449	$1
Non-interest bearing	12,949,294	
Total deposits	173,783,743	1
Borrowed funds	50,070,500	
Other liabilities	3,062,823	
Total liabilities	226,917,066	2
Shareholders' equity:		
Preferred stock, authorized shares 1,000,000; no shares issued or outstanding		
Common stock, par value $.01 per share; authorized 10,000,000 shares; 2,899,470 and 2,894,220 shares Issued and 2,602,597 and 2,601,495 outstanding, respectively.	28,995	
Additional paid in capital	6,967,248	
Retained earnings	19,448,740	
Accumulated other comprehensive income	267,726	
Unearned ESOP shares	(160,905)	
Treasury stock, at cost; 296,873 and 293,225 shares, respectively	(3,733,994)	
Total shareholders' equity	22,817,810	
Total liabilities and shareholders' equity	$249,734,876	$2

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME For
the three months ended March 31, 2002 and March 31,
2001
(unaudited)

	March 31, 2002
INTEREST INCOME:	
Loans	$3,257,362
Interest and dividends on investments:	
U.S. Treasury and agencies	38,049
State and political subdivisions	79,203
Corporate obligations	317,313
Marketable equity securities	23,831

Mortgage-backed	269,473
Federal funds sold and interest-bearing deposits	3,852
Total interest income	3,989,083
INTEREST EXPENSE:	
Interest on deposits	1,220,329
Interest on borrowed funds	569,893
Total interest expense	1,790,222
Net interest income	2,198,861
Provision for loan losses	162,233
Net interest income after provision for loan losses	2,036,628
OTHER INCOME:	
Service charges on deposit accounts	141,704
Loan servicing fees	45,322
Increase in value of Company owned life insurance	74,582
Net gain on securities, loans and other real estate	30,284
Other charges, commission and fees	107,983
Total other income	399,875
OTHER EXPENSES:	
Salaries and employee benefits	783,876
Building occupancy	179,739
Data processing expenses	218,012
Professional and other services	181,034
Amortization of intangible asset	78,939
Other expenses	322,752
Total other expenses	1,764,352
Income before income taxes	672,151
Provision for income taxes	169,754
Net income	$ 502,397
Net income per share - basic	$ 0.20
Net income per share - diluted	$ 0.19

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, 2002
(unaudited)

	Common Stock Shares	Common Stock Amount	Add't Paid in Capital	R E
Balance, December 31, 2001	2,894,220	$28,942	$6,917,817	$1
Comprehensive income:				
Net Income				
Other comprehensive income, net of tax				
Unealized gains on securities				
Unrealized holding gains arising during period				
Reclassification adjustment for gains Included in net income				
Other comprehensive income, before tax				
Income tax provision				
Other comprehensive income, net of tax				
Comprehensive income:				
ESOP shares earned			14,939	
Stock options exercised	5,250	53	34,492	
Treasury stock purchased				
Dividends declared (.07 per share)			(69,296)	
Balance, March 31, 2002	2,899,470	$28,995	$6,967,248	$1

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, 2002
(unaudited)

	Accum. Other Compr. Income	Unearned ESOP Shares	Treasury Stock	Tot
Balance, December 31, 2001	$80,652	$(173,142)	$(3,685,159)	$22,
Comprehensive income:				
Net Income				
Other comprehensive income, net of tax				
Unealized gains on securities				
Unrealized holding gains arising				

during period	355,447			
Reclassification adjustment for gains				
Included in net income	(43,956)			
Other comprehensive income, before tax	311,491			
Income tax provision	124,417			
Other comprehensive income, net of tax	187,074	187,074		
Comprehensive income:	187,074			
ESOP shares earned		12,237		
Stock options exercised				
Treasury stock purchased			(48,835)	
Dividends declared (.07 per share)				
Balance, March 31, 2002	$ 67,726	$(160,905)	$(3,733,994)	$22,

PATHFINDER BANCORP, INC.
STATEMENTS OF CASH FLOWS
March 31, 2002 and March 31, 2001
(unaudited)

	March 31, 2002
OPERATING ACTIVITIES:	
Net income	$502,397
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	162,233
ESOP and other stock-based compensation earned	27,176
Deferred income tax (benefit) provision	(60,856)
Proceeds from sale of loans	5,779,247
Originations of loans held-for-sale	(6,551,469)
Realized (gain)/loss on:	
Sale of real estate acquired through foreclosure	(3,053)
Sale of loans	13,403
Available-for-sale investment securities	(43,956)
Depreciation	124,140
Amortization of intangibles	78,939
Increase in surrender value of life insurance	(74,582)
Net accretion of premiums and discounts on investment securities	(12,959)
Decrease in interest receivable	112,227
Net change in other assets and liabilities	(322,385)
Net cash (used in) provided by operating activities	(269,498)

INVESTING ACTIVITIES	
Purchase of investment securities available-for-sale	(1,281,563)
Proceeds from maturities and principle reductions of investment securities available-for-sale	3,280,472
Proceeds from sale of:	
Real estate acquired through foreclosure	154,279
Available-for-sale investment securities	1,225,602
Net increase in loans	(7,488,511)
Purchase of premises and equipment	(277,501)
Net cash used in investing activities	(4,387,222)
FINANCING ACTIVITIES	
Net increase in demand deposits, NOW accounts savings accounts, money market deposit accounts and escrow deposits	4,271,034
Net (decrease)/increase in time deposits	(76,438)
Net proceeds/(repayments) from borrowings	630,000
Proceeds from exercise of stock options	34,545
Cash dividends	(69,334)
Treasury stock purchased	(48,835)
Net cash provided by financing activities	4,740,972
Increase in cash and cash equivalents	84,252
Cash and cash equivalents at beginning of period	7,445,844
Cash and cash equivalents at end of period	$7,530,096
CASH PAID DURING THE PERIOD FOR:	
Interest	$1,757,696
Income taxes paid	400,000
NON-CASH INVESTING ACTIVITY:	
Transfer of loans to other real estate	$69,500
(Increase)/decrease in unrealized gains and losses on available for sale investment securities	(311,491)
NON-CASH FINANCING ACTIVITY:	
Dividends declared and unpaid	$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, 2001 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.

All adjustments (consisting of only normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the financial statements have been included in the results of operations for the three months ended March 31, 2002 and 2001.

Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

(2) Earnings per Share

Basic earnings per share have been computed based upon net income for the three months ended March 31, 2002 and 2001, using 2,571,520 and 2,562,825 weighted average common shares outstanding. Diluted earnings per share for the three month period ending March 31, 2002 has been computed using 2,621,986 weighted average common shares outstanding. For the three months ended March 31, 2001, the calculation of diluted earnings per share excludes the effect of incremental common stock equivalents aggregating 84,000 shares since the exercise price was greater than the market price of the shares.

(3) 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.

(4) Dividend Restrictions

For the first quarter ending March 31, 2002, the Company's parent, Pathfinder Bancorp, MHC, waived its right to receive its portion, or $111,0000, of the cash dividends declared on March 19, 2002. The Company maintains a restricted capital account with a $332,000 balance, representing its portion of dividends waived as of March 31, 2002.

Pathfinder Bancorp, Inc.

Notes to Financial Statements

(5) New Accounting Pronouncements

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under this pronouncement, goodwill will no longer be amortized, but is subject to annual impairment tests in accordance with the statements. Goodwill arising from branch acquisitions continues to be amortized. As the Company's intangible assets represent goodwill arising from branch acquisitions, there is no impact on the financial statements as a result of the adoption of this pronouncement.

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 which 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, Pathfinder REIT Inc., and Whispering Oaks Development Corp. At March 31, 2002, Pathfinder Bancorp, Inc.'s only business was the 100% ownership of Pathfinder Bank, which in turn owns Pathfinder REIT, Inc. and Whispering Oaks Development Corp. At March 31, 2002, 1,583,239 shares, or 60.8%, of the Company's common stock was held by Pathfinder Bancorp, MHC, the Company's mutual holding company parent and 1,019,358 shares, or 39.2%, was 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 non interest income, including income from fees and service charges, net gains and losses on sales of securities, 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 financial condition at March 31, 2002 and the results of operations of the Company for the three months ended March

31, 2002.

Financial Condition

Assets

Total assets increased approximately $5.4 million, or 2.2%, to $249.7 million at March 31, 2002 from $244.4 million at December 31, 2001. The increase in total assets was primarily the result of an increase in net loans receivable of $7.3 million and a $759,000 increase in mortgage loans held-for-sale.

These increases were partially offset by a $2.9 million decrease in investment securities. The increase in net loans receivable is primarily due to a $6.6 million increase in residential real estate loans, and a $917,000 increase in commercial real estate and commercial loans, partially offset by a decrease in consumer loans of $162,000. The increases in loan balances are a result of the Company originating secondary market eligible residential real estate mortgages. The increase in loans was principally funded by an increase of $4.2 million in deposits, proceeds from sales of loans in the secondary market, and by proceeds from amortization, maturities and sales of investment securities.

Liabilities

Total liabilities increased by $4.7 million, or 2.1%, to $226.9 million at March 31, 2002 from $222.2 million at December 31, 2001. The increase is primarily attributable to a $4.2 million, or 2.5%, increase in deposits and a $630,000, or 1.3%, increase in borrowed funds. The increase in deposits was primarily comprised of a $4.3 million increase in interest bearing deposits, offset by a $86,000 decrease in noninterest bearing deposits. The increase in interest bearing deposits was comprised of a $1.1 million increase in NOW deposit accounts, a $2.9 million increase in money management accounts, and a $1.0 million increase in savings accounts, partially offset by a decrease in time deposits of $76,000. The increase in deposit accounts is primarily due to 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 increased $633,000, or 2.9%, to $22.8 million at March 31, 2002 from $22.2 million at December 31, 2001. The increase in shareholders' equity is primarily the result of a $433,000 increase in retained earnings and a $187,000 increase in accumulated other comprehensive income. The increase in retained earnings is a result of net income of $502,000 offset by dividends declared of $69,000 during the first three months of 2002.

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, see Statements of Cash Flows included in the Financial Statements. The Company adjusts its liquidity levels in order to meet funding needs of deposit outflows, payment of real estate taxes on mortgage loans and loan commitments. The Company also adjusts liquidity as appropriate to meet its assets and liability management objectives.

Results of Operations

The Company recorded net income of approximately $502,000 for the three months ended March 31, 2002, as compared to $267,000 for the same period during 2001. The increase in net income of $236,000, or 88.4%, for the three months ended March 31, 2002, resulted primarily from an increase of $309,000, or 17.9%, in net interest income after provision for loan losses, an increase in other income of $48,000, or 13.8%, partially offset by an increase of $66,000, or 3.9%, in operating expenses and a $56,000, or 49.3%, increase in provision for income taxes.

Annualized return on average assets and return on average shareholders' equity were .82% and 8.81%, respectively, for the three months ended March 31, 2002 compared to .46% and 4.47% for the first quarter of 2001. Earnings per share - basic was $.20 for the first quarter of 2002 compared to $.10 for the same period in 2001.

Interest Income

Interest income, on a tax-equivalent basis, totaled $4.0 million for the quarter ended March 31, 2002, as compared to $4.2 million for the quarter ended March 31, 2001, a decrease of $173,000, or 4.1%. Interest income was affected by an increase in the average balance of interest-earning assets to $226.2 million for the three months ended March 31, 2002 from $214.2 million in the prior year period, offset by a decrease in the tax equivalent yield on average interest-earning assets to 7.13% from 7.85%. The decrease in the tax equivalent yield was a result of a lower interest rate environment during the first quarter of 2002 as compared to the same quarter in 2001. The yield decrease was somewhat mitigated by increased originations of residential and commercial real estate loans.

Interest income on loans receivable increased $125,000, or 4.0%, to $3.3 million for the three months ended March 31, 2002 as compared to the same period in the prior year. The increase in interest income on loans occurred from an increase in the average balance of loans receivable of $22.2 million, or 14.7% to $173.3 million at March 31, 2002, from $151.1 million at March 31, 2001, partially offset by a decrease in the average yield on loans receivable to 7.52% from 8.29%.

Interest income on the mortgage-backed securities portfolio decreased by $93,000, or 25.7%, to $269,000 for the three months ended March 31, 2002, from $363,000 for the three months ended March 31, 2001. The decrease in interest income on mortgage-backed securities resulted generally from a reduction in the average balance on mortgage-backed securities of $4.8 million and the decrease in the average yield on mortgage-backed securities to 6.37% from 6.68%.

Interest income on investment securities, on a tax equivalent basis, decreased $207,000 or 29.3%, for the three months ended March 31, 2002 to $499,000 from $706,000 for the same period in 2001. The decrease resulted primarily from the decrease in the average balance of investment securities, of

$6.2 million, combined with a decrease in the tax equivalent yield of investment securities to 5.67% from 6.82%. The decrease in the average balance of investment securities resulted from the proceeds from calls, and maturities of investments primarily being utilized to fund the Company's loan portfolio growth.

Interest income on interest-earning deposits increased $3,000, to $4,000 from $1,000 for the three months ended March 31, 2002 and 2001, respectively. The increase is the result of a $805,000 increase in the average balance of interest earning deposits.

Interest Expense

Interest expense for the quarter ended March 31, 2002 decreased by approximately $519,000, or 22.5%, to $1.8 million from $2.3 million when compared to the same quarter for 2001. The decrease in interest expense for the period was principally the result of the decrease in the average cost of interest bearing deposits to 3.10% from 4.23% and the decrease in the average cost of borrowed funds to 4.47% from 6.08%. These decreases were partially offset by an increase of $4.8 million in the average balance of interest bearing deposits and a $5.5 million increase in the average balance of borrowed funds.

Net Interest Income

Net interest income increased $346,000, or 18.3%, to $2.2 million, on a tax equivalent basis, for the quarter ended March 2002, when compared to the same period in the prior year.

Net interest margin for the quarter ended March 31, 2002 increased to 3.96% from 3.54% 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, 2002 of $162,000, as compared to a provision of $121,000 for the three months ended March 31, 2001. The increase in provision for loan losses is attributable to an increase in the loan receivable balance, an increase in the risk rating of a commercial loan relationship, and an increase in the overall delinquencies in the portfolio. The Company's ratios of allowance for loan losses to total loans receivable and to non-performing loans at March 31, 2002 were 1.06% and 47.42%, respectively, as compared to .089% and 66.93% at March 31, 2001.

Non-interest Income

The Company's non-interest income is principally comprised of fees on deposit accounts and transactions, loan servicing, commissions, and net securities gains and losses. Non-interest income increased $48,000, or 13.8%, for the quarter ended March 31, 2002, as compared to the same period in the prior year. The increase in non-interest income is primarily attributable to a $25,000 increase in service charges on deposit accounts, a $9,000 increase in loan servicing fees, an increase in the value of bank owned life insurance of $35,000 and an increase in other charges, commissions and fees of $6,000. These increases are partially offset by a decrease in the net gain on securities, loans and other real estate of $27,000.

Non-interest Expense

Non-interest expense increased $66,000, or 3.9%, to $1.8 million for the quarter ended March 31, 2002, when compared to the same period in the prior year. The increase in operating expenses was due to a $24,000 increase in salary expenses, or 3.2%, a $30,000 increase in data processing expenses, a $12,000 increase in professional and other services and a $50,000 increase in other expenses. These increases were partially offset by a decrease in building occupancy expenses of $51,000.

Income Taxes

Income taxes increased $56,000 for the quarter ended March 31, 2002 as compared to the same period in the prior year. This increase was attributable to a $292,000 increase 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.

The Company does not generally maintain in its portfolio fixed interest rate loans with terms exceeding 20 years. In addition, ARM loans are originated with terms that provide that the interest rate on such loans cannot adjust below the initial rate. 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 have demonstrated historically a 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 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, 2002, the total interest bearing liabilities maturing or repricing within one year exceeded total interest-earning assets maturing or repricing in the same period by $22.0 million, representing a cumulative one- year gap ratio of a negative 9.83%.

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, 2002 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	Net Portfolio Value Percentage Change
300	-11.27%	-25.69%
200	- 7.16%	-17.51%
100	- 3.22%	-8.66%
Base Case		
(100)	- 0.09%	7.59%
(200)	- 3.30%	9.71%
(300)	- 7.67%	14.55%

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 alleges 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 is seeking damages in excess of $1 million, punitive damages in excess of $10 million and equitable relief. Management and the Board of Directors of the Company have carefully reviewed Jewelcor's complaint and believes that it is without merit. The Company has filed a motion to dismiss the complaint. Oral arguments for the motion to dismiss were heard on April 5, 2002 before the United States District Court for the Northern District of New York. No decision on the motion has been rendered at this date.

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 19, 2002 the Board of Directors declared a $.07 cash dividend to shareholders of record as of March 31, 2002, payable on April 15, 2002.

Exhibits and Reports on Form 8-K

None

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, 2002

Thomas W. Schneider
President, Chief Executive Officer

/s/ James A. Dowd

Date: May 14, 2002

James A. Dowd
Vice President,
Chief Financial Officer