PATHFINDER BANCORP INC
Form 10-Q
August 10, 2001

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 JUNE 30, 2001

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 2,601,495 shares of the Company's common stock outstanding as of August 10, 2001.

PATHFINDER BANCORP, INC.
INDEX

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION
June 30, 2001 (unaudited) and December 31, 2000

	June 30, 2001	Dece
ASSETS		
Cash and due from banks	$4,678,825	

Interest earning deposits	4,062,817	
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Total cash and cash equivalents	8,741,642	
Investment securities	59,587,880	
Mortgage loans held-for-sale	1,737,371	
Loans:		
Real estate residential	107,192,669	1
Real estate commercial	27,029,079	
Consumer	3,103,151	
Commercial	13,549,831	
	-----------	-
Total loans	150,874,730	1
Less: Allowance for loan losses	1,546,615	
Unearned discounts and origination fees	64,940	
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Loans receivable, net	149,263,175	1
Premises and equipment, net	4,530,364	
Accrued interest receivable	1,575,374	
Other real estate	1,043,157	
Intangible assets, net	2,499,732	
Other assets	6,442,969	
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Total assets	$235,421,664	$2
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Interest bearing	$157,829,756	$1
Non-interest bearing	11,445,977	
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Total deposits	169,275,733	1
Borrowed funds	42,075,500	
Other liabilities	2,780,068	
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Total liabilities	214,131,301	2
Shareholders' equity:		
Common stock, par value $.10 per share; authorized 9,000,000 shares; issued 2,884,720 shares; and 2,601,495 shares outstanding for 2001 and 2000, respectively.	288,472	
Additional paid in capital	6,567,978	
earnings18,17,859,388		
Accumulated other comprehensive income	10,212	
Unearned ESOP shares	(199,177)	
Treasury stock, at cost; 283,225 shares	(3,551,159)	

Total shareholders' equity	21,290,363	
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Total liabilities and shareholders' equity	$235,421,664	$2
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The accompanying notes are an integral part of the consolidated financial statements

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the three months ended June 30, 2001 and June 30, 2000
(unaudited)

	June 30, 2001
INTEREST INCOME:	
Loans	$3,092,902
Interest and dividends on investments:	
U.S. Treasury and agencies	116,746
State and political subdivisions	85,985
Corporate obligations	382,704
Marketable equity securities	40,217
Mortgage-backed	333,714
Federal funds sold and interest-bearing deposits	22,896
Total interest income	4,075,164
INTEREST EXPENSE:	
Interest on deposits	1,597,480
Interest on borrowed funds	583,702
Total interest expense	2,181,182
Net interest income	1,893,982
Provision for loan losses	419,028
Net interest income after provision for loan losses	1,474,954
OTHER INCOME:	
Service charges on deposit accounts	139,127
Loan servicing fees	36,093
Increase in value of Company owned life insurance	41,851
Net gain (loss) on securities and loans	422,029
Other charges, commission and fees	108,763
Total other income	747,863
OTHER EXPENSES:	
Salaries and employee benefits	727,648
Building occupancy	196,522
Data processing expenses	186,606
Professional and other services	186,006
Deposit insurance premiums	7,662
Amortization of intangible asset	78,939
Other expenses	343,143
Total other expenses	1,726,526

Income before income taxes	496,291
Provision for income taxes	140,286
Net income	$356,005
Net income per share - basic	$ 0.14
Net income per share - diluted	$ 0.14

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the six months ended June 30, 2001 and June 30, 2000
(unaudited)

	June 30, 2001
INTEREST INCOME:	
Loans	$6,226,222
Interest and dividends on investments:	
U.S. Treasury and agencies	238,340
State and political subdivisions	172,576
Corporate obligations	791,813
Marketable equity securities	83,116
Mortgage-backed	696,286
Federal funds sold and interest-bearing deposits	24,271
Total interest income	8,232,624
INTEREST EXPENSE:	
Interest on deposits	3,215,268
Interest on borrowed funds	1,274,671
Total interest expense	4,489,939
Net interest income	3,742,685
Provision for loan losses	540,211
Net interest income after provision for loan losses	3,202,474
OTHER INCOME:	
Service charges on deposit accounts	255,866

Loan servicing fees	72,217
Increase in value of Company owned life insurance	81,173
Net gain (loss) on securities and loans	491,335
Other charges, commission and fees	210,781
Total other income	1,111,372
OTHER EXPENSES:	
Salaries and employee benefits	1,487,210
Building occupancy	427,111
Data processing expenses	374,156
Professional and other services	355,524
Deposit insurance premiums	15,572
Amortization of intangible asset	157,878
Unusual items	-
Other expenses	619,745
Total other expenses	3,437,196
Income (loss) before income taxes	876,650
Provision (benefit) for income taxes	254,020
Net income (loss)	$622,630
Net income (loss) per share - basic	$ 0.24
Net income (loss) per share - diluted	$ 0.24

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

PATHFINDER BANCORP, INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2001
(unaudited)

	Common Stock Shares	Common Stock Amount	Add't Paid in Capital	Retained Earnings	Comprehensive Income	Accum. Other Compr. Income
Balance, December 31, 2000	$2,884,720	$288,472	$6,562,085	$17,859,388	$ -	$30,919
Comprehensive income:						
Net Income			622,630	622,630		

Other comprehensive income, net of tax							
Unealized gains on securities							
Unrealized holding gains arising during period					456,824		
Reclassification adjustment for gains Included in net income					(491,335)		
Other comprehensive loss, before tax					(34,511)		
Income tax provision					13,804		
Other comprehensive loss, net of tax					(20,707)	(20,707)	
Comprehensive income:					601,923		
ESOP shares earned			5,893				
Dividends declared (.12 per share)				(307,981)			
Balance, June 30, 2001	$ 2,884,720	$288,472	$6,567,978	$18,174,037	$ -	$10,212	$

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

PATHFINDER BANCORP, INC.
STATEMENTS OF CASH FLOWS
June 30, 2001 and June 30, 2000
(unaudited)

	June 30, 2001
OPERATING ACTIVITIES:	
Net income (loss)	$ 622,630
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	540,211
ESOP and other stock-based compensation earned	33,946
Deferred income tax expense (benefit)	129,522
Proceeds from sale of loans	8,038,416
Originations of loans held-for-sale	(9,010,664)
Realized loss/(gain) on:	
Sale of real estate acquired through foreclosure	30,733
Loans	(25,351)
Available-for-sale investment securities	(444,974)
Depreciation	237,604
Amortization of intangibles	157,878

Increase in surrender value of life insurance	(81,173)
Net accretion of premiums and discounts on investment securities	(8,524)
Decrease (increase) in interest receivable	103,215
Net change in other assets and liabilities	(888,411)
Net cash (used in) provided by operating activities	(564,942)
INVESTING ACTIVITIES	
Purchase of investment securities available-for-sale	(1,043,834)
Proceeds from maturities and principle reductions of investment securities available-for-sale	2,936,605
Proceeds from sale of:	
Real estate acquired through foreclosure	103,551
Available-for-sale investment securities	2,696,347
Net increase in loans	(1,734,476)
Purchase of premises and equipment	(156,270)
Net cash provided by (used in) investing activities	2,801,923
FINANCING ACTIVITIES	
Net increase in demand deposits, NOW accounts, savings accounts, money market deposit accounts and escrow deposits	5,147,475
Net increase in time deposits	2,668,968
Net (repayments)/proceeds from borrowings	(5,154,000)
Cash dividends	(313,125)
Treasury stock purchased	--
Net cash provided by financing activities	2,349,318
Increase (decrease) in cash and cash equivalents	4,586,299
Cash and cash equivalents at beginning of period	4,155,343
Cash and cash equivalents at end of period	$8,741,642
CASH PAID DURING THE PERIOD FOR:	
Interest	$4,580,201
Income taxes paid	359,618
NON-CASH INVESTING ACTIVITY:	
Transfer of loans to other real estate	$293,121
Decrease in unrealized gains and losses on available for sale investment securities	34,511
NON-CASH FINANCING ACTIVITY:	
Dividends declared and unpaid	$156,090

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 Bank'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, 2000 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 and six months ended June 30, 2001 and 2000.

Operating results for the three months and six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

(2) Earnings per Share

Basic earnings per share has been computed by dividing net income (loss) for the three months and six months ended June 30, using 2,565,347 and 2,564,165 weighted average common shares outstanding for 2001 and 2,553,341 and 2,556,924 for 2000. Diluted earnings per share for the three months and six months ended June 30, 2001 and the three month period ending June 30, 2000, has been computed using 2,588,239, 2,574,863 and 2,554,894 weighted average common shares outstanding, respectively. Due to the loss incurred by the Company during the first six months of 2000, the impact of outstanding options is anti-dilutive and, therefore, their impact has not been included in the diluted earnings per share disclosure for the six months ended June 30, 2000.

(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) New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized, but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the statement is expected to increase pre-tax income by approximately $316,000 on the Company's annual financial statements. The Company will perform the first of the required impairment tests of goodwill as of January 1, 2002 and has not determined what the effect of these tests will be on the earnings and financial position of the Company.

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 June 30, 2001, Pathfinder Bancorp, Inc.'s only business was the 100% ownership of Pathfinder Bank. At June 30, 2001, 1,583,239 shares, or 60.9%, of the Company's outstanding common stock was held by Pathfinder Bancorp, MHC, the Company's mutual holding company parent and 1,018,256 shares, or 39.1%, 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 loans, investment securities, federal funds sold and interest-bearing deposits, and its cost of funds consisting of interest expense on deposits and borrowed funds. The Company's net income also is affected by its provision for loan losses, non interest income and non interest expense. Non-interest income is comprised of service charges on deposit accounts, loan fees, cash surrender value, other charges, commissions and fees and net securities gain and losses. Non-interest expense includes salaries and employee benefits, building occupancy, data processing expenses, professional and other services, amortization of intangible assets and income taxes. Earnings of the Company are affected significantly by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities. These events are beyond the control of the Company.

In June 2001, the Company and its mutual holding company parent converted its charter from a Delaware corporation to a Federal corporation chartered by the Office of Thrift Supervision. Pathfinder Bank will retain its New York savings bank charter.

The following discussion presents material changes to the Company's financial condition and the results of operations for the three and six months ended June 30, 2001 and June 30, 2000.

Financial Condition

Assets

Total assets increased approximately $3.1 million, or 1.3%, to $235.4 million at June 30, 2001 from $232.3 million at December 31, 2000. The increase in total assets is primarily attributable to a $3.9 million increase in interest earning deposits, a $901,000 increase in net loans receivable, a $998,000 increase in mortgage loans held-for sale and a $936,000 increase in other assets. These increases were partially offset by a $4.2 million decrease in investment securities. The increase in loans and interest earning deposits was principally funded by an increase of $7.8 million in deposits. The increase in net loans receivable is due to a $348,000 net increase in residential and commercial real estate loans, a $94,000 increase in consumer loans, and a $677,000 increase in commercial loans. The increase in other assets is primarily attributable to an increase in deferred taxes and prepaid expenses.

Liabilities

Total liabilities increased by $2.7 million, to $214.1 million at June 30, 2001 from $211.4 million at December 31, 2000. The increase is primarily attributable to a $7.8 million, or 4.8%, increase in total deposits, partially offset by a decrease in borrowed funds of $5.1 million, or 10.9%. The increase in deposits was comprised of a $3.7 increase million in savings, NOW and money management deposit accounts, a $2.5 million increase in time deposits and a $1.6 million increase in checking deposit accounts. The increased deposit levels allowed the company to reduce its utilization of wholesale funding during the first six months of the year. The increase in deposit balances can be attributed to the Company's competitive pricing of time deposit products, active efforts to obtain additional deposit relationships garnered through expanding commercial lending relationships, as well as funds moving out of equity markets into fixed income products.

Liquidity and Capital Resources

Shareholders' equity increased $328,000, or 1.6%, to $21.3 million at June 30, 2001 from $21.0 million at December 31, 2000. The increase in shareholder's equity is primarily the result of net income of $623,000, partially offset by dividends declared of $308,000.

The Company's primary sources of funds are deposits, amortization and prepayment of loans and maturities of investment securities, federal funds sold, earnings and funds provided from operations and borrowings. While scheduled principal amortization 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 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, 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 $356,000 and $301,000 for the three months ended June 30, 2001 and 2000, respectively. The increase in net income of

$55,000, or 18.4%, for the three months ended June 30, 2001, resulted primarily from an increase in other income of $471,000 and a $24,000 increase in net interest income, offset by increases in provision for loan losses of $391,000 and operating expenses of $38,000. For the six months ended June 30, 2001, the Company recorded net income of $623,000 as compared to a net loss of $333,000 for the same period in the prior year. The net loss recorded for the prior year was the result of expenses associated with certain unusual items, totaling approximately $578,000, and non-recurring charges totaling approximately $270,000. Additionally, the Company incurred losses of approximately $195,000 on the sale of investment securities during the first quarter of the prior year. The tax benefit of the unusual items charges, non-recurring charges and securities losses totals approximately $241,000.

Annualized return on average assets and return on average shareholders equity were .61% and 7.09%, respectively for the three months ended June 30, 2001 as compared to .55% and 6.26% for the second quarter of 2000. For the six months ended June 30, 2001, the same performance measurements were .55 % and 6.27%, as compared to (.30%) and (3.38%) for the same period in the prior year.

Interest Income

Interest income, on a tax-equivalent basis, totaled $4.1 million for the quarter ended June 30, 2001, as compared to $3.9 million for the quarter ended June 30, 2000, an increase of $205,000, or 5.3%. The increase resulted primarily from an increase in the average balance of interest-earning assets to $215.9 million from $201.4 million in the prior period, partially offset by a decrease in the yield on average interest-earning assets to 7.59% from 7.73%. The increase in the average balance of interest earning assets was comprised of a $16.2 million increase in the average balance of loans receivable, and a $2.4 million increase in the average balance of interest bearing deposits, partially offset by a $4.1 million decrease in investment securities. The yield reduction is principally the result of mortgage loan originations occurring at rates below the weighted average coupon of the existing loan portfolio which lowered the total portfolio yield.

Interest income on loans receivable increased $294,000, or 10.5%, to $3.1 million for the three months ended June 30, 2001, 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 $16.2 million, or 11.9%, to $151.7 million at June 30, 2001, partially offset by a reduction in the average yield on loans receivable to 8.14% from 8.29%. The increase in the average balance of loans receivable is comprised of originations of one-to-four family adjustable rate mortgage loans. The origination of adjustable rate mortgage loans is primarily comprised of "5/1 ARMS" which have interest rates which are fixed for the first five years and are adjustable annually thereafter, and amortize over 30 years. The Company also experienced an increase in the origination of commercial real estate and business loans. The decrease in the yield on average loans receivable was attributable to the lower initial rates charged on 5/1 ARMS.

Interest income on the mortgage-backed securities portfolio decreased by $33,000, or 9.1%, to $334,000 for the three months ended June 30, 2001, from $367,000 for the same period in 2000. The decrease in interest income on mortgage-backed securities resulted generally from a decrease in the average balance on mortgage-backed securities of $626,000, combined with the decrease in the average yield on mortgage-backed securities to 6.29% from 6.73%.

Interest income on investment securities, on a tax equivalent basis, decreased $76,000, or 10.4% , to $652,000 for the three months ended June 30, 2001, from

$728,000 for the same period in 2000. The decrease resulted primarily from a decrease in the average balance of investment securities of $3.5 million, or 7.9%, to $40.5 million for the three months ended June 30, 2001, while the tax equivalent yield of investment securities decreased to 6.45% from 6.62% for the quarters ended June 30, 2001 and 2000, respectively. The decrease in average balance resulted from the proceeds from calls and maturities of investment securities primarily being utilized to fund the Company's loan growth.

Interest income on interest-earning deposits increased $22,000, to $23,000, for the three months ended June 30, 2001 as compared to the same period in the prior year. The increase was primarily the result of an increase of $2.4 million in the average balance of interest-earning deposits, partially offset by a decrease in the average yield on interest-earning deposits to 3.72% from 3.74%.

Interest income, on a tax equivalent basis, totaled $8.3 million for the six months ended June 30, 2001, as compared to $7.8 million for the same period in 2000, an increase of $564,000, or 7.3%. The increase resulted primarily from an increase in the average balance of interest-earning assets of $13.7 million, or 6.8%, combined with an increase in the tax-equivalent yield on interest-earning assets to 7.74% from 7.71%.

For the six months ended June 30, 2001, interest income on loans receivable increased $696,000, or 12.6% as compared to the same period in the prior year. Average loans receivable increased $17.4 million while the yield on average loans receivable decreased to 8.22% from 8.24%.

For the six months ended June 30, 2001 and 2000, interest income on mortgage-backed securities was $696,000 and $770,000, respectively, a decrease of $74,000, or 9.6%. The decrease in the average balance of mortgage backed securities reflects the increase in prepayments experienced during the first six months of 2001 in response to the declining interest rate environment. The proceeds were utilized to fund the Company's loan growth.

For the six months ended June 30, 2001, tax equivalent interest income on investment securities decreased $75,000, or 5.14%, to $1.4 million compared to $1.5 million for the same period in 2000. The decrease resulted primarily from a decrease in the average balance of investment securities of $3.6 million, offset by an increase in the tax equivalent yield on investment securities to 6.77% from 6.56%.

Interest income on interest-earning deposits decreased $23,000 to $24,000 for the six months ended June 30, 2001 as compared to the same period in the prior year. This increase is principally due to an increase in the average balance of interest-earning deposits of $1.2 million when compared to the same period in the prior year.

Interest Expense

Interest expense for the quarter ended June 30, 2001 increased by approximately $189,000, or 9.5%, to $2.2 million from $2.0 million compared to the same quarter for 2000. The increase in interest expense for the period was principally the result of an increase in the average balance of interest bearing deposits of $11.3 million, or 7.8%, to $156.2 million for the three months ended June 30, 2001 from $144.9 for the three months ended June 30, 2000, and an increase in the average balance of borrowed funds of $1.5 million, or 3.7%, to $42.7 for the three months ended June 30, 2001 from $41.2 for the three months ended June 30, 200. The average cost of interest bearing deposits increased to 4.09% from 3.82%, for the three months ended June 30, 2001 and 2000, respectively, offset by a decrease in the average cost of borrowed funds to

5.47%, from 5.90%.

For the six months ended June 30, 2001, interest expense increased $538,000, or 13.6%, when compared to the first six months of 2000. The increase in interest expense for the period was the result of an increase in the average balance of interest bearing liabilities of $9.4 million, combined with an increase in the average cost of interest bearing liabilities to 4.51% from 4.17%.

Net Interest Income

Net interest income, on a tax equivalent basis, remained constant for the three months and six months ended June 30, 2001 at $1.9 million and $3.7 million, respectively, when compared to the same periods in the prior year.

Net interest margin for the quarter ended June 30, 2001 decreased from 3.78% to 3.55% when compared to the same period in the prior year. For the six months ended June 30, 2001, net interest margin decreased from 3.78% to 3.57%, when compared to the same period in the prior year. This is due to the decrease in the average yield on loans receivable and investment securities, combined with an increase in the average cost of interest-bearing liabilities.

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 provisions are based upon management's estimate of the fair value of the collateral and the Company's actual loss experience, as well as standards applied by the FDIC. The Company established a provision for possible loan losses for the three months ended June 30, 2001 of $419,000, as compared to a provision of $28,000 for the three months ended June 30, 2000. For the six months ended June 30, 2001 and 2000, the provision for loan losses was $540,000 and $143,000, respectively. The increase in provision for loan losses is principally the result of increased loan charge offs, implementation of a more comprehensive loan review process and management's desire to increase coverage ratios due to the slowing economy. The Company had non-performing loans of $1.9 million at June 30, 2001. The Company's ratios of allowance for loan losses to total loans receivable and to non-performing loans at June 30, 2000 were 1.01% and 81.58%, respectively, as compared to .85% and 50.29% at June 30, 2000.

Non-interest Income

Non-interest income consists of servicing income on deposit accounts, loan fee income, cash surrender value from Company owned life insurance, gain (loss) on sales of loans and investment securities and other operating income. Non-interest income increased approximately $471,000, to $748,000 for the three months ended June 30, 2001 as compared to $277,000 for the prior year quarter. The increase in non-interest income is primarily attributable to an increase in net securities gains and losses of $424,000. Exclusive of net securities gains and losses, non-interest income increased $47,000, or 17.0%, compared to the same period in the prior year. This was primarily due to an increase in service charges on deposit accounts and other fee income.

For the six months ended June 30, 2001, non-interest income increased $793,000, or 249.5%, compared to the same period in 2000. Non-interest income, exclusive of securities gains and losses, increased $93,000, or 17.6%, for the six months ended June 30, 2001 as compared to the same period in the prior year. Net securities gains (losses) increased $701,000, to a net gain of $491,000 for the period ending June 30, 2001, as compared to a loss of $209,000 in the prior year.

Non-interest Expense

Non-interest expense increased $38,000, or 2.3%, to $1.7 million for the three months ended June 30, 2001, as compared to the same period in 2000. The increase in non-interest expense is primarily the result of a $26,000, or 16.3%, increase in professional and other services, a $20,000, or 11.8%, increase in data processing costs and a $33,000, or 10.7%, increase in other expenses. These increases were partially offset by a $14,000 decrease in building occupancy expenses and a $27,000 decrease in salaries and employee benefits. The increase in professional and other services is primarily a result of legal fees incurred in connection with the conversion of the Company's charter from the State of Delaware to that of a Federal Corporation. The increase in data processing expenses is a result of increased licensing and maintenance charges associated with the Company's core processing systems and development of internet banking services.

For the six months ended June 30, 2001, non-interest expense decreased $840,000, or 19.6%, to $3.4 million as compared to $4.3 million for the same period in 2000. Non-interest expenses for the first quarter of 2000 were adversely impacted by unusual items and non-recurring charges of approximately $789,000. Exclusive of the unusual and non-recurring charges, non-interest expenses decreased $51,000, or 1.5%, to $3.4 million for the six months ended June 30, 2001 when compared to the same period in the prior year.

Income Taxes

Income taxes increased approximately $10,000, or 8.0%, for the quarter ended June 30, 2001 as compared to the same period in the prior year. The increase is primarily a result of an increase in pretax income for the second quarter of 2001.

For the six months ended June 30, 2001 and 2000, income tax expense (benefit) was an expense of $254,000 and benefit of $26,000, respectively. The increase is the result of the prior year to date pre-tax loss, as compared to the current period's net income.

Other Matters

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized, but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the statement is expected to increase pre-tax income by approximately $316,000 on the Company's annual financial statements. The Company will perform the first of the required impairment tests of goodwill as of January 1, 2002 and has not determined what the effect of these tests will be on the earnings and financial position of the Company.

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, five year/one year ARM loans (mortgage loans which are fixed rate for the first 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 June 30, 2001, the total interest bearing liabilities maturing or repricing within one year exceeded total interest-earning assets maturing or repricing in the same period by $27.1 million, representing a cumulative one-year gap ratio of a negative 11.51%.

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 100 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 June 30, 2001 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 Po Perce
300	-12.31%	
200	- 7.81%	
100	- 3.59%	
Base Case		
-100	1.91%	

-200	3.24%
-300	2.70%

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.

Changes in Securities

Not applicable

Defaults upon Senior Securities

Not applicable

Submission of Matters to a Vote of Security Holders

The Company's Meeting of Shareholders was held on April 25, 2001. The following are the items voted on and the results of the shareholder voting.

1. The election of Steven W. Thomas, Corte J. Spencer and Janette Resnick to serve as directors of the Company, each for a term of three years or until his successor has been elected and qualified.

	For	Against	Withheld
Steven W. Thomas	1,928,318	0	160,214
Corte J. Spencer	1,929,085	0	159,447
Janette Resnick	1,929,218	0	159,314

Set forth below are the names of the other directors of the Bank and their terms of office.

Name	Term Expires
Chris G. Gagas	2002
Chris R. Burritt	2002
Raymond W. Jung	2002
Bruce E. Manwaring	2003
L. William Nelson	2003
George P. Joyce	2003

2. The ratification of the appointment of Pricewaterhouse Coopers, LLP as auditors for the fiscal year ending December 31, 2001.

	For	Against	Abstain
Number of Votes	1,922,939	159,314	79

3. The approval of the Plan of Charter Conversion from a Delaware Corporation to a Federal Corporation.

	For	Against	Abstain
Number of Votes	1,915,592	166,090	650

Other Information

On June 19, 2001, the Board of Directors declared a $.06 cash dividend to shareholders of record as of June 30, 2001, payable on July 15, 2001.

Exhibits and Reports on Form 8-K

None

SIGNATURES

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

PATHFINDER BANK

Date:08/10/2001 /s/ Thomas W. Schneider

Thomas W. Schneider
President, Chief Executive Officer

Date:08/10/2001 /s/ James A. Dowd

James A. Dowd
Vice President, Chief Financial Officer