PATHFINDER BANCORP INC
Form 10-Q
May 11, 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 MARCH 31, 2001

SEC Exchange Act No. 000-23601

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

Delaware
(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 May 11, 2001.

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

	March 31, 2001	Dec
ASSETS		
Cash and due from banks	$ 4,392,871	$
Interest earning deposits	91,100	
Total cash and cash equivalents	4,483,971	
Investment securities	64,054,788	
Mortgage loans held-for-sale	765,395	
Loans:		
Real estate residential	107,811,700	1
Real estate commercial	26,702,719	
Consumer	2,904,422	
Commercial	13,020,175	
Total loans	150,439,016	1
Less: Allowance for loan losses	1,335,899	
Unearned discounts and origination fees	128,010	
Loans receivable, net	148,975,107	1

Premises and equipment, net	4,529,829	
Accrued interest receivable	1,675,872	
Other real estate	999,499	
Intangible assets, net	2,578,670	
Other assets	5,018,404	
Total assets	$ 233,081,535	$ 2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Interest bearing	$ 155,109,082	$
Non-interest bearing	9,951,413	
Total deposits	165,060,495	
Borrowed funds	44,208,500	
Other liabilities	2,420,980	
Total liabilities	211,689,975	
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	6,562,758	
Retained earnings	17,969,923	
Accumulated other comprehensive income	334,767	
Unearned ESOP shares	(213,201)	
Treasury stock, at cost; 283,225 and 283,225 shares, respectively	(3,551,159)	
Total shareholders' equity	21,391,560	
Total liabilities and shareholders' equity	$ 233,081,535	$

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, 2001 and March 31, 2000
(unaudited)

	March 31, 2001
INTEREST INCOME:	
Loans	$ 3,133,320

Interest and dividends on investments:	
U.S. Treasury and agencies	121,594
State and political subdivisions	86,591
Corporate obligations	409,109
Marketable equity securities	42,899
Mortgage-backed	362,572
Federal funds sold and interest-bearing deposits	1,375
Total interest income	4,157,460
INTEREST EXPENSE:	
Interest on deposits	1,617,788
Interest on borrowed funds	690,969
Total interest expense	2,308,757
Net interest income	1,848,703
Provision for loan losses	121,183
Net interest income after provision for loan losses	1,727,520
OTHER INCOME:	
Service charges on deposit accounts	116,739
Loan servicing fees	36,124
Increase in value of Company owned life insurance	39,322
Net gain (loss) on securities and loans	69,306
Other charges, commission and fees	102,018
Total other income	363,509
OTHER EXPENSES:	
Salaries and employee benefits	759,562
Building occupancy	230,589
Data processing expenses	187,550
Professional and other services	169,518
Deposit insurance premiums	7,910
Amortization of intangible asset	78,939
Other expenses	276,602
Unusual items	--
Total other expenses	,710,670
Income (loss) before income taxes	380,359
Provision (benefit) for income taxes	113,734
Net income (loss)	$ 266,625
Net income (loss) per share - basic	$ 0.10
Net income (loss) per share - diluted	$ 0.10

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

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PATHFINDER BANCORP, INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2001
(unaudited)

	Common Stock Shares	Common Stock Amount	Add't Paid in Capital	Retained Earnings
Balance, December 31, 2000	$ 2,884,720	$288,472	$6,562,085	$17,859,388
Comprehensive income:				
Net Income				266,625
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			673	
Dividends declared (.06 per share)				(156,090)
Balance, March 31, 2001	$2,884,720	$288,472	$6,562,758	$17,969,923

		Accum.			
		Other	Unearned		
	Comprehensive	Compr.	ESOP	Treasury	
	Income	Income	Shares	Stock	Total
Balance, December 31, 2000	$ --	$ 30,919	$(227,230)	$(3,551,159)	$20,962,475
Comprehensive income:					
Net Income	266,625				266,625
Other comprehensive income, net of tax					
Unealized gains on securities					
Unrealized holding gains arising during period	437,107				
Reclassification adjustment for gains Included in net income	69,306				
Other comprehensive income, before tax	506,413				
Income tax provision	202,565				
Other comprehensive income, net of tax	303,848	303,848			303,848
Comprehensive income:	570,473				
ESOP shares earned			14,029		14,702
Dividends declared (.06 per share)					(156,090)
Balance, March 31, 2001	$ --	$334,767	$(213,201)	$(3,551,159)	$21,391,560

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

PATHFINDER BANCORP, INC.
STATEMENTS OF CASH FLOWS
March 31, 2001and March 31, 2000

	(unaudited) March 31, 2001
OPERATING ACTIVITIES:	
Net income (loss)	$ 266,625
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	121,183
ESOP and other stock-based compensation earned	14,702
Deferred income tax benefit	62,633
Proceeds from sale of loans	893,387
Originations of loans held-for-sale	(849,704)
Realized loss/(gain) on:	
Sale of real estate acquired through foreclosure	15,060
Loans	(69,306)
Available-for-sale investment securities	--
Depreciation	120,401
Amortization of intangibles	78,939
(Increase) decrease in surrender value of life insurance	(39,322)
Net amortization of premiums and discounts on investment securities	(4,480)
Decrease (increase) in interest receivable	2,717
Net change in other assets and liabilities	(20,785)
Net cash provided by operating activities	592,050
INVESTING ACTIVITIES	
Purchase of investment securities available-for-sale	(834,081)
Proceeds from maturities and principle reductions of investment securities available-for-sale	1,048,198
Proceeds from sale of:	
Real estate acquired through foreclosure	64,178
Available-for-sale investment securities	--
Net increase in loans	(928,676)
Purchase of premises and equipment	(38,532)
Net cash (used in) provided by investing activities	(688,913)
FINANCING ACTIVITIES	
Net increase in demand deposits, NOW accounts savings accounts, money market deposit accounts and escrow deposits	424,150
Net increase in time deposits	3,177,055
Proceeds from borrowings, net	(3,021,000)
Cash dividends	(154,714)
Treasury stock purchased	--
Net cash provided by (used in) financing activities	425,491
Increase (decrease) in cash and cash equivalents	328,628
Cash and cash equivalents at beginning of period	4,155,343
Cash and cash equivalents at end of period	$ 4,483,971
CASH PAID DURING THE PERIOD FOR:	
Interest	$ 2,377,213
Income taxes paid	--
NON-CASH INVESTING ACTIVITY:	

Transfer of loans to other real estate	$	194,417
Decrease in unrealized gains and losses on available for sale investment securities		506,413
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 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, 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 ended March 31, 2001 and 2000.

Operating results for the three months ended March 31, 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 have been computed based upon net income (loss) for the three months ended March 31, 2001 and 2000, using 2,562,825 and 2,575,073 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 they would have been anti-dilutive. Due to the loss incurred by the Company during the first three months of 2000, the impact of the outstanding options is anti-dilutive and, therefore, their impact has not been included in the diluted earnings per share disclosure for the three months ended March 31, 2000.

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, 2001, 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, 2001, 1,578,239 shares, or 60.7%, of the Company's common stock was held by Pathfinder Bancorp, MHC, the Company's mutual holding company parent and 1,023,256 shares, or 39.3%, 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, 2001 and the results of operations of the Company for the three months ended March 31, 2001.

Financial Condition

Assets

Total assets increased approximately $1.2 million, or .5%, to $233.1 million at March 31, 2001 from $231.9 million at December 31, 2000. The increase in total assets was primarily due to an increase in total loans receivable of $613,000, or .4%, to $149.0 million at March 31, 2001 from $148.4 million at December 31, 2000. Cash and cash equivalents increased $329,000, or 7.9%, to $4.5 million at March 31, from $4.2 million at

December 31, 2000. Investment securities increased $297,000 or .5%, to $64.1 million at March 31, 2001 from $63.8 at December 31, 2000.

Liabilities

Total liabilities increased by $805,000, to $211.7 million at March 31, 2001 from $210.9 million at December 31, 2000. The increase is primarily attributable to a $3.6 million, or 2.2%, increase in deposits, offset by a decrease in borrowed funds of $3.0 million, or 6.4%.

Shareholders' Equity

Shareholders' equity increased $429,000, or 2.1%, to $21.4 million at March 31, 2001 from $21.0 million at December 31, 2000. The increase in shareholders' equity is primarily the result of a $304,000 increase in accumulated other comprehensive income and a $111,000 increase in retained earnings. The increase in retained earnings is a result of net income of $267,000 offset by dividends declared of $156,000, during the first three months of 2001.

Liquidity and Capital Resources

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 $267,000 for the three months ended March 31, 2001, as compared to a net loss of $633,000 for the same period during 2000. The increase in the Company's first quarter earnings is primarily the result of a loss recorded during the first quarter of 2000 in connection with the reorganization of the Company's work force and balance sheet. The prior year first quarter earnings were adversely impacted by certain unusual items, totaling approximately $578,000, and other non-recurring charges totaling approximately $270,000. Additionally, the Company incurred losses of approximately $195,000 on the sale of investment securities. The tax benefit of the unusual items charges, non-recurring charges and securities losses totaled approximately $241,000 for the quarter ended March 31, 2000.

As a result of the increase in net income between the comparative periods, annualized return on average assets and return on average shareholders' equity were .46% and 5.00%, respectively, for the three months ended March 31, 2001 compared to (1.10)% and (12.11)% for the first quarter of 2000. Earnings/(loss) per share - basic was $.10 for the first quarter of 2001 compared to $(.25) for the same period in 2000.

Interest Income

Interest income, on a tax-equivalent basis, totaled $4.2 million for the quarter ended March 31, 2001, as compared to $3.9 million for the quarter ended March 31, 2000, an increase of $335,000, or 8.7%. The increase resulted primarily from an increase in the average balance of interest-earning assets to $214.2 million for the three months ended March 31, 2001 from $202.4 million in the prior year period, combined with an increase in the yield on average interest-earning assets to 7.85% from 7.65%. The increase in the average balance of interest earning assets was comprised of an $18.7 million increase in the average balance of loans receivable, offset by a $6.8 million decrease in the average balance of investment securities. The increase in the average balance of interest earning assets is primarily the result of strong demand for residential and commercial real estate loans, and commercial business loans. The yield increase is principally the result of the higher yields on commercial loan originations and general interest rate trends during 2000.

Interest income on loans receivable increased $413,000, or 15.2% to $3.1 million for the three months ended March 31, 2001 as compared to the same period in the prior year. The increase in interest income on loans resulted from an increase in the average balance of loans receivable of $18.7 million, or 14.1% to $151.1 million at March 31, 2001, from $132.4 million at March 31, 2000, combined with an increase in the average yield on loans receivable to 8.30% from 8.25%. The increase in the average balance of loans receivable is primarily comprised of originations of one-to-four family residential mortgages and originations of commercial real estate and business loans. The increase in the yield on average loans receivable was attributable to the increase in the average balance of commercial real estate and business loans which are typically originated at yields greater than the residential mortgage portfolio.

Interest income on the mortgage-backed securities portfolio decreased by $40,000, or 10.0%, to $363,000 for the three months ended March 31, 2001, from $403,000 for the three months ended March 31, 2000. The decrease in interest income on mortgage-backed securities resulted generally from the decrease in the average balance on mortgage-backed securities of $2.1 million, or 8.8%, combined with a decrease in the average yield on mortgage-backed securities to 6.68% from 6.77%.

Interest income on investment securities, on a tax equivalent basis, decreased $26,000, or 3.6%, for the three months ended March 31, 2001 to $706,000 from $732,000 for the same period in 2000. The decrease resulted primarily from the decrease in the average balance of investment securities of $4.7 million, or 10.2%, to $41.4 million for the three months ended March 31, 2001, offset by an increase in the tax equivalent yield of investment securities to 6.82% for the quarter ended March 31, 2001 from 6.36% for the first quarter of 2000. The decrease in the average balance of investment securities is a result of the Company's liquidity being utilized to fund loan portfolio growth. As investments are sold, redeemed or mature, the funds are not reinvested into the securities portfolio.

Interest income on interest-earning deposits remained constant for the three months ended March 31, 2001 and 2000, respectively. The average yield on interest-earning deposits increased to 7.33% from 5.56%.

Interest Expense

Interest expense for the quarter ended March 31, 2001 increased by approximately $349,000, or 17.8%, to $2.3 million from $2.0 million when 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 and average cost of time deposits and borrowings. Time deposits increased $9.5 million, or 13.8%, to $78.6 million for the three months ended March 31, 2001, from $69.1 million for the three months ended March 31, 2000, combined with an increase in the average cost of time deposits to 6.06% from 5.32%. The average balance of borrowed funds increased $2.4

million, or 5.7%, to $45.5 million from $43.0 million for the periods ending March 31, 2001 and 2000 respectively, combined with an increase in the average cost of borrowed funds to 6.08% from 5.84%. The increase in the average cost of interest bearing liabilities is principally the result of the shorter term liabilities repricing in the relatively higher interest rate environment in fiscal year 2000.

Net Interest Income

Net interest income totaled $1.9 million, on a tax equivalent basis, for the three months ended March 31, 2001 and 2000. The relative consistency in net interest income for the quarter endeds March 31, 2001 and 2000, was the result of an increase of $11.9 million, or 5.9%, in the average balance of interest earning assets, combined with a increase in the average yield on interest earning assets to 7.85% from 7.65%, offset by an increase in the average balance of interest bearing liabilities of $11.5 million, or 6.2%, and an increase in the average cost of interest bearing liabilities to 4.66% from 4.20%.

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 March 31, 2001 of $121,000, as compared to a provision of $115,000 for the three months ended March 31, 2000. The increase in provision for loan losses reflects higher net charge-offs for the period as well as the increased risks associated with the Company's expanded commercial lending. The Company's ratios of allowance for loan losses to total loans receivable and to non-performing loans at March 31, 2001 were .89% and 66.93%, respectively.

Non-interest Income

Non-interest income consists of servicing income, fee income, gain (loss) on sales of loans and investment securities and other operating income. Non-interest income increased approximately $311,000, to $364,000 for the three months ended March 31, 2001 as compared to $53,000 for the prior year quarter. Non-interest income, exclusive of securities gains and losses, increased $34,000, or 13.2%, for the quarter ended March 31, 2001 as compared to the same period in the prior year. The increase in non-interest income is attributable to a $26,000 increase in other charges, commissions and fees and an $8,000 increase in loan servicing fees. Net gains (losses) on securities and loans increased $277,000, from a loss of $208,000 in the first quarter of 2000, to net gains of $69,000 for the 3 month period ending March 31, 2001. The prior year securities losses were incurred in conjunction with the reorganization of the Company's earning assets in an effort to improve future profitability.

Non-interest Expense

Non-interest expense decreased $878,000, or 33.9%, to $1.7 million for the three months ended March 31, 2001, as compared to the same period in 2000. The primary components of this decrease were the recording of certain unusual items and non-recurring charges of $849,000 by the Company during the first quarter of 2000. These non-interest expense levels resulted in an operating expense to total asset ratio of 2.94% and an efficiency ratio of 77.33%.

Income Taxes

Income taxes increased $270,000 for the quarter ended March 31, 2001 as compared to the same period in the prior year. This increase was directly attributable to a $1.2 million 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, 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 March 31, 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 $25.5 million, representing a cumulative one-year gap ratio of a negative 10.92%.

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, 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 Portfolio Value Percentage Change
300	-15.65%	-21.18%
200	-10.01%	-13.85%
100	-4.88%	-6.75%
Base Case	-	-
(100)	3.21%	2.97%
(200)	6.09%	4.40%
(300)	6.96%	2.94%

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

Not applicable

Other Information

On March 20, 2001 the Board of Directors declared a $.06 cash dividend to shareholders of record as of March 31, 2001, payable on April 16, 2001.

Exhibits and Reports on Form 8-K

None

SIGNATUARES

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.

Date: May 11, 2001	/s/ Thomas W. Schneider Thomas W. Schneider President, Chief Executive Officer

		/s/ James A. Dowd
	May 11, 2001	------------------------------------
Date:	---------------	James A. Dowd
		Vice President, Chief Financial Officer