PATHFINDER BANCORP INC
Form 10-K
March 28, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
OR
[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transaction period from ___________________ to ______________________

Commission File Number: 000-23601

PATHFINDER BANCORP, INC.
(Exact Name of Registrant as Specified in its Charter)

Federal.	16-1540137
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification N
214 West First Street, Oswego, NY.	13126
Address of Principal Executive Office). . . .	(Zip Code)

(315) 343-0057
(Registrant's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE $.01 PER SHARE
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such requirements for the past 90 days.
YES [X] NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [X]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
YES   NO [X]

As of March 18, 2003, there were 2,914,669 shares issued and 2,441,882 shares outstanding of the Registrant's Common Stock. The aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of the Common Stock as of March 18, 2003 ($14.35) was $12,321,517.

The Form 10-K contains 38 pages. The Exhibit Index is located on page 38.

DOCUMENTS INCORPORATED BY REFERENCE

1. Sections of Annual Report to Stockholders for the fiscal year ended December 31, 2002 (Parts II and IV).
2. Proxy Statement for the 2002 Annual Meeting of Stockholders (Parts I and III).

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PART I

ITEM 1. BUSINESS

GENERAL

PATHFINDER BANCORP, INC.

Pathfinder Bancorp, Inc. (the "Company") is a Federal corporation. On July 19, 2001, the Company completed its conversion from a Delaware chartered company to a federal charter. As a result of the charter conversion the Company's chartering authority and primary federal regulator is the Office of Thrift Supervision. References to the Company include the Company before or after the charter conversion. The only business of the Company is its investment in Pathfinder Bank (the "Bank") and Pathfinder Statutory Trust 1. The Company is majority owned by Pathfinder Bancorp, MHC, a Federal-chartered mutual holding company (the "Mutual Holding Company"). On December 30, 1997 the Company acquired all of the issued and outstanding common stock of the Bank in connection with the Bank's reorganization into the two-tier form of mutual holding company ownership. At that time, each share of outstanding Bank common stock was automatically converted into one share of Company common stock, par value $.10 per share (the "Common Stock"). At February 28, 2003, the Mutual Holding Company held 1,583,239 shares of Common Stock and the public held 1,027,257 shares of Common Stock (the "Minority Shareholders").

On June 26, 2002, the Company formed a wholly owned subsidiary, Pathfinder Statutory Trust I, a Connecticut business trust. The trust issued $5,000,000 of 30-year floating rate Company-obligated pooled capital securities of Pathfinder Statutory Trust I. The Company borrowed the proceeds of the capital securities from its subsidiary by issuing floating rate junior subordinated deferrable interest debentures having substantially similar terms. The capital securities mature in 2032 and qualify as Tier 1 capital by the Federal Deposit Insurance

Company and the Office of Thrift Supervision. The capital securities of the trust are a pooled trust preferred fund of Preferred Term Securities VI, Ltd. and are tied to the 3 month LIBOR plus 3.45% with a five year call provision. These securities are guaranteed by the Company.

The Company's executive office is located at 214 West First Street, Oswego, New York and the telephone number at that address is (315) 343-0057.

PATHFINDER BANK

The Bank is a New York-chartered savings bank headquartered in Oswego, New York. The Bank has six full-service offices located in its market area consisting of Oswego County and the contiguous counties. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank was chartered as a New York savings bank in 1859 as Oswego City Savings Bank. The Bank is a consumer-oriented institution dedicated to providing mortgage loans and other traditional financial services to its customers. The Bank is committed to meeting the financial needs of its customers in Oswego County, New York, the county in which it operates. At December 31, 2002, the Bank had total assets of $279.1 million, total deposits of $204.5 million, and shareholders' equity of $23.2 million.

On October 25, 2002, Pathfinder Bank completed the purchase of assets and the assumption of non-municipal deposits of the Lacona, New York branch of Cayuga Bank (the "Branch Acquisition"). In addition, Pathfinder Bank formed a limited purpose commercial bank subsidiary, Pathfinder Commercial Bank. Pathfinder Commercial Bank was established to serve the depository needs of public entities in its market area and it assumed the municipal deposit liabilities acquired as part of the Branch Acquisition. The transaction included approximately $26.4 million in deposits, $2.3 million in loans and $430,000 in vault cash and facilities and equipment. The acquisition reflects a premium on deposit liabilities assumed of approximately $2.4 million.

The Bank is primarily engaged in the business of attracting deposits from the general public in the Bank's market area, and investing such deposits, together with other sources of funds, in loans secured by one- to four-family residential real estate. At December 31, 2002, $167.0 million, or 91.4% of the Bank's total loan portfolio consisted of loans secured by real estate, of which $123.2 million, or 73.8 %, were loans secured by one- to four-family residences,

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$31.7 million, or 19.0%, were secured by commercial real estate and $973,000, or ..5%, were secured by multi-family properties. Additionally, $11.2 million, or 6.7 %, of total real estate loans, were secured by second liens on residential properties that are classified in consumer loans. The Bank also originates commercial and consumer loans that totaled $13.2 and $3.9 million, respectively, or 9.4%, of the Bank's total loan portfolio. The Bank invests a portion of its assets in securities issued by the United States Government, state and municipal obligations, corporate debt securities, mutual funds, and equity securities. The Bank also invests in mortgage-backed securities primarily issued or guaranteed by the United States Government or agencies thereof. The Bank's principal sources of funds are deposits, principal and interest payments on loans and borrowings from correspondent financial institutions. The principal source of income is interest on loans and investment securities. The Bank's principal expenses are interest paid on deposits, and employee compensation and benefits.

The Bank's executive office is located at 214 West First Street, Oswego, New York, and its telephone number at that address is (315) 343-0057.

In April 1999, the Bank established Pathfinder REIT, Inc. as the Bank's wholly-owned real estate investment trust subsidiary. At December 31, 2002

Pathfinder REIT, Inc. held $27.8 million in mortgage and mortgage related assets. All disclosures in the Form 10-K relating to the Bank's loans and investments include loan and investments that are held by Pathfinder REIT, Inc.

MARKET AREA AND COMPETITION

The economy in the Bank's market area is manufacturing-oriented and is also significantly dependent upon the State University of New York College at Oswego. The major manufacturing employers in the Bank's market area are National Grid, Alcan, Constellation, NRG and Huhtamaki. The Bank is the second largest financial institution headquartered in Oswego County. However, the Bank encounters competition from a variety of sources. The Bank's business and operating results are significantly affected by the general economic conditions prevalent in its market areas.

The Bank encounters strong competition both in attracting deposits and in originating real estate and other loans. Its most direct competition for deposits has historically come from commercial and savings banks, savings associations and credit unions in its market area. Competition for loans comes from such financial institutions as well as mortgage banking companies. The Bank expects continued strong competition in the foreseeable future, including increased competition from "super-regional" banks entering the market by purchasing large banks and savings banks. Many such institutions have greater financial and marketing resources available to them than does the Bank. The Bank competes for savings deposits by offering depositors a high level of personal service and a wide range of competitively priced financial services. The Bank competes for real estate loans primarily through the interest rates and loan fees it charges and advertising, as well as by originating and holding in its portfolio mortgage loans which do not necessarily conform to secondary market underwriting standards.

LENDING ACTIVITIES

LOAN PORTFOLIO COMPOSITION. The Bank's loan portfolio primarily consists of one-to-four family mortgage loans secured by residential and investment properties, as well as mortgage loans secured by multi-family residences and commercial real estate. To a lesser extent the Bank's loan portfolio also includes consumer and business loans. The Bank generally originates loans for retention in its portfolio and for sale in the secondary market. During 2002, the Bank sold approximately $19.4 million of loans in the secondary market. The loan sales resulted in approximately $152,000 in capitalized servicing rights. At December 31, 2002, $3.6 million, or 3.0%, of the Bank's total one-to-four family real estate portfolio consisted of loans held for sale. In recent years, the Bank has not purchased loans originated by other lenders.

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ANALYSIS OF LOAN PORTFOLIO. The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and in percentages of the portfolio at the dates indicated.

	Years Ended December 31,					
	2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
Real estate loans:						
First mortgage loans/(1)//(3)/. ..	$155,835	85.3%	$141,710	84.8%	$124,636	83.6%

Second mortgage loans/(2)/. . .	11,151	6.1	9,262	5.5	9,978	6.7
Total real estate loans	166,986	91.4	150,972	90.3	134,614	90.3
Commercial and consumer loans:						
Consumer.	3,917	2.2	3,353	2.0	3,009	2.0
Lease financing	431	0.2	244	0.2	237	0.2
Commercial business loans . . .	12,765	7.0	14,113	8.4	12,636	8.5
Total commercial and consumer loans.	17,113	9.4	17,710	10.6	15,882	10.7
Total loans receivable.	184,099	100.8	168,682	100.9	150,496	101.0
Less:						
Unearned premium and origination costs/(fees). . . .	-	-	38	-	(120)	(0.1)
Allowance for loan losses . . .	(1,481)	(0.8)	(1,679)	(0.9)	(1,274)	(0.9)
Total loans receivable, net . .	$182,618	100.0%	$167,041	100.0%	$149,102	100.0%

	1999		1998	
	Amount	Percent	Amount	Percent
Real estate loans:				
First mortgage loans	$110,374	84.4%	$109,372	85.3%
Second mortgage loans	9,492	7.3	9,631	7.5
Total real estate loans	119,866	91.7	119,003	92.8
Commercial and consumer loans:				
Consumer	3,494	2.7	4,085	3.2
Lease financing	278	0.2	350	0.3
Commercial business loans	8,357	6.4	5,900	4.6
Total commercial and consumer loans	12,129	9.3	10,335	8.1
Total loans receivable	131,995	101.0	129,338	100.9
Less:				
Unearned premium and origination costs/(fees)	(84)	(0.1)	(199)	(0.2)
Allowance for loan losses	(1,150)	0.9)	(939)	(0.7)
Total loans receivable, net	$130,761	100.0%	$128,200	100.0%

/(1)/Includes $123.2 million, $31.7 million and $973,000 thousand of one- to four-family residential loans, commercial real estate and multi-family loans, respectively, at December 31, 2002.
/(2)/Includes $4.4 million and $6.7 million of home equity line of credit loans and home equity fixed rate, fixed term loans, respectively at December 31, 2002.
/(3)/Includes $3.6 million of mortgage loans held-for-sale at December 31, 2002.

LOAN MATURITY SCHEDULE. The following table sets forth certain information as of December 31, 2002 regarding the dollar amount of loans maturing in the Bank's portfolio based on their contractual terms to maturity. Demand loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Adjustable and floating rate loans are included in the period in which interest rates are next scheduled to adjust rather than the period in which they contractually mature, and fixed rate loans are included in the period in which the final contractual repayment is due.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years
	(In Thousands)			
Real estate loans:				
First mortgage loans	$ 32,455	$19,494	$27,451	$13,955
Second mortgage loans.	4,478	454	1,096	3,560
Commercial and consumer loans.	11,403	1,488	2,722	1,196
Total loans.	$ 48,336	$21,436	$31,269	$18,711

	Ten Through Twenty Years	Beyond Twenty Years	Total
Real estate loans:			
First mortgage loans.	$48,005	$14,475	$155,835
Second mortgage loans	1,563	0	11,151
Commercial and consumer loans	304	0	17,113
Total loans	$49,872	$14,475	$184,099

The following table sets forth at December 31, 2002, the dollar amount of all fixed rate and adjustable rate loans due or repricing after December 31, 2003:

	Fixed	Adjustable	Total
	(In Thousands)		
Real estate loans:			
First mortgage loans	$ 95,559	$ 27,820	$123,379
Second mortgage loans.	6,673	-	6,673
Commercial and consumer loans.	5,712	-	5,712
Total loans.	$107,944	$ 27,820	$135,764

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ONE- TO FOUR-FAMILY RESIDENTIAL MORTGAGE LOANS. The Bank's primary lending activity is the origination of first mortgage loans secured by one- to four-family residential properties. A portion of one- to four-family mortgage loans originated by the Bank are secured by non-owner occupied homes which are primarily used to furnish housing to students attending the SUNY College at Oswego. The Bank generally retains in its portfolio all ARM loans that it originates. However, the Bank generally underwrites its loans so as to be eligible for resale in the secondary mortgage market. At December 31, 2002, approximately 76.7% of the Bank's one- to four-family residential real estate loans were secured by owner-occupied properties.

Fixed-rate one- to four-family residential mortgage loans originated by the Bank are originated with terms of up to 30 years (although fixed rate loans held in portfolio are generally limited to terms of 20 years or less), amortize on a monthly basis, and have principal and interest due each month. Such real estate loans often remain outstanding for significantly shorter periods than their contractual terms to maturity, particularly in a declining interest rate environment. Borrowers may refinance or prepay loans at their option. One- to

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four-family residential mortgage loans originated by the Bank customarily contain "due-on-sale" clauses which permit the Bank to accelerate the indebtedness of the loan upon transfer of ownership of the mortgaged property. Due-on-sale clauses are an important means of increasing the interest rate on existing mortgage loans during periods of rising interest rates. An origination fee of up to 1% is charged on fixed-rate mortgage loans. As a result of the low interest rate environment that has existed in recent years, many of the Bank's borrowers have refinanced their mortgage loans with the Bank at lower interest rates. During years ended December 31, 2002 and 2001, 60.3% and 72.0%, respectively, of the Bank's one-to-four-family mortgage loan originations consisted of fixed-rate loan.

The Bank also originates ARM loans which serve to reduce interest rate risk. The Bank currently originates 3/1 ARM and 5/1 ARM loans; mortgage loans in which the interest rate is fixed for the first three or five years and adjusts annually thereafter. This loan product typically is originated with terms up to 30 years. ARM loans are originated with terms ranging from 5 to 30 years. ARM loans originated by the Bank provide for maximum periodic interest rate adjustment of 2 percent per year and an overall maximum interest rate increase which is determined at the time the loan is originated. However, ARM loans may not adjust to a level below the initial rate. ARMs may be offered at an initial rate below the prevailing market rate. The Bank's one- to four-family ARM loan originations totaled $6.9 million, $9.1 million, and $2.0 million, during the years 2002, 2001 and 2000, respectively. The Bank requires that borrowers qualify for ARM loans based upon the loan's fully indexed rate.

At December 31, 2002, $58.5 million, or 49.2 %, of the Bank's one- to four-family loan portfolio consisted of ARM loans. ARM loans generally pose a credit risk in that as interest rates rise, the amount of a borrower's monthly loan payment also rises, thereby increasing the potential for delinquencies and loan losses. At the same time, the marketability of such loans may be adversely affected by higher rates.

The Bank also originates loans to finance the construction of one- to four-family owner-occupied residences. Funds are disbursed as construction progresses. Loans to finance one- to four-family construction typically provide for a six-month construction phase during which interest accrues and which is deducted from the funds disbursed. Upon completion of the construction phase the loan automatically converts to permanent financing. At December 31, 2002, the Bank held $4.4 million of one- to four-family construction loans.

The Bank's lending policies require private mortgage insurance for loan to value ratios in excess of 80%.

COMMERCIAL REAL ESTATE LOANS. Loans secured by commercial real estate constituted approximately $31.7 million, or 17.2%, of the Bank's total loan portfolio at December 31, 2002. At December 31, 2002, substantially all of the Bank's commercial real estate loans were secured by properties located within the Bank's market area. At December 31, 2002, the Bank's commercial real estate loans had an average principal balance of $173,000. At that date, the largest commercial real estate loan had a principal balance of $1.3 million, and was secured by five retail business properties located in Oswego County. This loan is currently performing in accordance with its original terms. Commercial real estate loans are generally offered with adjustable interest rates tied to a market index which currently is the adjusted six month moving average of the six month Treasury bill auction discount rate, with an overall interest rate cap which is determined at the time the loan is originated. Commercial real estate loans may not adjust to a level below the initial rate. The Bank generally offers commercial real estate loans with from one to five year adjustment periods. The Bank generally makes commercial real estate loans up to 75% of the appraised value of the property securing the loan. An origination fee of up to 2% of the principal balance of the loan is typically charged on commercial real estate loans. Commercial real estate loans originated by the Bank generally are underwritten to mature between 5 and 20 years with an amortization schedule of between 10 and 30 years. The Bank has in the past sold loan participations to other financial institutions and expects to do so in the future as opportunities arise.

In underwriting commercial real estate loans the Bank reviews the expected net operating income generated by the real estate to support debt service, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. The Bank generally obtains personal guarantees from all commercial borrowers. Loans secured by commercial real estate generally involve a greater degree of risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and

borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired.

MULTI-FAMILY REAL ESTATE LOANS. Loans secured by multi-family real estate (real estate containing five or more dwellings) constituted approximately $973,000, or .5%, of the Bank's total loan portfolio at December 31, 2002. At December 31, 2002, the Bank had a total of 8 loans secured by multi-family real estate properties. The Bank's multi-family real estate loans are secured by multi-family rental properties (primarily townhouses and walk-up apartments). At December 31, 2002, substantially all of the Bank's multi-family real estate loans were secured by properties located within the Bank's market area. At December 31, 2002, the Bank's multi-family real estate loans had an average principal balance of approximately $122,000 and the largest multi-family real estate loan had a principal balance of $352,000, and was performing in accordance with its terms. Multi-family real estate loans generally are offered with adjustable interest rates tied to the adjusted six month moving average of the six month Treasury Bill auction discount rate index with an overall interest rate cap which is determined at the time the loan is originated. Multi-family real estate loans may not adjust below the initial rate. Multi-family real estate loans are underwritten to mature between 5 and 20 years, and to amortize over 10 to 30 years. An origination fee of 1% is generally charged on multi-family real estate loans.

In underwriting multi-family real estate loans, the Bank reviews the expected net operating income generated by the real estate to support the debt service, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. The Bank generally requires a debt service coverage ratio of at least 120% (net of operating expenses) of the monthly loan payment. The Bank makes multi-family real estate loans up to 75% of the appraised value of the property securing the loan. The Bank generally obtains personal guarantees from all multi-family real estate borrowers.

Loans secured by multi-family real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate and commercial real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

SECOND MORTGAGE LOANS. The Bank also offers home equity loans and equity lines of credit collateralized by a second mortgage on the borrower's principal residence. The Bank's home equity lines of credit are secured by the borrower's principal residence with a maximum loan-to-value ratio, including the principal balances of both the first and second mortgage loans of 80%, or up to 90% where the Bank has made the first mortgage loan. At December 31, 2002, the disbursed portion of home equity lines of credit totaled $4.4 million. Home equity lines of credit are offered on an adjustable rate basis with interest rates tied to the prime rate as published in The Wall Street Journal, plus up to 50 basis points and with terms of up to 15 years.

Home equity loans are fixed rate loans with terms generally up to 10 years, although on occasion the Bank may originate a home equity loan with a term of up to 15 years.

CONSUMER LOANS. As of December 31, 2002, consumer loans totaled $3.9 million, or 2.1%, of the Bank's total loan portfolio. The principal types of consumer loans offered by the Bank are unsecured personal loans, and loans secured by deposit accounts. Other consumer loans are offered on a fixed rate basis with maturities generally of less than five years.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's credit history and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and additionally from any verifiable secondary income. Creditworthiness and the employment history of the applicant are of primary consideration in originating consumer loans, and in the case of home equity lines of credit, the Bank obtains a title guarantee, title search, or an opinion as to the validity of title.

COMMERCIAL BUSINESS LOANS. The Bank currently offers commercial business loans to businesses in its market area and to deposit account holders. At December 31, 2002, the Bank had commercial business loans outstanding with an aggregate balance of $12.8 million, of which $8.1 million consisted of commercial lines of credit. The average commercial line of credit balance was approximately $80,000. Commercial lines of credit generally have variable rates of interest tied to the prime rate and adjust monthly. The lines of credit are generally collateralized by current assets of the borrower and renewed on an annual basis. The average commercial business loan balance was approximately $39,000. Commercial business loans generally have fixed rates of interest. The loans are generally of short duration with average terms of five years, but which may range up to 15 years. Lease financing arrangements are loans which are secured by pools of leases for medical or dental equipment or leases to finance the acquisition of business equipment.

Underwriting standards employed by the Bank for commercial business loans include a determination of the applicant's ability to meet existing obligations and payments on the proposed loan from normal cash flows generated by the applicant's business. The financial strength of each applicant also is assessed through a review of financial statements provided by the applicant.

Commercial business loans generally bear higher interest rates than residential loans, but they also may involve a higher risk of default since their repayment is generally dependent on the successful operation of the borrower's business. The Bank generally obtains guarantees from the borrower, a third party, or the Small Business Administration, as a condition to originating its commercial business loans.

LOAN ORIGINATIONS, SOLICITATION, PROCESSING, AND COMMITMENTS. Loan originations are derived from a number of sources such as existing customers, developers, walk-in customers, real estate broker referrals, and commissioned mortgage loan originators. Upon receiving a loan application, the Bank obtains a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, an independent appraiser approved by the Bank appraises the real estate intended to secure the proposed loan. A loan processor in the Bank's loan department checks the loan application file for accuracy and completeness, and verifies the information provided. Mortgage loans of up to $275,000 may be approved by any designated loan officer; mortgage loans in excess of $325,000 must be approved by the Board of Directors. Commercial loans of up to $50,000 unsecured, or $75,000 (if secured by other than real estate) may be approved by the Bank's President, the Executive Vice President and Senior Commercial Lender. These individuals may join their limits to a total approval amount of $225,000 unsecured, and $325,000 secured. Loans in excess of these limits must be approved by either the entire Board of Directors, or a subcommittee of the Board of Directors. The Board of Directors, at their monthly meeting, will review and verify that management's approvals of loans are made within the scope of management's authority. After the loan is approved, a loan commitment letter is promptly issued to the borrower. At December 31, 2002, the Bank had commitments to originate $15.3 million of loans.

If the loan is approved, the commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization term, a brief description of the required collateral, and required insurance coverage. The borrower must provide proof of fire and casualty insurance on the property (and, as required, flood insurance) serving as collateral, which insurance must be maintained during the full term of the loan. Title insurance, title search, or an opinion of counsel as to the validity of title are required on all loans secured by real property. In recent years, the Bank has not purchased loans originated by other lenders.

ORIGINATION, REPAYMENT AND SALE OF LOANS. The table below shows the Bank's loan origination, repayment and sales activity for the periods indicated.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In Thousands)				
Loan receivable, beginning of period . .	$169,538	$150,496	$131,995	$129,338	$122,727
Originations:					
Real estate:					
First mortgage/(1)//(3)	73,778	44,510	30,627	26,987	34,908
Second mortgage/(2).	2,645	1,871	2,721	1,408	1,516
Commercial and consumer loans:					
Consumer loans	1,697	1,960	1,784	1,299	2,412
Lease financing.	-	-	-	-	-
Commercial	3,004	6,003	3,812	5,210	6,849
Total originations	81,124	54,344	38,944	34,904	45,685
Transfer of mortgage loans to foreclosed real estate	1,138	348	638	93	563
Repayments	45,984	20,979	18,930	26,161	29,969
Loan sales	19,441	13,975	875	5,993	8,542
Net loan activity.	14,561	19,042	18,501	2,657	6,611
Total loans receivable at end of period.	$184,099	$169,538	$150,496	$131,995	$129,338

/(1)/Includes $10.7 million in commercial real estate loans for the year ended December 31, 2002.

/(2)/Includes $2.6 million in home equity loans and a net change of $1.1 million in home equity lines of credit for year ended December 31, 2002.

/(3)/Includes $12.1 million of mortgage loans held-for-sale originated during the year ended December 31, 2002.

LOAN ORIGINATION FEES AND OTHER INCOME. In addition to interest earned on loans, the Bank generally receives loan origination fees. To the extent that loans are originated or acquired for the Bank's portfolio, SFAS 91 requires that the Bank defer loan origination fees and costs and amortize such amounts as an adjustment of yield over the life of the loan by use of the level yield method. ARM loans originated below the fully indexed interest rate will have a substantial portion of the deferred amount recognized as income in the initial adjustment period. Fees deferred under SFAS 91 are recognized into income immediately upon prepayment or the sale of the related loan. At December 31, 2002, the Bank had $259,000 of net deferred loan origination costs. Loan origination fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand for and availability of money.

In addition to loan origination fees, the Bank also receives other fees, service charges, and other income that consist primarily of deposit transaction account service charges, late charges and income from REO operations. The Bank recognized fees and service charges of $1.1 million, $934,000 and $853,000, for the fiscal years ended December 31, 2002, 2001 and 2000, respectively.

LOANS-TO-ONE BORROWER. Savings banks are subject to the same loans-to-one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired net worth on an unsecured basis. If the loan is secured by readily marketable collateral, the bank is allowed to apply an additional amount equal to 10% of unimpaired net worth. At December 31, 2002, the Bank's largest lending relationship totaled $3.8 million and consisted of loans secured by a retail business property and residence. The Bank's second largest lending relationship totaled $3.5 million and consisted of loans secured by commercial retail businesses and residential properties. The Bank's third largest lending relationship totaled $3.2 million and consisted of loans secured by business assets, equipment and real estate. The Bank's fourth largest lending relationship totaled $2.8 million and was secured by retail business property. The Bank's fifth largest lending relationship totaled $1.8 million and consisted of loans secured by retail business property, retail office plaza and one-to four- family residential properties. All of the above loans are also secured by underlying personal guarantees. At December 31, 2002, the aforementioned loans were performing in accordance with their terms with the exception of one credit relationship which was delinquent at December 31, 2002. Subsequent to year end, this credit relationship was modified and is now performing in accordance with those terms.

DELINQUENCIES AND CLASSIFIED ASSETS

DELINQUENCIES. The Bank's collection procedures provide that when a loan is 15 days past due, a courtesy phone call is made to the borrower. If the delinquency continues, at 35 days a delinquent notice is sent and immediate payment is demanded. If a loan becomes 40 days past due, and no progress has been made in resolving the delinquency, the Bank will send a notice of foreclosure or notice to commence another legal proceeding, if it is not a mortgagee. When a loan continues in a delinquent status for 70 days or more, and a repayment schedule has not been made or kept by the borrower, generally foreclosure proceedings or other appropriate legal actions are initiated to minimize any potential loss.

NON-PERFORMING ASSETS. Loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collection of additional interest is doubtful. Loans are placed on non-accrual status when either principal or interest is 90 days or more past due or less than 90 days, in the event the loan has been referred to the Bank's legal counsel for foreclosure or other colletions. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. At December 31, 2002, the Bank had non-performing assets of $3.1 million, and a ratio of non-performing loans and real estate owned ("REO") of 1.11% total assets. Non-performing assets increased $355,000, or 12.9%, from $2.8 million in 2001.

Real estate acquired by the Bank as a result of foreclosure or by the deed in lieu of foreclosure is classified as REO until such time as it is sold. These properties are carried at the lower of their recorded amount or estimated fair value less estimated costs to sell the property. REO totaled $1.4 million, $632,000 and $884,000 at December 31, 2002, 2001 and 2000, respectively.

A component of REO consists of a real estate development project which had a net book value of $297,000 at December 31, 2002. The Bank originally entered into a $570,000 commercial real estate loan in 1988 for the development of 49 single family residences. This loan was made under the "leeway provision" of the New York State Banking Law. Under this provision of the Banking Law the lending relationship was originally structured so that the Bank held title to the property securing the loan subject to the fulfillment of the borrower's obligations under the loan. In 1990, the developer became insolvent, was unable to satisfy the terms of the loan and the Bank assumed control of the project. In 1998, the Bank established a wholly-owned subsidiary, whose sole business is the ownership and final development of the Whispering Oaks real estate subdivision in Baldwinsville, New York. This subsidiary was initially capitalized with $50,000 in cash. It is anticipated that this capitalization, together with interim financing to be provided by the Bank, will be sufficient to complete and liquidate this asset. At December 31, 2002, the Bank had 10 lots remaining to be sold. The proceeds from the sale of the lots are used to reduce the outstanding balance of REO. The Bank believes it will fully recover its investment in this property.

DELINQUENT LOANS AND NON-PERFORMING ASSETS

The following table sets forth information regarding the Bank's loans delinquent 90 days or more, and real estate acquired or deemed acquired by foreclosure at the dates indicated. When a loan is delinquent 90 days or more, the Bank reverses all accrued interest thereon and ceases to accrue interest thereafter. For all the dates indicated, the Bank did not have any material restructured loans within the meaning of SFAS 15 and SFAS 114.

	At December 31,				
	2002	2001	2000	1999	1998
	(Dollars in Thousands)				
Loans delinquent, 90 days or more:					
Real estate loans	$ 1,483	$ 1,576	$ 1,594	$ 2,284	$ 1,298
Commercial and consumer loans	228	543	234	270	534
Total delinquent loans.	1,711	2,119	1,828	2,554	1,832
Total REO	1,396	632	884	641	742
Total nonperforming assets/(1)/	$ 3,107	$ 2,751	$ 2,712	$ 3,195	$ 2,574
Total loans delinquent 90 days or more to total loans receivable/(2)/	0.9%	1.3%	1.2%	2.0%	1.4
Total loans delinquent 90 days or more to total assets	0.6%	0.9%	0.8%	1.2%	0.9
Total nonperforming assets to total assets.	1.1%	1.1%	1.2%	1.5%	1.3
Net loans receivable/(3)/.	182,618	167,041	149,102	130,761	128,200
Total assets.	$279,055	$244,366	$231,847	$216,324	$203,252

/(1)/Net of specific valuation allowances.
/(2)/Net of unearned discount, and the allowance for loan losses.
/(3)/Includes $3.6 million of mortgage loans held-for-sale.

During the year ended December 31, 2002 and 2001, respectively, additional gross interest income of $141,000 and $118,000 would have been recorded on loans accounted for on a non-accrual basis if the loans had been current throughout the period. No interest income on non-accrual loans was included in income during the same periods.

The following table sets forth information with respect to loans past due 30-89 days in the Bank's portfolio at the dates indicated.

	At December 31,				
	2002	2001	2000	1999	1998
	(In Thousands)				
Loans past due 30-89 days:					
Real estate loans.	$2,234	$3,476	$2,493	$1,619	$2,010
Commercial and consumer loans.	2,156	994	147	161	126
Total past due 30-89 days. . .	$4,390	$4,470	$2,640	$1,780	$2,136

The following table sets forth information regarding the Bank's delinquent loans 60 days and greater and REO at December 31, 2002.

	At December 31, 2002	
	Balance	Number
	(Dollars in Thousands)	
Residential real estate:		
Loans 60 to 89 days delinquent.	$ 368	6
Loans more than 90 days delinquent. . .	1,483	24
Consumer and commercial business loans 60 days or more delinquent.	1,577	22
Real estate owned	1,396	7
Total	$ 4,824	59

CLASSIFICATION OF ASSETS. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered to be of lesser quality as "substandard," "doubtful," or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated "special mention" by management.

When a savings institution classifies problem assets as either substandard or doubtful, it is required to establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When a savings institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of the assets so classified, or to charge off such amount. A savings institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by federal and state regulatory authorities, which can order the establishment of additional general or specific loss allowances. The Bank regularly reviews the problem loans in its portfolio to determine whether any loans require classification in accordance with applicable regulations.

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The following table sets forth the aggregate amount of the Bank's internally classified assets at the dates indicated.

	At December 31,				
	2002	2001	2000	1999	1998
	(In Thousands)				
Substandard assets/(1)/.	$2,828	$2,395	$1,770	$2,668	$2,482
Doubtful assets.	26	30	34	110	103
Loss assets.	70	33	44	7	90
Total classified assets.	$2,924	$2,458	$1,848	$2,785	$2,675

/(1)/Includes $297,000 $297,000, $458,000, $510,000, and $638,000 for a real estate development project classified as REO at December 31, 2002, 2001, 2000, 1999 and 1998, respectively.

ALLOWANCE FOR LOAN LOSSES. Management's policy is to provide for estimated losses on the Bank's loan portfolio based on management's evaluation of the potential losses that may be incurred. The Bank reviews on a quarterly basis the loans in its portfolio which have demonstrated delinquencies, including problem loans, to determine whether any loans require classification or the establishment of appropriate reserves or allowances for losses. Such evaluation, which includes a review of all loans of which full collectibility of interest and principal may not be reasonably assured, considers, among other matters, past loss experience, present economic conditions and other factors deemed relevant by management. Management calculates the general allowance for loan losses on past experience as well as current delinquencies and the composition of the Bank's loan portfolio. While both general and specific loss allowances are charged against earnings, general loan loss allowances are included, subject to certain limitations, as capital in computing risk-based capital under federal regulations.

In accordance with SFAS 114, a loan is considered impaired when each of the following criteria are met: the loan is of a material size, the loan is considered to be non-performing, and a loss is probable. The measurement of impaired loans is generally based upon the present value of expected future cash flows discounted at the historic effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. There were no impaired loans as of December 31, 2002.

Management will continue to review the entire loan portfolio to determine the extent, if any, to which further additional loan loss provisions may be deemed necessary. Management believes that the Bank's current allowance for loan losses is adequate, however, there can be no assurance that the allowance for loan losses will be adequate to cover losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES. The following table sets forth the analysis of the allowance for loan losses at or for the periods indicated.

	At or for the Period Ended December 31,				
	2002	2001	2000	1999	199
	(Dollars in Thousands)				
Total loans receivable, net.	$182,618	$167,041	$149,102	$130,761	$128,20
Average loans outstanding.	177,047	155,653	139,258	130,728	126,93
Allowance balance (at beginning of period) .	1,679	1,274	1,150	939	82
Provision for losses:					
Real estate.	254	139	65	135	8
Commercial and consumer loans.	1,122	569	179	238	29
Charge offs:					
Real estate.	85	109	40	0	14
Commercial and consumer loans.	1,578	256	99	190	14
Recoveries:					
Commercial and consumer loans.	89	62	19	28	1
Allowance balance (at end of period)	$ 1,481	$ 1,679	$ 1,274	$ 1,150	$ 93

Allowance for loan losses as a percent of net loans receivable at end of period. . . .	0.8%	1.0%	0.9%	0.9%	0.
Loans charged off as a percent of average loans outstanding.	0.9%	0.2%	0.1%	0.1%	0.
Ratio of allowance for loan losses to total nonperforming loans at end of period .	86.6%	79.2%	69.7%	45.0%	51.
Ratio of allowance for loan losses to total nonperforming assets at end of period .	47.7%	61.0%	47.0%	36.0%	36.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES. The following table sets forth the allocation of allowance for loan losses by loan category for the periods indicated. The allocation of the allowance by category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,		
	2002	2001	2000
	% of Loans In Each Category to	% of Loans In Each Category to	% C

	Amount	Total Loans	Amount	Total Loans	Amount
			(Dollars in Thousands)		
Balance at end of period applicable to:					
Real estate loans.	$ 303	90.52%	$ 496	89.50%	$ 466
Commercial and consumer loans.	1,178	9.48	1,183	10.50	808
Total allowance for loan losses/(1)/ . .	$ 1,481	100.00%	$ 1,679	100.00%	$ 1,274

	1999		1998	
	Amount	% of Loans In Each Category to Total Loans	Amount	% of Loans In Each Category to Total Loans
Balance at end of period applicable to:				
Real estate loans.	$ 440	90.81%	$ 380	92.01%
Commercial and consumer loans.	710	9.19	559	7.99
Total allowance for loan losses/(1)/ . . .	$ 1,150	100.00%	$ 939	100.00%

/(1)/ Percentages include unearned discount and origination fees.

INVESTMENT ACTIVITIES

The investment policy of the Bank established by the Board of Directors attempts to provide for the overall asset/liability management needs of the Bank, and maintain liquidity, maintain a high quality diversified investment portfolio in order to obtain a favorable return on investment without incurring undue interest rate and credit risk, provide collateral for pledging requirements, and to complement the Bank's lending activities. At December 31, 2002, the Bank had investment securities with an aggregate amortized cost of $62.0 million and a market value of $62.5 million. At December 31, 2002, the Bank's amortized cost value of investment securities consisted of $15.4 million of corporate debt issues and $12.9 million of securities issued or guaranteed by the United States Government or agencies thereof and state and municipal obligations. The corporate debt issues primarily consist of financial corporation debt and industrial debentures (the largest single issuer was $3.0 million). These issues generally have maturities ranging up to 20 years. All corporate debt investments have been rated as investment grade by either Moody's or Standard & Poor's. Typically, such investments yield 60-70 basis points more than Treasury securities with comparable maturities. To a lesser extent, the Bank also invests in mutual funds and equity securities. At December 31, 2002, the Bank held $6.2 million in common stock, of which $2.2 million was Federal Home Loan Bank Stock. The Bank's mutual fund investments at December 31, 2002 consisted of $3.1 million in an equity mutual fund and $3.0 million in an adjustable rate mortgage fund. At December 31, 2002, the Bank had invested $25.2 million in mortgage-backed securities, net. Mortgage-backed securities, like mortgage loans, amortize over the life of the security as the underlying mortgages are paid down. The speed at which principal payments above normally scheduled amortization occurs, is generally unpredictable. Historically, the securities have paid down more rapidly in a falling interest rate environment, thereby shortening the life of the security. Likewise, in a rising interest rate environment, the life of the mortgage-backed security tends to extend. The result is that, generally, the Bank will receive more investable funds in lower interest rate environments and less investable funds during periods of higher interest rates. The embedded option on the part of the underlying mortgagee to prepay the loan, therefore, tends to impact the value of the security and can adversely impact the Bank's net interest margin. The Bank's investments are, generally, liquid, and therefore allow the Bank to respond more readily to changing market conditions. The investment portfolio is accounted for in accordance with FASB Statement 115.

The Bank generally has maintained a portfolio of liquid assets that exceeds regulatory requirements. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the yield that will be available in the future, as well as management's projections as to the short term demand for funds to be used in the Bank's loan origination and other activities. For further information regarding the Bank's investments see Note 2 to the Notes to Financial Statements.

At December 31, 2002, the Company holds the following corporate debt investments which exceed 10% of total capital.

Issuer	Book Value	Fair Market Value
CNA Financial	$2,999,626	$2,920,704

INVESTMENT PORTFOLIO. The following table sets forth the carrying value of the Bank's investment portfolio at the dates indicated. At December 31, 2002, the market value of the Bank's investments was approximately $62.5 million. The market value of investments includes interest-earning deposits, and mortgage-backed securities.

	At December 31,		
	2002	2001	2000
	(In Thousands)		
Investment securities:			
US Government and agency obligations	$ 4,378	$ 5,971	$ 9,667
State and municipal obligations.	8,549	6,012	6,405
Corporate debt issues.	15,375	20,949	23,027
Equity securities.	6,225	3,227	2,340
Mutual funds	3,070	3,007	2,861
	37,597	39,166	44,300
Unrealized loss on available for sale portfolio.	(251)	(293)	(26)
Total investment securities.	37,346	38,873	44,274
Total investments.	$37,346	$38,873	$44,274
Mortgage-backed securities, net:			
Adjustable rate.	3,423	633	1,284
Fixed rate	21,017	13,488	18,122

	24,440	14,121	19,406
Unrealized gain on available for sale portfolio.	720	428	78
Total mortgage-backed securities, net.	$25,160	$14,549	$19,484

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INVESTMENT PORTFOLIO MATURITIES. The following table sets forth the amortized cost, market value, average life in years, and annualized weighted average yield of the Bank's investment portfolio at December 31, 2002.

	Amortized Cost	Average Market Value	Life Years	Annualized Weighted Average Yield
	(Dollars in Thousands)			
Investment securities:				
U.S. Government treasury	$ 19	$ 18	6.88	10.9%
U.S. Government agency	4,359	4,447	2.22	3.5%
State and municipal obligations.	8,549	8,864	6.87	5.1%
Corporate debt issues.	15,375	15,270	8.11	6.3%
Marketable equity securities	9,295	8,747		
Total.	$37,597	$37,346		
Unrealized loss on available for sale portfolio.	(251)			
Carrying value of investment securities.	$37,346			

SECURITIES PORTFOLIO MATURITIES. The following table sets forth the scheduled maturities, carrying values, market values and average yields for the Bank's investment securities at December 31, 2002. Yield is calculated on the amortized cost to maturity, and does not reflect adjustments to a fully tax-equivalent basis.

	December 31, 2002					
	One year or less		One to five years		Five to Ten Years	
	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Annualized Weighted Average Yield
	(Dollars in Thousands)					
INVESTMENT SECURITIES AVAILABLE FOR SALE:						
Debt investment securities:						
U.S. Agency securities	$ 2,014	3.505%	$ 2,327	3.495%	$ 18	6.626%

U.S. Government securities	-	-	-	-	19	10.853
State and municipal obligations.	937	7.860	3,388	4.923	1,330	4.287
Corporate debt issues.	783	7.024	7,603	6.336	3,217	7.200
Total.	$ 3,734	5.336%	$13,318	5.478%	$ 4,584	6.373%
Equity and mortgage-backed securities:						
Mutual funds	$ 6,118	1.401%	-	-	-	-
Mortgage-backed securities	-	-	2,031	6.464	6,684	4.224
Common stock	3,117	3.977	-	-	-	-
Total.	$ 9,295	2.277	2,031	6.464%	$ 6,684	4.224%
Total investment securities.	$13,029	3.164%	$15,349	5.606%	$11,268	5.105%

	More Than Ten Years		Total Investment Securities		
	Carrying Value	Annualized Weighted Average Yield	Carrying Value	Market Value	Annualized Weighted Average Yield
		(Dollars in Thousands)			
INVESTMENT SECURITIES AVAILABLE FOR SALE:					
Debt investment securities:					
U.S. Agency securities	$ -	-%	$ 4,359	$ 4,446	3.512%
U.S. Government securities	-	-	19	18	10.854
State and municipal obligations.	2,894	4.430	8,549	8,864	4.979
Corporate debt issues.	3,770	4.911	15,375	15,270	6.277
Total.	$ 6,664	4.673%	$28,302	$28,598	5.079%
Equity and mortgage-backed securities:					
Mutual funds	$ -	-%	$ 6,118	$ 5,280	1.401%
Mortgage-backed securities	15,723	5.349	24,438	25,160	5.079
Common stock	0	-	3,177	3,468	3.977
Total.	$15,723	5.349%	$33,735	$33,908	4.307%
Total investment securities.	$22,527	5.146%	$62,037	$62,506	5.268%
Unrealized gain on available for sale portfolio			469		
Total carrying value			$62,506		5.268%

SOURCES OF FUNDS

GENERAL. Deposits are the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, the Bank derives funds from the amortization and prepayment of loans and mortgage-backed securities, the maturity of investment securities and operations and from other borrowings. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes.

DEPOSITS. Consumer and commercial deposits are attracted principally from within the Bank's market area through the offering of a broad selection of deposit instruments including noninterest-bearing demand accounts, NOW accounts, passbook and club accounts, money market deposit, term certificate accounts and individual retirement accounts. While the Bank accepts deposits of $100,000 or more, it generally does not currently offer premium rates for such deposits. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. The Bank has a committee which meets weekly to evaluate the Bank's internal cost of funds, surveys rates offered by competing institutions, reviews the Bank's cash flow requirements for lending and liquidity and the number of certificates of deposit maturing in the upcoming week. This committee executes rate changes when deemed appropriate. The Bank does not obtain funds through brokers, nor does it solicit funds outside its market area.

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DEPOSIT PORTFOLIO. The following table sets forth information regarding interest rates, terms, minimum amounts and balances of the Bank's savings and other deposits as of December 31, 2002:

Weighted Average Interest Rate.	Minimum Term	Checking and Savings Deposits	Minimum Amount	Balance	Percentage of Total Deposits
			(Balance in thousands)		
0.000%	None	Non-interest demand account	$ 50	$ 15,764	7.77%
0.768%	None	NOW accounts	500	15,404	7.59%
1.050%	None	Savings accounts - fixed	100	46,658	23.00%
1.320%	None	Savings accounts - tiered	100	18,859	9.30%
1.497%	None	Money management accounts	1,500	19,765	9.74%
		Certificates of deposit:			
1.793%	30-day	Fixed term, fixed rate	2,500	2,332	1.15%
1.457%	3 months	Fixed term, fixed rate	1,000	150	0.07%
1.896%	6 months	Fixed term, fixed rate	2,500	8,046	3.97%
2.254%	9 months	Fixed term, fixed rate	1,000	29	0.01%
2.976%	11 months	Fixed term, fixed rate	1,000	527	0.26%
2.729%	12 months	Fixed term, fixed rate	1,000	23,279	11.47%
3.142%	15 months	Fixed term, fixed rate	1,000	3,841	1.89%
2.101%	18 months	Fixed term, variable rate	1,000	1,201	0.59%
3.330%	18 months	Fixed term, fixed rate	1,000	4,792	2.36%
4.166%	24 months	Fixed term, fixed rate	1,000	5,839	2.88%
3.883%	30 months	Fixed term, fixed rate	1,000	2,347	1.16%
5.088%	36 months	Fixed term, fixed rate/(1)/	1,000	14,336	7.07%
5.050%	48 months	Fixed term, fixed rate/(1)/	1,000	7,593	3.74%

5.968%	60 months	Fixed term, fixed rate	1,000	2,665	1.31%
5.904%	84 months	Fixed term, fixed rate	1,000	9,450	4.66%
3.045%	60-120 months	Fixed term, fixed rate	1,000	4	0.01%
		Total		$202,881/(2)/	100.00%

/(1)/This deposit product allows the depositor to elect to adjust the interest rate paid once during the initial term of the deposit to the the prevailing rate.
/(2)/Excludes escrow accounts totalling $1,640,784 at December 31, 2002.

The following table sets forth the change in dollar amount of savings deposits in the various types of savings accounts offered by the Bank between the dates indicated.

	Balance At 12/31/02	Percent of Deposits	Incr. (Decr)	Balance At 12/31/01	Percent of Deposits	Incr. (Decr)
			(Dollars in Thousands)			
Club Accounts	$ 1,135	0.56%	$ 161	$ 974	0.58%	$ 16
Noninterest accounts. . . .	15,764	7.77	2,728	13,036	7.75	3,140
NOW accounts.	15,404	7.59	173	15,231	9.06	(280)
Passbooks	64,382	31.74	4,540	59,842	35.59	2,968
Money management accounts .	19,765	9.74	15,348	4,417	2.63	4,417
Time deposits which mature						
Within 12 months.	48,721	24.01	(2,450)	51,172	30.43	(604)
Within 12-36 months	24,622	12.14	7,909	16,713	9.94	(1,557)
Beyond 36 months.	13,088	6.45	6,329	6,759	4.02	(320)
Total	$ 202,881/(1)/	100.00%	$34,737	$ 168,144	100.00%	$ 7,783

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	Balance at 12/31/00	Percent of Deposits	Incr. (Decr)	Balance At 12/31/99	Percent of Deposits	Incr. (Decr)	Ba 12
				(Dollars in Thousands)			
Club Accounts	$ 958	0.60%	$ (44)	$ 1,002	0.66%	$ 94	$
Noninterest accounts. . . .	9,893	6.17	147	9,746	6.43	273	
NOW accounts.	15,511	9.67	1,515	13,996	9.24	(2,331)	
Passbooks	56,874	35.47	(1,555)	58,429	38.56	(4,893)	
Time deposits which mature							
Within 12 months.	51,776	32.29	5,688	46,088	30.41	(5,716)	
Within 12-36 months	18,270	11.39	2,080	16,190	10.68	2,799	
Beyond 36 months.	7,079	4.41	994	6,085	4.02	1,801	
Total	$160,361	100.00%	$ 8,825	$ 151,536	100.00%	$(7,973)	$

/(1)/ Excludes escrow accounts totalling $1,640,784 at December 31, 2002.

The following table sets forth the certificates of deposit in the Bank classified by rates as of the dates indicated:

	At December 31,		
	2002	2001	2000
	(In Thousands)		
RATE			
3.00% or less.	$36,659	$ 7,169	$ 6
3.01 - 3.99% .	14,776	13,701	14
4.00 - 4.99% .	16,334	17,331	1,133
5.00 - 5.99% .	8,168	17,284	20,353
6.00 - 6.99% .	10,198	18,000	54,324
7.00 - 7.99% .	296	1,159	1,169
	$86,431	$74,644	$76,999

The following table sets forth the amount and maturities of certificates of deposit at December 31, 2002.

	Amount due						
	Less Than One Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years	Total
	(Dollars in Thousands)						
3.00% or less.	$ 31,539	$ 4,597	$ 202	$ 307	$ 13	$ 0	$36,659
3.01 - 3.99%	6,867	4,190	2,284	828	323	284	14,776
4.00 - 4.99%	3,720	1,608	6,297	2,839	434	1,436	16,334
5.00 - 5.99%	1,989	1,665	757	1,217	173	2,367	8,168
6.00 - 6.99%	4,443	1,946	943	1,060	1,665	141	10,198
7.00 and above	163	96	37	0	0	0	296
	$ 48,721	$14,102	$10,520	$6,252	$2,608	$ 4,228	$86,431

The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more by time remaining until maturity as of December 31, 2002.

Remaining Maturity	Certificates Of Deposit Of $100,000 or More
	(In thousands)
Three months or less. . .	$ 4,149

Three through six months.		3,317
Six through twelve months		3,223
Over twelve months. . . .		5,139
Total	$	15,828

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The following table sets forth the net changes in the deposit activities of the Bank for the periods indicated:

	At December 31		
	2002	2001	2000
	(In Thousands)		
Balance at beginning of period . . .	$168,144	$160,364	$151,536
Net deposits	30,081	1,680	2,975
Interest credited.	4,656	6,100	5,853
Ending Balance	$202,881	168,144	160,364
Net increase/(decrease) in deposits.	$ 34,737	$ 7,780	$ 8,828

BORROWINGS

Savings deposits are the primary source of funds of the Bank's lending and investment activities and for its general business purposes. At December 31, 2002, the Bank had $3.4 million in funds obtained from repurchase agreements outstanding, $29.8 million in long-term term advances and $5.0 million in a pooled trust preferred security obligation. The Bank is a member of the Federal Home Loan Bank System.

The following table summarizes the outstanding balance of short-term borrowing of the Bank for the years indicated.

	At December 31		
	2002	2001	2000
	(In Thousands)		
Overnight Line of Credit	$ -	$ -	$ 5,600
Term borrowings (original term)			
90 days or less.	2,700	10,718	16,407
1 year	7,000	8,500	11,000
2 year	-	1,000	-
Balance at end of period	$ 9,700	$20,218	$33,007
Daily average during the year.	13,716	15,240	32,911
Maximum month-end balance.	23,580	20,218	40,388
Weighted average rate during the year.	3.75%	4.56%	6.29%

Year-end average rate.	4.65%	4.19%	6.50%

PERSONNEL

As of December 31, 2002, the Bank had 94 full-time and 17 part-time employees. None of the Bank's employees is represented by a collective bargaining group. The Bank believes its relationship with its employees to be good.

REGULATION AND SUPERVISION

REGULATION

GENERAL. The Bank is a New York-chartered stock savings bank and its deposit accounts are insured up to applicable limits by the FDIC through the Bank Insurance Fund. The Bank is subject to extensive regulation by the Department, as its chartering agency, and by the FDIC, as its deposit insurer. The Bank is required to file reports with, and is periodically examined by, the FDIC and the Superintendent concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other banking institutions. The Bank is a member of the FHLB of New York and is

subject to certain regulations by the Federal Home Loan Bank System. On July 19, 2001 the Company and the Mutual Holding Company completed their conversion to federal charters. Consequently, they are subject to regulations of the Office of Thrift Supervision ("OTS") as savings and loan holding companies. Any change in such regulations, whether by the Department, the FDIC, or the OTS could have a material adverse impact on the Bank, the Company or the Mutual Holding Company.

Regulatory requirements applicable to the Bank, the Company and the Mutual Holding Company are referred to below or elsewhere herein.

NEW YORK BANK REGULATION. The exercise by an FDIC-insured savings bank of the lending and investment powers under the New York State Banking Law is limited by FDIC regulations and other federal law and regulations. In particular, the applicable provisions of New York State Banking Law and regulations governing the investment authority and activities of an FDIC insured state-chartered savings bank have been substantially limited by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and the FDIC regulations issued pursuant thereto.

The Bank derives its lending, investment and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Department, as limited by FDIC regulations. Under these laws and regulations, savings banks, including the Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies, certain types of corporate equity securities and certain other assets. Under the statutory authority for investing in equity securities, a savings bank may invest up to 7.5% of its assets in corporate stock, with an overall limit of 5% of its assets invested in Common Stock. Investment in the stock of a single corporation is limited to the lesser of 2% of the outstanding stock of such corporation or 1% of the savings bank's assets, except as set forth below. Such equity securities must meet certain earnings ratios and other tests of financial performance. A savings bank's lending powers are not subject to percentage of assets limitations, although there are limits applicable to single borrowers. A savings bank may also, pursuant to the "leeway" power, make investments not otherwise permitted under the New York State Banking Law. This power permits investments in otherwise impermissible investments of up to 1% of assets in any single investment, subject to certain restrictions and to an aggregate limit for all such investments of up to 5% of assets. Additionally, in lieu of investing in such securities in accordance with and reliance upon the specific investment authority set forth in the New York State Banking Law, savings banks are authorized to elect to invest under a "prudent person" standard in a wider range of investment securities as compared to the types of investments permissible under such specific investment authority. However, in the event a savings bank elects to utilize the "prudent person" standard, it will be unable to avail itself of the other provisions of the New York State Banking Law and regulations which set forth specific investment authority. The Bank has not elected to conduct its investment activities under the "prudent person" standard. A savings bank may also exercise trust powers upon approval of the Department.

New York State chartered savings banks may also invest in subsidiaries under their service corporation investment authority. A savings bank may use this power to invest in corporations that engage in various activities authorized for savings banks, plus any additional activities which may be authorized by the Banking Board. Investment by a savings bank in the stock, capital notes and debentures of its service corporations is limited to 3% of the bank's assets, and such investments, together with the bank's loans to its service corporations, may not exceed 10% of the savings bank's assets. Furthermore, New York banking regulations impose requirements on loans which a bank may make to its executive officers and directors and to certain corporations or partnerships in which such persons have equity interests. These requirements include, but are not limited to, requirements that (i) certain loans must be approved in advance by a majority of the entire board of trustees and the interested party must abstain from participating directly or indirectly in the voting on such loan, (ii) the loan must be on terms that are not more favorable than those offered to unaffiliated third parties, and (iii) the loan must not involve more than a normal risk of repayment or present other unfavorable features.

Under the New York State Banking Law, the Superintendent may issue an order to a New York State chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and

to keep prescribed books and accounts. Upon a finding by the Department that any director, trustee or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee or officer may be removed from office after notice and an opportunity to be heard. The Bank does not know of any past or current practice, condition or violation that might lead to any proceeding by the Superintendent or the Department against the Bank or any of its directors, trustees or officers.

INSURANCE OF ACCOUNTS AND REGULATION BY THE FDIC. The Bank is a member of the BIF, which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the U.S. Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings banks, after giving the Superintendent an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged or is engaging in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC establishes deposit insurance premiums based upon the risks a particular bank or savings association poses to its deposit insurance funds. Under the risk-based deposit insurance assessment system, the FDIC assigns an institution to one of three capital categories based on the institution's financial information, as of the reporting period ending six months before the assessment period, consisting of: (i) well capitalized; (ii) adequately capitalized; or (iii) undercapitalized and one of three supervisory subcategories within each capital group. With respect to the capital ratios, institutions are classified as well capitalized or adequately capitalized using ratios that are substantially similar to the prompt corrective action capital ratios discussed above. Any institution that does not meet these two definitions is deemed to be undercapitalized for this purpose. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the FDIC by theinstitution's primary federal regulator and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds (which may include, if applicable, information provided by the institution's state supervisor). An institution's assessment rate depends on the capital category and supervisory category to which it is assigned. Under the final risk-based assessment system, there are nine assessment risk classifications (i.e., combinations of capital groups and supervisory subgroups) to which different assessment rates are applied. Assessments rates for deposit insurance currently range from 0 basis points to 27 basis points. The capital and supervisory subgroup to which an institution is assigned by the FDIC is confidential and may not be disclosed. The Bank's rate of deposit insurance assessments will depend upon the category and subcategory to which the Bank is assigned by the FDIC. Any increase in insurance assessments could have an adverse effect on the earnings of the Bank.

REGULATORY CAPITAL REQUIREMENTS. The FDIC has adopted risk-based capital guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as the Bank's "risk-based capital ratio." Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide a savings bank's capital into two tiers. The first tier ("Tier I") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Savings banks are required to maintain a total risk-based capital ratio of at least 8%, of which at least 4% must be Tier I capital.

In addition, the FDIC has established regulations prescribing a minimum Tier I leverage ratio (Tier I capital to adjusted total assets as specified in the regulations). These regulations provide for a minimum Tier I leverage ratio of 3% for banks that meet certain specified criteria, including that they have the highest examination rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier I leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The FDIC and the other federal banking regulators have proposed amendments to their minimum capital regulations to provide that the minimum leverage capital ratio for a depository institution that has been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating System will be 3% and that the minimum leverage capital ratio for any other depository institution will be 4% unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant. Savings banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

LIMITATIONS ON DIVIDENDS AND OTHER CAPITAL DISTRIBUTIONS. The FDIC has the authority to use its enforcement powers to prohibit a savings bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. New York law also restricts the Bank from declaring a dividend which would reduce its capital below (i) the amount required to be maintained by state law and regulation, or (ii) the amount of the Bank's liquidation account established in connection with the Reorganization.

PROMPT CORRECTIVE ACTION. The federal banking agencies have promulgated regulations to implement the system of prompt corrective action required by federal law. Under the regulations, a bank shall be deemed to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to any written capital order or directive; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized"; (iii) "undercapitalized" if it has a total risk-based capital ratio that is lessthan 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Federal law and regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

Based on the foregoing, the Bank is currently classified as a "well capitalized" savings institution.

TRANSACTIONS WITH AFFILIATES. Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings bank is any company or entity that controls, is controlled by, or is under common control with the savings bank, other than a subsidiary of the savings bank. In a holding company context, at a minimum, the parent holding company of a savings bank and any companies which are controlled by such parent holding company are affiliates of the savings bank. Generally, Section 23A limits the extent to which the savings bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such savings bank's capital stock and surplus and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term "covered transaction" includes the making of loans or other extensions of credit to an affiliate; the purchase of assets from an affiliate, the purchase of, or an investment in, the securities of an affiliate; the acceptance of securities of an affiliate as collateral for a loan or extension of credit to any person; or issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees, acceptances on letters of credit issued on behalf of an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same, or no less favorable, to the savings bank or its subsidiary as similar transactions with nonaffiliates.

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Further, Section 22(h) of the Federal Reserve Act restricts a savings bank with respect to loans to directors, executive officers, and principal stockholders. Under Section 22(h), loans to directors, executive officers and stockholders who control, directly or indirectly, 10% or more of voting securities of a savings bank and certain related interests of any of the foregoing, may not exceed, together with all other outstanding loans to such persons and affiliated entities, the savings bank's total capital and surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and stockholders who control 10% or more of voting securities of a stock savings bank, and their respective related interests, unless such loan is approved in advance by a majority of the board of directors of the savings bank. Any "interested" director may not participate in the voting. The loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus or any loans over $500,000. Further, pursuant to Section 22(h), loans to directors, executive officers and principal stockholders must generally be made on terms substantially the same as offered in comparable transactions to other persons. Section 22(g) of the Federal Reserve Act places additional limitations on loans to executive officers.

FEDERAL HOLDING COMPANY REGULATION.

GENERAL. The Company and the Mutual Holding Company are nondiversified mutual savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, the Company and the Mutual Holding Company are registered with the OTS and are subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over the Company and the Mutual Holding Company, and their subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

PERMITTED ACTIVITIES. Under OTS regulation and policy, a mutual holding company and a federally chartered mid-tier holding company such as the Company may engage in the following activities: (i) investing in the stock of a savings association; (ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company; (iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings association; (iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association or associations share their home offices; (v) furnishing or performing management services for a savings association subsidiary of such company; (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company; (vii) holding or managing properties used or occupied by a savings association subsidiary of such company; (viii) acting as trustee under deeds of trust; (ix) any other activity (A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by regulation, prohibits or limits any such activity for savings and loan holding companies; or (B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987; (x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and (xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (xi) above, and has a period of two years to cease any nonconforming activities and divest of any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings association or holding company thereof, without prior written approval of the OTS. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary savings association, a nonsubsidiary holding company, or a nonsubsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act; or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings association, the OTS must consider the financial and managerial resources, future prospects of the company and association involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings association in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

WAIVERS OF DIVIDENDS BY MUTUAL HOLDING COMPANY. Office of Thrift Supervision regulations require the Mutual Holding Company to notify the OTS of any proposed waiver of its receipt of dividends from the Company. The OTS reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members; (ii) for as long as the savings association subsidiary is controlled by the mutual holding company, the dollar amount of dividends waived by the mutual holding company are considered as a restriction on the retained earnings of the savings association, which restriction, if material, is disclosed in the public financial statements of the savings association as a note to the financial statements; (iii) the amount of any dividend waived by the mutual holding company is available for declaration as a dividend solely to the mutual holding company, and, in accordance with SFAS 5, where the savings association determines that the payment of such dividend to the mutual holding company is probable, an appropriate dollar amount is recorded as a liability; and (iv) the amount of any waived dividend is considered as having been paid by the savings association in evaluating any proposed dividend under OTS capital distribution regulations. The Mutual Holding Company generally intends to waive dividends paid by the Company in excess of its operating cash requirements. Under OTS regulations, our public stockholders would not be diluted because of any dividends waived by the Mutual Holding Company (and waived dividends would not be considered in determining an appropriate exchange ratio) in the event the Mutual Holding Company converts to stock form.

CONVERSION OF THE MUTUAL HOLDING COMPANY TO STOCK FORM. OTS regulations permit the Mutual Holding Company to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new holding company would be formed as the successor to the Company (the "New Holding Company"), the Mutual Holding Company's corporate existence would end, and certain depositors of the Bank would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than the Mutual Holding Company ("Minority Stockholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in the Company immediately prior to the Conversion Transaction. Under OTS regulations, Minority Stockholders would not be diluted because of any dividends waived by the Mutual Holding Company (and waived dividends would not be considered in determining an appropriate exchange ratio), in the event the Mutual Holding Company converts to stock form. The total number of shares held by Minority Stockholders after a Conversion Transaction also would be increased by any purchases by Minority Stockholders in the stock offering conducted as part of the Conversion Transaction.

NEW YORK STATE BANK HOLDING COMPANY REGULATION. In addition to the federal regulation, a holding company controlling a state chartered savings bank organized or doing business in New York State also may be subject to regulation under the New York State Banking Law. The term "bank holding company," for the purposes of the New York State Banking Law, is defined generally to include any person, company or trust that directly or indirectly either controls the election of a majority of the directors or owns, controls or holds with power to vote more than 10% of the voting stock of a bank holding company or, if the Company is a banking institution, another banking institution, or 10% or more of the voting stock of each of two or more banking institutions. In general, a bank holding company controlling, directly or indirectly, only one banking institution will not be deemed to be a bank holding company for the purposes of the New York State Banking Law. Under New York State Banking Law, the prior approval of the Banking Board is required before: (1) any action is taken that causes any company to become a bank holding company; (2) any action is taken that causes any banking institution to become or be merged or consolidated with a subsidiary of a bank holding company; (3) any bank holding company acquires direct or indirect ownership or control of more than 5% of the voting stock of a banking institution; (4) any bank holding company or subsidiary thereof acquires all or substantially all of the assets of a banking institution; or (5) any action is taken that causes any bank holding company to merge or consolidate with another bank holding company. Additionally, certain restrictions apply to New York State bank holding companies regarding the acquisition of banking institutions which have been chartered five years or less and are located in smaller communities. Officers, directors and employees of New York State bank holding companies are subject to limitations regarding their affiliation with securities underwriting or brokerage firms and other bank holding companies and limitations regarding loans obtained from its subsidiaries.

FINANCIAL SERVICES MODERNIZATION ACT. On November 12, 1999, the Gramm-Leach-Bliley Act was signed into law, repealing provisions of the depression-era Glass-Steagall Act, which prohibited commercial banks, securities firms, and insurance companies from affiliating with each other and engaging in each other's businesses. The major provisions of the Act took effect on March 12, 2000.

The Act creates a new type of financial services company called a "Financial Holding Company" (an "FHC"), a bank holding company with dramatically expanded powers. FHCs may offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. The Federal Reserve serves as the primary "umbrella" regulator of FHCs. Balanced against the attractiveness of these expanded powers are higher standards for capital adequacy and management, with heavy penalties for noncompliance.

Bank holding companies that wish to engage in expanded activities but do not wish to become financial holding companies may elect to establish "financial subsidiaries," which are subsidiaries of national banks with expanded powers. The Act permits financial subsidiaries to engage in the same types of activities permissible for nonbank subsidiaries of financial holding companies, with the exception of merchant banking, insurance underwriting and real estate investment and development. Merchant banking may be permitted after a five-year waiting period under certain regulatory circumstances.

The Company has implemented all the provisions of this Act. The Company expects to remain a bank holding company for the time being and access its options as circumstances change.

FEDERAL SECURITIES LAW. The Common Stock of the Company is registered with the SEC under the Exchange Act, prior to completion of the Offering and Reorganization. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

The Company Common Stock held by persons who are affiliates (generally officers, directors and principal stockholders) of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. If the Company meets specified current public information requirements, each affiliate of the Company is able to sell in the public market, without registration, a limited number of shares in any three-month period.

FEDERAL RESERVE SYSTEM. The Federal Reserve Board requires all depository institutions to maintain noninterest-bearing reserves at specified levels against their transaction accounts (primarily checking, money management and NOW checking accounts). At December 31, 2002, the Bank was in compliance with these reserve requirements.

FEDERAL REGULATION. Under the Community Reinvestment Act, as amended (the "CRA"), as implemented by FDIC regulations, a savings bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's latest CRA rating was "outstanding."

NEW YORK STATE REGULATION. The Bank is also subject to provisions of the New York State Banking Law which impose continuing and affirmative obligations upon banking institutions organized in New York State to serve the credit needs of its local community ("NYCRA") which are substantially similar to those imposed by the CRA. Pursuant to the NYCRA, a bank must file an annual NYCRA report and copies of all federal CRA reports with the Department. The NYCRA requires the Department to make a biennial written assessment of a bank's compliance with the NYCRA, utilizing a four-tiered rating system and make such assessment available to the public. The NYCRA also requires the Superintendent to consider a bank's NYCRA rating when reviewing a bank's application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices or automated teller machines, and provides that such assessment may serve as a basis for the denial of any such application.

The Bank's NYCRA rating as of its latest examination was "satisfactory."

THE USA PATRIOT ACT

In response to the events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

Pursuant to Section 352, all financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

Section 326 authorizes the Secretary of the Department of Treasury, in conjunction with other bank regulators, to issue regulations by October 26, 2002 that provide for minimum standards with respect to customer identification at the time new accounts are opened.

Section 312 requires financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The federal banking agencies have begun to propose and implement regulations pursuant to the USA PATRIOT Act. These proposed and interim regulations would require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

SARBANES-OXLEY ACT OF 2002

On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), which implemented legislative reforms intended to address corporate and accounting fraud. In addition to the establishment of a new accounting oversight board that will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, Sarbanes-Oxley places certain restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require preapproval by the company's audit committee. In addition, Sarbanes-Oxley makes certain changes to the requirements for audit partner rotation after a period of time. Sarbanes-Oxley requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. The Company's Chief Executive Officer and Chief Financial Officer have signed certifications to this Form 10-K as required by Sarbanes-Oxley. In addition, under Sarbanes-Oxley, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under Sarbanes-Oxley, longer prison terms will apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from trading the company's securities during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules and regulations) are restricted. In addition, a provision directs that civil penalties levied by the Securities and Exchange Commission as a result of any judicial or administrative action under Sarbanes-Oxley be deposited to a fund for the benefit of harmed investors. The Federal Accounts for Investor Restitution provision also requires the Securities and Exchange Commission to develop methods of improving collection rates. The legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change.

Sarbanes-Oxley also increases the oversight of, and codifies certain requirements relating to audit committees of public companies and how they interact with the company's "registered public accounting firm." Audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a "financial expert" (as such term is defined by the Securities and Exchange Commission) and if not, why not. Under Sarbanes-Oxley, a company's registered public accounting firm is prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. Sarbanes-Oxley also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading. Sarbanes-Oxley also requires the Securities and Exchange Commission to prescribe rules requiring inclusion of any internal control report and assessment by management in the annual report to shareholders. Sarbanes-Oxley requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

Although we anticipate that we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company or the Bank.

BAD DEBT RESERVES. Prior to the 1996 Act, the Bank was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at the Bank's taxable income. As a result of the 1996 Act, the Bank must use the small bank experience method in computing its bad debt deduction beginning with its 1996 Federal tax return. In addition, the federal legislation requires the recapture (over a six year period) of the excess of tax bad debt reserves at December 31, 1995 over those established as of December 31, 1987.

TAXABLE DISTRIBUTIONS AND RECAPTURE. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income should the Bank fail to meet certain thrift asset and definitional tests. New federal legislation eliminated these thrift related recapture rules. However, under current law, pre-1988 reserves remain subject to recapture should the Bank cease to retain a bank or thrift charter or make certain non-dividend distributions.

MINIMUM TAX. The Code imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The AMT is payable to the extent such AMTI is in excess of an exemption amount. In 2002, net operating losses can offset 100% of AMTI. Going forward, net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.

NET OPERATING LOSS CARRYOVERS. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 5, 1997.

The Internal Revenue Service has examined the federal income tax return for the fiscal year ended 1992; the New York State fiscal year-end tax returns for 1998 through 1999 are currently under examination by the New York State Department of Taxation and Finance. See Note 13 to the Financial Statements.

STATE TAXATION

NEW YORK TAXATION. The Bank is subject to the New York State Franchise Tax on Banking Corporations in an annual amount equal to the greater of (i) 8.0% of the Bank's "entire net income" allocable to New York State during the taxable year, or (ii) the applicable alternative minimum tax. The alternative minimum tax is generally the greater of (a) 0.01% of the value of the Bank's assets allocable to New York State with certain modifications, (b) 3% of the Bank's "alternative entire net income" allocable to New York State, or (c) $250. Entire net income is similar to federal taxable income, subject to certain modifications and alternative entire net income is equal to entire net income without certain modifications. Net operating losses arising in 2001 and 2002 can be carried forward to the succeeding 20 taxable years.

The availability of Annual Report on Form 10-K may be accessed on the Bank's website at www.pathfinderbank.com.

ITEM 2. PROPERTIES

The Bank conducts its business through its main office located in Oswego, New York, and five full service branch offices located in Oswego County. The following table sets forth certain information concerning the main office and each branch office of the Bank at December 31, 2002. The aggregate net book value of the Bank's premises and equipment was $5.6 million at December 31, 2002. For additional information regarding the Bank's properties, see Note 5 to Notes to Financial Statements.

LOCATION	OPENING DATE	OWNED/LEASED	ANNUAL RENT
Main Office	1874	Owned	-
214 West First Street Oswego, New York 13126			
Plaza Branch.	1989	Owned (1)	-
Route 104, Ames Plaza Oswego, New York 13126			
Mexico Branch	1978	Owned	-

Norman & Main Streets Mexico, New York 13114			
Oswego East Branch. . . .	1994	Owned	-
34 East Bridge Street Oswego, New York 13126			
Fulton Branch	1994	Owned	-
114 Oneida Street Fulton, New York 13069			
Lacona Branch	2002	Owned	-
1897 Harwood Drive Lacona, New York 13083			
Fulton Branch	2003	Owned (2)	-
5 West First Street South Fulton, New York 13069			

(1) The building is owned; the underlying land is leased paying an annual rent of $17,300

(2) The existing Fulton Branch will be moved to this location in 2003. The building is owned; the underlying land is leased paying an annual rent of $21,000

ITEM 3. LEGAL PROCEEDINGS

There are various claims and lawsuits to which the Company is periodically involved incident to the Company's business. In the opinion of management, except as set forth below, such claims and lawsuits in the aggregate are immaterial to the Company's consolidated financial condition and results of operations.

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

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On January 13, 2003, the Company completed the purchase of 160,114 shares of common stock at a price of $2.3 million, or $14.60 per share, from Jewelcor, which is owned by Mr. Seymour Holtzman ("the Repurchase"). The Repurchase represents approximately 6.1% of the Company's outstanding common stock as of December 31, 2002. As part of the repurchase agreement, Jewelcor agreed to stipulate to the discontinuance with prejudice of the lawsuit entitled "Jewelcor Management, Inc. v. Pathfinder Bancorp, Inc.", and withdrew a shareholder proposal previously submitted by Jewelcor. In addition, Mr. Holtzman and Jewelcor, as well as those persons and entities who signed the Schedule 13D with

Mr. Holtzman with respect to the Company's common stock, agreed in writing, that neither they nor their affiliates will purchase shares of the Company's common stock for a period of five years.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the year under report.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The "Market for Common Stock" section of the Company's Annual Report to Stockholders is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information for the year ended December 31, 2002 is filed as part of the Company's Annual Report to Stockholders and is incorporated by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report to Stockholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report to Stockholders which is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements are contained in the Company's Annual Report to Stockholders and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

(a) Information concerning the directors of the Company is incorporated by reference hereunder in the Company's Proxy Materials for the Annual

Meeting of Stockholders.

(b) Set forth below is information concerning the Principal Officers of the Company at December 31, 2002.

NAME	AGE	POSITIONS HELD WITH THE COMPANY
Chris C. Gagas. . . .	72	Chairman of the Board
Thomas W. Schneider .	40	President and Chief Executive Officer
W. David Schermerhorn	42	Executive Vice President-Lending
James A. Dowd, CPA. .	35	Vice President, Chief Financial Officer and Trust Officer
Edward A. Mervine . .	46	Vice President, General Counsel
John Devlin	38	Vice President, Senior Commercial Lender
Melissa A. Miller . .	45	Vice President, Secretary
Gregory L. Mills. . .	42	Vice President, Director of Marketing, Branch Administrator
Annette L. Burns, CPA	30	Controller
Anita J. Austin . . .	53	Internal Auditor

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to management compensation and transactions required under this item is incorporated by reference hereunder in the Company's Proxy Materials for the Annual Meeting of Stockholders under the caption "Compensation".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained under the sections captioned "Stock Ownership of Management" is incorporated by reference to the Company's Proxy Materials for its Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is set forth under the caption "Certain Transactions" in the Definitive Proxy Materials for the Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

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

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

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

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PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Financial Statements

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

(A) Independent Auditors' Report;

(B) Consolidated Statements of Condition - December 31, 2002 and 2001.

(C) Consolidated Statements of Income - years ended December 31, 2002, 2001 and 2000.

(D) Consolidated Statements of Stockholders' Equity - years ended December 31, 2002, 2001 and 2000.

(E) Consolidated Statements of Cash Flows - years ended December 31, 2002, 2001 and 2000; and

(F) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

(b) Exhibits

3.1 Certificate of Incorporation of Pathfinder Bancorp, Inc. (Incorporated herein by reference to the Company's Current Report on Form 8-K dated June 25, 2001)

3.2 Bylaws of Pathfinder Bancorp, Inc. (Incorporated herein by reference to the Company's Current Report on Form 8-K dated June 25, 2001)

4 Form of Stock Certificate of Pathfinder Bancorp, Inc. (Incorporated herein by reference to the Company's Current Report on Form 8-K dated June 25, 2001)

10.1 Form of Pathfinder Bank 2001 Stock Option Plan (Incorporated herein by reference to the Company's S-4 file no. 333-36051)

10.2 Form of Pathfinder Bank 2001 Recognition and Retention Plan (Incorporated by reference to the Company's S-4 file no. 333-36051)

10.3 Employment Agreement between the Bank and Thomas W. Schneider, President and Chief Executive Officer (Incorporated by reference to the Company's S-4 file no. 333-36051)

10.4 Employment Agreement between the Bank and W. David Schermerhorn, Executive Vice President -Loan Administration (Incorporated by reference to the Company's S-4 file no. 333-36051)

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99.1 Officers' Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(c) Reports on Form 8-K

The Company has two Current Reports on Form 8-K during the fourth quarter of the fiscal year ended December 31, 2002 dated October 28, 2002 and December 20, 2002 reporting press releases relating to the completion of the acquisition of the Lacona Branch of Cayuga Bank and the announcement of its Commercial Bank subsidiary and the announcement of a stock repurchase program and a dividend declaration.

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

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

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

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

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

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

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

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

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

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

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

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

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

March 28, 2003 /s/Thomas W. Schneider

Date Thomas W. Schneider
President and Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

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

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

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

March 28, 2003 /s/James A. Dowd

Date James A. Dowd
Vice President and Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of Section 13 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.

March 28, 2003 /s/Thomas W. Schneider

Date Thomas W. Schneider

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Chris C. Gagas

Chris C. Gagas, Chairman of the Board

Date: March 28, 2003

By: . /s/ Thomas W. Schneider	By: /s/ Chris Burritt
Thomas W. Schneider, President and Chief Executive Officer	Chris Burritt Director
Date: March 28, 2003	Date: March 28, 2003
By: /s/ James A. Dowd	By: /s/ Raymond W. Jung
James A. Dowd, Vice President, Chief Financial Officer and Trust Officer	Raymond W. Jung Director
Date: March 28, 2003	Date: March 28, 2003
By: . /s/ Bruce Manwaring	By: /s/ George W. Joyce
Bruce Manwaring Director	George W. Joyce Director
Date: March 28, 2003	Date: March 28, 2003
By: . /s/ L. William Nelson, Jr.	By: /s/ Corte Spencer
L. William Nelson, Jr. Director	Corte Spencer Director
Date: March 28, 2003	Date: March 28, 2003
By: . /s/ Steven W. Thomas	By: /s/ Janette Resnick
Steven W. Thomas Director	Janette Resnick Director
Date: March 28, 2003	Date: March 28, 2003

Exhibit Index

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