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)

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                         Federal. . . . . . . . . . . . . .                 16-1540137
-----------------------------------------------------------------------------------------------------
(State or Other Jurisdiction of Incorporation or Organization)  (I.R.S. Employer Identification Number)


  214 West First Street, Oswego, NY. . . . .                                    13126
-----------------------------------------------------------------------------------------------------
Address of Principal Executive Office). . . .                               (Zip Code)
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(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).

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,

$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.

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

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

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 $l.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.

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	1998
	(Dollars in Thousands)				
Total loans receivable, net.	$182,618	$167,041	$149,102	$130,761	$128,200
Average loans outstanding.	177,047	155,653	139,258	130,728	126,931
Allowance balance (at beginning of period) .	1,679	1,274	1,150	939	828
Provision for losses:					
Real estate.	254	139	65	135	83
Commercial and consumer loans.	1,122	569	179	238	298
Charge offs:					
Real estate.	85	109	40	0	141
Commercial and consumer loans.	1,578	256	99	190	140
Recoveries:					
Commercial and consumer loans.	89	62	19	28	11
Allowance balance (at end of period)	$ 1,481	$ 1,679	$ 1,274	$ 1,150	$ 939

Allowance for loan losses as a percent of net loans receivable at end of period. . . .	0.8%	1.0%	0.9%	0.9%	0.7%
Loans charged off as a percent of average loans outstanding.	0.9%	0.2%	0.1%	0.1%	0.2%
Ratio of allowance for loan losses to total nonperforming loans at end of period .	86.6%	79.2%	69.7%	45.0%	51.3%
Ratio of allowance for loan losses to total nonperforming assets at end of period .	47.7%	61.0%	47.0%	36.0%	36.5%

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	
	Amount	% of Loans In Each Category to Total Loans	Amount	% of Loans In Each Category to Total Loans	Amount	% of Loans In Each Category to Total Loans
	(Dollars in Thousands)					
Balance at end of period applicable to:						
Real estate loans.	$ 303	90.52%	$ 496	89.50%	$ 466	89.39%
Commercial and consumer loans.	1,178	9.48	1,183	10.50	808	10.61
Total allowance for loan losses/(1)/ . .	$ 1,481	100.00%	$ 1,679	100.00%	$ 1,274	100.00%

	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

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	Market Value	Average 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.

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

	Balance at 12/31/00	Percent of Deposits	Incr. (Decr)	Balance At 12/31/99	Percent of Deposits	Incr. (Decr)	Balance At 12/31/98
	(Dollars in Thousands)						
Club Accounts	$ 958	0.60%	$ (44)	$ 1,002	0.66%	$ 94	$ 908
Noninterest accounts. . . .	9,893	6.17	147	9,746	6.43	273	9,473
NOW accounts.	15,511	9.67	1,515	13,996	9.24	(2,331)	16,327
Passbooks	56,874	35.47	(1,555)	58,429	38.56	(4,893)	63,322
Time deposits which mature							
Within 12 months.	51,776	32.29	5,688	46,088	30.41	(5,716)	51,804
Within 12-36 months	18,270	11.39	2,080	16,190	10.68	2,799	13,391
Beyond 36 months.	7,079	4.41	994	6,085	4.02	1,801	4,284
Total	$160,361	100.00%	$ 8,825	$ 151,536	100.00%	$(7,973)	$ 159,509

/(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

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.

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 . . . . 214 West First Street Oswego, New York 13126	1874	Owned	-
Plaza Branch. . . . . . . Route 104, Ames Plaza Oswego, New York 13126	1989	Owned (1)	-
Mexico Branch . . . . . . Norman & Main Streets Mexico, New York 13114	1978	Owned	-
Oswego East Branch. . . . 34 East Bridge Street Oswego, New York 13126	1994	Owned	-
Fulton Branch . . . . . . 114 Oneida Street Fulton, New York 13069	1994	Owned	-
Lacona Branch . . . . . . 1897 Harwood Drive Lacona, New York 13083	2002	Owned	-
Fulton Branch . . . . . . 5 West First Street South Fulton, New York 13069	2003	Owned (2)	-

(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.

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

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.

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)

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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.

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

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

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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99.1 Officers' Certification Pursuant to section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 13

ANNUAL REPORT TO STOCKHOLDERS

[PHOTOS]

[LOGO] PathFinder
BANCORP, INC.

2002 Annual Report

A Community Partner,
A Friend

Mission Statement PathFinder Bank is an independent community bank. Our mission is to foster relationships with individuals and businesses within our communities to be the financial provider of choice. Our goal is to continually enhance the value of the bank for the benefit of our shareholders, customers, employees and communities.

[Photo]

FINANCIAL HIGHLIGHTS

Pathfinder Bancorp, Inc. is the parent company of Pathfinder Bank and Pathfinder Statutory Trust I. Pathfinder Bank has three operating subsidiaries - Pathfinder Commercial Bank, Pathfinder REIT Inc., and Whispering Oaks Development Corporation.

Pathfinder Bancorp, Inc.'s common stock currently trades on the NASDAQ Small Cap Market under the symbol "PBHC".

The following table sets forth certain financial highlights of the consolidated entity for the years ended December 31:

	2002	2001	2000	1999	1998
FOR THE YEAR (In Thousands)					
Interest income	$ 15,812	$ 16,338	$ 15,925	$ 14,664	$ 14,027
Interest expense.	7,023	8,485	8,532	7,035	6,969
Net interest income	8,789	7,853	7,393	7,629	7,057
Net income.	1,156	1,602	356	930	1,209
PER COMMON SHARE					
Earnings - basic.	$0.45	$ 0.62	$ 0.14	$ 0.35	$ 0.44
Book value.	8.90	8.64	8.06	7.61	8.12
Cash dividends declared	0.30	0.26	0.24	0.24	0.20
Stock price:					
High.	15.00	14.15	9.63	12.00	26.13
Low	10.38	5.50	5.38	7.50	9.13
Close	14.71	13.18	6.19	8.88	9.13
YEAR END (In Thousands)					
Total assets.	$279,056	$244,514	$232,355	$216,324	$203,252
Investment securities	62,506	53,422	44,274	43,049	32,665
Loans receivable, net	179,001	162,588	148,362	130,063	125,358
Intangible assets	4,913	2,342	2,658	2,973	3,289
Deposits.	204,522	169,589	161,459	152,436	160,219
Borrowed funds.	42,860	49,441	47,230	42,880	18,691
Trust preferred security obligation	5,000	-	-	-	-
Equity.	23,230	22,185	20,962	20,075	22,287
SELECTED PERFORMANCE RATIOS					
Return on average assets.	0.45%	0.68%	0.16%	0.44%	0.62%
Return on average equity.	5.01	7.34	1.79	4.33	5.12
Average equity to average assets.	8.94	9.22	8.91	10.24	12.05
Dividend payout ratio (a)	36.85	28.37	173.62	67.65	45.07
Net interest rate spread.	3.47	3.35	3.34	3.73	3.73
Noninterest expense to total assets	2.85	2.81	3.31	3.30	3.24
Efficiency ratio.	73.18	70.61	90.64	80.54	75.96
Nonperforming loans to net loans receivable.	0.95	1.30	1.23	1.96	1.46
Nonperforming assets to total assets.	1.11	1.13	1.17	1.48	1.27
Allowance for loan losses to net loans receivable	0.82	1.03	0.86	0.88	0.75
Number of full service offices.	6	5	5	5	5
SELECTED CASH EARNINGS PERFORMANCE RATIOS (b)					
Cash earnings (in thousands).	$ 1,249	$ 1,908	$ 859	$ 1,532	$ 1,850
Cash earnings per share - basic	0.48	0.74	0.34	0.58	0.67
Return on average assets (cash basis)	0.48%	0.81%	0.38%	0.73%	0.94%
Return on average equity (cash basis)	5.41	8.74	4.32	7.13	7.84
Noninterest expense to average assets (cash basis)	2.82	2.72	3.13	2.99	2.89
Efficiency ratio (cash basis)	72.33	66.41	82.21	70.84	65.42

(a) The dividend payout ratio is calculated using dividends declared and not waived by the holding company divided by net income.
(b) Cash earnings exclude non cash charges for the amortization of intangible assets and the allocation of ESOP stock.

Letter to Shareholders

On behalf of the Board of Directors and employees of Pathfinder Bancorp, Inc., I am pleased to present our Annual Report to our shareholders. We invite you to attend our Annual Meeting on April 30, 2003, at 10:00 a.m. at the Econo Lodge Riverfront Hotel in Oswego.

2002 REVIEW

The past year has been both challenging and rewarding. Challenging in that economic conditions adversely impacted credit quality leading to significant charge-offs during the year. The credit quality deterioration, although primarily limited to a few larger commercial loans, resulted in a re-examination of our underwriting and administrative capabilities in commercial lending. The resultant changes and enhancements to personnel, policy and procedures have created a stronger platform with which to deliver products and services to our commercial market. We consider this an integral market segment in the growth of the Company's assets and revenues.

The year has also been rewarding, as we were able to expand our product base and geographical reach. In October 2002, the Company simultaneously completed the acquisition of a new branch office location in Lacona, New York, providing greater access to northern Oswego markets, and chartered a limited-purpose commercial bank subsidiary. The commercial bank subsidiary provides a platform to conduct deposit business with local governments and municipalities, a business segment unavailable to a savings bank. We look forward to serving this market segment and leveraging our local knowledge and relationships into significant growth opportunities.

The Company experienced strong growth in loans and deposits during 2002. Fueled by demand in the residential sector the total loan portfolio grew by $16.2 million, or 10%. The historically low level of interest rates lead to significant refinancing activity. Loan originations exceeded $50 million, making Pathfinder Bank the number one originator of residential mortgage loans in Oswego County in 2002.

Deposits grew by $35 million, or 21%, as a result of a number of factors including the branch acquisition, the successful introduction of free checking and money management products, and the consumers' flight from equity markets to the safety of fixed-rate, FDIC insured products.

Interest rates are at 40-year lows, and now more than ever asset selection and portfolio structure are critical decision points for future profitability. The Company is carefully considering the impact on net interest margin an eventual rise in interest rates may have and is positioning its investments to mitigate that impact. Generally, the Company's current asset allocation strategy is to forego wide spreads available in longer-term, interest insensitive investments, in favor of lower yielding assets that management believes will respond more favorably in a rising rate environment. Management is also seeking to extend, where appropriate, the terms of its borrowings and is encouraging deposit holders to diversify their interest rate risk through laddered time deposit portfolios.

Financial performance for 2002 was mixed. Revenues grew by 12% as both net interest income and noninterest income rose proportionally. These increases, however, were more than offset by a 94% increase in the provision for loan losses and a 16% increase in operating expenses. There were a number of expenses in 2002, which are not expected to recur, and asset quality has improved significantly. Net income of $1.2 million, or $.45 per share, is disappointing to management and the Board of Directors. It is anticipated that performance in 2003 will be more representative of the strengths of the Company's balance sheet.

SHAREHOLDER VALUE

The Company's common stock continues to be significantly influenced by the valuations and price performance of newly formed mutual holding company subsidiaries, re-mutualizations and second-step conversions. These segments have performed favorably as investors seek the consistent earnings, transparent balance sheets, and regulated environments associated with thrift stocks.

The Board of Directors recognize the unique structure of a mutual holding company subsidiary and the limitations on the liquidity of the Company's stock. The Board of Directors of the Company are committed to operating Pathfinder Bank as an independent community bank, deriving improved earnings through core banking activities. The Board of Directors believe that a strong balance sheet, improved earnings, a consistent dividend payout ratio, and liquidity support through share repurchase programs provide for continued enhancement to the value of our common stock.

BUSINESS STRATEGY

Pathfinder Bank is committed to being the leading provider of financial services in Oswego County. The Company is focused on differentiating itself from its competitors in the delivery of its products and services. Toward that end the Company's strategy remains focused on our understanding our customers' needs, putting customers' interests first, and developing our employees to be responsive to our customers. We are examining our points of contact with customers to ensure service delivery in an effective, efficient and consistent manner that provides added value to our customers.

Specifically, during 2003, we will:

Examine our existing branch network to ensure that the locations meet the needs of the market and the facilities meet or exceed our banking consumers' expectations. Part of this examination has resulted in the decision to re-locate our Fulton, New York branch to provide improved

access and

drive-through capabilities, expanded parking, and enhanced operational efficiency. The new branch is expected to open in June 2003.

Develop new branch locations to extend our geographic reach and serve more customers in the central New York market.

Upgrade and expand our electronic delivery services including enhanced

funds transfer capabilities and cash management. We will also be installing a call center platform to improve responsiveness to customers and efficiency in operations.

Devote significant resources to the development of our front-line employees to be a leader in the quality of service we offer to our customers. In January 2003, the Company inaugurated Pathfinder University to provide extensive educational and training opportunities for our employees.

Develop our commercial bank subsidiary to extend deposit services to the local governments and municipalities of Oswego County.

We look forward to the successful execution of our strategies, realizing that challenges from competition, the economy, the regulatory environment, and unforeseen forces will always confront us. It is our ability to adapt to changing environments and respond to these challenges, while remaining focused on our customers, which will ensure our success.

/s/Thomas W. Schneider
President and Chief Executive Officer

[Photos]

GENERAL

Throughout the Management's Discussion and Analysis the term, "the Company", refers to the consolidated entity of Pathfinder Bancorp, Inc. Pathfinder Bank and Pathfinder Statutory Trust I are wholly owned subsidiaries of Pathfinder Bancorp, Inc. Pathfinder Commercial Bank, Pathfinder REIT, Inc. and Whispering Oaks Development Corp. represent wholly owned subsidiaries of Pathfinder Bank. At December 31, 2002, Pathfinder Bancorp, Inc.'s only business was the 100% ownership of Pathfinder Bank and Pathfinder Statutory Trust I. At December 31, 2002, 1,583,239 shares, or 60.6%, of the Company's common stock were held by Pathfinder Bancorp, MHC, the Company's mutual holding company parent and 1,027,257 shares, or 39.4%, were held by the public.

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.

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 of the Lacona, New York branch. 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.

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS

On October 1, 2002, Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 147, "Accounting for Certain Acquisitions of Banking or Thrift Institutions." Statement 147 changes how the Company accounts for goodwill arising from branch acquisitions. Under previous FASB rulings, the goodwill arising from branch acquisitions was classified as an "unidentifiable intangible asset" and therefore subject to amortization. Statement 147 now classifies this intangible as goodwill. In accordance with the provisions of Statement 147, previously issued statements were restated to remove the amortization expense recorded on the goodwill since January 1, 2002. Goodwill is not subject to amortization, but will be reviewed annually for impairment.

As of December 31, 2002, no impairment adjustment has been made to goodwill. The impact of the pronouncement on the financial statements is as follows:

	For the Twelve Months Ended December 31:		
	2002	2001	2000
(in thousands except Earnings per Share Data)			
Reported net income	$1,156	$1,602	$ 356
Add back: goodwill amortization, net of tax	-	193	193
Adjusted net income	$1,156	$1,795	$ 549
Basic earnings per share:			
Reported net income	$ 0.45	$ 0.62	$0.14
Goodwill amortization, net of tax	-	0.08	0.08
Adjusted net income	$ 0.45	$ 0.70	$0.22
Diluted earnings per share:			
Reported net income	$ 0.44	$ 0.62	$0.14
Goodwill amortization, net of tax	-	0.07	0.08
Adjusted net income	$ 0.44	$ 0.69	$0.22

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

SUBSEQUENT EVENT

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 Management Inc. ("JMI"), 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. The repurchase of these shares is expected to be accretive to the Company's earnings per share and return on equity and will help accomplish capital management objectives.

As part of the repurchase agreement, Mr. Holtzman and JMI, 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. JMI also 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 JMI.

BUSINESS STRATEGY

The Company's business strategy is to operate as a well-capitalized, profitable and independent community bank dedicated to providing value-added products and services to our customers. Generally, the Company has sought to implement this strategy by emphasizing retail deposits as its primary source of funds and maintaining a substantial part of its assets in locally-originated residential first mortgage loans, loans to business enterprises operating in its markets, and in investment securities. Specifically, the Company's business strategy incorporates the following elements: (i) operating as an independent community-oriented financial institution, maintaining a strong customer base; (ii) maintaining capital in excess of regulatory requirements; (iii) emphasizing investment in one-to-four family residential mortgage loans, loans to small businesses and investment securities; and (iv) maintaining a strong retail deposit base.

HIGHLIGHTS OF THE COMPANY'S BUSINESS STRATEGY ARE AS FOLLOWS:

COMMUNITY-ORIENTED INSTITUTION

The Company is committed to meeting the financial needs of its customers in Oswego County, New York, the county in which it operates. The Company believes it is large enough to provide a full range of personal and business financial services, and yet is small enough to be able to provide such services on a personalized, adaptable and responsive basis. Management believes that the Company can be more effective in servicing its customers than many of its non-locally headquartered competitors because of the Company's ability to quickly and effectively provide senior management responses to customer needs and inquiries. The Company's ability to provide these services is enhanced by the stability of the Company's senior management, which has an average tenure with the Company of over 11 years.

Management believes that the following actions over the past several years have helped to enhance and preserve its presence as a community bank: the 1994 acquisition of two branches of the former Columbia Federal Savings located in the cities of Oswego and Fulton; the public offering and subsequent reorganization into the two-tier holding company structure to further enhance growth and independence; the ability to access the secondary mortgage market while retaining customer servicing; and the expansion of the Company's small business lending services to further serve the community needs and provide additional revenue sources. During 2002, the Company expanded its service area by acquiring a branch in Lacona, New York. In addition, the Company chartered Pathfinder Commercial Bank, a limited purpose commercial bank subsidiary of Pathfinder Bank. Pathfinder Commercial Bank was established to serve the depository needs of public entities in the market area and has assumed the existing public deposit liabilities of the Lacona branch. The Company is committed to exploring additional lines of business and the formation of strategic alliances to maintain its independence and enhance its profitability in a competitive, consolidating industry.

CAPITAL AND ASSET LEVELS

The Company's shareholders' equity was $23.2 million at December 31, 2002, which represents a $1.0 million, or 5%, increase from December 31, 2001. The Company's ratio of shareholders' equity to total assets was 8.32% at December 31, 2002. The Repurchase reduced shareholders' equity by $2.3 million. If the Repurchase had occurred on December 31, 2002, the Company's ratio of shareholders' equity to total assets would have been 7.49%. Total assets have increased by $34.6 million, or 14%, from the prior year. The Company's capital levels exceed all regulatory capital requirements (see footnote #17 of the consolidated financial statements for Pathfinder Bancorp, Inc.). Dividends declared and not waived by the Mutual Holding Company during 2002 and 2001 were $426,000 and $446,000, respectively. The Company's dividend payout ratio was 36.85% for 2002 and 28.37% for 2001.

EMPHASIS ON RESIDENTIAL MORTGAGE AND SMALL BUSINESS LENDING AND INVESTMENT SECURITIES

The Company emphasizes residential real estate financing and anticipates a continued commitment to financing the purchase or improvement of residential real estate in its market area. Historically, the Company has not been an active purchaser of loans or loan participations. The Company has expanded its service to the small business community in its marketplace through deposit and lending services. To supplement local mortgage and commercial loan originations, the Company invests in investment securities consisting primarily of investment grade corporate debt instruments, securities issued by the United States

Government, state and municipal obligations, mutual funds, equity securities, and mortgage-backed securities. By investing in these types of assets, the Company reduces the credit risk of its asset base but must accept lower yields than would typically be available on commercial real estate loans and multi-family real estate loans. At December 31, 2002, 90% of the Company's total loan portfolio consisted of loans secured by real estate, of which 20% consisted of commercial real estate loans. In addition, at December 31, 2002, 22% of the Company's total assets consisted of investment securities.

STRONG RETAIL DEPOSIT BASE

The Company has a relatively strong retail deposit base drawn from the six full-service offices in its market area. At December 31, 2002, 58% of the Company's deposit base of $204.5 million consisted of core deposits, which included noninterest-bearing demand accounts, NOW accounts, passbook and club savings accounts and money management deposit accounts. Core deposits are considered to be a more stable and lower cost source of funds than certificates of deposit or outside borrowings. The Company will continue to emphasize retail deposits by maintaining its network of full service offices and providing depositors with a full range of accounts. Pathfinder Commercial Bank ("Commercial Bank"), the limited-purpose commercial banking subsidiary of Pathfinder Bank, assumed $11.6 million in municipal deposits as part of the Branch Acquisition. The Commercial Bank will allow the Company to serve the depository needs of the various municipalities, school districts, and other public funding sources throughout its market area. The Commercial Bank expects that its affiliation with its parent, an institution recognized for its service quality and community commitment, will provide it with valuable competitive advantages. Accordingly, the Commercial Bank will seek business growth by focusing on its local identification and service excellence. At December 31, 2002, the Commercial Bank had $9.7 million of municipal deposits.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

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

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

CHANGES IN FINANCIAL CONDITION

COMPARISON AT DECEMBER 31, 2002 AND DECEMBER 31, 2001.

Total assets increased $34.6 million, or 14%, to $279.1 million at December 31, 2002 from $244.5 million at December 31, 2001. The increase in assets is primarily attributable to a $6.1 million increase in cash and cash equivalents, an increase in investment securities of $9.1 million, an increase of $16.4 million, or 10%, in net loans receivable to $179.0 million from $162.6 million and a $2.6 million increase in goodwill and intangible assets. This increase was partially offset by a $1.7 million decrease in mortgage loans held-for-sale. The increase in total assets was primarily the result of the $26.4 million Branch Acquisition and the Company's continued emphasis on residential real estate financing.

Total liabilities increased $33.5 million, or 15%, to $255.8 million at December 31, 2002 from $222.3 million at the end of the prior fiscal year. The increase was primarily attributable to a $34.9 million, or 21%, increase in deposits to $204.5 million at December 31, 2002 from $169.6 million at December 31, 2001, and the issuance of $5.0 million of subordinated debt securities, issued in connection with the Company's participation in a pooled trust preferred transaction. These increases were partially offset by a decrease in borrowed funds of $6.6 million to $42.9 million at December 31, 2002 from $49.4 million at December 31, 2001. The increase in deposits was primarily comprised of an increase in money management accounts of $15.3 million, an $11.5 million, or 15%, increase in time deposits, a $5.0 million, or 8%, increase in savings accounts, and an increase of $2.7 million, or 21%, in noninterest-bearing demand accounts. The increase in deposit accounts primarily resulted from the Branch Acquisition, which included $26.4 million in deposits, and the successful introduction of a free checking and a money management checking account.

Shareholders' equity increased $1.0 million, or 5%, to $23.2 million at December 31, 2002 from $22.2 million at December 31, 2001. The increase is attributable to net income of $1.2 million, an increase in accumulated other comprehensive income of $200,000, combined with a $49,000 decrease in unearned ESOP shares, and an additional paid in capital increase of $196,000. These increases were partially offset by dividends declared of $426,000 and the repurchase of 11,000 shares of the Company's common stock totaling $130,000.

COMPARISON AT DECEMBER 31, 2001 AND DECEMBER 31, 2000.

Total assets increased $12.1 million, or 5%, to $244.5 million at December 31, 2001 from $232.4 million at December 31, 2000. The increase in assets is primarily attributable to a $3.4 million increase in cash and cash equivalents, a $4.5 million increase in mortgage loans held-for-sale and an increase of $14.2 million, or 10%, in net loans receivable to $162.6 million from $148.4 million. This increase was partially offset by a decrease in investment securities of $10.3 million, or 16%, to $53.4 million at December 31, 2001 from $63.8 million at December 31, 2000. The increase in total assets was primarily the result of the Company's continued emphasis on residential real estate financing as well as growth in the Company's commercial loan portfolio.

Total liabilities increased $10.9 million, or 5%, to $222.3 million at December 31, 2001 from $211.4 million at the end of the prior fiscal year. The increase was primarily attributable to an $8.1 million, or 5%, increase in deposits to $169.6 million at December 31, 2001 from $161.5 million at December 31, 2000, an increase in borrowed funds of $2.2 million to $49.4 million at December 31, 2001 from $47.2 million at December 31, 2000 and a $596,000 increase in other liabilities to $3.3 million at December 31, 2001 from $2.7 million at December 31, 2000. The increase in deposits was comprised of a $2.9 million, or 5%, increase in savings accounts, an increase of $3.1 million, or 32%, in noninterest-bearing demand accounts, an increase in money management accounts of $4.4 million, partially offset by a $2.4 million, or 3%, decrease in time deposits and a $280,000, or 2%, decrease in interest-bearing demand accounts.

Shareholders' equity increased $1.2 million, or 6%, to $22.2 million at December 31, 2001 from $21.0 million at December 31, 2000. The increase is attributable to net income of $1.6 million, an increase in accumulated other comprehensive income of $50,000, combined with a $54,000 decrease in unearned ESOP shares, and an additional paid in capital increase of $356,000. These increases were partially offset by dividends declared of $446,000 and the repurchase of 10,000 shares of the Company's common stock totaling $134,000.

RESULTS OF OPERATIONS

GENERAL

The Company had net income of $1.2 million, $1.6 million and $356,000, for the fiscal years ended December 31, 2002, 2001, and 2000, respectively. The decrease in net income for the year ended December 31, 2002, compared to 2001 resulted primarily from a $1.1 million, or 16%, increase in operating expenses and a $667,000, or 94%, increase in the provision for loan losses, partially offset by a $936,000, or 12%, increase in net interest income, a $231,000, or 12%, increase in other income, and a $156,000 reduction in the provision for income taxes.

Earnings per share, basic was $0.45, $0.62 and $0.14 for the years ended December 31, 2002, 2001 and 2000, respectively. The decrease in earnings per share for the year ended 2002 compared to 2001 resulted primarily from the decrease in net income.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NET INTEREST INCOME

Net interest income is the Company's primary source of operating income for payment of operating expenses and providing for possible loan losses. Net interest income is the amount by which interest earned on interest-earning deposits, loans, and investment securities, exceeds interest paid on deposits, borrowings, and the trust preferred debt obligation. Net interest income is directly affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities as well as the changing interest rates of the underlying assets and liabilities and their respective sensitivity to repricing.

Net interest income increased $944,000, or 12%, on a tax equivalent basis, for the year ended December 31, 2002 as compared to the year ended December 31, 2001 primarily due to an increase in interest- earning assets. The increase in net interest income was comprised of a decrease in interest expense of $1.5 million, or 17%, partially offset by a decrease in interest income of $519,000, or 3%. The decrease in interest expense resulted from a decrease in the average cost of funds to 3.21% from 4.24%, partially offset by an increase in the average balance of interest-bearing liabilities of $18.7 million, or 9%. The decrease in interest income resulted from a decrease in the yield on interest-earning assets to 6.68% from 7.58%, partially offset by an increase in the average balance of interest-earning assets of $21.6 million, or 10%.

AVERAGE BALANCE SHEET

The following table sets forth certain information concerning average Interest-earning assets and interest-bearing liabilities and the yields and rates thereon. Interest income and resultant yield information in the table is on a fully tax-equivalent basis for the three years ended December 31, 2002, 2001 and 2000, using marginal federal income tax rates of 34%. Averages are computed on the daily average balance for each month in the period divided by the number of days in the period. Yields and amounts earned include loan fees. Non-accrual loans have been included in interest-earning assets for purposes of these calculations.

	Years Ended December 31,					
	2002			2001		
(Dollars in thousands)	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield/ Cost
Interest Earning Assets:						
Real estate loans residential	$117,688	$ 8,194	6.96%	$101,363	$ 7,678	7.58%
Real estate loans commercial.	31,790	2,641	8.31%	27,847	2,487	8.93%
Commercial loans.	14,774	984	6.66%	13,843	1,170	8.45%
Consumer loans.	12,795	1,117	8.73%	12,600	1,220	9.69%
Mortgage-backed securities.	16,916	948	5.60%	20,237	1,293	6.39%
Taxable investment securities	29,331	1,489	5.08%	33,344	2,089	6.26%
Non-taxable investment securities	6,036	434	7.19%	6,192	441	7.12%
Interest-earning deposits	9,163	117	1.28%	1,418	65	4.58%
Total interest-earning assets	$238,493	$ 15,924	6.68%	$216,844	$ 16,443	7.58%
Non interest-earning assets:						
Other assets.	20,987			20,796		
Allowance for loan losses	(1,877)			(1,431)		
Net unrealized gains on available for sale securities. . . .	368			605		
Total Assets	$257,971			$236,814		
Interest-bearing liabilities:						
Now accounts.	$ 15,850	$ 168	1.06%	$ 16,064	$ 228	1.42%
Money management accounts	11,571	242	2.09%	1,080	41	3.80%

Savings and club accounts	62,494	948	1.52%	60,936	1,435	2.35%
Time deposits	77,701	3,299	4.25%	77,681	4,396	5.66%
Trust preferred debt.	2,635	138	5.24%	-	-	-
Borrowings	48,626	2,228	4.58%	44,458	2,385	5.36%
Total Interest-bearing liabilities. . . .	$218,877	$ 7,023	3.21%	$200,219	$ 8,485	4.24%
Non-interest bearing liabilities:						
Demand deposits	13,154			11,175		
Other liabilities	2,873			3,592		
Total liabilities	234,904			214,986		
Shareholders' equity.	23,067			21,828		
Total liabilities & shareholders' equity.	$257,971			$236,814		
Net interest income		$ 8,901			$ 7,958	
Net interest rate spread			3.47%			3.35%
Net interest margin			3.73%			3.67%
Ratio of average interest-earning assets to average interest-bearing liabilities			108.96%			108.30%

	2000		
	Average Balance	Interest	Average Yield/ Cost
Interest Earning Assets:			
Real estate loans residential.	$ 90,153	$ 6,898	7.65%
Real estate loans commercial	25,137	2,285	9.09%
Commercial loans	10,837	1,100	10.15%
Consumer loans	13,129	1,311	9.99%
Mortgage-backed securities	21,868	1,477	6.75%
Taxable investment securities.	38,177	2,482	6.50%
Non-taxable investment securities. . . .	6,604	548	8.30%
Interest-earning deposits.	147	9	6.12%
Total interest-earning assets.	$206,052	$ 16,110	7.82%
Non interest-earning assets:			
Other assets	20,010		
Allowance for loan losses.	(1,143)		
Net unrealized gains on available for sale securities . . .	(1,726)		
Total Assets.	$223,193		
Interest-bearing liabilities:			
Now accounts	$ 15,144	$ 249	1.64%
Money management accounts.	-	-	-
Savings and club accounts.	59,833	1,450	2.42%
Time deposits.	71,837	4,154	5.78%
Trust preferred debt	-	-	-
Borrowings.	43,718	2,679	6.13%
Total Interest-bearing liabilities . . .	$190,532	$ 8,532	4.48%
Non-interest bearing liabilities:			
Demand deposits.	10,497		
Other liabilities.	2,268		
Total liabilities.	203,297		
Shareholders' equity	19,896		
Total liabilities & shareholders' equity	$223,193		
Net interest income		$ 7,578	
Net interest rate spread			3.34%
Net interest margin			3.68%
Ratio of average interest-earning assets to average interest-bearing liabilities			108.15%

RATE/VOLUME ANALYSIS

Net interest income can also be analyzed in terms of the impact of changing interest rates on Interest-earning assets and interest-bearing liabilities and changing the volume or amount of these assets and liabilities. The following table represents the extent to which changes in interest rates and changes in the volume of Interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (change in volume multiplied by prior rate);
(ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) total increase or decrease. Changes attributable to both rate and volume have been allocated ratably.

	Years Ended December 31,					
	2002 vs. 2001 Increase/(Decrease) Due to			2001 vs. 2000 Increase/(Decrease) Due to		
(In thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest Income:						
Real estate loans residential	$ 1,176	$ (659)	$ 517	$ 843	$ (64)	$ 779
Real estate loans commercial	334	(181)	153	244	(41)	203
Commercial loans	75	(261)	(186)	273	(203)	70
Consumer loans	19	(122)	(103)	(52)	(39)	(91)
Mortgage-backed securities	(197)	(148)	(345)	(107)	(77)	(184)
Taxable investment securities	(234)	(366)	(600)	(304)	(89)	(393)
Non-taxable investment securities	(11)	4	(7)	(33)	(74)	(107)
Interest-earning deposits	129	(77)	52	60	(4)	56
Total interest income	1,291	(1,810)	(519)	924	(591)	333
Interest Expense:						
NOW and escrow accounts	(3)	(58)	(61)	2	(23)	(21)
Money management accounts	227	(26)	201	41	-	41
Savings and club accounts	35	(522)	(487)	12	(27)	(15)
Time deposits	1	(1,098)	(1,097)	330	(88)	242
Trust preferred debt obligation	138	-	138	-	-	-
Borrowings	210	(367)	(157)	43	(337)	(294)
Total interest expense	608	(2,071)	(1,463)	428	(475)	(47)
Net change in interest income	$ 683	$ 261	$ 944	$ 496	$(116)	$ 380

INTEREST INCOME

Interest income, on a tax equivalent basis, totaled $15.9 million for the year ended December 31, 2002, as compared to $16.4 million for the year ended December 31, 2001, a decrease of $519,000, or 3%. The decrease in interest income was principally attributable to a decrease in the tax equivalent yield on Interest-earning assets to 6.68% from 7.58%, partially offset by an increase of $21.6 million in the average balance of interest-earning assets to $238.5 million from $216.8 million. The increase in average interest-earning assets occurred as a result of the growth in the loan portfolio and $21.6 million in cash received from the assumption of deposits in the Branch Acquisition. Average loans increased $21.4 million, or 14%. The decrease in the average yield on Interest-earning assets is principally the result of decreases in the overall interest rate environment throughout the year. The declining interest rate environment resulted in repricing of the existing real estate loan portfolio, as well as new originations occurring at lower rates than in prior periods. The Company's net interest margin compressed during the last quarter of 2002, as cash received from the Branch Acquisition was initially held in overnight deposit accounts earning interest at an average yield of 1.28%. During the last two months of 2002, the excess liquidity was reinvested in higher yielding assets. Approximately $9.0 million of investment securities, with an average yield of 3.99%, were acquired and the remaining liquidity was used to fund loan portfolio growth.

Interest income on real estate loans totaled $10.8 million and $10.2 million for the years ended December 31, 2002 and 2001, respectively. The $670,000, or 7%, increase resulted from a $20.3 million increase in the average balance of real estate loans to $149.5 million from $129.2 million at December 31, 2002 and 2001, respectively, partially offset by a decrease in the average yield on real estate loans of 62 basis points, to 7.25% for 2002 from 7.87% for 2001. The increase in the average balance on real estate loans was principally due to the increase in originations of 15-year fixed rate residential real estate and certain 30-year fixed rate mortgages. The decrease in the yield is primarily due to refinancing existing residential loans and new originations at rates lower than the existing portfolio during 2002.

Interest income on commercial loans decreased to $984,000 from $1.2 million for the year ended December 31, 2002 as compared to the prior year. The decrease primarily resulted from a decrease in the average yield to 6.66% from 8.45% when compared to the prior year, partially offset by an increase in the average balance of commercial loans by $931,000, or 7%, to $14.8 million from $13.8 million in the prior year. The decrease in the yield primarily resulted from $134,000 of interest not being recognized associated with two significant commercial lending relationships due to their delinquent status during 2002.

Interest income on consumer loans decreased $103,000, or 8%, to $1.1 million for the year ended December 31, 2002 from $1.2 million for the year ended December 31, 2001. The decrease was due to a decrease in the average yield on consumer loans to 8.73% from 9.69%, partially offset by an increase in the average balance of consumer loans of $195,000, or 2%, to $12.8 million from $12.6 million when compared to the prior year.

Interest income on mortgage-backed securities decreased by $345,000, or 27%, to $948,000 from $1.3 million for the years ended December 31, 2002 and 2001, respectively. The decrease in interest income on mortgage-backed securities resulted from a decrease in the average balance of mortgage-backed securities of $3.3 million, or 16%, combined with a decrease in the yield to 5.60% from 6.39%. The decrease in the average balance of mortgage-backed securities was caused by the acceleration of prepayments speed reflecting refinancing activity in the underlying loans.

Interest income on investment securities, on a tax equivalent basis, decreased $607,000, or 24%, for the year ended December 31, 2002 to $1.9 million from $2.5 million for the same period in 2001. The decrease resulted from a decrease in

the average balance of investment securities of $4.1 million, or 11%, to $35.4 million at December 31, 2002 from $39.5 million at December 31, 2001, combined with a decrease in the average yield on investment securities, on a tax equivalent basis, to 5.44% from 6.40% for the years ended December 31, 2002 and 2001, respectively. The decrease in the average balance of investment securities resulted primarily from the proceeds from calls and maturities of investment securities. These proceeds were utilized primarily to fund the Company's loan growth.

Interest income on interest-earning deposits increased $52,000 to $117,000 for the year ended December 31, 2002 from $65,000 for the prior year. The increase was due to a $7.7 million increase in the average balance on interest-earning deposits, partially offset by a decrease in the average yield on such deposits to 1.28% from 4.58%. The increase in the average balance of interest-earning deposits resulted from the cash received from assumption of deposits in the Branch Acquisition.

INTEREST EXPENSE

Interest expense decreased $1.5 million, or 17%, to $7.0 million for the year ended December 31, 2002. The decrease in interest expense was principally the result of a decrease in the average cost of funds to 3.21% in 2002 from 4.24% in the prior year. The decrease in the average cost is primarily attributable to a decrease in the overall interest rate environment during the twelve months ended December 31, 2002. The average balance of interest-bearing liabilities increased $18.7 million, or 9%, to $218.9 million at December 31, 2002 as compared to $200.2 million at the end of the prior year.

Interest expense on interest-bearing deposits decreased $1.4 million, or 24%, to $4.7 million for the year ended December 31, 2002 from $6.1 million in the prior year. The decrease in interest expense on deposits resulted from a decrease in the average cost of deposits to 2.78% from 3.92%, partially offset by an increase in the average balance of interest-bearing deposits of $11.8 million, or 7%, to $167.6 from $155.8 million. Interest expense on time deposits decreased $1.1 million, or 25%, to $3.3 million from $4.4 million when comparing the twelve months ended December 31, 2002 with the same period in the prior year. The average balance of time deposits remained consistent at $77.7 million while the average cost of time deposits decreased to 4.25% from 5.66%. Interest expense on savings and club accounts decreased $487,000, or 34%, resulting from a decrease in the average cost of savings and club accounts to 1.52% from 2.35%, partially offset by a $1.6 million increase in the average balance of savings and club accounts. Interest expense on money management accounts increased $201,000 due to a $10.5 million increase in the average balance of money management deposit accounts, partially offset by a decrease in the average cost of money management accounts to 2.09% from 3.80%.

The Company's borrowings consist of term and overnight advances from the Federal Home Loan Bank of New York and funds obtained through repurchase agreements ("repos"). Interest expense on borrowed funds decreased $157,000, or 7%, to $2.2 million for the year ended December 31, 2002 from $2.4 million at the prior year end. This decrease was primarily the result of a decrease in the average cost of borrowed funds to 4.58% from 5.36%, partially offset by an increase in the average balance of the borrowings of $4.1 million, to $48.6 million from $44.5 million for 2002 and 2001, respectively.

In the second quarter of 2002, the Company issued $5.0 million of subordinated debt securities, in connection with Company's participation in a pooled trust preferred transaction. Interest expense associated with the trust preferred debt obligation for the year ended December 31, 2002 was $138,000 with an average cost of funds of 5.24%. The trust preferred security is priced at 345 basis points over the London InterBank Offered Rate ("LIBOR") and adjusts quarterly.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

Allowance for loan losses represents the amount available for probable credit losses in the Company's loan portfolio as estimated by management. The Company maintains an allowance for loan losses based upon a monthly evaluation of known and inherent risks in the loan portfolio, which includes a review of the balances and composition of the loan portfolio as well as analyzing the level of delinquencies in each segment of the loan portfolio. The allowance for loan losses is based upon a methodology that uses loss factors applied to loan balances and reflects actual loss experience, delinquency trends, current economic conditions, and individual customer conditions, as well as standards applied by the Federal Deposit Insurance Corporation. The allowance for loan losses reflects management's best estimate of probable loan losses at December 31, 2002. The allowance for loan losses decreased $198,000, or 12%, to $1.5 million at December 31, 2002, versus $1.7 million in 2001. As a percent of total loans, the allowance ratio decreased to 0.82% from 1.03% in 2001. Loan charge-offs were $1.7 million during 2002.

Management addressed the deterioration of the credit quality of two significant commercial lending relationships during the second half of 2002. During the third quarter of 2002, the Company foreclosed on the assets of one of these borrowers, charging-off $598,000 of the outstanding loan balance and transferring the net realizable value of the assets to other real estate owned. The remaining commercial credit concern was charged-off in the fourth quarter of 2002. As a result, the Company's allowance for loan losses to nonperforming loans ratio has improved to 86.57% at December 31, 2002 from 63.66% at December 31, 2001.

Nonperforming loans (past due 90 days or more) decreased $400,000, or 19%, to $1.7 million at December 31, 2002 from $2.1 million at the end of the prior year. Charge-offs, net of recoveries, increased $1.2 million to $1.7 million, or 0.90%, of average loans compared to $302,000, or 0.19% of average loans in the prior year. Total delinquencies (past due 30 days or more) to total loans receivable at December 31, 2002 are 2.28% compared to 4.03% at December 31, 2001, a decrease of 43.4%.

The Company established a provision for loan losses for the year ended December 31, 2002 of $1.4 million as compared to a provision of $708,000 for the year ended December 31, 2001. The increase in the provision for loan losses is attributable to an increase in loans charged off in 2002 and an increase in the loans receivable balance. Net charge-offs in 2002 exceeded the provision for loan losses by $255,000 as a portion of the charge-offs was provided for at December 31, 2001.

NONINTEREST INCOME

The Company's noninterest income is principally comprised of fees on deposit accounts and transactions, loan servicing, commissions, and net gains on securities, loans and other real estate. Noninterest income, exclusive of net gains on securities, loans and other real estate, increased $157,000, or 12%, to $1.5 million for the year ended December 31, 2002, when compared to the same period in the prior year.

The increase in noninterest income primarily resulted from a $108,000 increase in service charges on deposit accounts, a $91,000 increase in loan servicing fees and a $25,000 increase in other charges, commissions and fees. These increases were partially offset by a $67,000 decrease in the value of bank owned life insurance. The increase in the service charges on deposit accounts is due to the introduction of new services to depositors as well as an increase in the number of deposit accounts. The increase in loan servicing fees is due to the increase in our servicing portfolio to $41.4 million at December 31, 2002 from $29.1 million in the prior year.

Net gain on securities, loans and other real estate increased $74,000 for the year ended December 31, 2002 when compared to the 2001 period. The Company recognized a $573,000 gain from the sale of its holdings in an equity security. This gain was partially offset by a $275,000 impairment loss recognized on a corporate debt security in the fourth quarter of 2002.

NONINTEREST EXPENSE

Noninterest expense increased $1.1 million, or 16%, to $8.0 million for the year ended December 31, 2002 from $6.9 million for the prior year. Salaries and employee benefits increased $774,000, or 26%, primarily resulting from the hiring of a senior commercial credit officer and chief legal counsel and staff, an increase in branch hours, an increase in the cost of health insurance, an increase in pension expense, and an increase in personnel expenses associated with the Branch Acquisition. An increase in data processing expenses of $139,000, or 18%, primarily resulted from nonrecurring costs associated with the Branch Acquisition. Professional and other services increased $139,000, or 19%, resulting primarily from additional legal costs relating to the Jewelcor litigation and an increase in outside consultants related to enhancing the Company's compliance program. Other expenses increased $351,000, or 28%, primarily resulting from additional costs associated with the operations of an other real estate owned property, an increase in training costs, and an increase in mortgage recording tax expense. These increases were partially offset by a decrease in the amortization of intangible assets of $276,000. The decrease in amortization expense resulted from the adoption of Financial Accounting Standard No. 147, "Accounting for Certain Acquisition of Banking or Thrift Institutions". The Company is no longer amortizing goodwill arising from branch acquisitions.

The Company's overhead (noninterest expense to average assets) and efficiency ratios for the year ended December 31, 2002 were 2.85% and 73.18%, respectively. The stock based compensation plan expense and the Company's amortization of the core deposit intangible represent noncash expenses in that they do not decrease tangible capital. If these noncash expenses were deducted from the Company's overhead and efficiency ratios, those adjusted ratios for the year ended December 31, 2002 would be 2.82% and 72.33%, respectively.

INCOME TAX EXPENSE

Income tax expense decreased $156,000 to $388,000 for the year ended December 31, 2002 as compared to $544,000 in the prior year. The decrease in income tax expense reflected lower pre-tax income during the year. The Company's effective tax rate remained consistent at 25% for the year ended December 31, 2002 and 2001. The Company has reduced its tax rate primarily through the ownership of tax exempt investment securities and other tax saving strategies.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NET INTEREST INCOME

Net interest income increased $380,000, or 5%, on a tax equivalent basis, for the year ended December 31, 2001 as compared to December 31, 2000. The increase in net interest income was comprised of an increase in interest income of $333,000 or 2%, and a decrease in interest expense of $47,000, or 1%. The increase occurred due to an increase in the average balance of Interest-earning assets of $10.8 million, or 5%, and a decrease in the average cost of interest-bearing liabilities to 4.24% from 4.48%, partially offset by a decrease in the average yield of interest-earning assets to 7.58% from 7.82% and a $9.7 million, or 5%, increase in the average balance of interest-bearing liabilities. The increase in net interest income reflects the impact of falling interest rates on the Company's liability sensitive balance sheet. The Company's deposits and borrowed funds tend to reprice faster than the Company's investments in loans and securities. This is best illustrated by the increase in net interest rate spread in the fourth quarter of 3.59%, compared to 3.06% for the same period in 2000.

INTEREST INCOME

Interest income totaled $16.3 million for the year ended December 31, 2001, as compared to $15.9 million for the year ended December 31, 2000, an increase of $413,000, or 3%. The increase in interest income was principally attributable to an increase of $10.8 million in the average balance of interest-earning assets to $216.8 million from $206.1 million, offset by a decrease in the tax equivalent yield on interest-earning assets to 7.58% from 7.82%. The increase in average interest-earning assets occurred as a result of growth in the loan portfolio. Average loans increased $16.4 million, or 12%. The decrease in the average yield on interest-earning assets is principally the result of decreases in the overall interest rate environment throughout the year. The declining interest rate environment resulted in repricing of the existing real estate loan portfolio as well as new originations occurring at lower rates than in prior periods.

Interest income on real estate loans totaled $10.2 million and $9.2 million for the years ended December 31, 2001 and 2000, respectively. The $982,000, or 11%, increase resulted from a $13.9 million increase in the average balance of real estate loans to $129.2 million from $115.3 at December 31, 2001 and 2000, respectively, partially offset by a decrease in the average yield on real estate loans of 10 basis points, to 7.87% for 2001 from 7.97% for 2000. The increase in the average balance on real estate loans was principally due to the increase in originations of 15-year fixed rate residential real estate. The decrease in the yield is primarily due to residential loans originating at lower rates during 2001.

Interest income on commercial loans remained relatively consistent at $1.1 million for the year ended December 31, 2001 as compared to the prior year. The average balance of commercial loans increased $3.0 million, or 28%, to $13.8 million from $10.8 million in the prior year. The increase in the average balance of commercial loans was offset by a decrease in the average yield to 8.45% from 10.15% when compared to the prior year. The increase in the average balance of commercial loans reflects the Company's continuing efforts to provide lending to qualified local businesses. The decrease in the yield on commercial loans is primarily due to the 475 basis point decline in the Company's prime rate which has affected the yield on prime-based commercial lending.

Interest income on consumer loans decreased $91,000, or 7%, to $1.2 million for the year ended December 31, 2001 from $1.3 million for the year ended December 31, 2000. The decrease was due to a decrease in the average balance of consumer loans of $529,000, or 4%, to $12.6 million from $13.1 million combined with a decrease in the average yield on consumer loans to 9.69% from 9.99% when compared to the prior year.

Interest income on mortgage-backed securities decreased by $184,000, or 13%, to $1.3 million from $1.5 million for the years ended December 31, 2001 and 2000, respectively. The decrease in interest income on mortgage-backed securities resulted from a decrease in the average balance of mortgage-backed securities of $1.6 million, or 8%.

Interest income on investment securities, on a tax equivalent basis, decreased $500,000, or 17%, for the year ended December 31, 2001 to $2.5 million from $3.0 million for the same period in 2000. The decrease resulted from a decrease in the average balance of investment securities of $5.2 million, or 12%, to $39.5 million at December 31, 2001 from $44.8 million at December 31, 2000, combined with a decrease in the average yield on investment securities, on a tax equivalent basis, to 6.40% from 6.77% for the years ended December 31, 2001 and 2000, respectively. The decrease in the average balance of investment securities resulted primarily from the proceeds from calls and maturities of investment securities. These proceeds were utilized to fund the Company's loan growth.

Interest income on interest-earning deposits increased $56,000 to $65,000 for the year ended December 31, 2001 from $9,000 for the prior year. The increase was due to a $1.3 million increase in the average balance on interest-earning deposits, partially offset by a decrease in the average yield on such deposits to 4.58% from 6.80%.

INTEREST EXPENSE

Interest expense decreased $47,000, or 1%, to $8.5 million for the year ended December 31 2001. The decrease in interest expense was principally the result of a decrease in the average cost of funds to 4.24% in 2001 from 4.48% in the prior year. The decrease in the average cost is primarily attributable to a decrease in the overall interest rate environment during the twelve months ended December 31, 2001. The average balance of interest-bearing liabilities increased $9.7 million, or 5%, to $200.2 million at December 31, 2001 as compared to $190.5 million at the end of the prior year. Interest expense on time deposits increased $242,000, or 6%, to $4.4 million from $4.2 million when comparing the twelve months ended December 31, 2001 with the same period in the prior year. Interest expense on NOW and savings accounts decreased $36,000, or 2%. The average balance on savings and club accounts increased $1.1 million, or 2%, to $60.9 million for the year ended December 31, 2001 from $59.8 for the prior year, while the average cost of such deposits decreased to 2.35% from 2.42%. The average balance on time deposits increased $5.8 million, or 8%, to $77.7 million for the year ended December 31, 2001, from $71.8 million for the prior year. The average cost of time deposits decreased to 5.66% from 5.78%.

Interest expense on borrowed funds decreased $294,000, or 11%, to $2.4 million for the year ended December 31, 2001 from $2.7 million at the prior year end. This decrease was primarily the result of a decrease in the average cost of borrowed funds to 5.36% from 6.13%, partially offset by an increase in the average balance of the borrowings of $740,000, to $44.5 million, from $43.7 million for 2001 and 2000 respectively.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflects management's best estimate of probable loan losses at December 31, 2001. The allowance for loan losses was increased to $1.7 million at December 31, 2001, versus $1.3 million in 2000. As a percent of total loans, the allowance ratio increased to 1.03% from 0.86% in 2000. The increase in provision reflects management's concern of recessionary pressures on the credit quality of the Company's loan portfolio.

Nonperforming loans (past due 90 days or more) increased $292,000, or 16.0%, to $2.1 million at December 31, 2001, from $1.8 million at the end of the prior year. The nonperforming loans to total loans ratio at December 31, 2001 was 1.3% compared to 1.2% at December 31, 2000. Charge-offs, net of recoveries, increased $182,000 to $302,000, or 0.19% of average loans compared to $120,000, or 0.09% of average loans in the prior year. Total delinquencies (past due 30 days or more) to total loans receivable at December 31, 2001 are 4.03% compared to 2.70% at December 31, 2000, an increase of 49.3%.

The Company established a provision for loan losses for the year ended December 31, 2001 of $708,000 as compared to a provision of $244,000 for the year ended December 31, 2000. The increase in the provision for loan losses is attributable to an increase in loans charged off in 2001, an increase in the loans receivable balance, an increase in the risk rating of a commercial loan relationship, and an increase in the overall level of delinquencies in the loan portfolio.

NONINTEREST INCOME

Noninterest income exclusive of net gains on securities and loans increased $225,000, or 20%, to $1.4 million for the year ended December 31, 2001, when compared to the same period in the prior year.

The increase in noninterest income primarily results from an $81,000 increase in income recognized on the cash value of bank owned life insurance, a $66,000 increase in service charges on deposit accounts and a $63,000 increase in loan servicing fees. Net gain on securities, loans and other real estate increased $540,000 for the year ended December 31, 2001 when compared to the 2000 period.

NONINTEREST EXPENSE

Noninterest expense decreased $832,000, or 11%, to $6.9 million for the year ended December 31, 2001 from $7.7 million for the prior year. Noninterest expense for the first quarter of 2000 was adversely impacted by unusual items and nonrecurring charges of approximately $789,000. Exclusive of the unusual and nonrecurring charges, noninterest expense remained relatively consistent from year to year decreasing by 1%.

The Company's overhead (noninterest expense to average assets) and efficiency ratios for the year ended December 31, 2001 were 2.81% and 70.61%, respectively. The stock based compensation plan expense and the Company's amortization of goodwill represent noncash expenses in that they do not decrease the generation of tangible capital. If these noncash expenses were deducted from the Company's overhead and efficiency ratios, those adjusted ratios for the year ended December 31, 2000 would be 2.72% and 66.41%, respectively.

INCOME TAX EXPENSE

Income tax expense increased $347,000 to $544,000 for the year ended December 31, 2001 as compared to $196,000 in the prior year. The increase in income tax expense reflected higher pre-tax income during the year.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates or prices such as interest rates, foreign currency exchange rates, commodity prices, and equity prices. The Company's most significant form of market risk is interest rate risk, as the majority of the Company's assets and liabilities are sensitive to changes in interest rates. The Company's mortgage loan portfolio consists primarily of loans on residential real property located in Oswego County, and is therefore subject to risks associated with the local economy. The Company's interest rate risk management program focuses primarily on evaluating and managing the composition of the Company's assets and liabilities in the context of various interest rate scenarios. Factors beyond management's control, such as market interest rates and competition, also have an impact on interest income and interest expense. Included within the Company's investment portfolio are certain securities that are subject to the default risk of the issuer. The current portfolio includes

securities issued by various corporations, government agencies and municipalities. Management monitors this potential risk by analyzing the credit ratings of the issuing organizations and takes appropriate actions when these ratings fall below investment grade. Other types of market risks stated above do not arise in the normal course of the Company's business activities.

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

The Company does not generally maintain in its portfolio fixed interest rate loans with terms exceeding 20 years. However, beginning in the fourth quarter of 2002, 30-year fixed rate mortgages meeting a minimum credit score rating will be held in portfolio. The Company's current policy allows for maintaining in portfolio qualifying 30-year fixed rate mortgages up to a maximum level of 5% of the total loan portfolio. 30-year fixed rate loans that do not meet the minimum credit standard or exceed 5% of the loan portfolio will be held for sale into the secondary market. The Company manages interest rate and credit risk associated with the mortgage loans held for sale and outstanding loan commitments through utilization of forward sale commitments of mortgage-backed securities for the purpose of passing along these risks to acceptable third parties. Management generally enters into forward sale commitments to minimize the exposure to longer term fixed rate mortgages in mortgage loans held for sale and mortgage commitments where interest rate locks have been granted. At December 31, 2002, there were no outstanding forward sale commitments. To manage interest rate risk within the loan portfolio, ARM loans are originated with terms that provide that the interest rate on such loans cannot adjust below the initial rate. Generally, the Company tends to fund longer term loans and mortgage-backed securities with shorter term time deposits, repurchase agreements, and advances. The impact of this asset/liability mix creates an inherent risk to earnings in a rising interest rate environment. In a rising interest rate environment, the Company's cost of shorter term deposits may rise faster than its earnings on longer term loans and investments. Additionally, the prepayment of principal on real estate loans and mortgage-backed securities tends to decrease as rates rise, providing less available funds to invest in the higher rate environment. Conversely, as interest rates decrease the prepayment of principal on real-estate loans and mortgage-backed securities tends to increase, causing the Company to invest funds in a lower rate environment. The potential impact on earnings from this mismatch, is mitigated to a large extent by the size and stability of the Company's savings accounts. Savings accounts have traditionally provided a source of relatively low cost funding that has demonstrated historically a low sensitivity to interest rate changes. The Company generally matches a percentage of these, which are deemed core, against longer term loans and investments.

During 2002 and 2001, the Federal Reserve lowered interest rates twelve times by a total of 525 basis points. These interest rate reductions have caused significant repricing of the bank's interest-earning assets and interest-bearing liabilities. With the overnight borrowing rate at a 40 year low, the Company is positioning itself for anticipated interest rate increases in the future. Efforts are being made to shorten the repricing duration of its rate sensitive assets by originating one year ARM loans, "3/1 ARM" loans, and "5/1 ARM" loans (mortgage loans which are fixed rate for the first three to five years and adjustable annually thereafter). In the current interest rate environment the Company is also extending the duration of its rate sensitive liabilities by lengthening the maturities of its existing borrowings and offering certificates of deposit with three and four year terms which allow depositors to make a one-time election, at any time during the term of the certificate of deposit, to adjust the rate of the instrument to the then prevailing rate for the certificate of deposit with the same term.

The Company manages its interest rate sensitivity by monitoring (through simulation and net present value techniques) the impact on its GAP position, net interest income (earnings at risk), net portfolio value (value at risk) and net portfolio value ratio to changes in interest rates on its current and forecast mix of assets and liabilities. The Company has an Asset-Liability Management

Committee which is responsible for reviewing the Company's assets and liability policies, setting prices and terms on rate-sensitive products, and monitoring and measuring the impact of interest rate changes on the Company's earnings. The Committee meets monthly on a formal basis and reports to the Board of Directors on interest rate risks and trends, as well as liquidity and capital ratios and requirements. The Company does not have a targeted gap range, rather the Board of Directors has set parameters of percentage change by which net interest margin and the net portfolio value are affected by changing interest rates. The Board and management deem these measures to be a more significant and realistic means of measuring interest rate risk. The results of the interest rate measurement techniques are outlined below in the GAP table and the table on percentage changes in net interest income and net portfolio value.

GAP TABLE

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2002, which are expected to reprice or mature based upon certain assumptions in each of the future time periods shown.

	Amounts Maturing or Repricing				
(Dollars in thousands)	Within 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	5 to 10 Years
Interest-earning assets:					
Real estate loans:					
Residential one-to-four family:					
Market index ARM's.	$ 17,358	$ 20,064	$12,813	$ 1,054	$ -
Fixed rate.	1,822	8,436	30,935	15,873	9,874
Commercial and multi-family:					
ARM's	2,992	4,847	4,627	10,793	1,307
Fixed rate.	401	1,244	2,004	568	1,670
Home equity fixed rate loans.	137	431	1,296	1,541	3,321
Home equity line of credit.	4,425	-	-	-	-
Consumer loans.	328	1,046	2,543	-	-
Commercial business loans	170	1,175	5,667	3,674	2,291
Mortgage-backed securities.	1,390	5,496	5,607	8,167	4,219
Investment securities	23,177	3,506	2,664	2,515	8,538
Total interest-earning assets.	$ 52,200	$ 46,245	$68,156	$44,185	$ 31,220
WEIGHTED AVERAGE YIELD.	5.37%	6.74%	6.92%	6.84%	6.86%
Interest-bearing liabilities:					
Passbook accounts (1)	1,498	9,205	15,548	13,561	13,511
NOW accounts (1).	2,542	7,625	5,238	-	-
Money management accounts (1)	19,765	-	-	-	-
Certificate accounts.	15,282	33,695	24,847	8,405	4,201
Borrowings.	7,700	7,000	8,500	12,350	7,310
Trust preferred obligations	5,000	-	-	-	-
Total interest-bearing liabilities.	$ 51,787	$ 57,525	$54,133	$34,316	$ 25,022
WEIGHTED AVERAGE COST	2.47%	2.70%	3.00%	3.35%	2.98%
Interest-earning assets less interest-bearing liabilities ("interest rate sensitivity gap")	$ 413	$(11,280)	$14,023	$ 9,869	$ 6,198
Cumulative excess (deficiency) of interest-sensitive assets over interest-sensitive liabilities.	$ 413	$(10,867)	$ 3,156	$13,025	$ 19,223
Interest sensitivity gap to total assets.	0.15%	-4.04%	5.03%	3.54%	2.22%
Cumulative interest sensitivity gap to total assets .	0.15%	-3.89%	1.13%	4.67%	6.89%
Ratio of interest-earning assets to interest-bearing liabilities	100.80%	80.39%	125.90%	128.76%	124.77%
Cumulative ratio of interest-earning assets to interest-bearing liabilities.	100.80%	90.06%	101.93%	106.59%	108.63%

(Dollars in thousands)	More than 10 Years	Total
Interest-earning assets:		
Real estate loans:		
Residential one-to-four family:		
Market index ARM's.	$ -	$ 51,289
Fixed rate.	4,949	71,889
Commercial and multi-family:		
ARM's	-	24,566
Fixed rate.	2,204	8,091
Home equity fixed rate loans.	-	6,726
Home equity line of credit.	-	4,425
Consumer loans.	-	3,917
Commercial business loans	219	13,196

Mortgage-backed securities		281	25,160
Investment securities		3,660	44,060
Total interest-earning assets	$	11,313	$253,319
WEIGHTED AVERAGE YIELD		6.00%	6.52%
Interest-bearing liabilities:			
Passbook accounts (1)		13,835	67,158
NOW accounts (1)		-	15,405
Money management accounts (1)		-	19,765
Certificate accounts		-	86,430
Borrowings		-	42,860
Trust preferred obligations		-	5,000
Total interest-bearing liabilities	$	13,835	$236,618
WEIGHTED AVERAGE COST		0.84%	2.73%
Interest-earning assets less interest-bearing liabilities ("interest rate sensitivity gap")	$	(2,522)	
Cumulative excess (deficiency) of interest-sensitive assets over interest-sensitive liabilities.	$	16,701	
Interest sensitivity gap to total assets		-0.90%	
Cumulative interest sensitivity gap to total assets		5.98%	
Ratio of interest-earning assets to interest-bearing liabilities		81.77%	
Cumulative ratio of interest-earning assets to interest-bearing liabilities		107.06%	

(1) The following assumptions have been used when analyzing nonmaturity deposits for GAP Table purposes: 16% of passbook account balances are assumed to reprice or mature within one year, 23% within 1 to 3 years and 20% within each of the remaining time periods. 66% of the NOW account balances are assumed to reprice or mature within one year, and the remaining 34% is assumed to reprice or mature within the 1 to 3 year time frame. 100% of the money management accounts are assumed to reprice within the first three months.

At December 31, 2002, the total interest-bearing liabilities maturing or repricing within one year exceeded total interest-earning assets maturing or repricing in the same period by $10.9 million, representing a cumulative one-year gap ratio of a negative 3.89%.

The above assumptions are annual percentage rates based on remaining balances and should not be regarded as indicative of the actual withdrawals that may be experienced by the Company. Moreover, certain shortcomings are inherent in the analysis presented by the foregoing tables. For example, interest rates on certain types of liabilities may fluctuate in advance of or lag behind changes in market interest rates. Moreover, in the event of a change in interest rates, withdrawal levels would likely deviate significantly from those assumed in calculating the tables.

CHANGES IN NET INTEREST INCOME AND NET PORTFOLIO VALUE

The following table measures the Company's interest rate risk exposure in terms of the percentage change in its net interest income and net portfolio value as a result of hypothetical changes in 100 basis point increments in market interest rates. Net portfolio value represents the fair value of net assets (determined as the market value of assets minus the market value of liabilities using a discounted cash flow technique). The table quantifies the changes in net interest income and net portfolio value to parallel shifts in the yield curve. The column "Percentage Change in Net Interest Income" measures the change to the next twelve month's projected net interest income, due to parallel shifts in the yield curve. The column "Percentage Change in Net Portfolio Value" measures changes in the current fair value of assets and liabilities due to parallel shifts in the yield curve. The column "NPV Capital Ratio" measures the ratio of the fair value of net assets to the fair value of total assets at the base case and in incremental interest rate shocks up and down 300 basis points. The Company uses these percentage changes as a means to measure interest rate risk exposure and quantifies those changes against guidelines set by the Board of Directors as part of the Company's Interest Rate Risk policy.

Simulation and net present value analysis demonstrate percentage changes to net interest income and net portfolio value of a negative 5.82% and a negative 11.39%, respectively, in an upward 200 basis point parallel shift in the yield curve.

The Company's current interest rate risk exposure is within those guidelines set forth.

2002				2001			
Change In Interest Rates	NPV Capital Ratio	Percentage Change in Net Interest Income	Percentage Change in Net Portfolio Value	Change In Interest Rates	NPV Capital Ratio	Percentage Change in Net Interest Income	Percentage Change in Net Portfolio Value
-300 . .	11.82%	-5.05%	1.19%	-300	11.60%	0.46%	4.14%
-200 . .	11.99%	0.17%	0.64%	-200	11.83%	2.08%	4.31%
-100 . .	12.37%	0.92%	1.90%	-100	12.21%	2.09%	5.83%
0. . . .	12.36%	-	-	0	11.78%	-	-
100. . .	12.12%	-2.41%	-3.84%	100	10.91%	-3.99%	-9.62%
200. . .	11.44%	-5.82%	-11.39%	200	10.01%	-8.63%	-19.04%
300. . .	10.58%	-9.66%	-20.10%	300	9.11%	-13.45%	-28.00%

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, borrowed funds, amortization and prepayment of loans and maturities of investment securities and other short-term investments, and earnings and funds provided from operations. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Company manages the pricing of deposits to maintain a desired deposit balance. In addition, the Company invests excess funds in short-term interest-earning and other assets, which provide liquidity to meet lending requirements. For additional information about cash flows from the Company's operating, financing, and investing activities, see "Statements of Cash Flows" included in the Financial Statements. The Company adjusts its liquidity levels in order to meet funding needs of deposit outflows, payment of real estate taxes on mortgage

loans and loan commitments. The Company also adjusts liquidity as appropriate to meet its asset and liability management objectives. The Company's liquidity has been enhanced by its membership in the Federal Home Loan Bank of New York, whose competitive advance programs and lines of credit provide the Company with a safe, reliable and convenient source of funds.

A major portion of the Company's liquidity consists of cash and cash equivalents, which are a product of operating, investing, and financing activities. The primary sources of cash were net income, principal repayments on loans and increases in deposit accounts and borrowed funds. The fluctuations in savings account deposits have caused the Company to rely, at times, on overnight borrowings for liquidity purposes. A significant decrease in deposits in the future could result in the Company having to seek other sources of funds for liquidity purposes. Such sources could include, but are not limited to, additional borrowings, trust preferred security offerings, brokered deposits, negotiated time deposits, the sale of "available-for-sale" investment securities, the sale of securitized loans, or the sale of whole loans. Such actions could result in higher interest expense costs and/or losses on the sale of securities or loans.

The Company's primary liquidity measurement tool is its liquidity position report, a static report used to identify the Company's current liquidity position. The report identifies the Company's liquid and short-term assets and short-term liabilities. Short-term liabilities are deducted from liquid/short term assets to derive available liquidity. Available liquidity is compared as a percentage of core deposits and total assets. In accordance with policy, available liquidity as a percentage of core deposits must exceed 8%, and availability liquidity as a percentage of total assets must exceed 3%. At December 31, 2002, these ratios were 12.4% and 5.2% respectively, excluding the Company's capacity to borrow additional funds from the Federal Home Loan Bank.

At December 31, 2002, the Company had outstanding loan commitments of $16.1 million. This amount includes the unfunded portion of loans in process. Certificates of deposit scheduled to mature in less that one year at December 31, 2002 totaled $48.4 million. Based on prior experience, management believes that a significant portion of such deposits will remain with the Company.

TWO YEAR SELECTED QUARTERLY DATA

	For the Quarters Ended			
(In Thousands Except Per Share Data)	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002
Interest Income	$ 3,991	$ 3,918	$ 3,913	$ 3,989
Interest Expense.	1,735	1,768	1,729	1,790
Net Interest Income	2,256	2,150	2,184	2,199
Net (Loss) Income (1)	(110)	349	360	550
Net (Loss) Income Per Share (Basic) (1).	$ (0.04)	$ 0.11	$ 0.14	$ 0.22
Net (Loss) Income Per Share (Diluted) (1)	$ (0.04)	$ 0.11	$ 0.14	$ 0.21

(1) The quarters ending June 30, 2002 and March 31, 2002 were restated with adoption of FAS Statement No. 147. The results of the restatement increased net income $48,000 for each quarter and increased basic and diluted earning per share $0.02 for each quarter.

	For the Quarters Ended			
(In Thousands Except Per Share Data)	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001
Interest Income.	$ 4,031	$ 4,074	$ 4,075	$ 4,157
Interest Expense	1,898	2,097	2,181	2,309
Net Interest Income.	2,133	1,977	1,894	1,849
Net Income	537	443	356	267
Net Income Per Share (Basic). . . .	$ 0.21	$ 0.17	$ 0.14	$ 0.10
Net Income Per Share (Diluted) . . .	$ 0.21	$ 0.17	$ 0.14	$ 0.10

The following table presents 2001 quarterly data on an adjusted basis with the affects of FASB Statement No. 147 shown as if the Statement was adopted January 1, 2001:

(In Thousands Except Per Share Data)	For the Quarters Ended Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001
Reported net income.	$ 537	$ 443	$ 356	$ 267
Add back: goodwill amortization, net of tax.	48	48	48	48
Adjusted net income	$ 585	$ 491	$ 404	$ 315
Basic earnings per share:				
Reported net income.	$ 0.21	$ 0.17	$ 0.14	$ 0.10
Goodwill amortization, net of tax.	0.02	0.02	0.02	0.02
Adjusted net income	$ 0.23	$ 0.19	$ 0.16	$ 0.12
Diluted earnings per share:				
Reported net income.	$ 0.20	$ 0.17	$ 0.14	$ 0.10
Goodwill amortization, net of tax.	0.02	0.02	0.02	0.02
Adjusted net income	$ 0.22	$ 0.19	$ 0.16	$ 0.12

COMMON STOCK AND RELATED MATTERS

The common stock trades and is listed on The Nasdaq SmallCap Stock Market under the symbol "PBHC" and the short name PathBcp. The common stock was issued on November 15, 1995 at $5.00 per share (adjusted for the three for two stock split on February 5, 1998). As of February 14, 2003, there were 525 shareholders of record and 2,441,882 outstanding shares of common stock.

SHARE REPURCHASES

On December 19, 2002, the Company announced its third share repurchase program for the purchase of up to 102,000 shares. At December 31, 2002, no shares have been repurchased as part of the program.

The following table sets forth the high and low closing bid prices and dividends paid per share of common stock for the periods indicated.

Quarter Ended	High	Low	Dividends Paid
December 31, 2002.	$15.000	$11.910	$.0800
September 30, 2002	12.850	10.380	.0800
June 30, 2002. . .	14.990	12.750	.0700
March 31, 2002 . .	13.500	12.050	.0700
December 31, 2001.	14.000	12.100	.0700
September 30, 2001	14.150	7.840	.0700
June 30, 2001. . .	9.000	6.000	.0600
March 31, 2001 . .	6.750	5.500	.0600

Payment of dividends on the common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, Pathfinder Bank and its subsidiaries results of operations and financial condition, tax considerations, and general economic conditions. The Company's mutual holding company, Pathfinder Bancorp. M.H.C., may elect to waive or receive dividends each time the Company declares a dividend. The election to waive the dividend receipt requires prior consent from the Office of Thrift Supervision.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Pathfinder Bancorp, Inc.
Oswego, New York

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Pathfinder Bancorp, Inc. at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 147, "Accounting for Certain Acquisitions of Bank or Thrift Institutions".

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Syracuse, New York
January 31, 2003

STATEMENTS OF CONDITION

	December 31,	
	2002	2001
ASSETS:		
Cash and due from banks	$ 7,026,126	$ 5,433,029
Interest earning deposits	6,714,279	2,160,927
Total cash and cash equivalents	13,740,405	7,593,956
Investment securities, at fair value	62,505,544	53,422,149
Mortgage loans held-for-sale	3,616,711	5,270,999
Loans:		
Residential real estate	119,560,715	106,839,162
Commercial real estate	32,657,177	30,454,798
Consumer	15,068,204	12,615,168
Commercial	13,196,188	14,357,635
Total Loans	180,482,284	164,266,763
Less: Allowance for loan losses	1,480,874	1,679,215
Loans receivable, net	179,001,410	162,587,548
Premises and equipment, net	5,622,171	4,929,433
Accrued interest receivable	1,334,126	1,465,347
Other real estate	1,395,714	632,465
Goodwill	3,840,226	2,341,854
Intangible asset, net	1,073,182	-
Other assets	6,926,378	6,270,671
Total assets	$279,055,867	$244,514,422
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
Interest-bearing	$188,757,723	$156,553,658
Noninterest-bearing	15,764,382	13,035,489
Total deposits	204,522,105	169,589,147
Borrowed funds	42,860,000	49,440,500
Company obligated mandatorily redeemable preferred securities of subsidiary, Pathfinder Statutory Trust I, holding solely junior subordinated debentures of the Company	5,000,000	-
Other liabilities	3,443,740	3,300,026
Total liabilities	255,825,845	222,329,673
Shareholders' equity:		
Preferred stock, authorized shares 1,000,000; no shares issued or outstanding		
Common stock, par value $.01 per share; authorized 10,000,000 shares; 2,914,669 and 2,894,220 shares issued; and 2,610,496 and 2,600,995 shares outstanding, respectively	29,146	28,942
Additional paid in capital	7,113,811	6,917,817
Retained earnings	19,745,651	19,015,639
Accumulated other comprehensive income	280,905	80,652
Unearned ESOP shares	(124,467)	(173,142)
Treasury Stock, at cost; 304,173 and 293,225 shares, respectively	(3,815,024)	(3,685,159)
Total shareholders' equity	23,230,022	22,184,749
Total liabilities and shareholders' equity	$279,055,867	$244,514,422

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

STATEMENTS OF INCOME

	December 31,		
	2002	2001	2000
INTEREST INCOME:			
Loans	$12,935,710	$12,555,321	$11,594,887
Interest and dividends on investments:			
U.S. Treasury and agencies	165,468	374,859	769,857
State and political subdivisions	322,091	335,619	362,565
Corporate obligations	1,142,979	1,533,398	1,530,415
Marketable equity securities	180,494	181,099	181,337
Mortgage-backed securities	948,103	1,293,062	1,476,828
Federal funds sold and interest-earning deposits	116,927	64,585	9,201
Total interest income	15,811,772	16,337,943	15,925,090
INTEREST EXPENSE:			
Interest on deposits	4,656,015	6,099,776	5,852,737
Interest on borrowed funds	2,366,554	2,385,163	2,679,658
Total interest expense	7,022,569	8,484,939	8,532,395
Net interest income	8,789,203	7,853,004	7,392,695
PROVISION FOR LOAN LOSSES	1,374,989	707,899	244,380
Net interest income after provision for loan losses	7,414,214	7,145,105	7,148,315
OTHER INCOME:			
Service charges on deposit accounts	628,633	520,483	454,923
Increase in value of bank owned life insurance	179,246	245,909	165,288
Loan servicing fees	265,465	174,784	111,597
Net gains on sale and impairment of investment securities	389,779	749,237	2,176
Net gains (losses) on sale of loans and other real estate	192,853	(240,241)	(33,549)
Other charges, commissions & fees	438,394	413,589	398,426
Total other income	2,094,370	1,863,761	1,098,861
OTHER EXPENSES:			
Salaries and employee benefits	3,756,961	2,982,879	2,913,683
Building occupancy	795,957	820,085	821,703
Data processing expenses	920,364	781,495	812,917
Professional and other services	857,866	719,122	653,004
Amortization	39,258	315,756	315,756
Other expenses	1,593,838	1,243,300	1,599,768
Unusual items	-	-	578,176
Total other expenses	7,964,244	6,862,637	7,695,007
Income before income taxes	1,544,340	2,146,229	552,169
Provision for income taxes	388,061	543,739	196,287
NET INCOME	$ 1,156,279	$ 1,602,490	$ 355,882
NET INCOME PER SHARE - BASIC	$ 0.45	$ 0.62	$ 0.14
NET INCOME PER SHARE - DILUTED	$ 0.44	$ 0.62	$ 0.14

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

STATEMENT OF CHANGES IN OWNERS EQUITY

	Common Stock Issued Shares	Amount	Paid in Capital	Additional Retained Earnings	Unearned Stock-Based Compensation
BALANCE, DECEMBER 31, 1999.	2,884,720	$ 288,472	$6,912,580	$18,121,372	$ (981,125)
Comprehensive income:					
Net income				355,882	
Other comprehensive income, net of tax					
Unrealized gains on securities:					
Unrealized holding gains arising during period					
Reclassification adjustment for gains included in net income					
Other comprehensive income, before tax					
Income tax provision					
Other comprehensive income, net of tax					
Comprehensive income:					
ESOP shares earned			9,468		
Treasury stock purchased					
Rescission of stock-based compensation awards			(359,963)		648,188
Stock based compensation earned					332,937
Dividends declared ($.24 per share)				(617,866)	
BALANCE, DECEMBER 31, 2000.	2,884,720	288,472	6,562,085	17,859,388	-
Comprehensive income:					
Net income				1,602,490	
Other comprehensive income, net of tax					
Unrealized gains on securities:					
Unrealized holding gains arising during period					
Reclassification adjustment for gains included in net income					
Other comprehensive income, before tax					
Income tax provision					
Other comprehensive income, net of tax					
Comprehensive income:					
Reduction in par value of common stock		(259,625)	259,625		
ESOP shares earned			33,692		
Stock option exercised.	9,500	95	62,415		
Treasury stock purchased					
Dividends declared ($.26 per share)				(446,239)	
BALANCE, DECEMBER 31, 2001.	2,894,220	28,942	6,917,817	19,015,639	-
Comprehensive income:					
Net income				1,156,279	
Other comprehensive income, net of tax					
Unrealized gains on securities:					
Unrealized holding gains arising during period					
Reclassification adjustment for gains included in net income					
Other comprehensive income, before tax					
Income tax provision					
Other comprehensive income, net of tax					
Comprehensive income:					
ESOP shares earned			57,340		
Stock option exercised.	20,449	204	138,654		
Treasury stock purchased					
Dividends declared ($.30 per share)				(426,267)	
BALANCE, DECEMBER 31, 2002.	2,914,669	$ 29,146	$7,113,811	$19,745,651	$ -

	Comprehensive Income(Loss)	Other Comprehensive Income(Loss)	Unearned ESOP Shares	Treasury Stock	Total
BALANCE, DECEMBER 31, 1999		$ (895,894)	$(287,609)	$(3,083,184)	$20,074,612
Comprehensive income:					
Net income.	$ 355,882				355,882
Other comprehensive income, net of tax					
Unrealized gains on securities:					
Unrealized holding gains arising during period	1,542,512				
Reclassification adjustment for					

gains included in net income.	2,175				
Other comprehensive income, before tax.	1,544,687				
Income tax provision.	(617,874)				
Other comprehensive income, net of tax.	926,813	926,813			926,813
Comprehensive income:	$ 1,282,695				
ESOP shares earned			60,379		69,847
Treasury stock purchased				(179,750)	(179,750)
Rescission of stock-based compensation awards				(288,225)	-
Stock based compensation earned					332,937
Dividends declared ($.24 per share)					(617,866)
BALANCE, DECEMBER 31, 2000		30,919	(227,230)	(3,551,159)	20,962,475
Comprehensive income:					
Net income.	$ 1,602,490				1,602,490
Other comprehensive income, net of tax					
Unrealized gains on securities:					
Unrealized holding gains arising during period	832,429				
Reclassification adjustment for gains included in net income.	(749,237)				
Other comprehensive income, before tax.	83,192				
Income tax provision.	(33,459)				
Other comprehensive income, net of tax.	49,733	49,733			49,733
Comprehensive income:	$ 1,652,223				
Reduction in par value of common stock					-
ESOP shares earned			54,088		87,780
Stock option exercised					62,510
Treasury stock purchased				(134,000)	(134,000)
Dividends declared ($.26 per share)					(446,239)
BALANCE, DECEMBER 31, 2001		80,652	(173,142)	(3,685,159)	22,184,749
Comprehensive income:					
Net income.	$ 1,156,279				1,156,279
Other comprehensive income, net of tax					
Unrealized gains on securities:					
Unrealized holding gains arising during period	723,235				
Reclassification adjustment for gains included in net income.	(389,779)				
Other comprehensive income, before tax.	333,456				
Income tax provision.	(133,203)				
Other comprehensive income, net of tax.	200,253	200,253			200,253
Comprehensive income:	$ 1,356,532				
ESOP shares earned			48,675		106,015
Stock option exercised					138,858
Treasury stock purchased				(129,865)	(129,865)
Dividends declared ($.30 per share)					(426,267)
BALANCE, DECEMBER 31, 2002		$ 280,905	$(124,467)	$(3,815,024)	$23,230,022

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2002	2001	2000
OPERATING ACTIVITIES:			
Net Income.	$ 1,156,279	$ 1,602,490	$ 355,882
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,374,989	707,899	244,380
ESOP and other stock-based compensation earned.	106,015	87,780	402,784
Deferred income tax expense (benefit)	292,546	(296,228)	(60,553)
Proceeds from sale of loans	19,448,121	14,095,351	898,658
Originations of loans held-for-sale	(17,759,391)	(20,102,155)	(946,608)
Realized loss/(gain) on:			
Sale of real estate loans acquired through foreclosure. .	5,283	133,451	13,717
Loans	(34,442)	120,482	6,010
Available-for-sale investment securities.	(389,779)	(749,237)	(2,175)
Depreciation.	469,474	465,591	475,328
Amortization of intangible assets	39,259	315,755	315,756
Amortization of deferred financing costs.	15,100	-	-
Increase in surrender value of life insurance	(179,246)	(245,908)	(119,288)
Net accretion of premiums and discounts on investment securities.	(27,369)	(4,185)	3,577
Decrease (increase) in interest receivable.	131,221	213,242	(247,338)
Net change in other assets and liabilities.	(624,018)	426,771	1,608,477
Net cash provided by (used in) operating activities. . . .	4,024,042	(3,228,901)	2,948,607
INVESTING ACTIVITIES			
Purchase of investment securities available-for-sale. . .	(21,452,772)	(2,152,878)	(8,729,396)
Purchase of investment securities held-to-maturity. . . .	-	-	(15,987)
Proceeds from maturities and principle reductions of investment securities available-for-sale.	11,272,921	5,078,515	2,551,005
Proceeds from sale:			
Available-for-sale investment securities.	1,847,060	9,601,934	10,377,141
Real estate acquired through foreclosure.	369,768	466,517	380,980
Sale of premises and equipment.	-	-	96,626
Net cash received in branch acquisition	21,324,109	-	-
Net increase in loans	(16,723,674)	(15,281,529)	(19,998,621)
Purchase of premises and equipment.	(911,275)	(783,326)	(314,099)
Net cash used in investing activities.	(4,273,863)	(3,070,767)	(15,652,351)
FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW accounts savings accounts, money management deposit accounts and escrow deposits	6,423,999	10,485,060	(31,330)
Net increase (decrease) in time deposits.	2,109,923	(2,355,203)	9,054,524
Net repayments from borrowings.	(6,580,500)	2,211,000	4,350,000
Net proceeds from issuance of trust preferred securities.	4,849,000	-	-
Proceeds from exercise of stock options	138,858	62,510	-
Cash dividends.	(415,145)	(531,086)	(614,612)
Treasury stock purchased.	(129,865)	(134,000)	(179,750)
Net cash provided by financing activities.	6,396,270	9,738,281	12,578,832
Increase in cash and cash equivalents.	6,146,449	3,438,613	(124,912)
Cash and cash equivalents at beginning of period	7,593,956	4,155,343	4,280,255
Cash and cash equivalents at end of period	$ 13,740,405	$ 7,593,956	$ 4,155,343
CASH PAID DURING THE PERIOD FOR:			
Interest.	$ 7,122,065	$ 8,555,605	$ 8,463,078
Income taxes paid	850,000	632,500	73,000
NON-CASH INVESTING ACTIVITY:			
Transfer of loans to other real estate.	1,138,300	348,113	637,633
Increase in unrealized gains and losses on available-for-sale investments securities	(333,456)	(83,192)	1,544,687
Securitization of loans held as an investment security. .	-	1,355,095	-
NON-CASH FINANCING ACTIVITY:			
Dividends declared and unpaid	82,365	71,243	156,090

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The accompanying consolidated financial statements include the accounts of Pathfinder Bancorp, Inc. (the "Company") and its wholly owned subsidiaries, Pathfinder Bank (the "Bank") and Pathfinder Statutory Trust I. Pathfinder Statutory Trust I was formed in 2002 for the purpose of issuing mandatorily redeemable convertible securities which are considered Tier I capital under regulatory capital adequacy requirements (See Note 17). The Bank has three wholly owned operating subsidiaries, Pathfinder Commercial Bank, Whispering Oaks Development Inc. and Pathfinder REIT, Inc. All inter-company accounts and activity have been eliminated in consolidation. The Company has six full service offices located in Oswego County. The Company is primarily engaged in the business of attracting deposits from the general public in the Company's market area, and investing such deposits, together with other sources of funds, in loans secured by one-to-four family residential real estate, commercial real estate, business assets and investment securities.

Pathfinder Bancorp, M.H.C., (the "Holding Company") a mutual holding company whose activity is not included in the accompanying financial statements, owns approximately 60.6% of the outstanding common stock of the Company. Salaries, employee benefits and rent approximating $163,000, $160,000 and $141,000 were allocated from the Company to Pathfinder Bancorp, M.H.C. during 2002, 2001 and 2000, respectively.

During July 2001, Pathfinder Bancorp, Inc. completed its conversion to a federal charter. The charter conversion was completed pursuant to plans of charter conversion which were approved by the Office of Thrift Supervision. Upon completion of the conversion, authorized shares were increased from 9,000,000 to 10,000,000 with a change in par value of the outstanding shares of common stock from $0.10 per share to $0.01 per share on a one-for-one basis. The change in par value did not affect any of the existing rights of shareholders and has been recorded as an adjustment to additional paid-in-capital and common stock. In addition, 1,000,000 shares of preferred stock have been authorized, none of which are outstanding.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has identified the allowance for loan losses to be the accounting area that requires the most subjective and complex judgements, and as such, could be the most subject to revision as new information becomes available.

The Company is subject to the regulations of various governmental agencies. The Company also undergoes periodic examinations by the regulatory agencies which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions resulting from the regulators' judgements based on information available to them at the time of their examinations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits (with original maturity of three months or less) and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. The estimated fair value of cash and cash equivalents approximates carrying value.

INVESTMENT SECURITIES

The Company classifies investment securities as held-to-maturity or available-for-sale. Held to maturity securities are those that the Company has the positive intent and ability to hold to maturity, and are reported at cost, adjusted for amortization of premiums and accretion of discounts. Available-for-sale securities are reported at fair value, with net unrealized gains and losses reflected as a separate component of shareholders' equity, net of the applicable income tax effect. None of the Company's investment securities have been classified as trading securities. In conjunction with the adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", on January 1, 2001, the Company reclassified its held-to-maturity securities with a cost and fair value of $129,000 into available-for-sale.

Gains or losses on investment security transactions are based on the amortized cost of the specific securities sold. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Premiums and discounts on securities are amortized and accreted into income using the straight-line method over the period to first call or maturity.

The Company monitors investment securities for impairment on a quarterly basis by analyzing security credit ratings and related fair market values. When significant declines in fair market values or credit ratings are determined to be other than temporary, appropriate action is taken.

MORTGAGE LOANS HELD-FOR-SALE

Mortgage loans held-for-sale are carried at the lower of cost or fair value. Fair value is determined in the aggregate. As of December 31, 2002, the Company had no outstanding mortgage loan forward commitments. As of December 31, 2001, the Company had approximately $6,800,000 of mortgage loan forward commitments outstanding to hedge interest rate risk on certain committed and originated loans. In 2001, the Company recognized a loss of $187,000 on contracts settled in 2002.

LOANS

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees and costs. Interest income is generally recognized when income is earned using the interest method. Nonrefundable loan fees received and related direct origination costs incurred are deferred and amortized over the life of the loan using the interest method, resulting in a constant effective yield over the loan term. Deferred fees are recognized into income and deferred costs are charged to income immediately upon prepayment of the related loan.

For variable rate loans that reprice frequently and with no significant credit risk, fair values approximate carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest approximates its fair value.

ALLOWANCE FOR LOAN LOSSES

The Company periodically evaluates the adequacy of the allowance for loan losses in order to maintain the allowance at a level that is sufficient to absorb probable credit losses. Management's evaluation of the adequacy of the allowance is based on a review of the Company's historical loss experience, known and inherent risks in the loan portfolio and an analysis of the levels and trends of delinquencies and charge-offs.

A loan is considered impaired, based on current information and events, if it is probable the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based upon the present value of future cash flows discounted at the historical effective rate, except that all collateral-dependent loans are measured for impairment based on fair values of collateral.

INCOME RECOGNITION ON IMPAIRED AND NON-ACCRUAL LOANS

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days. When a loan is classified as non-accrual and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding.

When future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets, ranging up to 39 years for premises and 10 years for equipment. Maintenance and repairs are charged to operating expenses as incurred. The asset cost and accumulated depreciation are removed from the accounts for assets sold or retired and any resulting gain or loss is included in the determination of income.

OTHER REAL ESTATE

Properties acquired through foreclosure, or by deed in lieu of foreclosure, are carried at the lower of cost (fair value at the date of foreclosure) or fair value less estimated disposal costs. Write downs of, and expenses related to other real estate holdings included in noninterest expense were $155,000, $99,000 and $201,000 in 2002, 2001 and 2000, respectively.

INTANGIBLE ASSETS

Intangible assets represent core deposit intangibles and goodwill arising from acquisitions. Core deposit intangibles represent the premium the Company has paid for deposits acquired in excess of the cost incurred had the funds been purchased in the capital markets. Core deposit intangibles are amortized on a straight-line basis over a period of five years. Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. On January 1, 2002, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets," and SFAS 147, "Accounting for Certain Acquisitions of Banking and Thrift Institutions." Under the provisions of SFAS 142 and SFAS 147, goodwill is no longer ratably amortized into the income statement over an estimated life, but rather is tested at least annually for impairment using fair value methodologies. Prior to the adoption of SFAS 142 and SFAS 147, the Company's goodwill was amortized on a straight-line basis over 15 years.

MORTGAGE SERVICING RIGHTS

Originated mortgage servicing rights are recorded at their fair value at the time of transfer and are amortized in proportion to and over the period of estimated net servicing income or loss. The Company uses a valuation model that calculates the present value of future cash flows to determine the fair value of servicing rights. In using this valuation method, the Company incorporated assumptions that market participants would use in estimating future net servicing income, which included estimates of the cost of servicing per loan, the discount rate, and prepayment speeds. The carrying value of the originated mortgage servicing rights is periodically evaluated for impairment using these same market assumptions.

DEPOSITS

Interest on deposits is accrued and paid to the depositors or credited to the depositors accounts monthly.

Fair values disclosed for demand, variable rate money management accounts and certificates of deposit approximate their carrying values at the reporting date. Fair values for fixed rate time deposits and savings are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying value of accrued interest approximates fair value.

STOCK-BASED COMPENSATION

The Company accounts for stock awards issued to directors, officers and key employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25. This method requires that compensation expense be recognized to the extent that the fair value of the stock exceeds the exercise price of the stock award at the grant date. The Company generally does not recognize compensation expense related to stock awards because the stock awards generally have fixed terms and exercise prices that are equal to or greater than the fair value of the Company's common stock at the grant date.

Pro forma amounts of net income and earnings per share under Statement of Financial Accounting Standards No. 123 are as follows:

	2002		2001		2000	
Net Income:						
As reported	$1,156,279		$1,602,490		$355,882	
Pro forma	$1,047,513		$1,456,481		$228,764	
Earnings per share:	Basic	Diluted	Basic	Diluted	Basic	Diluted
As reported	$ 0.45	$ 0.44	$ 0.62	$ 0.62	$ 0.14	$ 0.14
Pro forma	$ 0.41	$ 0.40	$ 0.57	$ 0.56	$ 0.09	$ 0.09

The fair value of these options was estimated at the date of grant using a Black-Scholes options pricing model with the following assumptions: risk free interest rate - 5.0% in 2002 and 2001 and 4.6% in 2000; dividend yield - 2.0% in 2002 and 2001 and 2.2% in 2000; market price volatility - 52.4% in 2002 and 2001 and 93.6% in 2000. An assumed weighted average option life of 6 years has been utilized for each year. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Therefore, the foregoing pro forma results are not likely to be representative of the effects of reported net income of future periods due to additional years of vesting. The weighted-average fair value per share of discounted options during 2001 is $15.38. No options were granted during 2002.

RETIREMENT BENEFITS

The Company has established tax qualified retirement plans covering substantially all full-time employees and certain part-time employees. Pension expense under these plans is charged to current operations and consists of several components of net pension cost based on various actuarial assumptions regarding future experience under the plans. In addition, the Company has unfunded deferred compensation and supplemental executive retirement plans for selected current and former employees and officers that provide benefits that cannot be paid from a qualified retirement plan due to Internal Revenue Code restrictions. These plans are nonqualified under the Internal Revenue Code, and assets used to fund benefit payments are not segregated from other assets of the Company, therefore, in general, a participant's or beneficiary's claim to benefits under these plans is as a general creditor.

TREASURY STOCK

Treasury stock purchases are recorded at cost. In 2002 and 2001, the Company purchased 11,000 and 10,000 shares of treasury stock at an average cost of $11.86 and $13.40 per share, respectively. On December 19, 2002, the Company announced its fourth share repurchase program for the purchase of up to 102,000 shares. The Company considers the common stock to be an attractive investment in view of the current price at which the common stock is trading relative to the Company's earnings per share, book value per share, and general market and economic factors.

INCOME TAXES

Provisions for income taxes are based on taxes currently payable or refundable and deferred income taxes on temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are reported in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled.

EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding throughout each year. Diluted earnings per share gives effect to weighted average shares which would be outstanding assuming the exercise of issued stock options using the treasury stock method.

FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," requires disclosure of fair value information of financial instruments, whether or not recognized in the consolidated statement of condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair values estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The carrying amounts and estimated fair values of financial instruments at December 31, are as follows:

	2002		2001	
	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Cash and cash equivalents. .	$ 13,740,000	$ 13,740,000	$ 7,594,000	$ 7,594,000
Investment securities. . . .	62,506,000	62,506,000	53,422,000	53,422,000
Mortgage loans held-for-sale	3,617,000	4,004,000	5,271,000	5,450,000
Loans.	180,482,000	188,459,000	164,267,000	162,458,000
Accrued interest receivable.	1,334,000	1,334,000	1,465,000	1,465,000
Deposits	204,522,000	198,005,000	169,589,000	163,297,000
Borrowed funds	42,860,000	45,361,000	49,441,000	49,763,000
Trust preferred obligation .	5,000,000	5,793,000	-	-

RECLASSIFICATION

Certain amounts from 2001 and 2000 have been reclassified to conform to the current year presentation. These reclassifications had no affect on net income as previously reported.

NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS

On October 1, 2002, Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 147, "Accounting for Certain Acquisitions of Banking or Thrift Institutions." Statement 147 changes how the Company accounts for goodwill arising from branch acquisitions. Under previous FASB rulings, the goodwill arising from branch acquisitions was classified as an "unidentifiable intangible asset" and therefore subject to amortization. Statement 147 now classifies this intangible as goodwill. In accordance with the provisions of Statement 147, previously issued statements were restated to remove the amortization expense recorded on the goodwill since January 1, 2002. Goodwill is not subject to amortization, but will be reviewed annually for impairment.

The impact of the pronouncement on the financial statements is as follows:

	For the Twelve Months Ended December 31:		
	2002	2001	2000
	(in thousands except for Earnings per Share Data)		
Reported net income	$1,156	$1,602	$ 356
Add back: goodwill amortization, net of tax . . .	-	193	193
Adjusted net income	$1,156	$1,795	$ 549
Basic earnings per share:			
Reported net income	$ 0.45	$ 0.62	$0.14
Goodwill amortization, net of tax	-	0.08	0.08
Adjusted net income	$ 0.45	$ 0.70	$0.22
Diluted earnings per share:			
Reported net income	$ 0.44	$ 0.62	$0.14
Goodwill amortization, net of tax	-	0.07	0.08
Adjusted net income	$ 0.44	$ 0.69	$0.22

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

NOTE 3: ACQUISITION

On October 25, 2002, the Company's subsidiary, Pathfinder Bank, acquired the Lacona, New York branch of Cayuga Bank. In conjunction with the acquisition, the Bank formed a limited-purpose commercial bank subsidiary, Pathfinder Commercial Bank, to serve the depository needs of public entities in its market area and to assume the municipal deposit liabilities of the Lacona branch. The transaction included approximately $26,400,000 in deposits, $2,300,000 in loans and $430,000 in vault cash and facilities and equipment. The acquisition reflects a premium on deposits liabilities assumed of approximately $2,400,000. The results of the Lacona branch operation have been included in the consolidated financial statements since the date of acquisition. As a result of the acquisition, the Company has expanded its service area and now has the ability to serve the needs of public entities in the market area.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

	December 31, 2002
Cash.	$ 21,558,800
Loans receivable.	2,260,000
Reserve for loans	(56,500)
Net loans receivable. . . .	2,203,500
Bank premises and equipment	251,000
Other assets.	9,700
Intangible assets	2,376,000
Total assets.	26,399,000
Deposits.	26,399,000
Total liabilities.	$ 26,399,000

Intangible assets include $1,100,000 in core deposit intangibles amortized over a weighted-average useful life of 5 years. Accumulated amortization approximated $39,000 at December 31, 2002. The remaining $1,300,000 in intangible assets represents goodwill. Goodwill and the core deposit intangible will be deductible for tax purposes.

NOTE 4: INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are summarized as follows:

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Bond investments:				
US Treasury and Agencies.	$ 4,378,243	$ 87,728	$ (1,514)	$ 4,464,457
State and Political Subdivisions.	8,549,215	337,409	(22,719)	8,863,905
Corporate	15,375,316	429,445	(534,501)	15,270,260
Mortgage-backed	24,439,493	727,012	(6,676)	25,159,829
Total	52,742,267	1,581,594	(565,410)	53,758,451
Stock investments:				
Federal Home Loan Bank and Other.	9,295,102	-	(548,009)	8,747,093
Total Available-for-Sale.	62,037,369	$1,581,594	$(1,113,419)	$62,505,544
Net unrealized gain on available-for-Sale	468,175			
Grand Total Carrying Value.	$62,505,544			

December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Bond investments:				
US Treasury and Agencies.	$ 5,970,651	$ 86,809	$ (1,447)	$ 6,056,013
State and Political Subdivisions.	6,011,590	250,502	(28,360)	6,233,732
Corporate	20,949,051	286,489	(1,121,445)	20,114,095
Mortgage-backed	14,121,236	438,535	(11,000)	14,548,771
Total	47,052,528	1,062,335	(1,162,252)	46,952,611
Stock investments:				
Federal Home Loan Bank and Other.	6,234,902	234,636	-	6,469,538
Total Available-for-Sale.	53,287,430	$1,296,971	$(1,162,252)	$53,422,149
Net unrealized gain on available-for-Sale	134,719			
Grand Total Carrying Value.	$53,422,149			

Gross gains of $665,000, $759,000 and $230,000 for 2002, 2001 and 2000, respectively and gross losses of $9,000 and $228,000 for 2001 and 2000, respectively were realized on sales and calls of securities. In 2002, the Company recognized a $275,000 impairment loss on a corporate debt security.

Investment securities with a carrying value of $11,700,000 and cash and cash equivalents with a carrying value of $4,410,000 at December 31, 2002 were pledged to collateralize certain deposit and borrowing arrangements.

The amortized cost and estimated fair value of debt investments at December 31, 2002 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less.	$ 3,734,989	$ 3,796,142
Due after one year through five years.	13,317,470	13,814,737
Due after five years through ten years	4,859,722	4,764,354
Due after ten years.	6,390,593	6,223,390
Mortgage-backed securities	24,439,493	25,159,828
Totals	$52,742,267	$53,758,451

NOTE 5: LOANS

Major classifications of loans at December 31, are as follows:

	2002	2001
Real estate mortgages:		
Conventional.	$115,171,923	$102,955,313
Construction.	4,388,792	3,883,849
Commercial.	32,657,177	30,454,798
	152,217,892	137,293,960

Other loans:		
Consumer.	3,718,774	3,223,780
Home Equity/2nd Mortgage.	11,151,317	9,262,035
Passbook loans.	198,113	129,353
Lease financing	431,555	244,230
Commercial.	12,764,633	14,113,405
	28,264,392	26,972,803
Total loans	180,482,284	164,266,763
Less:		
Allowance for loan losses	(1,480,874)	(1,679,215)
Loans receivable, net . .	$179,001,410	$162,587,548

The Company grants mortgage and consumer loans to customers throughout Oswego and parts of Onondaga counties. Although the Company has a diversified loan portfolio, a substantial portion of its debtor's ability to honor their contracts is dependent upon the county's employment and economic conditions.

The amount of loans on which the Company has ceased accruing interest aggregated approximately $1,711,000 and $2,120,000 at December 31, 2002 and 2001, respectively. The amount of interest not recorded related to these loans was approximately $141,000, $118,000 and $132,000 for 2002, 2001 and 2000, respectively.

The following represents the approximate activity associated with loans to officers and directors during the fiscal year ending December 31, 2002:

Balance at beginning of year	$3,614,000
Originations	4,157,000
Principal payments	(2,430,000)
Balance at end of year	$5,341,000

Mortgage loans serviced for others are not included in the accompanying consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others was approximately $41,428,000 and $29,056,000 at December 31, 2002 and 2001, respectively. Included in other assets is approximately $200,000 and $132,000 of mortgage servicing rights at December 31, 2002 and 2001, respectively.

NOTE 6: ALLOWANCES FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, are summarized as follows:

	2002	2001	2000
Balance at beginning of year	$ 1,679,215	$1,273,707	$1,149,677
Recoveries credited.	31,916	62,330	19,615
Provision for loan losses. .	1,374,989	707,899	244,380
Reserve on acquired loans. .	56,500	-	-
Loans charged off.	(1,661,746)	(364,721)	(139,965)
Balance at end of year . . .	$ 1,480,874	$1,679,215	$1,273,707

At December 31, 2002, 2001 and 2000, the Company had no impaired loans for which specific valuation allowances were recorded.

NOTE 7: PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, is as follows:

	2002	2001
Land	$ 674,773	$ 631,773
Buildings.	4,287,046	3,997,368
Furniture, fixture and equipment	4,606,257	3,643,165
Construction in progress	309,279	442,286
	9,877,355	8,714,592
Less: Accumulated depreciation .	4,255,184	3,785,159
	$5,622,171	$4,929,433

NOTE 8: DEPOSITS

A summary of amounts due to depositors at December 31, is shown as follows:

	2002	2001
Savings accounts	$ 65,517,057	$ 60,816,000
Time accounts.	86,430,445	74,644,437
Money management accounts.	19,765,014	4,416,928
Demand deposit interest-bearing. .	15,404,423	15,231,309
Demand deposit noninterest-bearing	15,764,382	13,035,489
Mortgage escrow funds.	1,640,784	1,444,984
	$204,522,105	$169,589,147

Time deposits with balances in excess of $100,000 amounted to approximately $15,828,000 and $10,214,000 at December 31, 2002 and 2001, respectively. The approximate maturity of time deposits at December 31, is as follows:

	2002		2001	
Year of Maturity	Amount	Percent	Amount	Percent
1.	$48,721,000	56.4%	$51,172,000	68.5%
2.	14,101,000	16.3%	11,500,000	15.4%
3.	10,520,000	12.2%	5,213,000	7.0%
4.	6,252,000	7.2%	2,295,000	3.1%
5.	2,608,000	3.0%	1,998,000	2.7%
Thereafter . . .	4,228,000	4.9%	2,466,000	3.3%
	$86,430,000	100.0%	$74,644,000	100.0%

NOTE 9: BORROWED FUNDS

The composition of borrowings at December 31 are as follows:

	2002	2001
Short-term:		
Repurchase agreements, Morgan Stanley	$ -	$ 2,668,000
FHLB advances	9,700,000	17,550,000
Total short-term.	9,700,000	20,218,000
Long-term:		
FHLB Repurchase agreements.	3,400,000	912,500
Advances.	29,760,000	28,310,000
Total long-term	33,160,000	29,222,500
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior		

subordinated debentures of the Company.	5,000,000	-
Total borrowings.	$47,860,000	$49,440,500

The principal balance, interest rate and maturity of the above borrowings at December 31, 2002 is as follows:

Term	Principal	Rates
Short-term:		
Advances with FHLB		
due within 3 months	$ 2,700,000	2.52%-5.61%
due within 3-6 months	2,000,000	3.82%-4.76%
due within 6 months to 1 year	5,000,000	3.65%-7.13%
Total short-term borrowings	$ 9,700,000	
Long-term:		
Repurchase agreements with FHLB	$ 3,400,000	5.56%-5.85%
Advances with FHLB		
due within 2 years	5,500,000	3.53%-5.43%
due within 3 years	3,000,000	4.15%-5.00%
due within 4 years	7,000,000	4.13%-5.32%
due after 5 years	14,260,000	4.70%-6.00%
Total advances with FHLB	29,760,000	
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of the Company	5,000,000	LIBOR +3.45%
Total long-term borrowings	$38,160,000	

Other information related to short term borrowings is as follows:

	2002	2001
Maximum outstanding at any month end	$ 9,700,000	$20,218,000
Average amount outstanding during the year	13,716,000	15,240,000
Average interest rate during the year	3.75%	4.56%

The repurchase agreements with the Federal Home Loan Bank ("FHLB") are collateralized by certain investment securities, real estate mortgages and cash which had a carrying value of $3,401,000 at December 31, 2002. The overnight line of credit agreement with the FHLB is used for liquidity purposes. Interest on this line is determined at the time of borrowing. The average rate paid on the overnight line during 2002 approximated 1.64%. At December 31, 2002, $12,466,000 was available under the line of credit. In addition to the overnight line of credit program, the Company also has access to the FHLB's Term Advance Program under which it can borrow at various terms and interest rates. Residential mortgage loans with a carrying value of $91,324,000 have been pledged by the Company under a blanket collateral agreement to secure the Company's line of credit and term borrowings.

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 are treated 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% (4.85% at December 31, 2002) with a five year call provision. All of these securities are guaranteed by the Company. The Company capitalized $151,000 of deferred financing costs associated with the debt issuance which is being amortized on a straight line basis over the 5 year period to call date.

NOTE 10: EMPLOYEE BENEFITS

The Company has a noncontributory defined benefit pension plan covering substantially all employees. In addition, the Company provides certain health and life insurance benefits for eligible retired employees. Employees with less than 14 years of service as of January 1, 1995, are not eligible for the health and life insurance retirement benefits.

The following tables set forth the changes in the plan's benefit obligation, fair value of plan assets and prepaid (accrued) benefit (cost) as of December 31, 2002 and 2001:

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Change in benefit obligations:				
Benefit obligation at beginning of year	$2,479,215	$2,206,887	$ 362,456	$ 372,018
Service cost.	118,697	85,697	1,708	1,538
Interest cost	183,781	171,492	22,461	21,323
Actuarial gain.	402,687	161,168	14,762	5,715
Benefit paid.	(157,424)	(146,029)	(33,811)	(31,750)
Plan amendment.	4,140	-	-	(6,388)
Benefit obligation at end of year	$3,031,096	$2,479,215	$ 367,576	$ 362,456
Change in plan assets:				
Fair value of plan assets at beginning of year.	$2,598,427	$3,187,163	$ -	$ -
Actual loss on plan assets.	(328,553)	(442,707)	-	-
Benefits paid	(157,424)	(146,029)	-	-
Employer contributions.	380,074	-	-	-
Fair value of plan assets at end of year. . . .	$2,492,524	$2,598,427	$ -	$ -
Components of prepaid/accrued benefit cost				
Funded (unfunded) status.	$ (538,572)	$ 119,212	$(367,576)	$(362,456)
Unrecognized prior service cost	121	1,080	-	-
Unrecognized transition obligation.	-	-	173,546	192,065
Unrecognized actuarial net loss	1,380,111	436,512	45,604	30,309
Prepaid/(accrued) benefit/(cost).	$ 841,660	$ 556,804	$(148,426)	$(140,082)

The increase in unrecognized net actuarial loss in 2002 compared with 2001 primarily resulted from the actual return on plan assets being less than the expected return on plan assets in 2002, combined with the reduction of the discount rate to 6.50% from 7.25% in 2001.

The significant assumptions used in determining the benefit obligation as of December 31, 2002 and 2001 is as follows:

Weighted average discount rate	6.50%	7.25%	6.00%	6.50%
Expected long term rate of return on plan assets	9.00%	9.00%	-	-
Rate of increase in future compensation levels .	4.00%	4.50%	-	-

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. The annual rates of increase in the per capita cost of covered medical and prescription drug benefits for year-end calculations were assumed to be 9.0% and 13.0%, respectively. This rate was assumed to decrease gradually to 5.0% in 2010 and remain at that level thereafter. A one-percentage point change in the health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	$ 2,005	$ (1,818)
Effect on postretirement benefit obligation	29,122	(26,706)

Pension plan assets consist primarily of temporary cash investments and listed stocks and bonds.

The composition of the net periodic benefit plan cost (benefit) for the years ended December 31, 2002, 2001 and 2000 is as follows:

	Pension Benefits		
	2002	2001	2000
Service cost	$ 118,697	$ 85,697	$ 96,079
Interest cost	183,781	171,492	201,808
Amortization of transition obligation	-	-	-
Amortization of unrecognized prior service cost	959	959	1,050
Amortization of gains and losses	26,542	(11,922)	(4,696)
Expected return on plan assets	(234,761)	(280,516)	(274,813)
Net affect of special termination benefits	-	-	(28,282)
Net periodic benefit plan cost	$ 95,218	$ (34,290)	$ (8,854)

	Postretirement Benefits		
	2002	2001	2000
Service cost	$ 1,705	$ 1,538	$ 3,287
Interest cost	22,461	21,323	23,536
Amortization of transition obligation	18,522	18,522	18,978
Amortization of unrecognized prior service cost	-	-	-
Amortization of gains and losses	162	158	247
Expected return on plan assets	-	-	-
Net affect of special termination benefits	-	-	-
Net periodic benefit plan cost	$42,850	$41,541	$46,048

During the first quarter of 2000, the Company offered early retirement benefits for all employees satisfying the established provisions. Total plan expense for 2000 includes a one time charge of $360,000 to reflect the early retirements benefits, as well as, one time credits for plan curtailment of $189,000 and plan settlement of $199,000 resulting from the settlement of the related participants' obligations.

The Company also offers a 401(k) plan to its employees. Contributions to this plan were $74,000, $52,000 and $41,000 for 2002, 2001 and 2000, respectively.

NOTE 11: DEFERRED COMPENSATION AND SUPPLEMENTAL RETIREMENT PLANS

The Company maintains optional deferred compensation plans for its directors whereby fees normally received are deferred and paid by the Company based upon a payment schedule commencing at age 65 and continue monthly for 10 years. Directors must serve on the board for a minimum of 5 years to be eligible for the Plan. At December 31, 2002 and 2001, other liabilities include approximately $1,143,000 and $1,116,000, respectively, relating to deferred compensation. Deferred compensation expense for the years ended December 31, 2002, 2001 and 2000 amounted to approximately $113,00, $94,000 and $68,000, respectively.

The Company has a supplemental executive retirement plan for the benefit of certain executive officers. At December 31, 2002 and 2001, other liabilities include approximately $495,000 and $515,000 accrued under these plans. Compensation expense includes approximately $74,000, $110,000 and $187,000 relating to the supplemental executive retirement plan for 2002, 2001 and 2000, respectively.

NOTE 12: STOCK BASED COMPENSATION PLANS

In February 1997, the Board of Directors approved an option plan and granted options there under with an exercise price equal to the market value of the Company's shares at the date of grant, subject to shareholder approval. Upon shareholder approval of the plans in December 1997, the excess of market value over exercise price ($6.583) for granted options approximated $1,330,000. This amount was recorded as unearned stock-based compensation within the shareholders' equity section of the consolidated statement of condition and was recognized as

compensation expense ratably over the 6-year vesting period through 2001. Under the Stock Option Plan, up to 132,249 options have been authorized for grant of incentive stock options and nonqualified stock options.

All options have a 10-year term and vest and become exercisable ratably over a 6-year period. On December 19, 2000, the Board of Directors accepted the voluntary rescission of all issued and unvested incentive stock options and nonstatutory stock options under the Pathfinder Bank 1997 Stock Option Plan. As a result of the voluntary rescission of the unvested portion of the stock option grants, unearned stock based compensation was reduced by $386,000 during December of 2000. Compensation expense for the year ended December 31, 2000 approximated $204,000.

In July 2001, the Board approved the re-issuance of 38,499 stock options remaining in the 1997 Stock Option Plan. The exercise price is equal to the market value of the Company's shares at the date of grant ($8.335). The options granted under the re-issuance will have a 10-year term with one-third vesting upon grant date and the remaining vesting and becoming exercisable ratably over a 2-year period.

Activity in the Stock Option Plan is as follows:

	Options Outstanding	Weighted Average Exercise Price	Shares Exercisable
Outstanding at December 31, 1999	122,250	$ 6.583	44,250
Exercised.	-	-	-
Forfeited.	(2,250)	-	-
Awards Rescinded	(36,000)	-	-
Outstanding at December 31, 2000	84,000	$ 6.583	84,000
Granted.	38,499	8.335	-
Exercised.	(9,500)	-	-
Outstanding at December 31, 2001	112,999	$ 7.180	87,333
Exercised.	(20,449)	6.790	-
Outstanding at December 31, 2002	92,550	-	79,717

During 2002, the exercise price ranged from $6.583 to $8.335. The weighted average exercise price of exercisable options was $7.093, $6.840 and $6.583 as of December 31, 2002, 2001 and 2000, respectively.

During 1997, the Company awarded 52,350 shares (52,950 authorized) of restricted stock under the Management Recognition and Retention Plan. The market value of shares awarded at the date of grant approximated $873,000 and has been recognized in the accompanying statement of condition as unearned stock-based compensation. Compensation expense for the year ended December 31, 2000 was $128,000. On December 19, 2000, the Board of Directors accepted the voluntary rescission of all issued and unvested awards under the 1997 Recognition and Retention Plan. Accordingly, the shares, which would have been earned by participants in the years 2000, 2001 and 2002 will be retained by the Recognition Plan. The Recognition Plan currently holds 15,750 shares as non-granted. As a result of the voluntary rescission of the unvested portion of the recognition plan grants, unearned stock based compensation was reduced by $263,000 during December of 2000.

The Bank sponsors an Employee Stock Ownership Plan (ESOP) for employees who have attained the age of 21 and who have completed a 12 month period of employment with the Bank during which they worked at least 1,000 hours. The Bank purchased 92,574 shares of common stock on behalf of the ESOP. The purchase of the shares was funded by a loan from the Company and the unearned shares are pledged as collateral for the borrowing. As the loan is repaid, earned shares are released from collateral and are allocated to the participants. As shares are earned, the Bank records compensation expense at the average market price of the shares during the period. Cash dividends received on unearned shares are allocated among the participants and are reported as compensation expense. ESOP compensation expense approximated $113,000, $88,000 and $70,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Total earned shares at December 31, 2002, 2001 and 2000 were 71,478, 63,228 and 53,878, respectively. The estimated fair value of the remaining 21,096 unearned shares at December 31, 2002 is $310,000. Unearned ESOP shares are not considered outstanding for purposes of computing earnings per share.

NOTE 13: INCOME TAXES

The provision for income taxes for the years ended December 31, is as follows:

	2002	2001	2000
Current	$ 95,515	$ 839,967	$256,840
Change in valuation allowance	86,708	-	-
Deferred.	205,838	(296,228)	(60,553)
	$388,061	$ 543,739	$196,287

The provision for income taxes includes the following:

	2002	2001	2000
Federal Income Tax	$388,061	$520,379	$178,388
New York State Franchise Tax	-	23,360	17,899
	$388,061	$543,739	$196,287

The components of net deferred tax asset (liability), included in other liabilities for the years ended December 31, are as follows:

	2002	2001
Assets:		
Deferred compensation.	$ 637,607	$ 643,049
Allowance for loan losses.	576,801	633,770
Postretirement benefits.	59,904	55,211
AMT tax credit carryforward.	71,079	-
Mortgage recording tax credit carryforward	202,111	73,082
NOL carryforward	101,523	-
Valuation reserve on loans held for sale .	-	81,335
Investment impairment loss	107,113	-
Other.	16,266	83,397
	1,772,404	1,569,844
Liabilities:		
Prepaid pension.	(327,826)	(220,550)
IIMF reserve	(190,235)	(193,459)
Depreciation	(194,022)	(92,320)
Accretion.	(65,267)	(48,019)
Loan origination fees.	(100,715)	(38,206)
Intangible assets.	(123,071)	-
Investment securities.	(187,270)	(54,070)
	(1,188,406)	(646,624)
Net deferred tax asset before valuation allowance	$ 583,998	$ 923,220
Less: valuation allowance.	(86,708)	-
Net deferred tax asset	$ 497,290	$ 923,220

The Company's net operating loss can be carried back 5 years and carried forward 20 years. In addition, the Company has a New York State mortgage recording tax credit which has no carried forward limitations. As of December 31, 2002, the Company has recognized a 100% valuation allowance on a New York State net operating loss carryforward in the amount of $187,000. The valuation has been provided to account for the potential limitations on the utilization of these tax benefits. For all other deferred tax assets, the Company has determined that no valuation allowance is necessary as it is more likely than not deferred tax assets will be realized through carryback to taxable income in prior years, future reversals of existing temporary differences and through future taxable income.

A reconciliation of the federal statutory income tax rate to the effective income tax rate at December 31, is as follows:

	2002	2001	2000
Federal statutory income tax rate	34.0%	34.0%	34.0%
State tax	(5.1)	(2.4)	(17.4)
Tax-exempt interest income and other, net.	(9.4)	(6.3)	18.9
Change in valuation allowance . .	5.6	-	-
Effective income tax rate	25.1%	25.3%	35.5%

NOTE 14: EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted average shares outstanding. Diluted earnings per share is computed based on the weighted average shares outstanding adjusted for the dilutive effect of the assumed exercise of stock options during the year. The following is a reconciliation of basic to diluted earnings per share for the years ended December 31:

	Earnings	Shares	EPS
2002 Net Income.	$1,156,279		
Basic EPS	1,156,279	2,577,857	$0.45
Effect of dilutive securities			
Stock options	-	45,491	
Diluted EPS	$1,156,279	2,623,348	$0.44
2001 Net Income.	$1,602,490		
Basic EPS	1,602,490	2,567,048	$0.62
Effect of dilutive securities			
Stock options	-	28,358	
Diluted EPS	$1,602,490	2,595,406	$0.62
2000 Net Income.	$ 355,882		
Basic EPS	355,882	2,556,493	$0.14
Effect of dilutive securities			
Stock options	-	6,684	
Diluted EPS	$ 355,882	2,563,177	$0.14

NOTE 15: COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit, which involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statement of condition. The contract amount of those commitments to extend credit reflects the extent of involvement the commitment has in this particular class of financial instrument. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of the instrument.

The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

	Contract Amount	
Financial instruments whose contract amounts represent credit risk at December 31,	2002	2001
Commitments to extend credit	$16,085,000	$34,028,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitment amounts are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include residential real estate and income-producing commercial properties. $6,200,000 and $16,800,000 of the outstanding commitments at December 31, 2002 and 2001, respectively, represent commitments to make residential real estate and consumer loans. The fair value of these commitments as of December 31, 2002, 2001 and 2000, approximates the contract value.

The Company leases land and leasehold improvements under agreements that expire in various years with renewal options over the next 30 years. Rental expense, included in operating expenses, amounted to $21,000, $18,000 and $16,000 in 2002, 2001 and 2000, respectively. In October 2002, the Company entered into a land lease with one of its directors on an arms-length basis. The rent expense paid to the related party during 2002 was $5,250. Approximate minimum rental commitments for the noncancelable operating lease is as follows:

Years Ending December 31:	
2003	$ 42,000
2004	43,000
2005	44,500
2006	49,000
2007	49,750
Thereafter	282,500
Total minimum lease payments	$510,750

NOTE 16: DIVIDENDS AND RESTRICTIONS

The board of directors of Pathfinder Bancorp, M.H.C., determines whether the Holding Company will waive or receive dividends declared by the Company each time the Company declares a dividend, which is expected to be on a quarterly basis. The Holding Company may elect to receive dividends and utilize such funds to pay expenses or for other allowable purposes. The Office of Thrift Supervision ("OTS") has indicated that (i) the Holding Company shall provide the OTS annually with written notice of its intent to waive its dividends prior to the proposed date of the dividend, and the OTS shall have the authority to approve or deny any dividend waiver request; (ii) if a waiver is granted, dividends waived by the Holding Company will be excluded from the Company's capital accounts for purposes of calculating dividend payments to minority shareholders; (iii) the Company shall establish a restricted capital account in the amount of any dividends waived by the Holding Company, and the amount of any dividend waived by the Holding Company shall be available for declaration as a dividend solely to the Holding Company. During 2002, the Company paid cash dividends totaling $127,000 to the Holding Company. For the first, second and fourth quarters ending March 31, 2002, June 30, 2002 and December 31, 2002, respectively, the Holding Company waived the right to receive its portion of the cash dividends declared on March 19, 2002, June 18, 2002 and December 17, 2002, respectively. The Company maintains a restricted capital account with a $570,000 balance, representing the Holding Company's portion of dividends waived as of December 31, 2002.

The Company's ability to pay dividends to its shareholders is largely dependent on the Bank's ability to pay dividends to the Company. In addition to state law requirements and the capital requirements discussed in Note 17, the circumstances under which the Bank may pay dividends are limited by federal statutes, regulations and policies. The amount of retained earnings legally available under these regulations approximated $1,800,000 as of December 31, 2002.

NOTE 17: REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guideline and the regulatory

framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2002, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2002, the Bank's most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well-capitalized", under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized", the Bank must maintain total risk based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		For Capital Adequacy Purposes		To Be "Well-Capitalized" Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002:						
Total Core Capital (to Risk-Weighted Assets)	$24,516,853	13.6%	$14,442,840	8.0%	$18,053,550	10.0%
Tier 1 Capital (to Risk-Weighted Assets) . .	$23,035,709	12.8%	$ 7,221,422	4.0%	$10,832,130	6.0%
Tier 1 Capital (to Average Assets)	$23,035,709	8.8%	$10,504,140	4.0%	$13,130,175	5.0%
As of December 31, 2001:						
Total Core Capital (to Risk-Weighted Assets)	$21,441,458	12.9%	$13,246,640	8.0%	$16,558,300	10.0%
Tier 1 Capital (to Risk-Weighted Assets) . .	$19,762,243	11.9%	$ 6,623,320	4.0%	$ 9,934,980	6.0%
Tier 1 Capital (to Average Assets)	$19,762,243	8.3%	$ 9,534,422	4.0%	$11,918,028	5.0%

NOTE 18: SUBSEQUENT EVENT

On January 13, 2003, the Company reported the purchase of 160,114 shares of common stock at a price of $2.3 million, or $14.60 per share, from Jewelcor Management Inc. ("JMI"), which is owned by Mr. Seymour Holtzman. The repurchase represents approximately 6.1% of the Company's outstanding common stock as of December 31, 2002. At the close of trading on January 10, 2003, the trade date prior to entering the agreement, the bid for the Company's common stock was $14.55 and the ask was $14.95. The privately negotiated transaction with JMI is not part of the share repurchase program previously announced by the Company.

As part of the repurchase agreement, Mr. Holtzman and JMI, as well as those persons and entities who signed the Schedule 13D with Mr. Holtzman with respect to the Company's common stock, have agreed in writing, that neither they nor their affiliates will purchase shares of the Company's common stock for a period of five years. JMI has also agreed to stipulate to the discontinuance with prejudice of the lawsuit entitled "Jewlecor Management, Inc. v. Pathfinder Bancorp, Inc.", and to withdraw a shareholder proposal previously submitted by JMI.

NOTE 19: PARENT COMPANY - FINANCIAL INFORMATION

The following represents the condensed financial information of Pathfinder Bancorp, Inc. for years ended December 31:

STATEMENTS OF CONDITION	2002	2001
ASSETS		
Cash	$ 3,185,445	$ 797,274
Investments	450,450	150,000
Receivable from bank subsidiary	152,415	207,912
Investment in subsidiaries	24,616,171	21,138,562
Due from subsidiaries	63,608	-
Other assets	46,775	73,819
Total assets	$28,514,864	$22,367,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liabilities	129,842	106,761
Due to subsidiary	-	76,057
Trust preferred debt	5,155,000	-
Shareholders' equity	23,230,022	22,184,749
Total liabilities and shareholders' equity	$28,514,864	$22,367,567

STATEMENTS OF INCOME	2002	2001	2000
Interest income	$ 45,641	$ 42,436	$76,724
Interest expense	142,400	-	-
(Loss) income from operations	(96,759)	42,436	76,724
Operating expense	71,703	65,369	72,691
Amortization of deferred financing costs	15,100	-	-
(Loss) income before tax benefit and equity in undistributed net income of subsidiaries	(183,562)	(22,933)	4,033
Tax (benefit) provision	(71,589)	(8,944)	1,573
(Loss) income before equity in undistributed net income of subsidiaries	$ (111,973)	$ (13,989)	$ 2,460
Equity in undistributed net income of subsidiaries	$1,268,252	$1,616,479	$353,422
Net income	$1,156,279	$1,602,490	$355,882

STATEMENTS OF CASH FLOW	2002	2001	2000
Operating Activities			
Net Income.	$ 1,156,279	$ 1,602,490	$ 355,882
Equity in undistributed earnings of subsidiary.	(1,268,252)	(1,616,479)	(353,422)
ESOP and other stock-based compensation earned	106,015	87,780	402,784
Amortization of deferred financing costs.	15,100	-	-
Other operating activities.	(123,486)	(842,750)	(95,803)
Net cash (used in)/provided by operating activities	(114,344)	(768,959)	309,441
Investing Activities			
Repayment of loan to subsidiary.	55,497	55,497	55,497
Dividends receivable.	4,170	-	-
Purchase of investments	(155,000)	-	-
Net cash (used in)/provided by investing activities.	(95,333)	55,497	55,497
Financing activities			
Proceeds from exercise of stock option plan	138,858	62,510	-
Proceeds from trust preferred obligation.	5,004,000	-	-
Investment in Bank subsidiary	(2,000,000)	-	-
Cash dividends.	(415,145)	(531,086)	(614,612)
Treasury stock purchased.	(129,865)	(134,000)	(179,750)
Net cash provided by (used in) financing activities.	2,597,848	(602,576)	(794,362)
Increase (decrease) in cash and cash equivalents.	2,388,171	(1,316,038)	(429,424)
Cash and cash equivalents at beginning of year	797,274	2,113,312	2,542,736
Cash and cash equivalents at end of year.	$ 3,185,445	$ 797,274	$2,113,312

CORPORATE INFORMATION

Pathfinder Bancorp, Inc.

BOARD OF DIRECTORS
Chris C. Gagas, Chairman
Chris R. Burritt
George P. Joyce
Raymond W. Jung
Bruce E. Manwaring
L. William Nelson
Janette Resnick
Thomas W. Schneider
Corte J. Spencer
Steven W. Thomas

DIRECTORS EMERITUS
Victor S. Oakes
Lawrence W. O'Brien

PATHFINDER OFFICERS:

Thomas W. Schneider
President, Chief Executive Officer

W. David Schermerhorn
Executive Vice President,
Loan Administration

John Devlin
Vice President, Senior Commercial Lender

James A. Dowd, CPA
Vice President, Chief Financial Officer,
Trust Officer

Edward Mervine, Esq.
Vice President, General Counsel

Melissa A. Miller
Vice President, Operations,
Corporate Secretary

Gregory L. Mills
Vice President, Marketing,
Branch Administration

Annette L. Burns, CPA
Controller

Cynthia L. Claflin
Assistant Vice President,
Mexico Branch Manager

Roberta Davis
Assistant Treasurer

Rhonda Hutchins
Assistant Vice President, Sales Manager

Pamela S. Knox
Assistant Vice President, Lending

Laurie L. Lockwood
Assistant Vice President,
Assistant Controller,
Human Resource Officer

Will O'Brien
Assistant Vice President,
Business Relationship Manager

Daniel R. Phillips
Assistant Vice President, MIS

Shane R. Stepien
Assistant Vice President,
Marketing Manager

Michele C. Torbitt
Assistant Vice President,
Electronic Commerce

Anita J. Austin
Auditor

PATHFINDER BRANCH MANAGERS

Tara FitzGibbons, Main Office
Craig J. Nessel, Plaza and Eastside Offices
Cynthia L. Claflin, Mexico Office
Tona L. Kempston, Fulton Office
Denise M. Lyga, Lacona Office

CORPORATE HEADQUARTERS
214 West First Street
Oswego, NY 13126
(315) 343-0057

ANNUAL MEETING
Wednesday, April 30, 2003, 10:00 AM
Econo Lodge Riverfront Hotel
70 East First Street
Oswego, NY 13126

STOCK LISTING
The Nasdaq Small Cap Market (SM)
Symbol: PBHC Listing: PathBcp

SPECIAL COUNSEL
Luse Lehman Gorman
Pomerenk & Schick
5335 Wisconsin Avenue N.W.
Suite 400
Washington, D.C. 20015

INDEPENDENT AUDITORS
PricewaterhouseCoopers L.L.P.
One Lincoln Center
Syracuse, NY 13202

TRANSFER AGENT
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

INVESTOR RELATIONS
Thomas W. Schneider
President, Chief Executive Officer
James A. Dowd, CPA
Vice President, Chief Financial Officer, Trust Officer

214 West First Street
Oswego, NY 13126
(315) 343-0057

GENERAL INQUIRIES AND REPORTS
A copy of the Bank's 2002 Annual Report to the Securities and Exchange Commission, Form 10-K, may be obtained without charge by written request of shareholders to:

Melissa A. Miller
Vice President, Operations,
Corporate Secretary
Pathfinder Bank
214 West First Street
Oswego, NY 13126

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's filings are also available electronically free of charge at the SEC website: http://www.sec.gov and at their website:http://www.pathfinderbank.com

FDIC DISCLAIMER
This Annual Report has not been reviewed, or confirmed for accuracy or relevance, by the FDIC.

[LOGO] PathFinder
Bancorp, Inc.

214 West First Street
Oswego, New York 13126

EXHIBIT 21
SUBSIDIARIES OF THE COMPANY

Company Percent Owned

Pathfinder Bank (1) 100%

Pathfinder Statutory Trust 100%

(1) Pathfinder Commercial Bank, Pathfinder REIT, Inc. and Whispering Oaks Development Corporation, 100% owned by Pathfinder Bank

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Thomas W. Schneider, President and Chief Executive Officer, and James A. Dowd, Vice President and Chief Financial Officer of Pathfinder Bancorp, Inc. (the "Company"), each certify in his/her capacity as an officer of the Company that he/she has reviewed the Quarterly Report of the Company on Form 10-K for the quarter ended December 31, 2002 and that to the best of his/her knowledge:

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

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

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

March 28, 2003 *(/s/Thomas W. Schneider)*

Date — *Thomas W. Schneider*
President and Chief Executive Officer

March 28, 2003 *(/s/James A. Dowd)*

Date — *James A. Dowd*
Vice President and Chief Financial Officer