PATHFINDER BANCORP INC
Form 10-K
March 31, 2005

UNITED STATES
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, 2004
OR
[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSACTION PERIOD FROM ______________ TO ________________

COMMISSION FILE NUMBER: 000-23601

PATHFINDER BANCORP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

FEDERAL	16-1540137
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

214 WEST FIRST STREET, OSWEGO, NY 13126
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE) (ZIP CODE)

(315) 343-0057
(REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE $.01 PER SHARE
(TITLE OF CLASS)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING TWELVE MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH REQUIREMENTS FOR THE PAST 90 DAYS.
YES X NO

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENTS TO THIS FORM 10-K. [X]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN RULE 12B-2 OF THE ACT).
YES NO X

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 June 30, 2004 ($15.175) was $8,689,175.

As of June 30, 2004 there were 2,935,419 shares issued and 2,448,132 shares outstanding of the Registrant's Common Stock.

Documents Incorporated by Reference: Proxy Statement for the 2004 Annual Meeting of Stockholders (Parts I and III).

PART I

ITEM 1: BUSINESS

GENERAL

PATHFINDER BANCORP, INC.

Pathfinder Bancorp, Inc. (the "Company") is a Federally chartered mid-tier holding company headquartered in Oswego, New York. The primary business of the Company is its investment in Pathfinder Bank (the "Bank") and Pathfinder Statutory Trust I. The Company is majority owned by Pathfinder Bancorp, M.H.C., a Federally-chartered mutual holding company (the "Mutual Holding Company"). At December 31, 2004, the Mutual Holding Company held 1,583,239 shares of Common Stock and the public held 866,893 shares of Common Stock (the "Minority Shareholders"). At December 31, 2004, Pathfinder Bancorp, Inc. had total assets of $302.0 million, total deposits of $236.7 million and shareholders' equity of $21.8 million.

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.

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 and commercial real estate. At December 31, 2004, $168.8 million, or 89% of the Bank's total loan portfolio consisted of loans secured by real estate, of which $123.9 million, or 66%, were loans secured by one- to four-family residences and $29.9 million, or 16%, were secured by commercial

real estate. Additionally, $15.0 million, or 8%, of total real estate loans, were secured by second liens on residential properties that are classified as consumer loans. The Bank also originates commercial and consumer loans that totaled $16.8 and $3.5 million, respectively, or 11%, of the Bank's total loan portfolio. The Bank invests a portion of its assets in securities issued by the United States Government agencies and sponsored enterprises, 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 sponsored enterprises. 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.

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 ("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 Branch Acquisition reflects a premium on deposit liabilities assumed of approximately $2.4 million. As of December 31, 2004, no impairment has been recognized.

In April 1999, the Bank established Pathfinder REIT, Inc. as the Bank's wholly-owned real estate investment trust subsidiary. At December 31, 2004, Pathfinder REIT, Inc. held $26.8 million in mortgages and mortgage related assets. Recent legislation proposed by the New York State legislature would eliminate the tax treatment accorded REITs. Enactment of this legislation would increase the state tax rate for the Company. All disclosures in the Form 10-K relating to the Bank's loans and investments include loans 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 Entergy Nuclear Northeast, Novelis, 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.

REGULATION AND SUPERVISION

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 ("BIF"). The Bank is subject to extensive regulation by the New York State Banking Department (the "Department"), as its chartering agency, and by the FDIC, as its deposit insurer and primary federal regulator. The Bank is required to file reports with, and is periodically examined by, the FDIC and the Superintendent of the Department 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

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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. 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. Under FDICIA and the FDIC's implementing regulations, the Bank's investment and service corporation activities are limited to activities permissible for a national bank unless the

FDIC otherwise permits it.

The FDIC and the Superintendent have broad enforcement authority over the Bank. Under this authority, the FDIC and the Superintendent have the ability to issue formal or informal orders to correct violations of law or unsafe or unsound banking practices.

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.

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 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.

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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

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"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 currently meets the criteria to be classified as a "well capitalized" savings institution.

TRANSACTIONS WITH AFFILIATES AND INSIDERS

Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and its implementing regulations. 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 and its implementing regulations restrict 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. The Company and the Mutual Holding Company are registered with the OTS and are subject to OTS regulations, examinations, supervision and reporting

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requirements. As such, the OTS has enforcement authority over the Company and the Mutual Holding Company, and their non-savings institution 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 of the OTS, 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 associations, 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 associations 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

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

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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. As such, neither the Company nor the Mutual Holding Company is subject to supervision by the Department.

FEDERAL SECURITIES LAW

The common stock of the Company is registered with the SEC under the Exchange Act. 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, 2004, the Bank was in compliance with these reserve requirements.

FEDERAL COMMUNITY REINVESTMENT 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

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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 COMMUNITY REINVESTMENT 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

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. The USA PATRIOT Act also requires the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering

activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisitions, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

SARBANES-OXLEY ACT OF 2002

The Sarbanes-Oxley Act of 2002 was signed into law on July 30, 2002. The Sarbanes-Oxley Act of 2002 is a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by Section 302(a) of Sarbanes-Oxley Act of 2002, the Company Chief Executive Officers and Chief Financial Officer are each required to certify that the company's quarterly and annual reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in our quarterly an annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation. We will be subject to further reporting and audit requirements with the year ending December 31, 2006 under the requirements of Sarbanes-Oxley. We have existing policies, procedures and systems designed to comply with these regulations, and are further enhancing and documenting such policies, procedures and systems to ensure continued compliance with these regulations.

The company maintains an Internet website located at WWW.PATHFINDERBANK.COM on which, among other things, the Company makes available, free of charge, various reports that it files with or furnishes to the Securities and Exchange Commission, including its Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. The Company has also made available on its website its Audit Committee Charter and corporate governance guidelines. These reports are made available as soon as reasonably practicable after these reports are filed with or furnished to the Securities and Exchange Commission.

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.

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 Internal Revenue 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. 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 can be carried forward to the succeeding 20 taxable years.

The Company's Annual Report on Form 10-K may be accessed on the Company'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, 2004. The aggregate net book value of the Bank's premises and equipment was $7.6 million at December 31, 2004. For additional information regarding the Bank's properties, see Note 8 to Notes to Financial Statements

LOCATION	OPENING DATE	OWNED/LEASED
Main Office . . . . 214 West First Street Oswego, New York 13126	1874	Owned
Plaza Branch.	1989	Owned (1)

Roue 104, Ames Plaza Oswego, New York 13126		
Mexico Branch . . . . . . Norman and Main Streets Mexico, New York 13114	1978	Owned
Oswego East Branch. . . . 34 East Bridge Street Oswego, New York 13126	1994	Owned
Lacona Branch . . . . . . 1897 Hardwood Drive Lacona, New York 13083	2002	Owned
Fulton Branch . . . . . . 5 West First Street South Fulton, New York 13069	2003	Owned (2)

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(1) The building is owned; the underlying land is leased with an annual rent of $20,000
(2) The building is owned; the underlying land is leased with 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 such claims and lawsuits in the aggregate are immaterial to the Company's consolidated financial condition and results of operations.

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

No matters were submitted during the fourth quarter of fiscal 2004 to a vote of our shareholders.

PART II

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

Pathfinder Bancorp, Inc.'s common stock currently trades on the Nasdaq SmallCap market under the symbol "PBHC". There were 348 shareholders of record as of February 21, 2005. 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	DIVIDEND PAID
December 31, 2004.	$ 18.500	$16.250	$0.1025
September 30, 2004	16.630	14.770	0.1025
June 30, 2004. . .	19.070	15.050	0.100
March 31, 2004 . .	20.999	17.010	0.100
December 31, 2003.	$ 18.459	$16.250	$0.100

September 30, 2003	17.000	14.000	0.100
June 30, 2003. . .	15.250	13.685	0.100
March 31, 2003 . .	14.890	13.200	0.100

DIVIDENDS AND DIVIDEND HISTORY

The Company has historically paid regular quarterly cash dividends on its common stock, and the Board of Directors presently intends to continue the payment of regular quarterly cash dividends, subject to the need for those funds for debt service and other purposes. 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 non-objection of the Office of Thrift Supervision.

ITEM 6: SELECTED FINANCIAL DATA

Pathfinder Bancorp, Inc. ("the Company") 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, Inc.

The following selected consolidated financial data sets forth certain financial highlights of the Company and should be read in conjunction with the consolidated financial statements and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report on Form 10-K.

	2004	2003	2002	2001	2
YEAR END (IN THOUSANDS)					
Total assets	$302,037	$277,940	$279,056	$244,514	$232,
Loans receivable, net.	185,125	187,002	179,001	162,588	148,
Deposits	236,672	206,894	204,522	169,589	161,
Equity	21,826	21,785	23,230	22,185	20,
FOR THE YEAR (IN THOUSANDS)					
Net interest income.	$ 8,905	$ 9,337	$ 8,789	$ 7,853	$ 7,
Net income	1,405	1,652	1,156	1,602	
PER SHARE					
Net income (basic)	$ 0.58	$ 0.68	$ 0.45	$ 0.62	$ 0
Book value	8.91	8.96	8.90	8.64	8
Tangible book value (a).	7.04	7.03	7.02	7.63	7
Cash dividends declared.	0.405	0.40	0.30	0.26	0
RATIOS					
Return on average assets	0.47%	0.59%	0.45%	0.68%	0
Return on average equity	6.45%	7.61%	5.01%	7.34%	1

Return on average tangible equity (a).	8.17%	9.77%	7.03%	8.29%	2
Average equity to average assets	7.29%	7.77%	8.94%	9.22%	8
Dividend payout ratio (b).	47.54%	39.41%	36.76%	28.37%	173
Allowance for loan losses to loans receivable.	0.98%	0.91%	0.82%	1.03%	0
Net interest rate spread	3.22%	3.53%	3.47%	3.35%	3
Noninterest income to average assets	1.02%	0.93%	0.81%	0.79%	0
Noninterest expense to average assets.	3.12%	3.26%	3.09%	2.90%	3
Efficiency ratio (c)	77.87%	76.13%	73.18%	70.61%	90

(a) Tangible equity excludes intangible assets.
(b) The dividend payout ratio is calculated using dividends declared and not waived by the Company's mutual holding company parent, Pathfinder Bancorp, M.H.C., divided by net income.
(c) The efficiency ratio is calculated as noninterest expense divided by net interest income plus noninterest income.

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

INTRODUCTION

Throughout the Management's Discussion and Analysis ("MD&A") 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., however, Pathfinder Statutory Trust I is deconsolidated for reporting purposes (see Note 10). Pathfinder Commercial Bank, Pathfinder REIT, Inc. and Whispering Oaks Development, Inc. represent wholly owned subsidiaries of Pathfinder Bank. At December 31, 2004, Pathfinder Bancorp, M.H.C, the Company's mutual holding company parent, whose activities are not included in the MD&A, held 64.6% of the Company's outstanding common stock and the public held 35.4%.

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 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; (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.

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 foreclosed 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.

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 judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments 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 judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments 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 judgment 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.

The Company carries all of its investments at fair value with any unrealized gains or losses reported net of tax as an adjustment to shareholders' equity. Based on management's assessment, at December 31, 2004, the Company did not hold any security that had a fair value decline that is currently expected to be other than temporary. Consequently, any declines in a specific security's fair value below amortized cost have not been provided for in the income statement. The Company's ability to fully realize the value of its investment in various securities, including corporate debt securities, is dependent on the underlying creditworthiness of the issuing organization.

EXECUTIVE SUMMARY

Total deposits increased by 14% during 2004, primarily driven by the growth of municipal deposits. The Company entered the municipal deposit market at the end of 2002 and has since increased the number of municipal customers by 180%. The municipal deposit market will be a continued focus in 2005 as well as continued expansion into new markets in Oswego County. The Company plans on opening a branch in Central Square, New York in the second quarter of 2005.

Total assets increased 10%, primarily in the investment securities portfolio. The loan portfolio decreased 1% as loans sales, amortization and pre-payments

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outpaced loan originations during 2004. Although the Company experienced a decline in the loan portfolio, asset quality of the existing loans improved during 2004. Nonperforming assets to total assets was 0.88% at December 31, 2004 compared to 1.15% in the prior year. The improvement in asset quality is attributable to the enhancement of collection procedures and the resolution through foreclosure or charge-off of three significant commercial lending relationships. The Company expects to concentrate on continued commercial mortgage and commercial loan growth during 2005. In the first quarter of 2005, the Company hired a Senior Commercial Lender, with over 22 year of experience in small business lending. The increase in commercial lending staff and the relocation of the Business Services Division to a prime retail location are primary strategies for achieving growth in commercial lending during 2005.

Net income for 2004 was $1.4 million, or $0.58 per share, as compared to $1.7 million, or $0.68 per share, in 2003. Soft loan demand combined with a flattening of the interest rate yield curve resulted in compression of net interest margin and a reduction in earnings. Long-term interest rates remain at historic lows while the Federal Reserve Bank has increased short-term rates 100 basis points over the past year. The Company expects continued margin compression during 2005 as a result of monetary policy, general economic conditions, and the Company's asset-liability management modeling.

The Company plans to enhance other interest income during 2005 by increasing the customer deposit base and increasing overdraft, returned check and non-sufficient fund charges to be in line with local competitors. The Company continues to focus on the development of its employees, systems, branch structure and product offerings to enhance customer service. During 2004 and continuing in 2005, the Company received New York State grant money to conduct comprehensive training programs for all employees in leadership skills, performance management and business metrics.

RESULTS OF OPERATIONS

Net income for 2004 was $1.4 million, a decrease of $247,000, or 15%, compared to net income of $1.6 million for 2003. Basic earnings per share decreased to $0.58 per share for the year ended December 31, 2004 from $0.68 per share for the year ended December 31, 2003. Return on average equity decreased 15% to 6.45% in 2004 from 7.61% in 2003.

Net interest income, on a tax equivalent basis, decreased $375,000, or 4%, primarily resulting from interest rate spread compression as longer term assets have repriced at lower rates while shorter term cost of funds are repricing at higher rates. Provision for loans losses increased 23% due to the charge-off of two commercial credit relationships during the fourth quarter of 2004. The Company experienced a 10% increase in other income, net of securities gains and losses, primarily attributable to increased deposit levels and the related service charges associated with checking accounts and other charges, commissions and fees. Operating expenses increased 2% due to the hiring of additional staff and an increase in data processing expenses. The Company expects higher operating costs when the Central Square branch opens in 2005.

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. It is the amount by which interest earned on interest-earning deposits, loans and investment securities, exceeds the interest paid on deposits and other interest-bearing liabilities. Changes in net interest income and net interest margin ratios result from the interaction between the volume and composition of earning assets, interest-bearing liabilities, related yields and associated funding costs.

Net interest income, on a tax-equivalent basis, decreased $376,000, or 4%, to $9.1 million for the year ended December 31, 2004, as compared to the year ended December 31, 2003. The Company's net interest margin for 2004 decreased to 3.35% from 3.68% in 2003. The decrease in net interest income is attributable to decreased yields in interest earning assets and was offset by a decrease in the costs of interest bearing liabilities. The average balance of interest- earning assets grew $14.6 million, or 6%, during 2004 and the average balance of

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interest-bearing deposits increased by $20.7 million, or 11%. The increase in the average balance of interest-bearing liabilities primarily resulted from attracting new municipal deposit customers. The decrease in the average yield on interest-earning assets by 60 basis points resulted from the downward repricing of loans from refinancing and originations in the current low interest rate environment and the purchase of $35.6 million in investment securities at lower yields than the existing portfolio. The decrease in the yield on interest-earning assets was partially offset by the increase in the average balance. As a result, interest income, on a tax-equivalent basis, decreased $751,000 during

2004. Interest expense on deposits decreased $112,000, or 3%, resulting from a decrease in the cost of deposits to 1.71% in 2004 from 1.96% in 2003. In addition to the decrease in the cost of deposits, interest expense on borrowings also decreased by $264,000, or 12%, from the prior year. The decrease in the cost of funds was partially offset by a $20.7 million, or 11%, increase in the average deposit balance.

In comparison, net interest income increased $530,000, or 6%, on a tax-equivalent basis, from 2002 to 2003. The increase in net interest income was comprised of a decrease in net interest expenses of $1.1 million, or 15%, partially offset by a decrease in interest income of $544,000, or 3%. The increase in net interest income is attributable to increased volumes in earning asset and deposit balances and the maintenance of stable spreads.

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AVERAGE BALANCES AND RATES

The following table sets forth 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 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.

	2004			2003	
(Dollars in thousands)	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest
Interest-earning assets:					
Real estate loans residential	$124,734	$ 7,491	6.01%	$129,687	$ 8,346
Real estate loans commercial.	30,958	2,254	7.28%	31,122	2,480
Commercial loans.	16,060	901	5.61%	14,181	798
Consumer loans.	17,427	1,194	6.85%	15,787	1,225
Taxable investment securities	65,480	2,220	3.39%	54,115	2,193
Tax-exempt investment securities.	8,603	488	5.67%	7,869	305
Interest-earning deposits	7,338	81	1.10%	3,252	33
Total interest-earning assets	$270,600	$ 14,629	5.41%	$256,013	$ 15,380
Noninterest-earning assets:					
Other assets.	30,236			24,859	
Allowance for loan losses	(1,792)			(1,591)	
Net unrealized gains					
on available for sale securities. . . .	(515)			52	
Total Assets	$298,529			$279,333	
Interest-bearing liabilities:					
NOW accounts.	$ 20,808	$ 135	0.65%	$ 17,663	$ 140
Money management accounts	40,775	567	1.39%	21,788	248
Savings and club accounts	68,046	453	0.67%	66,481	511
Time deposits	82,769	2,484	3.00%	85,751	2,852
Junior subordinated debentures.	5,155	251	4.80%	5,000	236

Borrowings	37,674	1,683	4.47%	43,490	1,961
Total Interest-bearing liabilities	$255,227	$ 5,573	2.19%	$240,173	$ 5,948
Noninterest-bearing liabilities:					
Demand deposits	17,974			16,345	
Other liabilities	3,556			1,098	
Total liabilities	276,757			257,616	
Shareholders' equity	21,772			21,717	
Total liabilities & shareholders' equity	$298,529			$279,333	
Net interest income		$ 9,056			$ 9,432
Net interest rate spread			3.22%		
Net interest margin			3.35%		
Ratio of average interest-earning assets to average interest-bearing liabilities			106.02%		10

	2002		
	Average Balance	Interest	Average Yield/ Cost
Interest-Earning Assets:			
Real estate loans residential	$117,688	$ 8,194	6.96%
Real estate loans commercial	31,790	2,641	8.31%
Commercial loans	14,774	984	6.66%
Consumer loans	12,795	1,117	8.73%
Taxable investment securities	46,247	2,437	5.27%
Tax-exempt investment securities	6,036	434	7.19%
Interest-earning deposits	9,163	117	1.28%
Total interest-earning assets	$238,493	$ 15,924	6.68%
Noninterest-earning assets:			
Other assets	20,987		
Allowance for loan losses	(1,877)		
Net unrealized gains on available for sale securities	368		
Total Assets	$257,971		
Interest-bearing liabilities:			
NOW accounts	$ 15,850	$ 168	1.06%
Money management accounts	11,571	242	2.09%
Savings and club accounts	62,494	948	1.52%
Time deposits	77,701	3,299	4.25%
Junior subordinated debentures	2,635	138	5.24%
Borrowings	48,626	2,228	4.58%
Total Interest-bearing liabilities	$218,877	$ 7,023	3.21%
Noninterest-bearing liabilities:			
Demand deposits	13,154		
Other liabilities	2,873		

Total liabilities.	234,904		
Shareholders' equity	23,067		
Total liabilities & shareholders' equity .	$257,971		
Net interest income.		$ 8,901	
Net interest rate spread			3.47%
Net interest margin.			3.73%
Ratio of average interest-earning assets to average interest-bearing liabilities. .			108.96%

INTEREST INCOME

Average loans decreased 1% in 2004, with yields declining 48 basis points to 6.26%. The Company's average residential mortgage loan portfolio decreased $5.0 million, or 4%, when comparing the year 2004 to 2003. The average yield on the residential mortgage loan portfolio decreased 43 basis points to 6.01% in 2004 from 6.44% in 2003. New loans were originated at lower rates than in the prior

period and a large volume of existing mortgages had their rates modified downward or were refinanced at lower rates. An increase in the average balance of consumer loans of $1.6 million, or 10%, resulted from an increase in home equity loans. The average yield declined 91 basis points, to 6.85% from 7.76% in 2003, primarily resulting from the increase in home equity loans, which are based on the Bank's prime rate. Average commercial loans increased 13% while the tax-equivalent yield remained consistent at 5.61% in 2004 compared to 5.62%, in 2003.

Average loans increased $13.7 million in 2003, with yields declining 57 basis points to 6.74%. The interest income on loans decreased $87,000, or 0.7%, in 2003 compared to 2002. For the comparable periods, average residential mortgage loans increased $12.0 million, or 10%, average consumer loans increased $3.0 million, or 23%, partially offset by a decrease in average commercial loans by $593,000, or 4%, and a decrease in average commercial mortgage loans by $668,000, or 2%.

Interest income on investment securities increased 8% from 2003 resulting from an increase in the average balance of investment securities (taxable and tax-exempt) by $12.1 million, or 20%, to $74.1 million in 2004 from $62.0 million in 2003. The tax-equivalent yield decreased 37 basis points to 3.66% in 2004 from 4.03% in 2003 resulting primarily from significant investment purchases in the current year at lower yields than the existing investment portfolio.

Average investment securities (taxable and tax-exempt) in 2003 increased by $9.7 million, with a decrease in tax-equivalent interest income from investments of $373,000, or 13%, compared to 2002. The average tax-equivalent yield of the portfolio declined 146 basis points, to 4.03% from 5.49%. The increase in the average balance of investment securities resulted from the investment of the net proceeds received in the purchase of assets and the assumption of the deposits of the Lacona, New York branch of Cayuga Bank (the "Branch Acquisition") into the investment and loan portfolios.

INTEREST EXPENSE

Interest expense decreased $375,000, or 6%, in 2004, when compared to 2003. The decrease in the cost of funds resulted from a reduction in the average cost of interest-bearing liabilities of 30 basis points, to 2.18% in 2004 from 2.48% at 2003. The decrease in the cost of funds was partially offset by a $15.1 million, or 6%, increase in the average balance of interest-bearing liabilities during 2004. The cost of deposits decreased 25 basis points to 1.71% during 2004 from 1.96% for 2003. The decrease in the cost of deposits was partially offset by a $20.7 million, or 11%, increase in the average balance of deposits. The cost of junior subordinated debentures increased 14 basis points, increasing interest expense by $15,000.

Interest expense decreased $1.1 million, or 15%, in 2003 compared to 2002. The average cost of interest bearing liabilities declined 73 basis points during the 12 months ended December 31, 2003.

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,					
	2004 vs. 2003 Increase/(Decrease) Due to			2003 vs. 2002 Increase/(Decrease) Du		
(In thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	T In (De
Interest Income:						
Real estate loans residential. . .	$ (311)	$ (544)	$ (855)	$ 794	$ (642)	$
Real estate loans commercial . . .	(13)	(213)	(226)	(55)	(106)	
Commercial loans	81	22	103	(38)	(148)	
Consumer loans	120	(151)	(31)	241	(133)	
Taxable investment securities. . .	417	(390)	27	331	(575)	
Tax-exempt investment securities .	31	152	183	108	(237)	
Interest-earning deposits.	45	3	48	(62)	(22)	
Total interest income.	370	(1,121)	(751)	1,319	(1,863)	
Interest Expense:						
NOW accounts.	22	(27)	(5)	18	(46)	
Money management accounts.	255	64	319	149	(143)	
Savings and club accounts.	12	(70)	(58)	57	(494)	
Time deposits.	(96)	(272)	(368)	318	(765)	

Junior subordinated debentures . .	8	7	15	114	(16)
Borrowings	(262)	(16)	(278)	(232)	(34)
Total interest expense	(61)	(314)	(375)	424	(1,498)
Net change in net interest income.	$ 431	$ (807)	$ (376)	$ 895	$ (365) $

NONINTEREST INCOME

The Company's noninterest income is primarily comprised of fees on deposit account balances and transactions, loan servicing, commissions, and net gains on securities, loans and foreclosed real estate.

The following table sets forth certain information on noninterest income for the years indicated.

	For the Years Ended December 31,		
(In thousands)	2004	2003	2002
Service charges on deposit accounts	$ 967	$ 818	$ 629
Loan servicing fees	256	282	265
Increase in the value of bank owned life insurance.	175	171	179
Net gains on sales of loans/foreclosed real estate.	279	326	193
Other charges, commissions and fees	598	469	438
Core noninterest income	2,275	2,066	1,704
Net gains on sales and impairment of investment securities.	772	542	390
Total noninterest income.	$3,047	$2,608	$2,094

Noninterest income in 2004 increased 17%, compared to 2003, as a result of a 10% increase in core noninterest income and a 42% increase in the non-core item, net gains on sales and impairment of investment securities. The increase in the number of deposit accounts and the introduction of new services to customers primarily accounted for the $149,000 increase in service charges on deposit accounts when compared to 2003. A $129,000 increase in other charges, commissions and fees primarily resulted from recording $54,000 in New York State grant income associated with a company wide Leadership Training initiative program, along with increased foreign ATM usage fees and fees associated with the company's Visa debit card. Net gains on the sale of loans/foreclosed real estate decreased $47,000, or 14%, resulting primarily from a $40,000 reduction in the gain recognized on the sale of loans to the secondary market as the volume of loans sold decreased 47%. Investment security gains increased $230,000, or 42%, when compared to the 2003 period. Investment security net gains consist of net gains associated with the sale of equity and corporate debt securities.

Noninterest income increased $514,000, or 25%, in 2003 compared to 2002. The increase was primarily attributable to a $362,000 increase in the core noninterest income components: a $189,000 increase in service charges on deposit

accounts; a $17,000 increase in loan servicing fees due to the increase in our servicing portfolio and a $133,000 increase in net gains on sale of loans/foreclosed real estate and a $31,000 increase in other charges, commissions and fees. These increases in core noninterest income were partially offset by an $8,000 decrease in the value of bank owned life insurance. The increase in the net gains on sale of loans/foreclosed real estate primarily resulted from the Company recognizing an increase in the gain of $152,000 in 2003 related to the sale of loans to the secondary market. The $152,000 increase in net gains on sales of security investments when compared to 2002 primarily resulted from the Company recognizing a $275,000 impairment loss on a corporate debt security in the fourth quarter of 2002.

NONINTEREST EXPENSE

The following table sets forth certain information on noninterest expense for the years indicated.

	For the Years Ended December 31,		
(In thousands)	2004	2003	2002
Salaries and employee benefits. .	$4,798	$4,455	$3,757
Building occupancy.	1,031	1,004	796
Data processing expenses.	981	868	920
Professional and other services .	682	770	858
Amortization of intangible asset.	223	223	39
Other expenses.	1,592	1,774	1,594
Total noninterest expense	$9,307	$9,094	$7,964

Noninterest expenses increased $213,000, or 2%, for the 12 months ended December 31, 2004 when compared to 2003. Salaries and employee benefits increased 8% in 2004 primarily resulting from incremental salary raises and promotions, the hiring of a Human Resource Manager and increased pension and health insurance costs. The 13% increase in data processing expenses during 2004 related to additional depreciation costs associated with a full year's operation of the new Fulton branch, combined with a 15% increase in internet banking usage, additional check processing charges due to a 5% increase in customer volume from a checking account acquisition program, and additional ATM processing charges related to the installation of a new ATM machine and products and supplies resulting from the increase in customer volume. Professional and other services decreased 11% due to a reduction in legal fees relating to a foreclosed property in 2003, not recurring in 2004 and a reduction in mortgage consulting fees as in-house personnel were used to perform work that was originally contracted. These reductions were offset by an increase in consulting fees associated with the checking account acquisition program and expenses associated with a leadership training program. Corresponding grant income recorded in other income offset the leadership training program expenses. The 10% decrease in other operating expenses during 2004 resulted primarily from a $164,000 expense relating to personnel realignment in 2003.

Noninterest expenses increased 14% for the 12 months ended December 31, 2003 when compared to 2002. Salaries and employee benefits increased 19% in 2003

primarily resulting from the incremental salary and benefit costs associated with the operation of an additional branch location and increased pension and health insurance costs. The 26% increase in building occupancy expenses during 2003 also related to additional costs associated with a full year's operation of the additional branch. Amortization expense for 2003 increased $184,000 due to the amortization of branch acquisition intangibles. The 11% increase in other operating expenses during 2003 resulted primarily from a $164,000 expense relating to personnel realignment.

INCOME TAX EXPENSE

Income tax expense decreased $99,000 to $502,000 for the year ended December 31, 2004 as compared to $601,000 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 at 27% in 2004. The Company has reduced its tax rate from the statutory rate primarily through the ownership of tax-exempt investment securities, bank owned life insurance and other tax saving strategies. Enactment of proposed state tax legislation regarding Real Estate Investment Trusts would increase the state tax rate for the Company.

Income tax expense increased $213,000 to $601,000 for the year ended December 31, 2003 as compared to $388,000 in the prior year. The increase in income tax expense reflected higher pre-tax income during the year. The Company's effective tax rate increased to 27% in 2003 compared to 25% in the prior year.

CHANGES IN FINANCIAL CONDITION

INVESTMENT SECURITIES

The investment portfolio represents 28% of the Company's earning assets and is designed to generate a favorable rate of return consistent with safety of principal while assisting the Company in meeting the liquidity needs of the loan and deposit operations and managing the Company's interest rate risk strategies. All of the Company's investments are classified as available for sale. The Company invests in investment securities consisting primarily of mortgage-backed securities, securities issued by United States Government agencies and sponsored enterprises, state and municipal obligations, mutual funds, equity securities, investment grade corporate debt instruments, and common stock issued by the Federal Home Loan Bank of New York (FHLB of NY). 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.

Investment securities and Federal Home Loan Bank ("FHLB") stock increased $17.2 million, or 29%, to $76.8 million at December 31, 2004 from $59.6 million at December 31, 2003. The increase in investment securities was primarily attributable to the acquisition of investment securities to collateralize municipal accounts. In comparison, investment securities decreased $2.9 million, or 5%, from 2002 to 2003. The decrease in investment securities was primarily attributable to the acceleration of principal repayment on mortgaged-backed securities, reflecting refinancing activity in the underlying loans.

The following table sets forth the carrying value of the Company's investment portfolio and Federal Home Loan Bank Stock at the dates indicated.

	AT DECEMBER 31,		
(In Thousands)	2004	2003	2002
Investment Securities:			
US treasury and agencies.	$ 21,609	$ 6,354	$ 4,378
State and political subdivisions.	8,881	7,359	8,549
Corporate	5,919	6,421	15,375
Mortgage-backed	32,213	29,734	24,440
Equity securities and FHLB stock.	2,800	2,932	6,225
Mutual funds.	5,935	5,712	2,582
	$ 77,357	$58,512	$61,549
Unrealized (loss) gain on available for sale portfolio.	(520)	1,095	957
Total investments in securities and FHLB stock. . .	$ 76,837	$59,607	$62,506

The following table sets forth the scheduled maturities, amortized cost, fair values and average yields for the Company's investment securities and Federal Home Loan Bank ("FHLB") Stock at December 31, 2004. Yield is calculated on the amortized cost to maturity and adjusted to a fully tax-equivalent basis.

	ONE YEAR OR LESS		ONE TO FIVE YEARS		
(Dollars in thousands)	AMORTIZED COST	ANNUALIZED WEIGHTED AVERAGE YIELD	AMORTIZED COST	ANNUALIZED WEIGHTED AVERAGE YIELD	
Debt investment securities:					
US Treasury and agencies.	-	-	$ 14,679	2.64%	$
State and political subdivisions. . . .	$ 849	7.01%	3,582	5.52%	
Corporate	$ 1,998	1.52%	799	6.96%	
Total	$ 2,847	3.16%	$ 19,060	3.37%	
Equity and mortgage-backed securities:					
Mutual funds.	$ 5,935	1.48%	-	-	
Mortgage-backed	-	-	$ 2,534	4.80%	$
Equity securities and FHLB stock. . . .	2,800	1.73%	-	-	
Total	$ 8,735	1.56%	$ 2,534	5.76%	$
TOTAL INVESTMENT SECURITIES	$ 11,582	1.95%	$ 21,594	3.53%	$

MORE THAN TEN YEARS		TOTAL INVESTMENT SECURITI		
AMORTIZED	ANNUALIZED WEIGHTED	AMORTIZED	FAIR	ANNUA WEIG

(Dollars in thousands)	COST	AVERAGE YIELD	COST	VALUE	AVERAGE
Debt investment securities:					
US Treasury and agencies.	$ -	-	$ 21,608	$21,212	3
State and political subdivisions. . . .	2,588	6.22%	8,882	9,012	5
Corporate	2,136	3.10%	5,919	5,959	4
Total	4,724	4.88%	36,409	36,183	3
Equity and mortgage-backed securities:					
Mutual funds.	-	-	5,935	5,902	1
Mortgage-backed	18,796	4.03%	32,213	32,027	4
Equity securities and FHLB stock. . . .	-	-	2,800	2,725	1
Total	18,796	0.00%	40,948	40,654	3
TOTAL INVESTMENT SECURITIES	$ 23,520	4.18%	$ 77,357	$76,837	3

LOANS RECEIVABLE

Loans receivable represent 69% of the Company's earning assets and account for the greatest portion of total interest income. 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. The Company also extends credit to businesses within its marketplace secured by commercial real estate, equipment, inventories and accounts receivable. It is anticipated that small business lending in the form of mortgages, term loans, leases, and lines of credit will provide the most opportunity for balance sheet and revenue growth over the near term. Commercial loans comprise 9% of the total loan portfolio. At December 31, 2004, 89% of the Company's total loan portfolio consisted of loans secured by real estate, of which 16% consisted of commercial real estate loans.

	December 31,				
(In thousands)	2004	2003	2002	2001	2000
Residential real estate (1)	$123,898	$128,989	$123,178	$112,110	$ 97,268
Commercial real estate. . .	29,874	31,278	32,657	30,455	27,367
Commercial loans.	16,834	15,090	13,196	14,358	12,873
Consumer loans.	18,505	16,880	15,068	12,615	12,987
Total Loans Receivable	$189,111	$192,237	$184,099	$169,538	$150,495

(1) Includes loans held for sale.

The following table shows the amount of loans outstanding as of December 31, 2004 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Demand loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as on year or less. Adjustable and floating rate loans are included in the period on which interest rates are next

schedules 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.

(In thousands)	Due Under One Year	Due 1-5 Years	Due Over Five Years	Total
Real estate:				
Commercial real estate .	$ 5,683	$ 19,939	$ 4,252	$ 29,874
Construction	419	332	4,179	4,930
Residential real estate.	39,755	59,365	19,848	118,968
	$ 45,857	$ 79,636	$ 28,279	$153,772
Commercial	12,726	3,673	435	16,834
Consumer	9,595	4,592	4,318	18,505
Total loans.	$ 68,178	$ 87,901	$ 33,032	$189,111
Interest rates:				
Fixed.	33,793	61,482	25,139	120,414
Variable	34,385	26,419	7,893	68,697
Total Loans.	$ 68,178	$ 87,901	$ 33,032	$189,111

Total loans receivable decreased $3.1 million, or 2%, over the prior year. By comparison, loans receivable increased $8.1 million, or 4%, in 2003 from 2002. The decrease of the loan portfolio is primarily attributable to the decrease in residential and commercial mortgages as amortization, prepayments and sales outpaced loan originations of $29.3 million during 2004. Decreases in the mortgage portfolios were partially offset by an increase in municipal loans and consumer loans. The growth in the consumer loan portfolio is primarily home equity loan originations.

Residential real estate loans decreased $5.1 million, or 4%, during 2004. The residential real estate portfolio consists of 64% in fixed-rate mortgages and 36% in adjustable-rate mortgages. The decrease in the residential real estate portfolio is principally due to a net decrease in 15-year fixed rate mortgages of $7.5 million and a $1.3 million decrease in 30-year fixed rate loans held for sale, partially offset by an increase in the adjustable rate mortgage portfolio. The Company focused its mortgage marketing efforts on hybrid adjustable rate mortgages ("ARM"s). Hybrid ARMs have rates that are fixed for an initial period (principally 3, 5, 7 or 10 years) and then convert to one-year adjustable rate mortgages. During 2003, the Company originated $23.0 million of 30-year fixed rate mortgages and subsequently sold them into the secondary market as customers continued to refinance their higher fixed rate and adjustable rate mortgages into the fixed rate portfolio products, as compared to $17.1 million in originations of 30-year fixed rate mortgages in 2002.

Commercial real estate loans decreased $1.4 million, or 4%, from the prior year as amortization and pre-payments outpaced loan originations during 2004. Commercial real estate loans decreased $1.4 million, or 4%, during 2003.

Consumer loans, which include second mortgage loans, home equity lines of credit, direct installment and revolving credit loans, increased 10% to $18.5 million at December 31, 2004. The increase resulted from an increase in home equity lines of credit and second mortgage loans. The Company has promoted its home equity products by offering the customer loans with no closing costs and competitive market rates. Management feels these loans are an attractive use of funds and will continue to promote home equity products in 2005. During 2003, consumer loans increased $1.8 million, or 12%, resulting primarily from an increase in home equity products.

Commercial loans, including loans to municipalities, increased 12% over the prior year to $16.8 million at December 31, 2004. The increase in commercial loans resulted from a $900,000 increase in short-term loans to the Company's municipal customers and an $800,000 net increase in small business loans. The balance of municipal loans at December 31, 2003 was $2.6 million. In comparison, commercial loans, including municipal loans, increased 14% during 2003 primarily due to the origination of municipal loans.

NONPERFORMING LOANS AND ASSETS

The following table represents information concerning the aggregate amount of nonperforming assets:

	DECEMBER 31,				
(Dollars in thousands)	2004	2003	2002	2001	2
Nonaccrual loans:					
Commercial real estate and commercial.	$ 776	$1,677	$ 603	$ 488	$
Consumer	122	172	166	56	
Real estate - construction	-	270	-	-	
mortgage.	953	873	942	1,576	1
Total nonaccrual loans	$ 1,851	$2,992	$1,711	$2,120	$1
Loans past due 90 days or more and still accruing.	-	-	-	-	
Total non-performing loans	$ 1,851	$2,992	$1,711	$2,120	$1
Foreclosed real estate	798	202	1,396	632	
Total non-performing assets.	$ 2,649	$3,194	$3,107	$2,752	$2
Non-performing loans to total loans.	0.98%	1.59%	0.95%	1.30%	
Non-performing assets to total assets.	0.88%	1.15%	1.11%	1.13%	
Interest income received on nonaccrual loans . . .	-	-	-	-	
Interest income that would have been recorded under the original terms of the loans.	$ 64	$ 75	$ 141	$ 118	$

Total nonperforming assets (nonperforming loans and foreclosed real estate) at December 31, 2004 were 0.88% of total assets as compared to 1.15% of total assets at December 31, 2003. Total nonperforming loans (past due 90 days or more) decreased $1.1 million, or 38%, during 2004. The total delinquent loans

(those 30 days or more delinquent) as a percentage of total loans were 1.93% at December 31, 2004 compared to 3.46% at December 31, 2003. Approximately 51% of the Company's nonperforming loans at December 31, 2004 are secured by residential real estate with loss potential expected to be manageable within the allocated reserves. Nonperforming loans decreased 38% primarily due to the resolution of certain commercial credit relationships through payment, foreclosure and transfer into foreclosed real estate or the charge-off of unrecoverable amounts. In addition, the Bank has instituted a more stringent collection policy that has successfully reduced consumer and residential mortgage delinquencies by 18%. Foreclosed real estate increased $596,000 primarily due to the foreclosure of three commercial properties during 2004 that are presently being marketed and are carried at their expected realizable value.

The Company generally places a loan on nonaccrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory and the loan is past due 90 days or more. The Company considers a loan impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan.

The measurement of impaired loans is generally based upon the present value of future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on fair value of the collateral. The Company used the fair value of collateral to measure impairment on commercial and commercial real estate loans in 2004. At December 31, 2004 the Company had $3.1 million in loans which were deemed to be impaired having a valuation allowance of $760,000. $2.6 million of the impaired loan balance represents one commercial credit relationship that was restructured during 2004. A $600,000 impairment reserve is recorded on this relationship. The customer has been making payments according to the restructured terms.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a reserve established through charges to expense in the form of a provision for loan losses and reduced by loan charge-offs net of recoveries. 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 Company uses a general allocation method for the residential real estate and the consumer loan pools based upon a methodology that uses loss factors applied to loan balances and reflects actual loss experience, delinquency trends and current economic conditions. The Company reviews individually, commercial real estate and commercial loans greater than $150,000, on nonaccrual and risk rated under the Company's risk rating system, as special mention, substandard, doubtful or loss to determine if the loans are impaired. If loans are determined to be impaired, the Company establishes a specific reserve allocation. The specific allocation is determined based on the most recent valuation of the loan's collateral and the customer's ability to pay. For all other commercial real estate and commercial loans, the Company uses the general allocation methodology that establishes a reserve for each risk rating category. The general allocation methodology for commercial real estate and commercial loans considers the same factors that are considered when evaluating residential real estate and consumer loan pools. The allowance for loan losses reflects management's best estimate of probable loan losses at December 31, 2004.

The allowance for loans losses was $1.8 million at December 31, 2004, a 7% increase from December 31, 2003. The allowance for loans losses as a percentage of total loans increased to 0.98% at December 31, 2004 from 0.91% in the prior

year. Net loan charge-offs were $626,000 during 2004 compared to $364,000 in 2003. The Company experienced a higher level of charge-offs during 2004 resulting from the charge-off of portions of three commercial lending relationships.

The following table sets forth the analysis of the allowance for loan losses at or for the periods indicated.

	2004		2003		2002		2001	
(Dollars in thousands)	AMOUNT	% GROSS LOANS	AMOUNT	% GROSS LOANS	AMOUNT	% GROSS LOANS	AMOUNT	% GROSS LOANS
Commercial real estate and loans	$1,483	9.0%	$1,218	8.0%	$1,042	7.3%	$1,083	8.8%
Consumer loans	270	9.9%	120	8.9%	136	8.3%	100	7.7%
Residential real estate.	74	81.1%	377	83.1%	303	84.4%	496	83.5%
Total.	$1,827	100.0%	$1,715	100.0%	$1,481	100.0%	$1,679	100.0%

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.

(Dollars in thousands)	2004	2003	2002	2001	2000
Balance at beginning of year.	$1,715	$1,481	$ 1,679	$1,274	$1,150
Allowance acquired in branch purchase	-	-	57	-	-
Provisions charged to operating expenses. . .	738	598	1,375	708	244
Recoveries of loans previously charged-off					
Commercial real estate and loans.	41	3	26	53	-
Consumer.	20	17	6	9	19
Residential real estate	-	17	-	-	-
Total recoveries.	61	37	32	62	19
Loans charged off:					
Commercial real estate and loans.	(439)	(128)	(1,285)	(72)	(38)
Consumer.	(126)	(189)	(291)	(184)	(61)
Residential real estate	(122)	(84)	(86)	(109)	(40)
Total charged-off	(687)	(401)	(1,662)	(365)	(139)
Net charge-offs	(626)	(364)	(1,630)	(303)	(120)
Balance at end of year.	$1,827	$1,715	$ 1,481	$1,679	$1,274
Net charge-offs to average loans outstanding.	0.33%	0.19%	0.92%	0.19%	0.08%
Allowance for loan losses to year-end loans .	0.98%	0.91%	0.82%	1.03%	0.86%

DEPOSITS

The Company's retail deposit base is drawn from six full-service offices in its market area. The deposit base consists of demand deposits, money management accounts, savings and time deposits. During 2004, 64% of the Company's average deposit base of $230.4 million consisted of core deposits. Core deposits are considered to be more stable and provide the Company with a low-cost source of funds. The Company will continue to emphasize retail deposits by maintaining its network of full service offices and providing depositors with a full range of deposit product offerings. Pathfinder 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 has allowed 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 will seek business growth by focusing on its local identification and service excellence. The Commercial Bank had an average balance of $27.6 million in municipal deposits in 2004, primarily concentrated in money market accounts.

Average deposits increased $22.3 million, or 11%, when compared to 2003. Deposit growth in 2004 resulted from the growth both in retail and in municipal deposits. The Commercial Bank increased the number of municipal customers to 20 in 2004 from 11 in 2003. The new municipal customers account balances represented $20.2 million of the $30.0 million in municipal deposits outstanding at December 31, 2004.

The Company's average deposit mix in 2004, as compared to 2003, reflected a slight shift from time deposits to money management accounts. The Company's average demand deposits, interest and noninterest bearing, represented 17% of total average deposits, which was comparable with 2003. The Company's money management accounts represented 18% of total deposits, up 8 percentage points for the same period in 2003. The Company promotes its money management account by offering competitive rates to retain existing and attract new customers.

The average amount of deposits, average rate paid and percentage of deposits are summarized below for the years indicated.

	For the Years Ended December 31,							
	2004			2003			200	
(Dollars in thousands)	Avg Balance	Avg Rate Paid	Percent of Deposits	Avg Balance	Avg Rate Paid	Percent of Deposits	Avg Balance	Av Rat Pai
Noninterest bearing demand accounts	$ 17,974	0.00%	7.80%	$ 16,345	0.00%	7.86%	$ 13,154	0.0
NOW accounts	20,808	0.65%	9.03%	17,663	0.79%	8.49%	15,850	1.0
Money management accounts.	40,775	1.39%	17.70%	21,788	1.14%	10.47%	11,571	2.0
Savings and club accounts.	68,046	0.67%	29.54%	66,481	0.77%	31.96%	62,494	1.5
Time deposits.	82,769	3.00%	35.93%	85,751	3.33%	41.22%	77,701	4.2

Total average deposits . .	$230,372	1.71%	100.00%	$208,028	1.96%	100.00%	$180,770	2.7

At December 31, 2004, time deposits in excess of $100,000 totaled $18.3 million, or 22%, of time deposits and 8% of total deposits. At December 31, 2003, these deposits totaled $14.6 million, or 18% of time deposits and 7% of total deposits.

The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more time remaining until maturity as of December 31, 2004:

(In thousands)	Certificates of Deposit of $100,000 or more
Remaining Maturity:	
Three Months or less . . .	$ 3,770
Three through Six months .	3,798
Six through twelve months.	2,803
Over twelve months	7,879
Total.	$ 18,250

BORROWINGS

Short-term borrowings are comprised primarily of advances and overnight borrowing at the Federal Home Loan Bank in New York. There were $1.0 million in short-term borrowings outstanding at December 31, 2004 as compared to $2.1 million in 2003.

Information regarding short-term borrowings during 2004, 2003 and 2002 is as follows:

(Dollars in thousands)	2004	2003	2002
Maximum outstanding at any month end. . . .	$3,100	$12,000	$20,668
Average amount outstanding during the year.	1,400	2,660	7,164
Average interest rate during the year . . .	1.31%	1.17%	4.63%

Long-term borrowed funds consist of advances from the Federal Home Loan Bank and junior subordinated debentures. Long-term borrowed funds totaled $49.5 million at December 31, 2004 as compared to $43.9 million at December 31, 2003.

CAPITAL

Shareholders' equity remained constant at $21.8 million at December 31, 2004. The Company added $1.4 million to retained earnings through net income,

partially offset by cash dividends returned to its shareholders of $664,000. The Company's mutual holding company parent, Pathfinder Bancorp, M.H.C., waived its right to receive the dividend for the quarters ended June 30, 2004 and December 31, 2004.

Risk-based capital provides the basis for which all banks are evaluated in terms of capital adequacy. Capital adequacy is evaluated primarily by the use of ratios which measure capital against total assets, as well as against total assets that are weighted based on defined risk characteristics. The Company's goal is to maintain a strong capital position, consistent with the risk profile of its subsidiary banks that supports growth and expansion activities while at the same time exceeding regulatory standards. At December 31, 2004, Pathfinder Bank exceeded all regulatory required minimum capital ratios and met the regulatory definition of a "well-capitalized" institution, i.e. a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6% and a total risk-based capital ratio exceeding 10%. See Note 17 for the Company's and the Bank's ratios.

LIQUIDITY

Liquidity management involves the Company's ability to generate cash or otherwise obtain funds at reasonable rates to support asset growth and reduce assets to meet deposit withdrawals, to maintain reserve requirements, and to otherwise operate the Company on an ongoing basis. 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.

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 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 Asset Liability Management Committee (ALCO) of the Company is responsible for implementing the policies and guidelines for the maintenance of prudent levels of liquidity. As of December 31, 2004, management believes that liquidity as measured by the Company is in compliance with its policy guidelines.

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table represents the Company's on and off-balance sheet aggregate contractual obligations to make future payments as of December 31, 2004:

(In thousands)	1 YEAR OR LESS	OVER 1 TO 3 YEARS	OVER 3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Time deposits.	$44,257	$26,512	$ 7,506	$ 6,108	$ 84,383
Junior subordinated debentures	-	-	-	5,155	5,155
Borrowings	6,000	19,350	10,010	0	35,360
Operating leases	42	93	100	166	401
Payments under benefit plans .	251	638	537	5,365	6,792
Total.	$50,550	$46,593	$18,153	$16,794	$132,091

In addition, the Company, in the conduct of ordinary business operations, routinely enters into contracts for services. These contracts may require payment for services to be provided in the future and may also contain penalty clauses for the early termination of the contract. Management is not aware of any additional commitments or contingent liabilities, which may have a material adverse impact on the liquidity or capital resources of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is also 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 include commitments to extend credit and standby letters of credit. At December 31, 2004, the Company had $18.2 million in outstanding commitments to extend credit and standby letters of credit. See Note 15.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's risk of loss arising from adverse changes in the fair value of financial instruments, or market risk, is composed primarily of interest rate risk. The management of interest rate sensitivity seeks to avoid fluctuating net interest margins and to provide consistent net interest income through periods of changing interest rates. The primary objective of the Company's asset-liability management activities is to maximize net interest income while maintaining acceptable levels of interest rate risk. The Company has an Asset-Liability Management Committee (ALCO) which is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with those policies. Those procedures include 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 and capital. The Company's Board of Directors reviews the guidelines established by ALCO.

During the 2001 through 2003 period, the Federal Reserve lowered interest rates thirteen times by a total of 550 basis points. During 2004, short-term rates have increased 100 basis points while longer-term interest rates have remained relatively stable. Efforts have been made to shorten the repricing duration of rate sensitive assets by purchasing investment securities with maturities within the next 3 to 5 years and promoting portfolio ARM (adjustable rate mortgage) and hybrid ARM products. During the three-year period of rapid interest rate reductions the Company's interest-earning assets and interest-bearing liabilities repriced significantly. The short-term interest rate increases

during 2004 have caused net interest margin compression as short-term deposits and borrowings on the Company's liability sensitive balance sheet have repriced into the current rate environment while security purchases and new loan originations and refinances were being done at the stable longer-term yields. During this period the Company has practiced conservative balance sheet management strategies in anticipation of an upward shift of the yield curve. In addition, the Company has extended 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. This conservative balance sheet management strategy has resulted in additional margin pressure and reduction in net interest income during the current year. Management believes that this balance sheet strategy best positions the Company and lessons its risk against future interest rate changes.

An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market interest rates. Historically, the most common method of estimating interest rate risk was to measure the maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific point in time ("GAP") typically one year. Under this method, a company is considered liability sensitive when the amount of its interest-bearing liabilities exceeds the amount of its interest-earning assets within the one-year horizon. However, assets and liabilities with similar repricing characteristics may not reprice at the same time or to the same degree. As a result, the Company's GAP does not necessarily predict the impact of changes in general levels of interest rates on net interest income.

The following table shows the GAP position for the Company as of December 31, 2004.

(Dollars in thousands)	Within 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years
Interest-earning assets:				
Interest earning deposits	$ 7,584	$ -	$ -	$ -
Investment securities and FHLB stock.	12,422	6,491	15,579	19,893
Loans receivable.	31,452	36,726	55,166	32,735
Total interest-earning assets	$ 51,458	$ 43,217	$ 70,745	$52,628
Interest-bearing liabilities:				
Transaction deposit accounts (1).	$ 47,544	$ 10,068	$ 6,916	$ -
Savings deposits (1).	945	8,544	14,945	11,311
Certificates of deposit	14,097	30,108	26,512	7,506
Borrowings.	3,000	3,000	19,350	10,010
Junior subordinated debentures.	5,155	-	-	-
Total interest-bearing liabilities.	$ 70,741	$ 51,720	$ 67,723	$28,827
Interest-earning assets less interest-bearing liabilities ("interest rate sensitivity gap")	$(19,283)	$ (8,503)	$ 3,022	$23,801
Cumulative excess (deficiency) of interest-				

sensitive assets over interest-sensitive liabilities.	$(19,283)	$(27,786)	$(24,764)	$ (963)
Interest sensitivity gap to total assets.	-12.17%	-2.82%	1.00%	7.88%
Cumulative interest sensitivity gap to total assets .	-6.38%	-9.20%	-8.20%	-0.32%
Ratio of interest-earning assets to interest-bearing liabilities	72.74%	83.56%	104.46%	182.56%
Cumulative ratio of interest-earning assets to interest-bearing liabilities.	72.74%	77.31%	86.98%	99.56%

(1) The following assumptions have been used when analyzing non-maturity deposits for GAP Table purposes: 14% of savings deposits are assumed to reprice or mature within one year, 22% within 1 to 3 years, 16% within 3 to 5 years, and 24% within each of the remaining time periods. Transaction deposits - 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

Management believes the simulation of net interest income (Earnings at Risk) and net portfolio value (Value at Risk) in different interest rate environments provides a more meaningful measure of interest rate risk. Income simulation analysis captures both the potential of all assets and liabilities to mature or reprice and the probability that they will do so. Income simulation also attends to the relative interest rate sensitivities of these items, and projects their behavior over an extended period of time. Finally, income simulation permits management to assess the probable effects on the balance sheet not only of changes in interest rates, but also of proposed strategies for responding to them. 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 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. 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 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 100 basis point incremental interest rate shocks. Currently, the Company's model projects a 300 basis point increase and a 100 basis point decrease during the next year. With the federal funds rate near record lows, the Company's ALCO believed it was a better measure of current risk assuming a minus 100 point scenario, as a minus

300 basis point reduction would be unlikely given that current short-term market interest rates are already below 3.00%. The Company uses these percentage changes as a means to measure interest rate risk exposure and quantifies those changes against guidelines set by the Board of Directors as part of the Company's Interest Rate Risk policy. The Company's current interest rate risk exposure is within those guidelines set forth.

Percentage Percentage

Change in Interest Rates	NPV Capital Ratio	Change in Net Interest Income	Change in Net Portfolio Value
300 . . .	7.74%	-14.77%	-30.05%
200 . . .	8.72%	-9.66%	-19.18%
100 . . .	9.61%	-4.69%	-8.55%
0	10.26%	----	----
-100. . .	10.33%	2.28%	2.63%

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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PATHFINDER BANCORP, INC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of condition of Pathfinder Bancorp, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pathfinder Bancorp, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended

December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ BEARD MILLER COMPANY LLP

Harrisburg, Pennsylvania
March 9, 2005

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except per share data)		December 2004
ASSETS:		
Cash and due from banks	$	6,741
Interest earning deposits		7,584
Total cash and cash equivalents		14,325
Investment securities, at fair value.		75,069
Federal Home Loan Bank stock, at cost		1,768
Mortgage loans held-for-sale.		2,159
Loans		186,952
Less: Allowance for loan losses.		1,827
Loans receivable, net.		185,125
Premises and equipment, net		7,580
Accrued interest receivable		1,505
Foreclosed real estate.		798
Goodwill.		3,840
Intangible asset, net		627
Bank owned life insurance		5,768
Other assets.		3,473
Total assets.	$	302,037
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
Interest-bearing.	$	217,513
Noninterest-bearing		19,159
Total deposits.		236,672
Short-term borrowings		1,000
Long-term borrowings.		34,360
Junior subordinated debentures.		5,155
Company obligated mandatorily redeemable preferred securities of subsidiary, Pathfinder Statutory Trust I, holding solely junior subordinated debentures of the Company		-
Other liabilities		3,024
Total liabilities		280,211
Shareholders' equity:		
Preferred stock, authorized shares 1,000,000; no shares issued or outstanding		

Common stock, par value $.01; authorized 10,000,000 shares; 2,937,419 and 2,919,386 shares issued; and 2,450,132 and 2,432,099 shares outstanding, respectively.	29
Additional paid-in-capital	7,453
Retained earnings	21,186
Accumulated other comprehensive (loss) income	(307)
Unearned ESOP shares	(33)
Treasury Stock, at cost; 487,287 shares	(6,502)
Total shareholders' equity	21,826
Total liabilities and shareholders' equity	$ 302,037

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In thousands, except per share data)	2004	2003	2002
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$11,815	$12,833	$12,936
Debt securities:			
Taxable	2,075	2,034	2,257
Tax-exempt	362	226	322
Dividends	145	159	180
Other	81	33	117
Total interest income	14,478	15,285	15,812
INTEREST EXPENSE:			
Interest on deposits	3,639	3,751	4,656
Interest on short-term borrowings	17	31	332
Interest on long-term borrowings	1,917	2,166	2,035
Total interest expense	5,573	5,948	7,023
Net interest income	8,905	9,337	8,789
PROVISION FOR LOAN LOSSES	738	598	1,375
Net interest income after provision for loan losses	8,167	8,739	7,414
NONINTEREST INCOME:			
Service charges on deposit accounts	967	818	629
Increase in value of bank owned life insurance	175	171	179
Loan servicing fees	256	282	265
Net gains on sales and impairment of investment securities	772	542	390
Net gains on sales of loans and foreclosed real estate	279	326	193

Other charges, commissions & fees.	598	469	438
Total other income	3,047	2,608	2,094
NONINTEREST EXPENSE:			
Salaries and employee benefits	4,798	4,455	3,757
Building occupancy	1,031	1,004	796
Data processing expenses	981	868	920
Professional and other services.	682	770	858
Amortization of intangible asset	223	223	39
Other expenses	1,592	1,774	1,594
Total other expenses	9,307	9,094	7,964
Income before income taxes	1,907	2,253	1,544
Provision for income taxes	502	601	388
NET INCOME	$ 1,405	$ 1,652	$ 1,156
NET INCOME PER SHARE - BASIC	$ 0.58	$ 0.68	$ 0.45
NET INCOME PER SHARE - DILUTED	$ 0.57	$ 0.67	$ 0.44
DIVIDENDS PER SHARE.	$ 0.405	$ 0.40	$ 0.30

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except per share data)	Common Stock Issued Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares
BALANCE, DECEMBER 31, 2001.	2,894,220	$ 29	$6,918	$18,717	$ 379	$(173)
Comprehensive income:						
Net income.				1,156		
Other comprehensive income, net of tax						
Unrealized net gains on securities. . .					200	
TOTAL COMPREHENSIVE INCOME:						
ESOP shares earned.			57			49
Stock option exercised.	20,449	-	139			
Treasury stock purchased.						
Dividends declared ($.30 per share) . .				(425)		
BALANCE, DECEMBER 31, 2002.	2,914,669	29	7,114	19,448	579	(124)
Comprehensive income:						

Net income.				1,652		
Other comprehensive income, net of tax						
Unrealized net gains on securities. . .					83	
TOTAL COMPREHENSIVE INCOME:						
ESOP shares earned.			76			46
Stock option exercised.	4,717	-	35			
Treasury stock purchased.						
Dividends declared ($.40 per share) . .				(651)		
BALANCE, DECEMBER 31, 2003.	2,919,386	29	7,225	20,449	662	(78)
Net income.				1,405		
Other comprehensive loss, net of tax						
Unrealized net losses on securities					(969)	
TOTAL COMPREHENSIVE INCOME:						
ESOP shares earned.			88			45
Stock option exercised.	18,033	-	140			
Dividends declared ($.405 per share). .				(668)		
BALANCE, DECEMBER 31, 2004.	2,937,419	$ 29	$7,453	$21,186	$(307)	$ (33)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended	
(In thousands)	2004	
OPERATING ACTIVITIES:		
Net Income.	$ 1,405	$ 1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	738	
ESOP shares earned.	133	
Deferred income tax expense	502	
Proceeds from sale of loans	12,440	23
Originations of loans held-for-sale	(10,884)	(23
Realized (gains) losses on sales of:		
Foreclosed real estate.	(84)	
Loans	(195)	
Available-for-sale investment securities.	(772)	
Depreciation.	590	
Amortization of intangible asset.	223	
Amortization of deferred financing costs.	30	
Amortization of mortgage servicing rights	158	
Increase in value of bank owned life insurance.	(175)	
Net amortization (accretion) of premiums and discounts on investment securities	358	

(Increase) decrease in interest receivable.	(231)	
Net change in other assets and liabilities.	(1,855)	
Net cash provided by operating activities.	2,381	3
INVESTING ACTIVITIES:		
Purchase of investment securities available-for-sale and Federal Home Loan Bank Stock	(35,610)	(25
Proceeds from maturities and principal reductions of investment securities available-for-sale.	9,897	19
Proceeds from sale:		
Available-for-sale investment securities.	7,282	9
Real estate acquired through foreclosure.	382	1
Purchase of bank owned life insurance.	(1,100)	
Net cash received in branch acquisition	-	
Net decrease (increase) in loans.	245	(9
Purchase of premises and equipment.	(1,520)	(1
Net cash used in investing activities.	(20,424)	(5
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, savings accounts, money management deposit accounts and escrow deposits.	28,441	5
Net increase (decrease) in time deposits.	1,337	(3
Net (repayments on) proceeds from short-term borrowings	(1,100)	1
Payments on long-term borrowings.	(4,500)	(9
Proceeds from long-term borrowings.	-	5
Proceeds from issuance of mandatorily redeemable preferred securities	-	
Proceeds from exercise of stock options	140	
Cash dividends.	(664)	
Treasury stock purchased.	-	(2
Net cash provided by (used in) financing activities.	23,654	(2
Increase (decrease) in cash and cash equivalents	5,611	(5
Cash and cash equivalents at beginning of period	8,714	13
Cash and cash equivalents at end of period	$ 14,325	$ 8
CASH PAID DURING THE PERIOD FOR:		
Interest.	$ 5,639	$ 5
Income taxes paid	312	
NON-CASH INVESTING ACTIVITY:		
Transfer of loans to foreclosed real estate	894	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The accompanying 2004 consolidated financial statements include the accounts of Pathfinder Bancorp, Inc. (the "Company") and its wholly owned subsidiary, Pathfinder Bank (the "Bank"). The 2003 and 2002 consolidated financial

statements also include the Company's other subsidiary, Pathfinder Statutory Trust I (the "Trust"). The Trust was formed in 2002 for the purpose of issuing mandatorily redeemable convertible securities, which are considered Tier I capital under regulatory capital adequacy requirements. The Trust was deconsolidated upon adoption of Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," and Interpretation of ARB No 51 (FIN 46), which was revised in December 2003 (See Note 10). 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 64.6% of the outstanding common stock of the Company. Salaries, employee benefits and rent approximating $130,200, $124,000, and $115,000 were allocated from the Company to Pathfinder Bancorp, M.H.C. during 2004, 2003 and 2002, respectively.

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 and the evaluation of securities for other than temporary impairment to be the accounting areas that require the most subjective and complex judgments, 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' judgments based on information available to them at the time of their examinations.

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's activities are with customers located primarily in Oswego and parts of Onondaga counties of New York State. Note 4 discusses the types of securities that the Company invests in. Note 5 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

ADVERTISING

The Company follows the policy of charging the costs of advertising to expense as incurred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits (with original maturity of three months or less).

INVESTMENT SECURITIES

The Company classifies investment securities as available-for-sale. 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 or held-to-maturity securities.

Gains or losses on investment security transactions are based on the amortized cost of the specific securities sold. Premiums and discounts on securities are amortized and accreted into income using the interest method over the period to first call or maturity.

The Company monitors investment securities for impairment on a quarterly basis. Declines in the fair value of investment securities below cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

FEDERAL HOME LOAN BANK STOCK

Federal law requires a member institution of the Federal Home Loan Bank ("FHLB") system to hold stock of its district FHLB according to a predetermined formula. The stock is carried at cost.

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, 2004 and 2003, the Company had approximately $1,000,000 and $1,200,000, respectively, of mortgage loan forward commitments outstanding to hedge interest rate risk on certain committed and originated loans. The differences between the settlement value of the forward commitments and the fair value of these commitments were not significant at December 31, 2004 and 2003.

TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets, including sales of loans and loan participations, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.
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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

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.

OFF-BALANCE SHEET CREDIT RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under standby letters of credit. Such financial instruments are recorded when they are funded.

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.

FORECLOSED REAL ESTATE

Properties acquired through foreclosure, or by deed in lieu of foreclosure, are carried at their fair value less estimated disposal costs. Write downs of, and expenses related to, foreclosed real estate holdings included in noninterest expense were $49,000, $124,000 and $155,000 in 2004, 2003 and 2002, 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. Amortization expense related to core deposit intangibles is estimated to total $223,000 in each year of 2005 and 2006 and $169,000 in 2007.

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 carrying value of the originated mortgage servicing rights is periodically evaluated for impairment.

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.

There is no pro forma expense reported for 2004 as stock options were fully vested during 2003. Pro forma amounts of net income and earnings per share under Statement of Financial Accounting Standards No. 123 are as follows:

(Dollars in thousands)	2003	2002
Net Income:		
As reported.	$1,652	$1,156
Total stock-based compensation cost, net of tax, that would have been included in the determination of net income if the fair value based method had been applied to all awards.	28	109
Pro forma.	$1,624	$1,047

Earnings per share:	Basic	Diluted	Basic	Diluted
As reported	$ 0.68	$ 0.67	$ 0.45	$ 0.44
Pro forma	$ 0.67	$ 0.66	$ 0.41	$ 0.40

The fair value of these options was estimated at the date of grant in July 2001 using the Black-Scholes options pricing model with the following assumptions: risk free interest rate - 5.0%; dividend yield - 2.0%; market price volatility - 52.4%. An assumed weighted average option life of 6 years has been utilized. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. No options were granted during 2004, 2003 and 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. There were no treasury stock purchases in 2004. In 2003, and 2002, the Company purchased 183,114 and 11,000 shares of treasury stock at an average cost of $14.67 and $11.86 per share, respectively. 160,114 of the shares purchased by the Company in 2003 related to a privately negotiated stock repurchase from Jewelcor Management Inc. The shares were purchased at $14.60 per share and represented approximately 6.1% of

the Company's outstanding common stock as of December 31, 2002. The privately negotiated transaction was not part of the share repurchase program in effect for that period. The Company believes repurchase programs to be in the best interest of its shareholders as a method to enhance long-term shareholder value.

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 that would be outstanding assuming the exercise of issued stock options using the treasury stock method.

COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the statement of condition, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss) and related tax effects for the years ended:

	For the years ended December 31,		
(In thousands)	2004	2003	2002
Gross change in unrealized gains on securities available for sale. . . .	$ (843)	$ 681	$ 723
Reclassification adjustment for gains included in net income	(772)	(542)	(390)
	(1,615)	139	333
Tax effect	646	(56)	(133)
Net of tax amount.	$ (969)	$ 83	$ 200

RECLASSIFICATIONS

Certain amounts in the 2003 and 2002 consolidated financial statements have been reclassified to conform to the current year presentation. These

reclassifications had no effect on net income as previously reported.

NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Statement No. 123(R), "Share-Based Payment." Statement No. 123(R) revised Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. Statement No. 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. Since the Company's options are fully granted and vested, the Company does not anticipate the adoption will have any impact on consolidated financial statements.

In March 2004, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 105, "Application of Accounting Principles to Loan Commitments." SAB 105 provides guidance about the measurements of loan commitments recognized at fair value under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SAB 105 also requires companies to disclose their accounting policy for those loan commitments including methods and assumptions used to estimate fair value and associated hedging strategies. SAB 105 is effective for all loan commitments accounted for as derivatives that are entered into after March 31, 2004. The adoption of SAB 105 did not have a material effect on our consolidated financial statements.

In December 2003, the Accounting Standards Executive Committee issued Statement of Position 03-3 (SOP 03-3), "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer, including business combinations, if those differences are attributable, at least in part, to credit quality. SOP 03-3 is effective for loans for debt securities acquired in fiscal years beginning after December 15, 2004. The Company adopted the provisions of SOP 03-3 effective January 1, 2005, and the initial implementation did not have any effect on the Company's consolidated financial statements.

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:

(In thousands)	
Cash	$21,559
Loans receivable	2,260
Allowance for loan losses. .	(57)
Net loans receivable	2,203
Bank premises and equipment.	251
Other assets	10
Intangible assets.	2,376
Total assets	$26,399
Deposits	$26,399
Total liabilities	$26,399

Intangible assets include $1,100,000 in core deposit intangibles amortized over a weighted-average useful life of 5 years. Accumulated amortization approximated $485,000 and $262,000 at December 31, 2004 and 2003, respectively. The remaining $1,276,000 in intangible assets represents goodwill, which is not amortized but is evaluated at least annually for impairment. Amortization of goodwill and the core deposit intangible is deductible for tax purposes.

NOTE 4: INVESTMENT SECURITIES - AVAILABLE-FOR-SALE

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

	December 31, 2004			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bond investment securities:				
US Treasury and agencies.	$ 21,609	$ 4	$ (401)	$21,212
State and political subdivisions.	8,881	162	(31)	9,012
Corporate	5,919	92	(52)	5,959
Mortgage-backed	32,213	92	(278)	32,027
Total	68,622	350	(762)	68,210
Equity investments.	6,967	5	(113)	6,859
Total investment securities . . .	$ 75,589	$ 355	$ (875)	$75,069

	December 31, 2003			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bond investment securities:				
US Treasury and agencies.	$ 6,354	$ 48	$ (76)	$ 6,326
State and political subdivisions.	7,359	304	-	7,663
Corporate	6,421	345	(70)	6,696
Mortgage-backed	29,734	388	(188)	29,934
Total	49,868	1,085	(334)	50,619
Equity investments.	6,596	347	(3)	6,940
Total investment securities . . .	$ 56,464	$ 1,432	$ (337)	$57,559

Gross gains of $828,000, $581,000 and $665,000 for 2004, 2003 and 2002, respectively and gross losses of $56,000, $38,000 and $275,000 for 2004, 2003 and 2002, respectively were realized on sales and calls of securities. Tax expense related to net gains on investment securities was $300,700, $211,100 and $151,900 for 2004, 2003 and 2002, respectively. The $275,000 loss in 2002 represented an impairment loss recognized on a corporate debt security. This security was sold during 2003 and a gain of $178,000 was recognized after reversal of the 2002 impairment reserve.

Investment securities with a carrying value of approximately $37,500,000 at December 31, 2004 were pledged to collateralize certain deposit and borrowing arrangements.

The amortized cost and estimated fair value of debt investments at December 31, 2004 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.

(In thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less.	$ 2,847	$ 2,887
Due after one year through five years.	19,060	18,932
Due after five years through ten years	9,778	9,636
Due after ten years.	4,724	4,728
Mortgage-backed securities	32,213	32,027
Totals	$ 68,622	$ 68,210

The following table shows the Company's investment securities' gross unrealized

losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2004.

	Less Than Twelve Months		Twelve Months or More		Total	
(In thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fai Val
US Treasury and agency securities	$ (370)	$18,903	$ (31)	$ 981	$ (401)	$19,8
State and political subdivision securities.	(31)	2,411	-	56	(31)	2,4
Corporate securities.	(11)	976	(41)	936	(52)	1,9
Mortgage-backed securities.	(215)	19,949	(63)	3,301	(278)	23,2
Equity investment securities.	(10)	240	(103)	3,547	(113)	3,7
	$ (637)	$42,479	$ (238)	$8,821	$ (875)	$51,3

At December 31, 2004, 40 mortgage-backed and 30 US treasury and agency securities have unrealized losses, and only 11 of the securities have been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of specific securities. None of the securities in this category had an unrealized loss that exceeded 4% of book value and a majority had unrealized losses totaling less than 1% of book value. The Company has the intent and ability to hold the individual securities to maturity or market price recovery.

At December 31, 2004, 9 state and political subdivision securities and 2 corporate securities have unrealized losses, and only 1 of the securities has been in a continuous loss position for 12 months or more. In analyzing the issuer's financial condition, management considers the industry analyst's reports, financial performance and projected target prices of investment analysts within a one-year time frame. None of the securities in this category had an unrealized loss that exceeded 5% of book value and a majority had unrealized losses totaling less than 1% of book value. The Company has the intent and ability to hold the individual securities to maturity or market price recovery.

At December 31, 2004, 4 equity securities had unrealized losses. The security in the less than 12 months unrealized loss category is a mutual fund backed by adjustable rate mortgage-backed securities and has an unrealized loss of only 1% of book value. The unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the mutual fund. Since the underlying securities have variable interest rates and management has the intent and ability to hold until recovery, the decline is not deemed to be other-than-temporary. There are 3 securities that have been in a continuous loss position for 12 months or more. One of the securities in this category represents an investment in the stock of a government agency. However, the unrealized loss at December 31, 2004 was less than the loss at December 31, 2003. Since the unrealized loss at December 31, 2004 is only $58,000 and management has the intent and ability to hold the security until recovery, the

decline is not deemed to be other than temporary. The other 2 securities have

unrealized losses totaling only $15,000, which is deemed to be immaterial to the consolidated financial statements.

NOTE 5: LOANS

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

(In thousands)	2004	2003
Real estate mortgages:		
Conventional.	$117,608	$120,657
Construction.	3,497	4,375
Commercial.	29,874	31,278
	150,979	156,310
Other loans:		
Consumer.	3,484	3,932
Home Equity/2nd Mortgage. . . .	15,021	12,948
Lease financing	715	1,206
Commercial.	12,605	11,305
Municipal loans	3,514	2,579
	35,339	31,970
Total loans	186,318	188,280
Net deferred loan costs	634	437
Less allowance for loan losses.	(1,827)	(1,715)
Loans receivable, net	$185,125	$187,002

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 counties' employment and economic conditions.

The following represents the approximate activity associated with loans to officers and directors during the fiscal year ending December 31, 2004:

(In thousands)	
Balance at beginning of year.	$ 5,310
Originations.	3,319
Principal payments.	(3,719)
Balance at end of year. . . .	$ 4,910

NOTE 6: ALLOWANCE FOR LOAN LOSSES

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

(In thousands)	2004	2003	2002
Balance at beginning of year.	$1,715	$1,481	$ 1,679
Recoveries credited	61	37	32
Provision for loan losses . .	738	598	1,375
Allowance on acquired loans .	-	-	57
Loans charged-off	(687)	(401)	(1,662)
Balance at end of year. . . .	$1,827	$1,715	$ 1,481

The following is a summary of information pertaining to impaired loans for the years ending December 31,:

(In thousands)	2004	2003
Impaired loans without a valuation allowance .	$ -	$ -
Impaired loans with a valuation allowance. . .	3,110	3,804
Total impaired loans	$3,110	$3,804
Valuation allowance related to impaired loans.	$ 760	$ 527
Average investment in impaired loans	$3,611	$3,446
Interest income recognized on impaired loans .	$ 153	$ 139
Interest income recognized on a cash basis on impaired loans	$ -	$ 93

As of December 31, 2004, no additional funds are committed to be advanced in connection with impaired loans. During 2002, the Company had no loans classified as impaired.

The amount of loans on which the Company has ceased accruing interest aggregated approximately $1,851,000 and $2,992,000 at December 31, 2004 and 2003, respectively. There were no loans past due ninety days or more and still accruing interest at December 31, 2004 or 2003.

NOTE 7: SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of condition. The unpaid principal balances of mortgage and other loans serviced for others were $53.0 million and $47.6 million at December 31, 2004 and 2003, respectively.

The balance of capitalized servicing rights included in other assets at December 31, 2004 and 2003, was $198,000 and $257,000, respectively.

The following summarizes mortgage-servicing rights capitalized and amortized:

(In thousands)	2004	2003	2002
Mortgage servicing rights capitalized.	$ 99	$ 179	$ 152
Mortgage servicing rights amortized. .	$ 158	$ 122	$ 84

NOTE 8: PREMISES AND EQUIPMENT

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

(In thousands)	2004	2003
Land.	$ 1,150	$ 675
Buildings	5,587	5,172
Furniture, fixture and equipment.	5,597	5,057
Construction in progress.	508	471
	12,842	11,375
Less: Accumulated depreciation. .	5,262	4,725
	$ 7,580	$ 6,650

NOTE 9: DEPOSITS

A summary of deposits at December 31, is as follows:

(In thousands)	2004	2003
Savings accounts.	$ 66,265	$ 66,683
Time accounts	66,133	68,428
Time accounts over $100,000	18,250	14,618
Money management accounts	44,189	22,337
Demand deposit interest-bearing . .	20,339	16,969
Demand deposit noninterest-bearing.	19,159	15,790
Mortgage escrow funds	2,337	2,069
	$236,672	$206,894

At December 31, 2004, the schedules maturities of time deposits are as follows:

(In thousands)	
Year of Maturity	
2005.	$44,257
2006.	17,428
2007.	9,084
2008.	3,616
2009.	3,890
Thereafter. . . .	6,108
	$84,383

NOTE 10: BORROWED FUNDS

The composition of borrowings at December 31 is as follows:

(In thousands)	2004	2003
Short-term FHLB advances:		
FHLB Advances.	$ 1,000	$ 2,100
Total short-term borrowings.	$ 1,000	$ 2,100
Long-term:		
FHLB Repurchase agreements	3,400	3,400
FHLB advances.	30,960	35,460
Total long-term borrowings	$ 34,360	$ 38,860

The principal balance, interest rate and maturity of the above borrowings at December 31, 2004 is as follows:

Term	Principal	Rates
(Dollars in thousands)		
Short-term advances with FHLB.	$ 1,000	2.63%
Long-term:		
Repurchase agreements (due in 2006 and 2009)	3,400	5.56% -5.85%
Advances with FHLB		
due within 2 years	12,000	2.07%-5.32%
due within 3 years	11,350	3.00%-5.04%
due within 4 years	6,610	2.67%-5.98%
due after 5 years.	1,000	6.00%
Total advances with FHLB	$ 30,960	
Toal long-term borrowings.	$ 34,360	

The repurchase agreements with the Federal Home Loan Bank ("FHLB") are collateralized by certain investment securities having a carrying value of $3,700,000 at December 31, 2004. The collateral is under the Company's control. The 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 2004 approximated 2.00%. At December 31, 2004, $15,081,000 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 $98,269,000 and FHLB stock with a carrying value of $1,768,000 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% (6.00% at December 31, 2004) with a five-year call provision. The Company guarantees all of these securities. The Company capitalized $151,000 of deferred financing costs associated with the debt issuance, which are being amortized on a straight-line basis over the 5-year period to call date.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" which was revised in December 2003. This Interpretation provides guidance for the consolidation of variable interest entities (VIEs). Pathfinder Statutory Trust I qualifies as a variable interest entity under FIN 46. Pathfinder Statutory Trust I issued mandatorily redeemable preferred securities (Trust Preferred Securities) to third-party investors and loaned the proceeds to the Company. Pathfinder Statutory Trust I holds, as it sole asset, subordinated debentures issued by the Company.

FIN 46 required the Company to deconsolidate Pathfinder Statutory Trust I from the consolidated financial statements as of March 31, 2004. There has been no restatement of prior periods. The impact of this deconsolidation was to increase junior subordinated debentures by $5,155,000 and reduce the mandatory redeemable preferred securities line item by $5,000,000, which represented the trust preferred securities of the trust. The Company's equity interest in the trust subsidiary of $155,000, which had previously been eliminated in consolidation, is now reported in "Other assets". For regulatory reporting purposes, the Federal Reserve Board has indicated that the preferred securities will continue to qualify as Tier 1 Capital subject to previously specified limitations, until further notice. If regulators make a determination that Trust Preferred Securities can no longer be considered in regulatory capital, the securities become callable and the Company may redeem them. The adoption of FIN 46 did not have an impact on the Company's results of operations or liquidity.

NOTE 11: EMPLOYEE BENEFITS AND DEFERRED COMPENSATION AND SUPPLEMENTAL RETIREMENT PLANS

The Company has a noncontributory defined benefit pension plan covering substantially all employees. The plan provides defined benefits based on years of service and final average salary. In addition, the Company provides certain health and life insurance benefits for eligible retired employees. The healthcare plan is contributory with participants' contributions adjusted annually; the life insurance plan is noncontributory. 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 Company uses an October 1 measurement date for the defined benefit plan and postretirement benefit plan.

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:

	Pension Benefits		Postretirement Benefits	
(In thousands)	2004	2003	2004	2003
Change in benefit obligations:				
Benefit obligation at beginning of year	$3,382	$3,031	$ 367	$ 368
Service cost.	155	154	2	2
Interest cost	207	200	19	21
Actuarial gain.	153	166	(58)	-
Plan participants' contributions.	-	-	12	7
Benefit paid.	(152)	(151)	(33)	(28)
Settlements	-	(18)	-	-
Plan amendment.	-	-	-	(3)
Benefit obligation at end of year	$3,745	$3,382	$ 309	$ 367
Change in plan assets:				
Fair value of plan assets at beginning of year.	$2,792	$2,493	$ -	$ -
Actual return on plan assets.	236	266	-	-
Plan participants' contributions.	-	-	12	7
Benefits paid	(152)	(151)	(33)	(28)
Employer contributions.	278	202	21	21
Settlements	-	(18)	-	-
Fair value of plan assets at end of year. . . .	$3,154	$2,792	$ -	$ -
Components of prepaid/accrued benefit cost				
Unfunded status	$ (591)	$ (590)	$(309)	$(367)
Unrecognized transition obligation.	-	-	134	152
Unrecognized actuarial net loss/(gain).	1,478	1,401	(13)	46
Prepaid/(accrued) benefit/(cost).	$ 887	$ 811	$(188)	$(169)

The accumulated benefit obligation for the defined benefit plan was $3,042,000 and $2,735,000 at December 31, 2004 and 2003, respectively.

The significant assumptions used in determining the benefit obligation as of December 31, 2004 and 2003 are as follows:

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Weighted average discount rate	6.25%	6.50%	7.25%	6.25%	6.00%	6.50%
Expected long term rate of return on plan assets	9.00%	9.00%	9.00%	-	-	-
Rate of increase in future compensation levels .	3.50%	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 10.0% and 8.5%, respectively. The rates were assumed to decrease gradually to 3.75% 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:

(In thousands)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	$ 1	$ (1)
Effect on post retirement benefit obligation.	12	(11)

The composition of the net periodic benefit plan cost for the years ended December 31, 2004, 2003 and 2002 is as follows:

	Pension Benefits			Postretirement Benefits		
(In thousands)	2004	2003	2002	2004	2003	2002
Service cost.	$ 155	$ 154	$ 119	$ 2	$ 2	$ 2
Interest cost	207	200	183	19	21	22
Amortization of transition obligation	-	-	-	18	18	19
Amortization of gains and losses. . .	94	106	27	-	1	-
Expected return on plan assets. . . .	(254)	(227)	(235)	-	-	-
Net periodic benefit plan cost. . . .	$ 202	$ 233	$ 94	$39	$42	$43

The significant assumptions used in determining the net periodic benefit plan cost for years ended December 31:

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Weighted average discount rate	6.25%	6.50%	7.25%	6.25%	6.00%	6.50%
Expected long term rate of return on plan assets	9.00%	9.00%	9.00%	-	-	-
Rate of increase in future compensation levels .	3.50%	4.00%	4.50%	-	-	-

The long-term rate-of-return-on-assets assumption was set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the plan's target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 5-9.0% and 2-6.0%, respectively. The long-term inflation rate was estimated to be 3.0%. When these overall return expectations are applied to the plan's target allocation, the expected rate of return is determined to be 9.0%, which is roughly the midpoint of the range of expected return.

The Company's pension plan weighted-average asset allocations at October 1, the measurement date, by asset category are as follows:

Asset Category	2004	2003
Cash.	0%	0%
Equity securities	69%	67%
Debt securities .	31%	33%
Total	100%	100%

Plan assets are invested in six diversified investment funds of the RSI Retirement Trust (the "Trust"), a no load series open-ended mutual fund. The investment funds include four equity mutual funds and two bond mutual funds, each with its own investment objectives, investment strategies and risks, as detailed in the Trust's prospectus. The Trust has been given discretion by the Plan Sponsor to determine the appropriate strategic asset allocation versus plan liabilities, as governed by the Trust's Statement of Investment Objectives and Guidelines (the "Guidelines").

The long-term investment objective is to be invested 65% in equity securities (equity mutual funds) and 35% in debt securities (bond mutual funds). If the plan is underfunded under the Guidelines, the bond fund portion will be temporarily increased to 50% in order to lessen asset value volatility. When the plan is no longer underfunded, the bond fund portion will be decreased back to 35%. Asset rebalancing is performed at least annually, with interim adjustments made when the investment mix varies more than 5% from the target (i.e., a 10% target range).

The investment goal is to achieve investment results that will contribute to the proper funding of the pension plan by exceeding the rate of inflation over the

long-term. In addition, investment managers for the Trust are expected to provide above average performance when compared to their peer managers. Performance volatility is also monitored. Risk/volatility is further managed by the distinct investment objectives of each of the Trust funds and the diversification within each fund.

For the fiscal year ending December 31, 2005, the Bank expects to contribute approximately $190,000 to the Plan.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

Years ending December 31:	
(In thousands)	
2005	$152
2006	150
2007	150
2008	147
2009	150
Years 2010 - 2014.	853

The Company also offers a 401(k) plan to its employees. Contributions to this plan by the Company were $92,000, $84,000 and $74,000 for 2004, 2003 and 2002, respectively.

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, 2004 and 2003, other liabilities include approximately $1,276,000 and $1,172,000, respectively, relating to deferred compensation. Deferred compensation expense for the years ended December 31, 2004, 2003 and 2002 amounted to approximately $185,000, $116,000 and $113,000, respectively.

The Company has a supplemental executive retirement plan for the benefit of certain executive officers. At December 31, 2004 and 2003, other liabilities include approximately $449,000 and $473,000 accrued under these plans. Compensation expense includes approximately $53,000, $68,000 and $74,000 relating to the supplemental executive retirement plan for 2004, 2003 and 2002, respectively.

To fund the benefits under these plans, the Company is the owner of single premium life insurance policies on participants in the non-qualified retirement plans. At December 31, 2004 and 2003, the cash value of these policies was $5,768,000 and $4,493,000, respectively.

NOTE 12: STOCK BASED COMPENSATION PLANS

In February 1997, the Board of Directors approved an option plan and granted options thereunder with an exercise price equal to the market value of the Company's shares at the date of grant. Under the Stock Option Plan, up to 132,249 options have been authorized for grant of incentive stock options and

nonqualified stock options.

In July 2001, the Board approved the 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 ($8.34). The options granted under the issuance 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:

(Shares in thousands)	Options Outstanding	Weighted Average Exercise Price	Shares Exercisable
Outstanding at December 31, 2001.	113	$ 7.18	87
Exercised	(20)	6.79	
Outstanding at December 31, 2002.	93	$ 7.27	80
Exercised	(5)	7.49	
Outstanding at December 31, 2003.	88	$ 7.25	88
Exercised	(18)	7.75	
Outstanding at December 31, 2004.	70	$ 7.12	70

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, including cash dividends received on unearned shares, approximated $136,000, $129,000 and $113,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Total earned shares at December 31, 2004, 2003 and 2002 were 86,998, 79,367 and 71,478, respectively. The estimated fair value of the remaining 5,576 unearned shares at December 31, 2004 is $93,000. 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:

(In thousands)	2004	2003	2002
Current. . . .	$ -	$ 294	$ 95

Deferred . . .	502	307	293
	$ 502	$ 601	$ 388

The provision for income taxes includes the following:

(In thousands)	2004	2003	2002
Federal Income Tax.	$ 520	$ 631	$ 399
New York State Franchise Tax.	(18)	(30)	(11)
	$ 502	$ 601	$ 388

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

(In thousands)	2004	2003
Assets:		
Deferred compensation	$ 672	$ 641
Allowance for loan losses	712	668
Postretirement benefits	74	66
Mortgage recording tax credit carryforward.	304	263
Investment securities	213	-
Other	49	45
	2,024	1,683
Liabilities:		
Prepaid pension	(345)	(316)
Depreciation.	(671)	(360)
Accretion	(47)	(49)
Loan origination fees	(236)	(167)
Intangible assets	(328)	(224)
Prepaid expenses.	(119)	-
Investment securities	-	(433)
	(1,746)	(1,549)
Net deferred tax asset.	$ 278	$ 134

The Company has a New York State mortgage recording tax credit that has no carry forward limitations. 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 for the years ended December 31, is as follows:

	2004	2003	2002
Federal statutory income tax rate. . . .	34.0%	34.0%	34.0%
State tax.	(0.9)	(0.6)	(0.7)
Tax-exempt interest income, net of TEFRA	(6.0)	(5.1)	(6.4)
Increase in value of life insurance. . .	(3.1)	(2.6)	(3.9)
Other.	2.3	1.0	2.1
Effective income tax rate.	26.3%	26.7%	25.1%

NOTE 14: EARNINGS PER SHARE

The following is a reconciliation of basic to diluted earnings per share for the years ended December 31:

(Dollars in thousands, except per share data)	Earnings	Shares	EPS
2004 Net Income.	$ 1,405		
Basic EPS	1,405	2,435	$0.58
Effect of dilutive securities			
Stock options	-	44	
Diluted EPS	$ 1,405	2,479	$0.57
2003 Net Income.	$ 1,652		
Basic EPS	1,652	2,424	$0.68
Effect of dilutive securities			
Stock options	-	48	
Diluted EPS	$ 1,652	2,472	$0.67
2002 Net Income.	$ 1,156		
Basic EPS	1,156	2,578	$0.45
Effect of dilutive securities			
Stock options	-	45	
Diluted EPS	$ 1,156	2,623	$0.44

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 include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statement of condition. The contractual 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's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2004 and 2003, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
(In thousands)	2004	2003
Commitments to grant loans.	$ 5,120	$ 7,163
Unfunded commitments under lines of credit.	12,021	11,554
Standby letters of credit	1,106	665

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.

Unfunded commitments under standby letters of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2004 and 2003 for guarantees under standby letters of credit issued is not material.

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 $41,000, $41,000 and $21,000 in 2004, 2003 and 2002, 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 2004, 2003 and 2002 was $21,000, $21,000 and $5,000, respectively. Approximate minimum rental commitments for the

noncancelable operating leases are as follows:

Years Ending December 31:	
(In thousands)	
2005.	$ 42
2006.	46
2007.	47
2008.	50
2009.	50
Thereafter.	166
Total minimum lease payments.	$401

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 2004, the Company paid cash dividends totaling $321,000 to the Holding Company. For the second and fourth quarters ending June 30, 2004 and December 31, 2004, respectively, the Holding Company waived the right to receive its portion of the cash dividends declared on June 29, 2004 and December 22, 2004, respectively, which totaled $320,000. The Company maintains a restricted capital account with a $1,207,000 balance, representing the Holding Company's portion of dividends waived as of December 31, 2004. During 2003 and 2002, the Holding Company waived dividends totaling $317,000 and $348,000, respectively.

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 $3,134,000 as of December 31, 2004. Dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 17: REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are 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 guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

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, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, 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 Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2004 and 2003 are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be "Well-Capitalized" Under Prompt Corrective Provi	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ra
COMPANY						
As of December 31, 2004:						
Total Core Capital (to Risk-Weighted Assets)	$24,493	13.5%	$14,472	8.0%	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets) . .	$22,666	12.5%	$ 7,236	4.0%	N/A	N/A
Tier 1 Capital (to Average Assets)	$22,666	7.7%	$11,775	4.0%	N/A	N/A
BANK						
As of December 31, 2004:						
Total Core Capital (to Risk-Weighted Assets)	$22,974	12.8%	$14,416	8.0%	$18,020	10.0%
Tier 1 Capital (to Risk-Weighted Assets) . .	$21,147	11.7%	$ 7,208	4.0%	$10,812	6.0%
Tier 1 Capital (to Average Assets)	$21,147	7.1%	$11,947	4.0%	$14,934	5.0%
COMPANY						
As of December 31, 2003:						
Total Core Capital (to Risk-Weighted Assets)	$18,446	10.8%	$13,704	8.0%	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets) . .	$16,731	9.8%	$ 6,852	4.0%	N/A	N/A
Tier 1 Capital (to Average Assets)	$16,731	6.6%	10,117	4.0%	N/A	N/A

BANK						
As of December 31, 2003:						
Total Core Capital (to Risk-Weighted Assets)	$21,282	12.5%	$13,626	8.0%	$17,032	10.0%
Tier 1 Capital (to Risk-Weighted Assets) . .	$19,567	11,5%	$ 6,813	4.0%	$10,219	6.0%
Tier 1 Capital (to Average Assets)	$19,567	6.9%	$11,389	4.0%	$14,237	5.0%

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2004 and 2003, these reserve balances amounted to $2,419,000 and $2,098,000, respectively.

NOTE 18: 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 value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range

of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:

CASH AND CASH EQUIVALENTS - the carrying amounts approximate fair value.

INVESTMENT SECURITIES - fair values of 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.

LOANS AND MORTGAGE LOANS HELD-FOR-SALE - 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.

FEDERAL HOME LOAN BANK STOCK - the carrying amounts reported approximate fair value.

MORTGAGE SERVICING RIGHTS - the carrying amount approximates fair value.

ACCRUED INTEREST RECEIVABLE AND PAYABLE - the carrying amounts of accrued interest receivable and payable approximate their fair values.

DEPOSIT LIABILITIES - The fair values disclosed for demand deposits (e.g., interest-bearing and noninterest-bearing checking, passbook savings and certain types of money management accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposits to a schedule of aggregated expected monthly maturities on time deposits.

BORROWINGS - the fair values for short-term borrowings and junior subordinated debentures approximate the carrying amounts. The fair values for long-term borrowings were estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

OFF-BALANCE SHEET INSTRUMENTS - Fair values for the Company's off-balance sheet instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying amounts and fair values of the Company's financial instruments as of December 31 are presented in the following table:

	2004		2003	
(Dollars in thousands)	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:				
Cash and cash equivalents . . .	$ 14,325	$ 14,325	$ 8,714	$ 8,714
Investment securities	75,069	75,069	57,559	57,559
Mortgage loans held-for-sale. .	2,159	2,329	3,520	3,743
Net Loans	185,125	190,034	187,002	192,392
Federal Home Loan Bank Stock. .	1,768	1,768	2,048	2,048
Accrued interest receivable . .	1,505	1,505	1,273	1,273
Mortgage servicing rights . . .	198	198	257	257
Financial liabilities:				
Deposits.	$ 236,672	$ 237,410	$ 206,894	$ 208,560
Borrowed funds.	35,360	36,360	40,960	42,749
Junior subordinated debentures.	5,155	5,155	5,000	5,000
Accrued interest payable. . . .	143	143	209	209
Off-balance sheet instruments:				
Standby letter of credit. . . .	$ -	$ -	$ -	$ -
Commitments to extend credit. .	-	-	-	-

Forward rate lock commitments	-	-	-	-

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	2004	2003
(In thousands)		
ASSETS		
Cash.	$ 982	$ 1,543
Investments	-	447
Receivable from bank subsidiary	41	97
Investment in subsidiaries.	25,698	25,085
Due from subsidiaries	240	-
Other assets.	243	135
Total assets.	$27,204	$27,307
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liabilities	223	367
Junior subordinated debentures.	5,155	5,155
Shareholders' equity.	21,826	21,785
Total liabilities and shareholders' equity.	$27,204	$27,307

STATEMENTS OF INCOME.	2004	2003	2002
(In thousands)			
Interest income	$ 9	$ 16	$ 46
Interest expense.	259	243	142
Net interest expense.	(250)	(227)	(96)
Operating expense	(130)	(106)	(73)
Realized gain on sale of investment security. . . .	330	104	-
Amortization of deferred financing costs.	(30)	(30)	(15)
Loss before tax benefit and equity in undistributed net income of subsidiaries.	(80)	(259)	(184)
Tax benefit	20	73	72
Loss before equity in undistributed net income of subsidiaries.	$ (60)	$ (186)	$ (112)
Equity in undistributed net income of subsidiaries.	$ 1,465	$ 1,837	$ 1,268
Net income.	$ 1,405	$ 1,652	$ 1,156

STATEMENTS OF CASH FLOWS	2004	2003	2002
(In thousands)			
OPERATING ACTIVITIES			
Net Income	$ 1,405	$ 1,652	$ 1,156
Equity in undistributed earnings of subsidiaries	(1,465)	(1,837)	(1,268)
Realized gain on sale of investment security	(330)	(104)	-
ESOP shares earned	133	122	106
Amortization of deferred financing costs	30	30	15
Other operating activities	(304)	80	(123)
Net cash used in operating activities	(531)	(57)	(114)
INVESTING ACTIVITIES			
Proceeds from loan to subsidiary	56	56	56
Dividends receivable	8	7	4
Purchase of investments	-	-	(155)
Proceeds from sale of investments	430	154	-
Net cash provided by (used in) investing activities	494	217	(95)
FINANCING ACTIVITIES			
Proceeds from exercise of stock options	140	35	139
Proceeds from trust preferred obligation	-	-	5,004
Investment in Bank subsidiary	-	-	(2,000)
Dividend received from subsidiary	-	1,500	-
Cash dividends	(664)	(651)	(415)
Treasury stock purchased	-	(2,687)	(130)
Net cash (used in) provided by financing activities	(524)	(1,803)	2,598
(Decrease) Increase in cash and cash equivalents	(561)	(1,643)	2,389
Cash and cash equivalents at beginning of year	1,543	3,186	797
Cash and cash equivalents at end of year	$ 982	$ 1,543	$ 3,186

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

During 2003, the Company analyzed the service provided by and associated costs of its external auditing firm. After reviewing proposals from a number of independent accounting firms, the Board of Directors approved the appointment of Beard Miller Company LLP as auditors for the fiscal year ended December 31, 2003. The Company's previous auditor, PricewaterhouseCoopers, LLP ("PwC") was engaged for the examination of the first two quarters Form 10-Q filings during 2003. PwC performed audits of the consolidated financial statements for the two years ended December 31, 2002 and 2001. Their reports on the financial

statements did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the two years ended December 31, 2002 and from December 31, 2002 through the effective date of the PwC termination, there have been no disagreements between the Registrant and PwC on any matter of accounting principles or practice, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of such disagreements in connection with their reports on the financial statements for such years.

During the two years ended December 31, 2002, and from December 31, 2002 until the effective date of the dismissal of PwC, PwC did not advise the Registrant of any of the following matters:

1. That the internal controls necessary for the Registrant to develop reliable financial statements did not exist.

2. That information had come to PwC's attention that had lead it to no longer be able to rely on management's representations, or that had made it unwilling to be associated with the financial statements prepared by management;

3. That there was a need to expand significantly the scope of the audit of the Registrant, or that information had come to PwC's attention that if further investigated: (i) may materially impact the fairness or reliability of either a previously-issued audit report or underlying financial statements, or the financial statements issued or to be issued covering the fiscal periods subsequent to the date of the most recent financial statement covered by an audit report (including information that may prevent it from rendering an unqualified audit report on those financial statements) or (ii) may cause it to be unwilling to rely on management's representation or be associated with the Registrant's financial statements and that, due to its dismissal, PwC did not so expand the scope of its audit or conduct such further investigation;

4. That information had come to PwC's attention that it had concluded materially impacted the fairness or reliability of either: (i) a previously-issued audit report or the underlying financial statements or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified report on those financial statements), or that, due to its dismissal, there were no such unresolved issues as of the date of its dismissal.

During the two years ended December 31, 2002, and from December 31, 2002 through the engagement of Beard Miller Company LLP as the Registrant's independent accountant, neither the Registrant nor anyone on its behalf had consulted Beard Miller Company LLP with respect to any accounting, auditing or financial reporting issues involving the Registrant. In particular, there was no discussion with the Registrant regarding the application of accounting principles to a specified transaction, the type of audit opinion that might be rendered on the financial statement, or any related item.

ITEM 9A: CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

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 Executive Officers of the Company at December 31, 2004.

NAME	AGE	POSITIONS HELD WITH THE COMPANY
Thomas W. Schneider	43	President and Chief Executive Officer
James A. Dowd, CPA	37	Vice President, Chief Financial Officer
Edward A. Mervine	48	Vice President, General Counsel
John F. Devlin	40	Vice President, Senior Commercial Lender
Melissa A. Miller	47	Vice President, Chief Operating Officer
Gregory L. Mills	44	Vice President, Market Development

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 AND RELATED STOCKHOLDER MATTERS

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: PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements - The Company's consolidated financial statements, for the years ended December 31, 2004, 2003 and 2002, together with the Report of Independent Registered Public Accounting Firm are filed as part of this Form 10-K report. See "Item 8: Financial Statements and Supplementary Data." The supplemental financial information listed and appearing hereafter should be read in conjunction with the financial statements included in this report.

(a)(2) Financial Statement Schedules - All financial statement schedules have been omitted as the required information is inapplicable or has been included in "Item 7: Management Discussion and Analysis."

(b) Exhibits

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

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

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

10.1 Form of Pathfinder Bank 1997 Stock Option Plan (Incorporated herein by reference to the Company's S-8 file no. 333-53027)

10.2 Form of Pathfinder Bank 1997 Recognition and Retention Plan (Incorporated by reference to the Company's S-8 file no. 333-53027)

10.3 2003 Executive Deferred Compensation Plan (Incorporated by herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 file no. 000-23601)

10.4 2003 Trustee Deferred Fee Plan (Incorporated by herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 file no. 000-23601)

10.5 Employment Agreement between the Bank and Thomas W. Schneider, President and Chief Executive Officer (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 file no. 000-23601)

10.6	Employment Agreement between the Bank and Edward A. Mervine, Corporate Counsel (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 file no. 000-23601)
21	Subsidiaries of Company
23	Consent of Beard Miller Company LLP
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certification of the Chief Executive and Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PATHFINDER BANCORP, INC.

Date: March 30, 2005 By: /s/ Thomas W. Schneider
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/ Janette Resnick
Janette Resnick,
Chairman of the Board
Date: March 30, 2005

By: /s/ Thomas W. Schneider
Thomas W. Schneider, President
and Chief Executive Officer
Date: March 30, 2005

By: /s/ Chris Burritt
Chris B. Burritt, Director
Date: March 30, 2005

By: /s/ James A. Dowd
James A. Dowd, Vice President
Chief Financial Officer, Trust Officer
Date: March 30, 2005

By: /s/ George P. Joyce
George P. Joyce, Director
Date: March 30, 2005

By: /s/ Bruce E. Manwaring
Bruce E. Manwaring, Director
Date: March 30, 2005

By: /s/ Corte J. Spencer
Corte J. Spencer, Director
Date: March 30, 2005

By: /s/ L. William Nelson, Jr.
L. William Nelson, Jr. Director
Date: March 30, 2005

By: /s/ Chris C. Gagas
Chris C. Gagas, Director
Date: March 30, 2005

By: /s/ Steven W. Thomas
Steven W. Thomas, Director
Date: March 30, 2005

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 23: CONSENT OF BEARD MILLER COMPANY LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-53027) of Pathfinder Bancorp, Inc. of our report dated March 9, 2005, relating to the consolidated financial statements which appear in this Form 10-K.

/s/ Beard Miller Company LLP

Harrisburg, Pennsylvania
March 25, 2005

EXHIBIT 31.1: RULE 13A-14(A) / 15D-14(A) CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

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 annual report on Form 10-K of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our

supervision, 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 report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 30, 2005

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

EXHIBIT 31.2RULE 13A-14(A) / 15D-14(A) CERTIFICATION OF THE CHIEF FINANCIAL 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 annual report on Form 10-K of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 30, 2005

/s/ James A. Dowd
James A. Dowd
Vice President and Chief Financial Officer

EXHIBIT 32.1 SECTION 1350 CERTIFICATION OF THE CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

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 capacity as an officer of the Company that he has reviewed the Annual Report of the Company on Form 10-K for the year ended December 31, 2004 and that to the best of his 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 30, 2005

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

March 30, 2005

/s/ James A. Dowd
James A. Dowd
Vice President and Chief Financial Officer