

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter Ended March 31, 2001

Commission file number 0-13580

**SUFFOLK BANCORP**

(exact name of registrant as specified in its charter)

New York State  
(State or other jurisdiction of incorporation or organization)

11-2708279  
(I.R.S. Employer Identification No.)

6 West Second Street, Riverhead, New York  
(Address of Principal Executive Offices)

11901  
(Zip Code)

(Registrant's telephone number, including area code) (631) 727-5667

**NOT APPLICABLE**

(former name, former address and former fiscal year if changed since last report)

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes . No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

5,925,929 SHARES OF COMMON STOCK OUTSTANDING AS OF MARCH 31, 2001

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## **SUFFOLK BANCORP AND SUBSIDIARIES**

Part I - Financial Information (unaudited)	page
Consolidated Statements of Condition	4
Consolidated Statements of Income, For the Three Months Ended March 31, 2001 and 2000	5
Statements of Cash Flows, For the Three Months Ended March 31, 2001 and 2000	6
Notes to the Unaudited Consolidated Financial Statements	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Part II - Other Information	11
Signatures	11

**SUFFOLK BANCORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CONDITION**  
*(unaudited, in thousands of dollars, except share and per share data)*

	<b>March 31, 2001</b>	<b>December 31, 2000</b>
<b>ASSETS</b>		
Cash & Due From Banks	\$ 59,541	\$ 69,584
Federal Funds Sold	-	3,700
Investment Securities:		
Available for Sale, at Fair Value	148,282	149,186
Held to Maturity:		
U.S. Government Agency Obligations	-	-
Obligations of States & Political Subdivisions	12,992	13,317
Corporate Bonds & Other Securities	3,468	3,468
Total Investment Securities	164,742	165,971
Total Loans	795,669	775,997
Less: Allowance for Possible Loan Losses	8,061	7,749
Net Loans	787,608	768,248
Premises & Equipment, Net	13,407	13,445
Other Real Estate Owned, Net	-	175
Accrued Interest Receivable, Net	5,870	6,298
Excess of Cost Over Fair Value of Net Assets Acquired	1,086	1,176
Other Assets	22,912	20,983
<b>TOTAL ASSETS</b>	<b>1,055,166</b>	<b>1,049,580</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Demand Deposits	241,592	288,657
Savings, N.O.W.'s & Money Market Deposits	374,752	378,212
Time Certificates of \$100,000 or more	26,513	23,175
Other Time Deposits	258,769	252,392
Total Deposits	901,626	942,436
Federal Funds Purchases	44,900	-
Dividend Payable on Common Stock	1,664	1,373
Accrued Interest Payable	2,559	3,325
Other Liabilities	13,702	14,393
<b>TOTAL LIABILITIES</b>	<b>964,451</b>	<b>961,527</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock (par value \$2.50; 15,000,000 shares authorized; 5,925,929 & 5,959,964 shares issued at March 31, 2001 and December 31, 2000, respectively)	19,033	19,026
Surplus	18,501	18,456
Treasury Stock at Par (1,687,091 shares & 1,650,456 shares, respectively)	(4,218)	(4,126)
Undivided Profits	55,470	53,874
	88,786	87,230
Accumulated Other Comprehensive Income, Net of Tax	1,929	823
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>90,715</b>	<b>88,053</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 1,055,166</b>	<b>\$ 1,049,580</b>

See accompanying notes to consolidated financial statements.

**SUFFOLK BANCORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

*(unaudited, in thousands of dollars, except share and per share data)*

	For the Three Months Ended	
	<b>March 31, 2001</b>	<b>March 31, 2000</b>
<b>INTEREST INCOME</b>		
Federal Funds Sold	\$ 12	\$ 124
United States Treasury Securities	398	419
Obligations of States & Political Subdivisions (tax exempt)	157	313
Mortgage-Backed Securities	1,445	-
U.S. Government Agency Obligations	545	1,671
Corporate Bonds & Other Securities	72	56
Loans	17,264	15,764
Total Interest Income	19,893	18,347
<b>INTEREST EXPENSE</b>		
Savings, N.O.W.'s & Money Market Deposits	2,121	2,200
Time Certificates of \$100,000 or more	345	352
Other Time Deposits	3,632	3,018
Federal Funds Purchased	70	245
Interest on Other Borrowings	375	75
Total Interest Expense	6,543	5,890
Net-interest Income	13,350	12,457
Provision for Possible Loan Losses	405	300
Net-interest Income After Provision for Possible Loan Losses	12,945	12,157
<b>OTHER INCOME</b>		
Service Charges on Deposit Accounts	1,281	1,182
Other Service Charges, Commissions & Fees	311	282
Fiduciary Fees	240	233
Other Operating Income	193	232
Net Gain on Sale of Securities	148	-
Total Other Income	2,173	1,929
<b>OTHER EXPENSE</b>		
Salaries & Employee Benefits	4,654	4,491
Net Occupancy Expense	719	626
Equipment Expense	562	637
Other Real Estate Expense	10	3
Other Operating Expense	1,983	2,208
Total Other Expense	7,928	7,965
Income Before Provision for Income Taxes	7,190	6,121
Provision for Income Taxes	2,787	2,492
<b>NET INCOME</b>	<b>\$ 4,403</b>	<b>3,629</b>
<b>Average:</b>		
Common Shares Outstanding	5,950,470	6,049,206
Dilutive Stock Options	14,908	7,154
<b>Average Total Common Shares and Dilutive Options</b>	<b>5,965,378</b>	<b>6,056,360</b>
<b>EARNINGS PER COMMON SHARE</b>		
Basic	\$ 0.74	\$ 0.60
Diluted	\$ 0.74	\$ 0.60

See accompanying notes to consolidated financial statements.

**SUFFOLK BANCORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(unaudited, in thousands of dollars, except share and per share data)*

	For the Three Months Ended	
	March 31, 2001	March 31, 2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>NET INCOME</b>	\$ 4,403	\$ 3,629
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH</b>		
Provision for Possible Loan Losses	405	300
Depreciation & Amortization	486	494
Amortization of Excess Cost Over Fair Value of Net Assets Acquired	90	90
Accretion of Discounts	(290)	(53)
Amortization of Premiums	105	205
Decrease (Increase) in Accrued Interest Receivable	428	(321)
(Increase) Decrease in Other Assets	(1,931)	237
Decrease in Accrued Interest Payable	(765)	(402)
(Decrease) Increase in Other Liabilities	(400)	814
Net Security Gains	(148)	-
<b>Net Cash Provided by Operating Activities</b>	2,383	4,993
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Principal Payments on Investment Securities	346	131
Proceeds from Sale of Investment Securities, Available for Sale	715	-
Maturities of Investment Securities; Available for Sale	1,160	742
Purchases of Investment Securities; Available for Sale	(834)	(4,685)
Maturities of Investment Securities; Held to Maturity	25,000	-
Purchases of Investment Securities; Held to Maturity	(22,946)	(6,215)
Loan Disbursements & Repayments, Net	(20,537)	(12,018)
Purchases of Premises & Equipment, Net	(448)	(104)
Disposition of Other Real Estate Owned	175	-
<b>Net Cash Used in Investing Activities</b>	(17,369)	(22,149)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net (Decrease) Increase in Deposit Accounts	(40,810)	15,279
Net Payments for Other Borrowings	44,900	15,800
Dividends Paid to Shareholders	(1,664)	(1,273)
Treasury Shares Acquired	(1,234)	(539)
Stock Options Exercised	51	-
<b>Net Cash Provided by Financing Activities</b>	1,243	29,267
<b>Net (Decrease) Increase in Cash &amp; Cash Equivalents</b>	(13,743)	12,111
<b>Cash &amp; Cash Equivalents Beginning of Period</b>	73,284	53,452
<b>Cash &amp; Cash Equivalents End of Period</b>	\$ 59,541	\$ 65,563

See accompanying notes to consolidated financial statements.

# SUFFOLK BANCORP AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### (1) General

In the opinion of management, the accompanying unaudited consolidated financial statements of Suffolk Bancorp (Suffolk) and its consolidated subsidiaries have been prepared to reflect all adjustments (consisting solely of normally recurring accruals) necessary for a fair presentation of the financial condition and results of operations for the periods presented. Certain information and footnotes normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Notwithstanding, management believes that the disclosures are adequate to prevent the information from misleading the reader, particularly when the accompanying consolidated financial statements are read in conjunction with the audited consolidated financial statements and notes thereto included in the Registrant's annual report and on Form 10-K, for the year ended December 31, 2000.

The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results of operations to be expected for the remainder of the year.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

for the Three-Month Periods ended March 31, 2001 and 2000

#### Net Income

Net income was \$4,403,000 for the quarter, ahead 21.3 percent from \$3,629,000 posted during the same period last year. Earnings per share for the quarter were \$0.74 versus \$0.60, a gain of 23.3 percent.

#### Interest Income

Interest income was \$19,893,000 for the first quarter of 2001, up 8.4 percent from \$18,347,000 posted for the same quarter in 2000. Average net loans during the first quarter of 2001 totaled \$770,283,000, compared to \$718,721,000 for the same period of 2000. During the first quarter of 2001, the yield was 8.44 percent (taxable-equivalent) on average earning assets of \$947,054,000 up from 8.28 percent on average earning assets of \$894,044,000 during the first quarter of 2000. Increases in interest income were attributable primarily to increases in the volume of loans, and also to a change in the composition of the investment portfolio emphasizing high-quality higher-yielding collateralized mortgage obligations.

#### Interest Expense

Interest expense for the first quarter of 2001 was \$6,543,000, up 11.1 percent from \$5,890,000 for the same period of 2000. Average deposits for the first quarter of 2001 were \$886,988,000 up from \$872,557,000 for the comparable period in 2000. Interest expense remained moderate as demand deposits comprised 26.8 percent of total deposits.

#### Net Interest Income

Net interest income, net of the provision for possible loan losses, is the largest component of Suffolk's earnings. Net interest income for the first quarter of 2001 was \$13,350,000, up 7.2 percent from \$12,457,000 during the same period of 2000. The net interest margin for the quarter, on a fully taxable-equivalent basis, was 5.68 percent compared to 5.65 percent for the same period of 2000.

The following table details the components of Suffolk's net interest income:

March 31,	2001			2000		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>INTEREST-EARNING ASSETS</b>						
U.S. treasury securities	\$ 29,536	\$ 406	5.50 %	\$ 30,995	\$ 427	5.52 %
Collateralized mortgage obligations	82,646	1,445	6.99	62,949	1,129	7.17
Obligations of states and political subdivisions	12,628	239	7.56	30,133	476	6.31
U.S. govt. agency obligations	39,730	545	5.48	38,791	542	5.59
Corporate bonds and other securities	3,468	71	8.23	3,468	56	6.46
Federal funds sold and securities purchased under agreements to resell	828	12	5.86	8,987	124	5.51
Loans, including non-accrual loans						
Commercial, financial agricultural loans	140,097	3,212	9.17	128,829	3,016	9.37
Commercial real estate mortgages	157,483	3,502	8.89	156,398	3,439	8.80
Real estate construction loans	34,753	912	10.50	22,575	521	9.23
Residential mortgages (1st and 2nd liens)	88,113	1,897	8.61	81,972	1,895	9.25
Home equity loans	22,075	549	9.94	20,144	518	10.28
Consumer loans	335,209	7,192	8.58	306,129	6,375	8.32
Other loans (overdrafts)	488	-	-	2,674	-	-
<b>Total interest-earning assets</b>	<b>\$ 947,054</b>	<b>\$ 19,982</b>	<b>8.44 %</b>	<b>\$ 894,044</b>	<b>\$ 18,518</b>	<b>8.28 %</b>
Cash and due from banks	\$ 62,989			\$ 60,527		
Other non-interest-earning assets	39,832			45,733		
<b>Total assets</b>	<b>\$ 1,049,875</b>			<b>\$ 1,000,304</b>		
<b>INTEREST-BEARING LIABILITIES</b>						
Savings, N.O.W.'s and money market deposits	\$ 360,916	\$ 2,121	2.35 %	\$ 372,750	\$ 2,200	2.36 %
Time deposits	277,511	3,976	5.73	261,457	3,370	5.16
<b>Total savings and time deposits</b>	<b>638,427</b>	<b>6,097</b>	<b>3.82</b>	<b>634,207</b>	<b>5,570</b>	<b>3.51</b>
Federal funds purchased and securities sold under agreement to repurchase	6,182	70	4.52	5,043	75	5.94
Other borrowings	25,952	375	5.79	16,497	245	5.94
<b>Total interest-bearing liabilities</b>	<b>\$ 670,561</b>	<b>\$ 6,542</b>	<b>3.90 %</b>	<b>\$ 655,747</b>	<b>\$ 5,890</b>	<b>3.59 %</b>
Rate spread			4.54 %			4.69 %
Non-interest-bearing deposits	\$ 248,561			\$ 238,350		
Other non-interest-bearing liabilities	43,226			29,899		
<b>Total liabilities</b>	<b>\$ 962,348</b>			<b>\$ 923,996</b>		
Stockholders' equity	87,527			76,308		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,049,875</b>			<b>\$ 1,000,304</b>		
Net-interest income (taxable-equivalent basis) and effective interest rate differential		\$ 13,440	5.68 %		\$ 12,628	5.65 %
Less: taxable-equivalent basis adjustment		(90)			(171)	
<b>Net-interest income</b>		<b>\$ 13,350</b>			<b>\$ 12,457</b>	

## Other Income

Other income increased to \$2,173,000 for the three months compared to \$1,929,000 the previous year. Service charges on deposits were up 8.4 percent. Service charges, including commissions and fees other than for deposits, increased by 10.3 percent. Trust revenue was up 3.0 percent. Other operating income decreased by 16.8 percent. Net gains on the sale of securities amounted to \$148,000.

## Other Expense

Other expense for the first quarter of 2001 was \$7,928,000, down 0.5 percent from \$7,965,000 for the comparable period in 2000. Employee compensation increased by 3.6 percent, net occupancy by 14.9 percent, equipment expense dropped by 11.8 percent, while other operating expense decreased by 10.2 percent.

## Capital Resources

Stockholders' equity totaled \$90,715,000 on March 31, 2001, an increase of 3.0 percent from \$88,053,000 on December 31, 2000. The ratio of equity to assets was 8.6 percent at March 31, 2001 and 8.4 percent at December 31, 2000. The following table details amounts and ratios of Suffolk's regulatory capital:  
(in thousands of dollars except ratios)

	Actual		For capital adequacy		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2001						
Total capital (to risk-weighted assets)	\$ 95,628	10.86%	\$ 70,433	8.00%	\$ 88,041	10.00%
Tier 1 capital (to risk-weighted assets)	87,567	9.95%	35,217	4.00%	52,825	6.00%
Tier 1 capital (to average assets)	87,567	8.34%	41,995	4.00%	52,494	5.00%
As of December 31, 2000						
Total capital (to risk-weighted assets)	\$ 93,676	10.93%	\$ 68,540	8.00%	\$ 85,675	10.00%
Tier 1 capital (to risk-weighted assets)	85,927	10.03%	34,270	4.00%	51,405	6.00%
Tier 1 capital (to average assets)	85,927	8.51%	40,407	4.00%	50,509	5.00%

## Credit Risk

Suffolk makes loans based on the best evaluation possible of the creditworthiness of the borrower. Even with careful underwriting, some loans may not be repaid as originally agreed. To provide for this possibility, Suffolk maintains an allowance for possible loan losses, based on an analysis of the performance of the loans in its portfolio. The analysis includes subjective factors based on management's judgment as well as quantitative evaluation. Prudent, conservative estimates should produce an allowance that will provide for a range of losses. According to generally accepted accounting principles ("GAAP") a financial institution should record its best estimate. Appropriate factors contributing to the estimate may include changes in the composition of the institution's assets, or potential economic slowdowns or downturns. Also important is the geographical or political environment in which the institution operates. Suffolk's management considers all of these factors when determining the provision for possible loan losses.

The following table presents information about the allowance for possible loan losses: (in thousands of dollars except ratios)

	For the last 12 months	For the three months ended			
		March 31 2001	Dec. 31 2000	Sept. 30 2000	June 30 2000
Allowance for possible loan losses					
Beginning balance	7,382	7,749	7,676	7,527	7,382
Total charge-offs	827	144	279	206	198
Total recoveries	201	51	52	55	43
Provision for possible loan losses	1,305	405	300	300	300
Ending balance	8,061	8,061	7,749	7,676	7,527
Coverage ratios					
Loans, net of discounts: average	748,563	770,283	750,598	738,427	734,945
at end of period	770,323	795,669	775,997	758,894	750,732
Non-performing assets	2,586	2,686	2,700	2,685	2,273
Non-performing assets/total loans (net of discount)	0.34%	0.34%	0.35%	0.35%	0.30%
Net charge-offs/average net loans (annualized)	0.08%	0.05%	0.12%	0.08%	0.08%
Allowance/non-accrual, restructured, & OREO	301.04%	300.11%	287.00%	285.88%	331.15%
Allowance for loan losses/net loans	1.01%	1.01%	1.00%	1.01%	1.00%

## Market Risk

Suffolk originates and invests in interest-earning assets and solicits interest-bearing deposit accounts. Suffolk's operations are subject to market risk resulting from fluctuations in interest rates to the extent that there is a difference between the amounts of interest-earning assets and interest-bearing liabilities that are prepaid, withdrawn, mature, or reprice in any given period of time. Suffolk's earnings or the net value of its portfolio (the present value of expected cash flows from liabilities) will change when interest rates change. The principal objective of Suffolk's asset/liability management program is to maximize net interest income while keeping risks acceptable. These risks include both the effect of changes in interest rates, and risks to liquidity. The program also provides guidance to management in funding Suffolk's investment in loans and securities. Suffolk's exposure to interest-rate risk has not changed substantially since December 31, 2000.

## PART II

### Item 6. Exhibits and Reports on Form 8-K.

None

### SIGNATURES

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

### SUFFOLK BANCORP

Date: May 11, 2001

/s/ Thomas S. Kohlmann

\_\_\_\_\_  
Thomas S. Kohlmann  
President & Chief Executive Officer

Date: May 11, 2001

/s/ J. Gordon Huszagh

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J. Gordon Huszagh  
Executive Vice President &  
Chief Financial Officer