

**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 September 30, 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.

5,886,298 SHARES OF COMMON STOCK OUTSTANDING AS OF SEPTEMBER 30, 2001

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## **SUFFOLK BANCORP AND SUBSIDIARIES**

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

	<b>September 30, 2001</b>	<b>December 31, 2000</b>
<b>ASSETS</b>		
Cash & Due From Banks	\$ 47,239	\$ 69,584
Federal Funds Sold	86,500	3,700
Investment Securities:		
Available for Sale, at Fair Value	168,210	149,186
Held to Maturity:		
Obligations of States & Political Subdivisions	8,353	13,317
Corporate Bonds & Other Securities	1,850	3,468
Total Investment Securities	178,413	165,971
Total Loans	789,692	775,997
Less: Allowance for Possible Loan Losses	8,750	7,749
Net Loans	780,942	768,248
Premises & Equipment, Net	13,201	13,445
Other Real Estate Owned, Net	-	175
Accrued Interest Receivable, Net	5,511	6,298
Excess of Cost Over Fair Value of Net Assets Acquired	905	1,176
Other Assets	22,144	20,983
<b>TOTAL ASSETS</b>	<b>1,134,855</b>	<b>1,049,580</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Demand Deposits	277,533	288,657
Savings, N.O.W.'s & Money Market Deposits	418,708	378,212
Time Certificates of \$100,000 or more	36,224	23,175
Other Time Deposits	280,691	252,392
Total Deposits	1,013,156	942,436
Dividend Payable on Common Stock	1,649	1,373
Accrued Interest Payable	2,765	3,325
Other Liabilities	20,388	14,393
<b>TOTAL LIABILITIES</b>	<b>1,037,958</b>	<b>961,527</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock (par value \$2.50; 15,000,000 shares authorized; 5,886,298 and 5,959,964 shares outstanding at September 30, 2001 and December 31, 2000, respectively)	19,112	19,026
Surplus	19,165	18,456
Treasury Stock at Par (1,758,622 and 1,650,456 shares, respectively)	(4,396)	(4,126)
Undivided Profits	58,857	53,874
	92,738	87,230
Accumulated Other Comprehensive Income, Net of Tax	4,159	823
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>96,897</b>	<b>88,053</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 1,134,855</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	
	<u>September 30, 2001</u>	<u>September 30, 2000</u>
<b>INTEREST INCOME</b>		
Federal Funds Sold	\$ 663	\$ 134
United States Treasury Securities	224	441
Obligations of States & Political Subdivisions (tax exempt)	95	174
Mortgage-Backed Securities	1,436	1,233
U.S. Government Agency Obligations	603	574
Corporate Bonds & Other Securities	36	72
Loans	16,938	16,757
Total Interest Income	<u>19,995</u>	<u>19,385</u>
<b>INTEREST EXPENSE</b>		
Savings, N.O.W.'s & Money Market Deposits	2,311	2,283
Time Certificates of \$100,000 or more	364	377
Other Time Deposits	3,310	3,353
Federal Funds Purchased	-	20
Interest on Other Borrowings	-	11
Total Interest Expense	<u>5,985</u>	<u>6,044</u>
Net-interest Income	14,010	13,341
Provision for Possible Loan Losses	405	300
Net-interest Income After Provision for Possible Loan Losses	<u>13,605</u>	<u>13,041</u>
<b>OTHER INCOME</b>		
Service Charges on Deposit Accounts	1,292	1,179
Other Service Charges, Commissions & Fees	505	435
Fiduciary Fees	250	199
Other Operating Income	310	161
Total Other Income	<u>2,357</u>	<u>1,974</u>
<b>OTHER EXPENSE</b>		
Salaries & Employee Benefits	4,384	4,325
Net Occupancy Expense	713	686
Equipment Expense	582	571
Other Real Estate Expense	-	1
Other Operating Expense	2,389	2,316
Total Other Expense	<u>8,068</u>	<u>7,899</u>
Income Before Provision for Income Taxes	7,894	7,116
Provision for Income Taxes	3,134	2,856
<b>NET INCOME</b>	<u>\$ 4,760</u>	<u>\$ 4,260</u>
<b>Average:</b>		
Common Shares Outstanding	5,899,810	5,995,064
Dilutive Stock Options	9,317	8,221
<b>Average Total Common Shares and Dilutive Options</b>	<u>5,909,127</u>	<u>6,003,285</u>
<b>EARNINGS PER COMMON SHARE</b>		
Basic	\$ 0.81	\$ 0.71
Diluted	\$ 0.81	\$ 0.71

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 Nine Months Ended	
	<u>September 30, 2001</u>	<u>September 30, 2000</u>
<b>INTEREST INCOME</b>		
Federal Funds Sold	\$ 841	282
United States Treasury Securities	950	1,291
Obligations of States & Political Subdivisions (tax exempt)	416	811
Mortgage-Backed Securities	4,317	3,594
U.S. Government Agency Obligations	1,593	1,672
Corporate Bonds & Other Securities	164	199
Loans	51,580	48,900
Total Interest Income	59,861	56,749
<b>INTEREST EXPENSE</b>		
Savings, N.O.W.'s & Money Market Deposits	6,578	6,692
Time Certificates of \$100,000 or more	1,089	1,044
Other Time Deposits	10,611	9,505
Federal Funds Purchased	98	211
Interest on Other Borrowings	548	651
Total Interest Expense	18,924	18,103
Net-interest Income	40,937	38,646
Provision for Possible Loan Losses	1,215	900
Net-interest Income After Provision	39,722	37,746
<b>OTHER INCOME</b>		
Service Charges on Deposit Accounts	3,915	3,531
Other Service Charges, Commissions & Fees	1,197	1,087
Fiduciary Fees	728	622
Other Operating Income	751	504
Net Gain on Sale of Securities	395	-
Total Other Income	6,986	5,744
<b>OTHER EXPENSE</b>		
Salaries & Employee Benefits	13,358	13,142
Net Occupancy Expense	2,143	1,932
Equipment Expense	1,730	1,822
Other Real Estate Expense	10	7
Other Operating Expense	6,434	6,582
Total Other Expense	23,675	23,485
Income Before Provision for Income Taxes	23,033	20,005
Provision for Income Taxes	9,042	8,041
<b>NET INCOME</b>	\$ 13,991	\$ 11,964
<b>Average:</b> Common Shares Outstanding	5,919,957	6,018,174
Dilutive Stock Options	7,874	7,458
<b>Average Total Common Shares and Dilutive Options</b>	5,927,831	6,025,632
<b>EARNINGS PER COMMON SHARE</b> Basic	\$ 2.36	\$ 1.99
Diluted	\$ 2.36	\$ 1.99

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 Nine Months Ended	
	<b>September 30, 2001</b>	<b>September 30, 2000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>NET INCOME</b>	\$ 13,991	\$ 11,964
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH</b>		
Provision for Possible Loan Losses	1,215	900
Depreciation & Amortization	1,493	1,522
Amortization of Excess Cost Over Fair Value of Net Assets Acquire	271	271
Accretion of Discounts	(501)	(188)
Amortization of Premiums	321	477
Decrease (Increase) in Accrued Interest Receivable	787	(65)
Increase in Other Assets	(665)	(921)
(Decrease) Increase in Accrued Interest Payable	(560)	453
Increase in Other Liabilities	3,577	1,439
Net Security Gains	(395)	-
<b>Net Cash Provided by Operating Activities</b>	<b>19,534</b>	<b>15,852</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Principal Payments on Investment Securities	9,676	2,020
Proceeds from Sale of Investment Securities, Available for Sale	1,005	-
Maturities of Investment Securities; Available for Sale	11,708	24,909
Purchases of Investment Securities; Available for Sale	(5,125)	(14,760)
Maturities of Investment Securities; Held to Maturity	83,250	6,000
Purchases of Investment Securities; Held to Maturity	(106,908)	(12,342)
Loan Disbursements & Repayments, Net	(14,125)	(32,732)
Purchases of Premises & Equipment, Net	(1,249)	(963)
Disposition of Other Real Estate Owned	175	-
<b>Net Cash Used in Investing Activities</b>	<b>(21,593)</b>	<b>(27,868)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Increase in Deposit Accounts	70,720	43,996
Net Payments of Other Borrowings	-	(13,500)
Dividends Paid to Shareholders	(4,688)	(4,043)
Treasury Shares Acquired	(4,313)	(1,631)
Stock Options Exercised	795	-
<b>Net Cash Provided by Financing Activities</b>	<b>62,514</b>	<b>24,822</b>
<b>Net Increase in Cash &amp; Cash Equivalents</b>	<b>60,455</b>	<b>12,806</b>
<b>Cash &amp; Cash Equivalents Beginning of Period</b>	<b>73,284</b>	<b>53,452</b>
<b>Cash &amp; Cash Equivalents End of Period</b>	<b>\$ 133,739</b>	<b>\$ 66,258</b>

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 September 30, 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 September 30, 2001 and 2000

**Net Income**

Net income was \$4,760,000 for the quarter, ahead 11.7 percent from \$4,260,000 posted during the same period last year. Earnings per share for the quarter were \$0.81 versus \$0.71, a gain of 14.1 percent.

**Interest Income**

Interest income was \$19,995,000 for the third quarter of 2001, up 3.1 percent from \$19,385,000 posted for the same quarter in 2000. Average net loans during the third quarter of 2001 totaled \$777,266,000 compared to \$738,427,000 for the same period of 2000. During the third quarter of 2001, the yield was 7.99 percent (taxable-equivalent) on average earning assets of \$1,004,103 down from 8.64 percent on average earning assets of \$902,183,000 during the third 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 third quarter of 2001 was \$5,985,000, down 1.0 percent from \$6,044,000 for the same period of 2000. During the third quarter of 2001, the cost of funds was 3.42 percent (taxable-equivalent) on average interest-bearing liabilities of \$699,044,000 down from 3.80 percent on average interest-bearing liabilities of \$636,710,000 during the third quarter of 2000. Interest expense remained moderate as average demand deposits comprised 27.4 percent of total deposits.

Each of the Bank's demand deposit accounts has a related noninterest-bearing sweep account. The sole purpose of the sweep accounts is to reduce the noninterest-bearing reserve balances that the Bank is required to maintain with the Federal Reserve Bank, and thereby increase funds available for investment. Although the sweep accounts are classified as savings accounts for regulatory purposes, they are included in demand deposits in the accompanying consolidated statements of condition.

**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 third quarter of 2001 was \$13,605,000, up 4.3 percent from \$13,041,000 during the same period of 2000. The net interest margin for the quarter, on a fully taxable-equivalent basis, was 5.60 percent compared to 5.96 percent for the same period of 2000.

The following table details the components of Suffolk's net interest income on a taxable-equivalent basis:  
(dollars in thousands)

September 30,	2001			2000		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>INTEREST-EARNING ASSETS</b>						
U.S. treasury securities	\$ 13,097	\$ 229	7.00 %	\$ 31,013	\$ 449	5.79 %
Collateralized mortgage obligations	83,609	1,436	6.87	67,396	1,233	7.32
Obligations of states and political subdivisions	7,114	143	8.07	13,945	263	7.55
U.S. govt. agency obligations	44,327	602	5.44	39,552	574	5.81
Corporate bonds and other securities	2,267	36	6.31	3,468	72	8.34
Federal funds sold and securities purchased under agreements to resell	76,423	664	3.47	8,382	135	6.42
Loans, including non-accrual loans						
Commercial, financial agricultural loans	133,492	2,672	8.01	127,316	2,897	9.10
Commercial real estate mortgages	164,940	3,805	9.23	151,936	3,403	8.96
Real estate construction loans	25,043	673	10.76	31,708	819	10.33
Residential mortgages (1st and 2nd liens)	92,412	1,963	8.49	86,581	1,871	8.64
Home equity loans	25,378	482	7.59	19,370	522	10.78
Consumer loans	335,449	7,344	8.76	321,196	7,245	9.02
Other loans (overdrafts)	552	-	-	320	-	-
<b>Total interest-earning assets</b>	<b>\$ 1,004,103</b>	<b>\$ 20,049</b>	<b>7.99 %</b>	<b>\$ 902,183</b>	<b>\$ 19,483</b>	<b>8.64 %</b>
Cash and due from banks	\$ 45,309			\$ 60,872		
Other non-interest-earning assets	39,207			41,253		
<b>Total assets</b>	<b>\$ 1,088,619</b>			<b>\$ 1,004,308</b>		
<b>INTEREST-BEARING LIABILITIES</b>						
Savings, N.O.W.'s and money market deposits	\$ 394,009	\$ 2,311	2.35 %	\$ 369,532	\$ 2,283	2.47 %
Time deposits	305,035	3,674	4.82	265,535	3,729	5.62
<b>Total savings and time deposits</b>	<b>699,044</b>	<b>5,985</b>	<b>3.42</b>	<b>635,067</b>	<b>6,012</b>	<b>3.79</b>
Federal funds purchased and securities sold under agreement to repurchase	-	-	-	1,122	20	7.11
Other borrowings	-	-	-	521	12	8.85
<b>Total interest-bearing liabilities</b>	<b>\$ 699,044</b>	<b>\$ 5,985</b>	<b>3.42 %</b>	<b>\$ 636,710</b>	<b>\$ 6,044</b>	<b>3.80 %</b>
Rate spread			4.56 %			4.84 %
Non-interest-bearing deposits	\$ 274,848			\$ 256,843		
Other non-interest-bearing liabilities	23,309			30,254		
<b>Total liabilities</b>	<b>\$ 997,201</b>			<b>\$ 923,807</b>		
Stockholders' equity	91,418			80,501		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,088,619</b>			<b>\$ 1,004,308</b>		
Net-interest income (taxable-equivalent basis) and effective interest rate differential		\$ 14,064	5.60 %		\$ 13,439	5.96 %
Less: taxable-equivalent basis adjustment		(54)			(99)	
<b>Net-interest income</b>		<b>\$ 14,010</b>			<b>\$ 13,340</b>	

## Other Income

Other income increased to \$2,357,000 for the three months compared to \$1,974,000 the previous year. Service charges on deposits were up 9.6 percent. Service charges, including commissions and fees other than for deposits, increased by 16.1 percent. Trust revenue was up 25.6 percent. Other operating income increased by 92.5 percent.

## Other Expense

Other expense for the third quarter of 2001 was \$8,068,000, up 2.1 percent from \$7,899,000 for the comparable period in 2000. Employee compensation increased by 1.4 percent, net occupancy increased by 3.9 percent, equipment expense increased by 1.9 percent, while other operating expense increased by 3.2 percent.

## Capital Resources

Stockholders' equity totaled \$96,897,000 on September 30, 2001, an increase of 10.0 percent from \$88,053,000 on December 31, 2000. The ratio of equity to assets was 8.5 percent at September 30, 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 September 30, 2001						
Total capital (to risk-weighted assets)	\$ 100,451	11.90%	\$ 67,502	8.00%	\$ 84,378	10.00%
Tier 1 capital (to risk-weighted assets)	91,701	10.87%	33,751	4.00%	50,627	6.00%
Tier 1 capital (to average assets)	91,701	8.43%	43,503	4.00%	54,379	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%

## Effect of the Events of September 11, 2001

Suffolk Bancorp's operations were not affected directly by the attacks on New York, Washington, D.C., and Pennsylvania on September 11, 2001 in any material way. However, the long-term effects of these events cannot be foreseen accurately at this time. Factors affecting Suffolk Bancorp include particularly, but are not limited to, changes in interest rates, increases or decreases in retail and commercial economic activity in Suffolk's market area, and variations in the ability and propensity of consumers and businesses to borrow, repay, or deposit money, or to use other banking and financial services. Each is subject to a variety of uncertainties that could cause future results to vary materially from Suffolk's historical performance, or from current expectations.

## 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			
		Sept 30 2001	June 30 2001	March 31 2001	Dec. 31 2000
Allowance for possible loan losses					
Beginning balance	7,676	8,446	8,061	7,749	7,676
Total charge-offs	794	169	202	144	279
Total recoveries	353	68	182	51	52
Provision for possible loan losses	1,515	405	405	405	300
Ending balance	8,750	8,750	8,446	8,061	7,749
Coverage ratios					
Loans, net of discounts: average	770,661	777,266	784,498	770,283	750,598
at end of period	789,583	789,692	796,974	795,669	775,997
Non-performing assets	2,564	2,290	2,578	2,686	2,700
Non-performing assets/total loans (net of discount)	0.32%	0.29%	0.32%	0.34%	0.35%
Net charge-offs/average net loans (annualized)	0.06%	0.05%	0.01%	0.05%	0.12%
Allowance/non-accrual, restructured, & OREO	324.21%	382.10%	327.62%	300.11%	287.00%
Allowance for loan losses/net loans	1.04%	1.11%	1.06%	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: November 14, 2001

/s/ Thomas S. Kohlmann

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

Date: November 14, 2001

/s/ J. Gordon Huszagh

\_\_\_\_\_  
J. Gordon Huszagh  
Executive Vice President & Chief Financial Officer