PathFinder BANCORP, INC.

2022 ANNUAL REPORT

OUR PURPOSE

To be the Local Bank Our Community Trusts.

LOCAL

We have proudly served Central New York for over 150 years. Like our customers, we live, work and play here. That fact not only allows us to know our customers better, but gives our customers access to decision makers right here in Central New York.

COMMUNITY

Our success is intertwined with the success of the communities we serve. For that reason, and because it is the right thing to do, we invest our resources, time, and talents in those communities.

TRUST

Because we want to serve our local communities for another 150 years, we must earn the trust of our customers every day. We do that by being ethical, capable, honest, reliable and responsive. We do not sell products and services to our customers. We listen, and inquire, to determine our customers' needs. Then, with the help of a team of trusted advisors, we develop a program of services and products to uniquely satisfy those needs.

LETTER TO SHAREHOLDERS

Chris Burritt
Chairman of the Board

James Dowd
President and CEO

We are proud to present our 2022 Annual Report to Shareholders.

The past 12 months have been challenging for the global economy and, in many ways, our industry. Most financial institutions, including Pathfinder, started 2022 with strong liquidity in an environment of historically low interest rates. As the year progressed, inflation became a significant concern, causing the Federal Reserve to rapidly raise its benchmark interest rate from near zero to 5.0%, as of this writing, and industry-wide liquidity levels have fallen significantly. By the first quarter of 2023, the failures of a few, very large financial institutions in California and New York caused the U.S. Treasury Department, the Federal Reserve, and the Federal Deposit Insurance Corporation to take several largely unprecedented steps to shore up confidence in the U.S. banking system.

These developments created an environment that differs significantly from typical economic conditions and has strained many of the consumers and businesses that we serve. We maintain that, during these challenging times, a strong relationship between these customers and their local community bank is more important than ever. Pathfinder remains well-capitalized, continues to strengthen our risk management practices, and stays focused on safety and soundness as a component of our traditional relationship-based business model. We are pleased with our ability to perform well during these troubled times while firmly positioning ourselves as a source of strength and stability for our customers and the communities that we serve.

FINANCIAL RESULTS

Pathfinder Bancorp, Inc. reported net income for the year ended December 31, 2022, of $12.9 million, an increase of $525,000, or 4.2%, from $12.4 million in 2021. Net interest income, before provision for loan losses, increased by $3.1 million, or 8.1%, in 2022 to $41.4 million, compared to $38.3 million in 2021. The increase in net interest income between the two years was primarily due to the $5.3 million, or 11.5%, increase in interest and dividend income in 2022. Interest and dividend income increased to $51.1 million, compared to $45.8 million in the year ended December 31, 2021. These interest and dividend income improvements were partially offset by an increase in interest expense in 2022 of $2.2 million, or 28.7%, to $9.7 million from $7.5 million for the prior year.

The average balance of interest-earning assets increased by $87.4 million to $1.28 billion, while the yield on average interest-earning assets increased to 3.99% from 3.85% in 2021. Conversely, the average balance of interest-bearing liabilities increased by $75.0 million, or 7.8%, to $1.03 billion in 2022, while the average cost of interest-bearing liabilities increased to 0.94 % in 2022 compared to 0.79% in the prior year. These factors also strongly contributed to a 3 basis point increase in net interest margin to 3.24% for 2022.

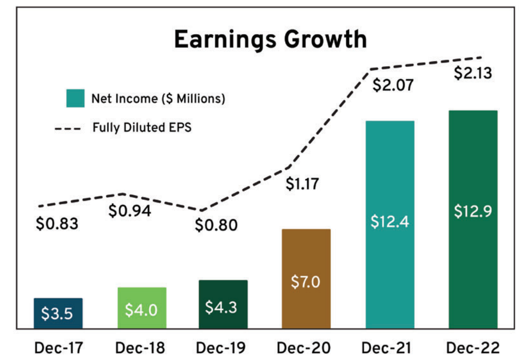
The year-over-year improvement in net interest income before provision for loan losses discussed above was partially offset by an increase in the provision for loan losses recorded in 2022. The Bank reported a provision for loan losses of $2.8 million in 2022, compared to a provision for loan losses of $1.0 million in the previous year. Therefore, net interest income, after provision for loan losses, increased by $1.4 million, or 3.7%, in 2022 to $38.6 million, compared to $37.3 million in 2021.

Key profitability metrics were strong. The accompanying charts reflect our positive trends in profitability metrics in the form of net income, earnings per share, return on average assets, and return on average equity. As mentioned, the Company noted record earnings during 2022 with a net income of $12.9 million and fully diluted earnings per share of $2.13. This level of earnings resulted in a return on average assets of 0.96% and a return on average equity of 11.77%, both of which are significantly above historical trends. Our consistent focus throughout 2022 on enhancing our operating leverage provided revenue growth while we were able to keep expenses relatively stable, despite a difficult inflationary environment.

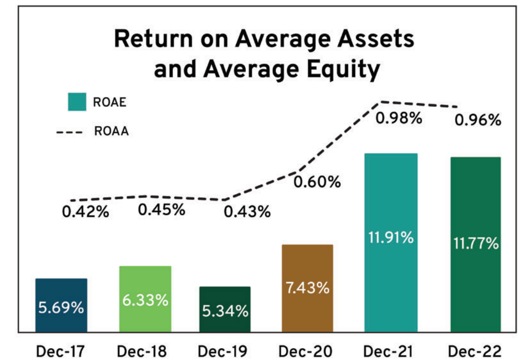
Noninterest income decreased in 2022 to $5.9 million, a decrease of $317,000, or 5.1%, compared to 2021. Total revenues after provision for loan losses, increased $1.1 million, or 2.4%, to $44.6 million from $43.5 million in the previous year.

Noninterest expense increased by $1.4 million, or 5.0%, to $28.9 million for 2022. The primary driver of the increase in noninterest expense was an increase in salaries and employee benefits of $1.6 million, or 11.4%. This increase was driven by a $737,000, or a 7.2% increase in base salaries, combined with a $530,000 reduction in deferred employee-related expenses due to declines in loan originations, including loans related to the now-expired Payroll Protection Program initiated by federal authorities in response to the COVID-19 pandemic, when compared to the prior year. The increase in salary expense relates primarily to increases in individual staff salaries, combined with, to a lesser extent, headcount increases associated with the opening of a new branch location in 2022. During 2022, the Company intentionally increased its salary structure where necessary in reaction to inflationary and competitive pressures within our marketplace in order to recruit and retain talent.

Total assets grew $114.7 million, or 8.9%, to $1.40 billion during 2022. Our balance sheet growth included an increase of $65.3 million, or 7.8%, in total loans, and our total deposits grew by more than $70.1 million, or 6.6%, over the prior full year. As would be expected in a rising interest rate environment, deposit customer preferences caused a shift in the mix of deposits from noninterest-bearing liquid accounts to interest-bearing products, including time deposits. Our deposit-gathering efforts will continue to focus on transactional accounts and, consequently, reduce our interest expense. We are pleased with the outcome of our efforts in 2022 to control our funding costs, despite nearly unprecedented increases in interest rates, as the average cost of total interest-bearing liabilities increased only 15 basis points year-over-year.



Credit quality continues to be a strength of our bank, with our $897.8 million loan portfolio producing a ratio of nonperforming loans to total loans of 1.00% at December 31, 2022, a level that was stable in comparison to 2021, and less than half of the 2.58% we reported in 2020. Our ratio of allowance for loan losses to nonperforming loans stood at 169.93% at year-end. Loan loss provision returned to a more normalized level in 2022. Our projected loan pipeline volume remains solid at year's end. However, we anticipate loan demand slowing from the robust levels experienced following the pandemic, and we will continue to maintain our prudent and consistent underwriting standards as we move forward.

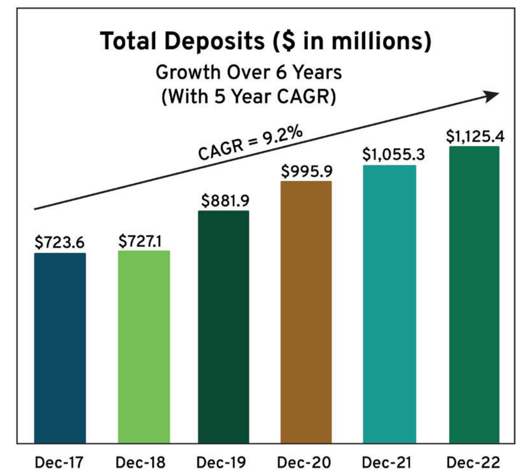


We are pleased with our balance sheet growth, profitability trends, and trajectory. The accompanying charts show our balance sheet's consistent and stable growth over time. A risk-managed, diversified balance sheet with consistent and balanced growth in loans and deposits is the key driver of net interest income, our primary revenue source. The efficient funding of loan growth through deposit generation is becoming increasingly important in the current interest rate environment. The constant annual growth rate of loans and deposits totaled 9.1% and 9.2%, respectively, over the prior 5 years.

Achieving record earnings during these challenging economic times does validate the strength of our business model and the markets in which we operate, the effective governance and management of our Company, and our continued ability to adapt to changing market conditions.

LOCAL MARKET CONDITIONS

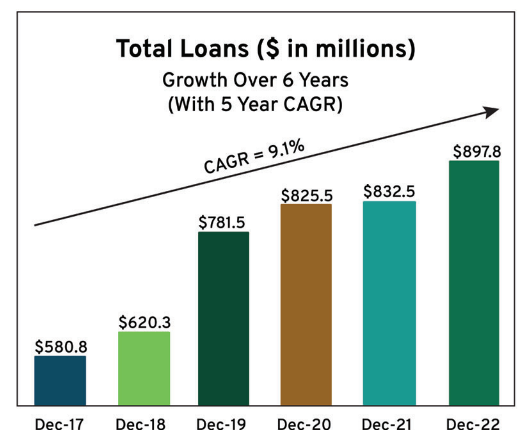
The Central New York economy is historically both stable and resilient. The area has fared well, weathering recent significant economic challenges caused by the Great Recession of 2008 and the COVID-19 pandemic that began in 2020. While the forward economic environment, in many ways, remains a challenge, we are confident about our position in our local market, the growth potential of the Greater Syracuse region, and our expanding, profitable presence in Utica, New York.



We continue to build upon and expand from our strong foundation in Oswego County, where we have established ourselves as the dominant player from a deposit market share perspective, and celebrate the positive momentum and strong optimism about the future of the Central New York economy. Leading industries in Central New York include construction, healthcare, professional and business services, educational services, and manufacturing. The area continues to experience substantial revitalization activities within its cities. The diversification of its economy, a relatively low cost of living, and ample resources in the region continue to attract outside investment in technology, manufacturing, and logistics.

In October of 2022, Micron Technology, Inc. announced its plans to spend up to $100 billion building a mega-complex of computer chip plants in Syracuse's northern suburbs in what would be the largest, most significant single private investment in New York history. This announcement has brought renewed optimism and excitement for the future of our region. It is expected that Micron's project, and the follow-on growth and investment associated with the project, will significantly transform the Central New York economy and improve the quality of life in its communities for years to come. An independent economic impact study projects that Micron will generate significant economic growth for New York State in the following ways:

- 50,000 plus new permanent jobs in New York State by 2055.
- Approximately 12,000 annual temporary jobs from capital expenditures from 2025–2044.
- $9.6 billion annually in real Gross Domestic Product (GDP) impact from 2025-2055.
- $16.7 billion annually in real output impact from 2025-2055.
- $17.2 billion in total New York State government revenues spanning 2025-2055.



- $31 billion in Micron construction spending, with 5,600 related jobs on average at the prevailing federal wage for the initial 20 years, 2025-2044.
- Micron will invest $250 million over the duration of the project, targeting investments in workforce development, education, community assets and organizations, and affordable housing. New York State will invest $100 million, and $150 million will be funded by local, other state, and national partners.

Our brand recognition and physical presence in Central New York positions us extremely well to take advantage of the unprecedented economic growth opportunities in our local market. We maintain two strategically-placed branch locations that flank the proposed Micron site to the east and west along the vibrant New York Route 31 corridor. A project of this magnitude and its potential economic impact will create many opportunities for existing businesses. These businesses can expect to benefit from significant employment expansion and development while attracting new businesses to the region and adding thousands of new employees to our area, creating additional needs for local services. The addition of more quality employment opportunities in Central New York will benefit all companies in the region as the area becomes more attractive for talented individuals, creating larger candidate pools of local talent. Housing stock will be needed for this influx of talent, creating opportunities for homebuilders, remodelers, and related subcontractors, suppliers, and manufacturers. The future economic outlook for the Central New York region has never been brighter, and we are well-positioned to be a part of this growth story.

Our loan production office in Oneida County in Utica, New York, continues to gain significant market traction, as well. The city of Utica is experiencing substantial revitalization, with material new investments being made in the surrounding communities. Pathfinder Bank continues to establish new meaningful business relationships in business banking and lending activities in this area. In addition, our activities in this market have enabled us to continue to expand the Pathfinder Bank brand awareness to a larger portion of the Central New York Region. These business banking and lending activities, combined with expanded brand awareness, help create the demand for additional products and services in the market and build a foundation for organic market expansion opportunities in the future.

MARKET EXPANSION

During 2022, we took additional steps to position the Company to meet the needs of our expanding customer base, guided by our commitment to provide accessible, quality customer service and products. In November, we expanded our presence in Central New York by opening a new full-service location in Syracuse's Southwest Corridor, making it our fourth location in Onondaga County.

The Company chose this location very intentionally, recognizing the opportunity to provide our customers with more convenience while enhancing our accessibility to an otherwise underbanked neighborhood. The enhanced access to loans, homeownership tools, and many other services will promote long-term economic development and stimulate personal and household wealth. Our efforts to renovate a historic mansion and turn it into a functioning bank branch began in 2021. This unique adaptive-reuse renovation project aligned with the City of Syracuse's efforts to help transform neighborhoods and create economic opportunities in a hyper-inclusive model along Syracuse's South and Southwest Corridors. It is essential to our Company to have diversity of thought and experiences to achieve success in this market. This includes local and diverse hiring that reflects the multicultural communities in Syracuse, the environment we create in the branches, the products and services we offer, and the neighborhood organizations we engage with and who have guided us along the way. Our efforts have been well received by the local community, as reflected in our initial deposit gathering at this new location. As of December 31, 2022, the branch opened new deposit relationships totaling $12.4 million only two months after receiving regulatory approvals and opening the new location.

2023 FORWARD

As we look forward to 2023, we anticipate economic headwinds to pressure profitability for our entire industry. We are keeping an eye on rapidly increasing short-term interest rates combined with a currently-inverted yield curve that has the potential to drive up the cost of funds and compress net interest margin for almost all depository institutions. The current inflationary environment, the existing wage pressure, and challenges to hire and retain the necessary talent will also put upward pressure on operating expenses. Regulatory pressure on fee-related income is expected to continue to mitigate noninterest income growth. In the face of these headwinds, we must remain disciplined in our balance sheet management and decision-making. We will continue our strategic focus on the following:

- Lowering our cost of funds and overall interest rate sensitivity through the continued shift in deposit mix to non-maturity deposits, specifically business, and retail checking accounts.
- Continued active management of our operating expenses to ensure that the revenue growth rate exceeds the rate of growth of our operating expenses without negatively impacting our customer service and risk management practices.
- Continued analysis of noninterest income opportunities to reduce our reliance on net interest income and enhancing fee income by analyzing local market rates and our internal procedures to ensure we receive the appropriate value for our services within our marketplace.

With liquidity tightening in the banking industry, loan portfolio growth opportunities will be limited by the growth rate of organic deposits. Rising interest rates will also limit new loan originations and significantly reduce any refinancing activities. Balance sheet growth expectations should be muted as a result. We will continue to seek to shift the mix of our retail deposit portfolio, reducing our reliance on time deposits and increasing our levels of non-maturity deposits. We continue to invest in people and technology to enhance our treasury management product offerings to our business customers in an ongoing effort to grow our small business deposit relationships. Our commercial lending activities will focus on commercial and industrial lending activities and small business lending, shifting from the significant growth we have experienced in commercial real estate lending.

We are very pleased with the trends we have demonstrated in recent years in balance sheet growth, asset quality, and profitability. We remain excited about the bright economic future of our local market. We feel strongly that our business model, board and management, and our talented staff will continue to build long-term franchise value for our shareholders, customers, and the communities we serve.

We appreciate the continued support of our shareholders and are confident in our ability to navigate the challenges in front of us. We look forward to updating you on our progress throughout the year.

Workers pause for a photo during the construction of the George C. Hanford House at 506 W. Onondaga St. in Syracuse in 1910. The mansion, turned branch, is a two-story Italian Renaissance Revival-style house, designed by the architectural firm of Archimedes Russell and Melvin King. (Onondaga Historical Association)

Co-owners of Recess Coffee & Roastery, Adam Williams and Jesse Daino, discuss business during a photoshoot for the Bank's social #businessesofpathfinder campaign series in May 2022. Recess Coffee has three locations throughout Syracuse, including their flagship cafe located in the heart of the Westcott neighborhood.

Pathfinder Bank employees, in collaboration with ARISE, volunteer their time to install an ADA accessible ramp for a local resident in the summer of 2022. As an Independent Living Center (ILC), ARISE promotes the full inclusion of people with disabilities in the community.

2022 ANNUAL REPORT

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______ to _______
Commission File No. 001-36695

PATHFINDER BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of** **incorporation or organization)**	**38-3941859** **(I.R.S. Employer** **Identification No.)**

214 West First Street
Oswego, NY 13126

Registrant's telephone number, including area code (315) 343-0057

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**PBHC**	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2022, as reported by the NASDAQ Capital Market ($19.93), was approximately $68.1 million.

As of March 22, 2023, there were 4,651,829 shares outstanding of the Registrant's voting common stock and 1,380,283 shares of the Registrant's Series A nonvoting common stock

DOCUMENTS INCORPORATED BY REFERENCE: Proxy Statement for the 2023 Annual Meeting of Shareholders of the Registrant (Part III).

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DECEMBER 31, 2022
PATHFINDER BANCORP, INC.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"), which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” or words of similar meaning, or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may.” A forward-looking statement is neither a prediction nor a guarantee of future events. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition within our market area that is stronger than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in market interest rates that reduce our margins and yields, reduce the fair value of financial instruments or reduce our volume of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make, whether held in portfolio or sold in the secondary market;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- the imposition of tariffs or other domestic or international governmental polices impacting the value of the products of our borrowers;
- changes in consumer spending, borrowing and savings habits;
- our ability to maintain our reputation;
- our ability to prevent or mitigate fraudulent activity;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees and our existing customers;

- a breach in security of our information systems, including the occurrence of a cyber incident or a deficiency in cyber security;
- risks that COVID-19 may adversely impact our customers and lead to continued labor shortages and supply chain disruptions causing a severe disruption in the U.S. economy, and could potentially create business continuity issues for us;
- political instability or civil unrest;
- our ability to evaluate the amount and timing of recognition of future tax assets and liabilities;
- our compensation expense associated with equity benefits allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. We disclaim any obligation to revise or update any forward-looking statements contained in this Annual Report on Form 10-K to reflect future events or developments.

ITEM 1: BUSINESS

GENERAL

Pathfinder Bancorp, Inc.

Pathfinder Bancorp, Inc. (the "Company") is a Maryland corporation incorporated in 2014 and headquartered in Oswego, New York. The primary business of the Company is its investment in Pathfinder Bank (the "Bank") which is 100% owned by the Company. The Company is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). Pathfinder Bank is a commercial bank chartered by the New York State Department of Financial Services (the “NYSDFS”).

The Company owns a non-consolidated Delaware statutory trust subsidiary, Pathfinder Statutory Trust II, of which 100% of the common equity is owned by the Company. Pathfinder Statutory Trust II was formed in connection with the issuance of $5.2 million in trust preferred securities.

At December 31, 2022 and 2021, 6,032,112 and 5,983,467 shares of Company common stock (voting and non-voting) were outstanding, respectively.

Following shareholder approval obtained on June 4, 2021, the Company converted 1,380,283, or 100%, of its previously-outstanding shares of Series B Convertible Perpetual Preferred Stock to an equal number of newly-created Series A Non-Voting Common Stock. Neither the previously-issued Series B Convertible Perpetual Preferred Stock, nor the newly-issued Series A Non-Voting Common Stock had, or will have, dividend or liquidation preference over the Company’s existing Voting Common Stock. Holders of the new Series A Non-Voting Common Stock will be entitled to receive dividends, if and when declared by the Company’s Board of Directors, in the same per share amount as paid on the Company’s Voting Common Stock.

At December 31, 2022, the Company had total consolidated assets of $1.40 billion, total deposits of $1.13 billion and shareholders' equity of $111.0 million plus a noncontrolling interest of $585,000, which represents the 49% of the FitzGibbons Agency, LLC not owned 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. Its internet address is www.pathfinderbank.com. Information on our website is not and should not be considered to be a part of this report.

Pathfinder Bank

The Bank is a New York-chartered commercial bank and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation (“FDIC”) through the Deposit Insurance Fund (“DIF”). The Bank is subject to extensive regulation by the NYSDFS, as its chartering agency, and by the FDIC, as its deposit insurer and primary federal regulator. The Bank is a member of the Federal Home Loan Bank of New York (“FHLBNY”) and is also subject to certain regulations by the Federal Home Loan Bank System.

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 commercial and residential real estate, and commercial business and consumer assets other than real estate. In addition, the Bank originates unsecured small business and consumer loans. The Bank also invests a portion of its assets in a broad range of debt securities issued by the United States Government and its agencies and sponsored enterprises, state and municipal governments and agencies, and corporations. The Company also invests in mortgage-backed securities issued or guaranteed by United States Government sponsored enterprises, collateralized mortgage obligations and similar debt

securities issued by both government sponsored entities and private (non-governmental) issuers, and asset-backed securities that are generally issued by private entities. The Company invests primarily in debt securities but will, within certain regulatory limits, invest from time to time in mutual funds and equity securities. The Bank's principal sources of funds are deposits, principal and interest payments on loans and investments, as well as borrowings from correspondent financial institutions. The principal source of the Company's income is interest on loans and investment securities. The Bank's principal expenses are interest paid on deposits and borrowed funds, employee compensation and benefits, data processing and facilities.

The Bank also owns 100% of Whispering Oaks Development Corp. ("Whispering Oaks"), a New York corporation that is retained to operate or develop real estate-related projects. Whispering Oaks, through a wholly-owned second-tier subsidiary, is the sole limited partner in an unconsolidated special-purpose real estate management partnership. The partnership currently operates a low-income residential housing facility. The activities of Whispering Oaks, which included the sale of real property, resulted in a pre-tax gain of $111,000 in 2022.

Additionally, the Bank owns 100% of Pathfinder Risk Management Company, Inc., ("PRMC") which was established to record the 51% controlling interest upon the December 2013 purchase of the FitzGibbons Agency, an Oswego County property, casualty and life insurance brokerage business with approximately $1.1 million in annual revenues. The activities of PRMC resulted in pre-tax income of $207,000 in 2022. The Company's 51% controlling interest in this entity resulted in income of $106,000 for the Company on a consolidated basis in 2022.

MARKET AREA AND COMPETITION

Market Area

We provide financial services to individuals, families, small to mid-size businesses and municipalities through our seven branch offices located in Oswego County, NY, four branch offices located in Onondaga County, NY and one limited purpose office located in Oneida County, NY. Our primary lending market area includes both Oswego and Onondaga Counties. However, our primary deposit generating area is concentrated in Oswego County and in the areas surrounding our Onondaga County branches.

The economies of Oswego County and Onondaga County are based primarily on manufacturing, energy production, heath care, education, and government. In addition to financial services, the broader Central New York market has a more diverse array of economic sectors, including food processing production and transportation. The region has more recently also developed particular strength in the commercialization of certain emerging technologies such as bio-processing, medical devices, aircraft systems and renewable energy.

Based on recent independent market survey reports, median home values were $204,700 in Onondaga County and $132,400 in Oswego County at the end of 2022. Home values have shown only modest increases in recent years within the Syracuse, NY metro area, including Onondaga and Oswego Counties. This modest increase in home values within the area followed a period in which home values within the area exhibited relative stability compared to many other areas of the country during the most recent economic recession that began in 2008.

Competition

Pathfinder Bank encounters strong competition both in attracting deposits and in originating real estate and other loans. Our most direct competition for deposits and loans comes from commercial banks, savings institutions and credit unions in our market area, including money-center banks such as JPMorgan Chase & Co. and Bank of America, regional banks such as M&T Bank and Key Bank N. A., and community banks such as NBT Bank and Community Bank N.A., all of which have substantially greater total assets than we do. Local credit unions, some of which also have more assets than the Company, are particularly strong competitors for consumer deposits and consumer loans. In addition, potential new competitors may be emerging that are generically defined as financial technology (also referred to as "FinTech" or "fintech") companies. These entities seek to employ new technology and various forms of innovation in order to compete with traditional methods of delivering financial services. The advanced use of smartphones for mobile banking, automated investing services and cryptocurrency are examples of such technologies. Financial technology companies consist of both well-capitalized startup entities, divisions of established financial institutions and/or established technology companies. These entities seek to replace or supplement the financial services provided by established financial service entities, such as the Company. Many established financial institutions are now implementing, or planning to implement, various forms of fintech solutions and technologies in order to broaden their product and service offerings and/or to gain improved competitive positions in this emerging marketplace. Some of these technologies either have been implemented to varying degrees by the Bank, or will be available to the Bank for future implementation through its network of service providers and computer system vendors. It cannot be predicted with certainty at this time how effective these new competitors will be in our marketplace or what costs the Company will incur in the future to implement and maintain competitive technologies.

Our primary focus is to build and develop profitable consumer and commercial customer relationships while maintaining our role as a community bank. We compete for deposits by offering depositors a high level of personal service, a wide range of competitively-priced

financial services, and a well distributed network of branches, ATMs, and electronic banking. We compete for loans through our competitive pricing, our experienced and active loan officers, local knowledge of our market and local decision making, strong community support and involvement, and a highly reputable brand. Notwithstanding the significant but temporary economic dislocations associated with the COVID-19 pandemic in 2020 and 2021, overall economic activity in the local marketplace and, more specifically, demand for commercial and residential loans grew significantly over the past decade. This growth in overall loan demand in our market area also attracted increased competition from financial institutions for those loans. Additionally, from a competitive perspective, some of our competitors offer products and services that we do not offer, such as trust services and private banking.

As of June 30, 2022, based on the most recently-available FDIC data, we had the largest market share in Oswego County, representing 48.7% of all deposits, and we additionally held 2.0% of all deposits in Onondaga County. In addition, when combining both Oswego and Onondaga Counties, we have the fifth largest market share of fifteen institutions, representing 7.7% of the total market.

LENDING ACTIVITIES

General

Our primary lending activities are originating commercial real estate and commercial loans, the vast majority of which have periodically adjustable rates of interest, and one-to-four family residential real estate loans, the majority of which have fixed rates of interest. Our loan portfolio also includes municipal loans, home equity loans and lines and consumer loans. In order to diversify our loan portfolio, increase our revenues, and make our loan portfolio less interest rate sensitive, the Company has actively sought to increase its commercial real estate and commercial business lending activities, consistent with safe and sound underwriting practices. Accordingly, we offer adjustable-rate commercial mortgage loans and floating rate commercial loans and lines of credit.

Commercial Real Estate Loans

Over the past several years, we have focused on originating commercial real estate loans, and we believe that commercial real estate loans will continue to provide growth opportunities for us. We expect to increase, subject to our underwriting standards and market conditions, this business line in the future with a target loan size of $500,000 to $2.0 million to small businesses and real estate projects in our market area. Commercial real estate loans are secured by properties such as multi-family residential, office, retail, warehouse and owner-occupied commercial properties.

Our commercial real estate underwriting policies provide that such real estate loans are typically made in amounts up to 80% of the appraised value of the property. Commercial real estate loans are offered with interest rates that are generally fixed for up to three or five years then are adjustable based on the FHLBNY advance rate. Contractual maturities generally do not exceed 20 years. In reaching a decision whether to make a commercial real estate loan, we consider market conditions, operating trends, net cash flows of the property, the borrower's expertise and credit history, and the appraised value of the underlying property. We will also consider the terms and conditions of the leases and the stability of the tenant base. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, taxes, depreciation and amortization divided by interest expense and current maturities of long term debt) of at least 120%. Environmental due diligence is generally conducted for commercial real estate loans. Typically, commercial real estate loans made to corporations, partnerships and other business entities require personal guarantees by the owners of 20% or more of the borrowing entity.

A commercial real estate borrower's financial condition is monitored on an ongoing basis by requiring current financial statements, rent rolls, payment history reviews, property inspections and periodic face-to-face meetings with the borrower. We generally require borrowers with aggregate outstanding balances exceeding $100,000 to provide annual updated financial statements and/or federal tax returns. These requirements also apply to all guarantors on these loans.

Loans secured by commercial real estate generally have greater credit risk than one-to-four family residential real estate loans. The increased credit risk associated with commercial real estate loans is a result of several factors, including larger loan balances concentrated with a limited number of borrowers, the impact of local and general economic conditions on the borrower's ability to repay the loan. Furthermore, the repayment of loans secured by commercial real estate properties typically depends upon the successful operation of the real property securing the loan. If the cash flows from the property are reduced, the borrower's ability to repay the loan may be impaired. However, commercial real estate loans generally have higher interest rates than loans secured by one-to-four family residential real estate.

Commercial Loans

We typically originate commercial loans, including commercial term loans and commercial lines of credit, on the basis of a borrower's ability to make repayment from the cash flows of the borrower's business, conversion of current assets in the normal course of business

(for seasonal working capital lines), the industry and market in which they operate, experience and stability of the borrower's management team, earnings projections and the underlying assumptions, and the value and marketability of any collateral securing the loan. As a result, the availability of funds for the repayment of commercial loans and commercial lines of credit is substantially dependent on the success of the business itself and the general economic environment in our market area. Therefore, commercial loans and commercial lines of credit that we originate have greater credit risk than one-to-four family residential real estate loans.

Commercial term loans are typically secured by equipment, furniture and fixtures, inventory, accounts receivable or other business assets, or, in some circumstances, such loans may be unsecured. From time to time, we also originate commercial loans that are guaranteed by the United States Small Business Administration ("SBA") or United States Department of Agriculture ("USDA") loan programs. Over the past several years, we have focused on increasing our commercial lending and our business strategy is to continue to increase our originations of commercial loans to small businesses in our market area, subject to our underwriting standards and market conditions. Our commercial loans are generally comprised of adjustable-rate loans, indexed to the prime rate, with terms consisting of three to seven years, depending on the needs of the borrower and the useful life of the underlying collateral. We make commercial loans to businesses operating in our market area for purchasing equipment, property improvements, business expansion or working capital. If a commercial loan is secured by equipment, the maturity of a term loan will depend on the useful life of the equipment purchased, the source of repayment for the loan and the purpose of the loan. We generally obtain personal guarantees on our commercial loans.

The Bank also participated in the Paycheck Protection Program ("PPP"), a specialized low-interest loan program funded by the U.S. Treasury Department and administered by the U.S. Small Business Administration ("SBA") pursuant to the CARES Act and subsequent legislation. PPP loans had an interest rate of 1.0% and a two-year or five-year loan term to maturity. The SBA guaranteed 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, was eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and the loan proceeds are used for qualifying expenses. The Paycheck Protection Program ended in May 2021. Through that date, the Bank received approval from the SBA for 1,177 loans totaling approximately $111.7 million through this program. As of this filing, the Company has submitted forgiveness applications for all of its originated loans and has five PPP loans remaining within its portfolios. Gross revenues recognized from PPP loan activities were $707,000 and $2.2 million in the years ended December 31, 2022 and 2021, respectively. The Bank held $203,000 in outstanding PPP loans in portfolio at December 31, 2022 and anticipates that all activities related to the PPP will be completed in the first quarter of 2023.

Our commercial lines of credit are typically adjustable rate lines, indexed to the prime interest rate. Generally, our commercial lines of credit are secured by business assets or other collateral, and generally payable on-demand pursuant to an annual review. Since the commercial lines of credit may expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements.

Residential Real Estate Loans

As noted above, we have shifted our primary lending focus in recent years towards originating more commercial real estate and commercial loans. However, we have retained our significant presence in the local marketplace for lending activities concentrated on originating one-to-four family, owner-occupied residential mortgage loans. Substantially all of these loans are secured by properties located in our market area.

We currently offer one-to-four family residential real estate loans with terms up to 30 years that are generally underwritten according to Federal National Mortgage Association ("Fannie Mae") guidelines, and we refer to loans that conform to such guidelines as "conforming loans." We generally originate both fixed-rate and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which as of December 31, 2022, was generally $647,200 for single-family homes in our market area.

Conforming loans are generally saleable at management's discretion, we hold our one-to-four family residential real estate loans in our portfolio but do sell mortgages into the secondary market, at management's discretion, as a source of liquidity or as a means of managing liquidity and interest-rate risks. Such loan sales were conducted on a limited basis in 2022 and to a substantially more significant degree in 2021. The decrease in residential mortgage sales in 2022, as compared to the previous year, was directly related to significant overall decreases in the volume of 20- and 30-year mortgage loans originated by the Bank in 2022. This decrease in originated volume was primarily due to decreased customer demand for mortgage loans resulting from significant increases in mortgage interest rates. A significant portion of our retained loan portfolio consists of fixed-rate one-to-four family residential real estate loans with terms in excess of 15 years. We also originate one-to-four family residential real estate loans secured by non-owner occupied properties. However, we generally do not make loans in excess of 80% loan-to-value on non-owner occupied properties.

For most owner-occupied one-to-four family residential real estate loans with loan-to-value ratios of between 80% and 95%, we require the borrower to obtain private mortgage insurance ("PMI"). Our lending policies limit the maximum loan-to-value ratio on both fixed-

rate and adjustable-rate owner-occupied mortgage loans to 80% of the appraised value of the collateralized property, with the exception of a limited use product which allows for loans up to 90% with no PMI. For first mortgage loan products, we require the borrower to obtain title insurance. We also require homeowners' insurance, fire and casualty, and, if necessary, flood insurance on properties securing real estate loans. We do not, and have never offered or invested in, one-to-four family residential real estate loans specifically designed for borrowers with sub-prime credit scores, including interest-only, negative amortization or payment option adjustable-rate mortgage loans.

Our fixed-rate one-to-four family residential real estate loans include loans that generally amortize on a monthly basis over periods between 10 to 30 years. Fixed-rate one-to-four family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers have the right to refinance or prepay their loans.

Our adjustable-rate one-to-four family residential real estate loans generally consist of loans with initial interest rates fixed for one, three, or five years, and annual adjustments thereafter are indexed based on changes in the one-year United States Treasury bill constant maturity rate. Our adjustable-rate mortgage loans generally have an interest rate adjustment limit of 200 basis points per adjustment, with a maximum lifetime interest rate adjustment limit of 600 basis points. Although adjustable-rate one-to-four family residential real estate loans may reduce, to an extent, our vulnerability to changes in market interest rates because they periodically re-price, as interest rates increase the required payments due from a borrower also increase (subject to rate caps), thereby increasing the potential for default by the borrower. At the same time, the ability of the borrower to repay the loan and the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustments of the contractual interest rate are also limited by our maximum periodic and lifetime rate adjustments.

Residential Construction Loans

Our one-to-four family residential real estate loan portfolio also includes residential constructions loans. Our residential construction loans generally have initial terms of up to six months, subject to extension, during which the borrower pays interest only. Upon completion of construction, these loans typically convert to permanent loans secured by the completed residential real estate. Our construction loans generally have rates and terms comparable to residential real estate loans that we originate.

Tax-exempt Loans

We make loans to local governments and municipalities for either tax anticipation or for small expenditure projects, including equipment acquisitions and construction projects. Our municipal loans are generally fixed for a term of one year or less, and are generally unsecured. Interest earned on municipal loans is tax exempt for federal tax purposes, which enhances the overall yield on each loan. Generally, the municipality will have a deposit relationship with us along with the lending relationship.

We also make tax-exempt loans to commercial borrowers based on obligations issued by a state or local authority to provide economic development such as the state dormitory authority.

Home Equity Loans and Junior Liens

Home equity loans and junior liens are made up of lines of credit secured by owner-occupied and non-owner occupied one-to-four family residences and second and third real estate mortgage loans. Home equity loans and home equity lines of credit are generally underwritten using the same criteria that we use to underwrite one-to-four family residential mortgage loans. We typically originate home equity loans and home equity lines of credit on the basis of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan, and the value of the collateral securing the loan. Home equity loans are offered with fixed interest rates. Lines of credit are offered with adjustable rates, which are indexed to the prime rate, and with a draw period of up to 10 years and a payback period of up to 20 years. The loan-to-value ratio for our home equity loans is generally limited to 80% when combined with the first security lien, if applicable. The loan to value of our home equity lines of credit is generally limited to 80%, unless the Bank holds the first mortgage. If we hold the first mortgage, we will permit a loan to value of up to 90%, and we adjust the interest rate and underwriting standards to compensate for the additional risk.

For all first lien position mortgage loans, we use outside independent appraisers. For second position mortgage loans where we also hold the existing first mortgage, we will use the lesser of the existing appraisal amount used in underwriting the first mortgage or assessed value. For all other second mortgage loans, we will use a third-party service which gathers all data from real property tax offices and gives the property a low, middle and high value, together with similar properties for comparison. The middle value from the third-party service will be the value used in underwriting the loan. If the valuation method for the loan amount requested does not provide a value, or the value is not sufficient to support the loan request and it is determined that the borrower(s) are credit worthy, a full appraisal may be ordered.

Home equity loans and junior liens secured by junior mortgages have greater risk than one-to-four family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure, after repayment of the senior mortgages, if applicable. When customers default on their loans, we attempt to work out the relationship in order to avoid foreclosure because the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Moreover, decreases in real estate values could adversely affect our ability to fully recover the loan balance in the event of a default.

Consumer Loans

We are authorized to make loans for a variety of personal and consumer purposes and our consumer loan portfolio consists primarily of automobile, recreational vehicles and unsecured personal loans, as well as unsecured lines of credit and loans secured by deposit accounts. Our procedure for underwriting consumer loans includes an assessment of the applicant’s credit history and ability to meet existing obligations and payments for the proposed loan, as well as an evaluation of the value of the collateral security, if any.

Consumer loans generally entail greater credit-related risk than one-to-four family residential mortgage loans, particularly in the case of loans that are unsecured or are secured by assets that tend to depreciate in value, such as automobiles. As a result, consumer loan collections are primarily dependent on the borrower’s continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. In these cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan, and the remaining value often does not warrant further substantial collection efforts against the borrower.

The Company will invest from time to time in pools of collateralized consumer loans originated and serviced by financial institutions operating outside of the Company’s primary market area. Third party-originated consumer loan pools are generally acquired primarily when, in the view of management, they offer superior risk vs. return characteristics to debt securities. Such pools will, in some instances, have projected economic advantages in terms of yield and/or other portfolio characteristics, such as interest rate risk sensitivity, superior to debt securities that would otherwise be purchased and are acquired to increase the overall performance characteristics of the Company’s interest earning-asset portfolios viewed as a whole. Loans acquired through these transactions are required by the Company’s internal policies to be underwritten to standards that are consistent with those of the Company’s own underwriting guidelines and internal practices. Pre-purchase due diligence is performed that includes a thorough review of the originating institution’s regulatory compliance procedures, underwriting practices and individual loan documentation. Since these pools are subject to borrower credit default and are collateralized by out-of-market assets, the Company relies on the best efforts of the originating institution, acting as the loans’ servicer, to collect on the loans within the pool and to mitigate losses due to such defaults. Such mitigation efforts include the orderly and timely liquidation of loan collateral, as necessary. Accordingly, such loan pools have both the credit risk typically associated with consumer loans and servicer risk components that are carefully monitored by the Company on an ongoing basis.

Loan Originations, Purchases, Sales and Servicing

We benefit from a number of sources for our loan originations, including real estate broker referrals, existing customers, borrowers, builders, attorneys, and “walk-in” customers. Our loan origination activity may be affected adversely by a rising interest rate environment which may result in decreased loan demand. Other factors, such as the overall health of the local economy and competition from other financial institutions, can also impact our loan originations. Although we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon borrower demand, market interest rates, borrower preference for fixed-rate versus adjustable-rate loans, and the interest rates offered on each type of loan by other lenders in our market area. These lenders include commercial banks, savings institutions, credit unions, and mortgage banking companies that also actively compete for local real estate loans. Accordingly, the volume of loan originations may vary from period to period.

The majority of the fixed rate residential loans that are originated each year meet the underwriting guidelines established by Fannie Mae. While infrequent, in the past, we have sold residential mortgage loans in the secondary market, and we may do so in the future, although we continue to service loans once they are sold.

From time to time, although infrequent, we may purchase commercial real estate loan participations in which we are not the lead lender. In these circumstances, we follow our customary loan underwriting and approval policies. We also have participated out portions of commercial and commercial real estate loans that exceeded our loans-to-one borrower legal lending limit and for purposes of risk diversification.

In recent years, the Bank has purchased broadly-diversified pools of essentially homogenous loans from originators outside of the Bank’s market area. These originators generally specialize in loan types, such as consumer loans, other than those loan types that the Bank specializes in. These loans, which are generally relatively short in duration, are acquired to provide supplementary interest income as well as to provide improvements to the Bank’s overall asset/liability mix, particularly with respect to interest rate risk. Third party-

originated loan pools are acquired primarily when, in the view of management, they offer superior risk vs. return characteristics to debt securities. Such loans are generally acquired through the facilitation of third-party brokerages and are serviced in perpetuity by the originating entries or their designees. Funding for loan purchases of this type is generally obtained through incremental usage of brokered deposits and/or other forms of borrowed funds. The Bank intends to purchase similar pools of loans on an occasional basis in the future if and when management believes that it is economically advantageous to do so.

At December 31, 2022 the Bank held fifteen pools of loans originated by eleven unaffiliated third-party lenders with an aggregate amortized historical cost of $115.2 million. Of this total, $94.9 million in aggregate amortized historical cost relates to six loan pools acquired either in the fourth quarter of 2020 or during 2021, $19.9 million in aggregate amortized historical cost relates to seven loan pools acquired in 2019, and $400,000 in aggregate amortized historical cost relates to two loan pools acquired prior to 2019. Purchased loans have certain credit risk profiles distinct from those of the Bank's self-originated portfolio, most especially the portion of the purchased loans that are classified as unsecured consumer loans. At December 31, 2022, the Bank held $32.0 million (three pools), $4.2 million (three pools), $6.0 million (one pool), and $3.9 million (one pool), in purchased pooled loans secured by consumer installment contracts, automobiles, home equity lines of credit and residential real estate, respectively. The Bank also held $26.4 million (two pools) in purchased secured commercial lines of credit. In addition, the Bank held $40.6 million (four pools) in purchased unsecured consumer loans and $2.1 million (one pool) in commercial installment loans at December 31, 2022. The loans within these pools have performed substantially as anticipated since their acquisition dates and, in many cases, have contractually-specified credit enhancement provisions provided by the Sellers that continue to reduce the Bank's realized and potential credit exposures with respect to these loan pools. Nonperforming and delinquent loans within these loan pools are reported on an aggregate basis as components of the Bank's overall loan performance statistics at December 31, 2022 and December 31, 2021, respectively.

The purchased pools of loans were subject to prepurchase analyses led by a team of the Bank's senior executives and credit analysts. In each case, the Bank's analytical processes considered the types of loans being evaluated, the underwriting criteria employed by the originating entity, the historical performance of such loans, especially in the most recent deeply recessionary environments, the collateral enhancements and other credit loss mitigation factors offered by the seller and the capabilities and financial stability of the servicing entities involved. In the view of management, from a credit risk perspective, these loan pools also benefit from broad diversification, including wide geographic dispersion, the readily-verifiable historical performance of similar loans issued by the originators, as well as the overall experience and skill of the underwriters and servicing entities involved as counterparties to the Bank in these transactions. In addition, these loan pools generally have significant underlying loan collateral and/or one or more of the following forms of credit enhancement: (1) contractual rights of loan substitution in the event of individual loan defaults, (2) retention of a portion of the principal amount of each loan by the seller, or (3) contractually-specified credit enhancement reserves accumulated from the collected cash flows generated by borrowers' repayment activities in excess of those cash flows due to the Bank. Management believes that the substantial level of diversification within these loan pools and the presence of other mitigation factors, specific to each of the acquired pools in varying degrees, provides significant overall reduction of the potential credit risks inherent in these purchases. The performance of all purchased loan pools are monitored regularly from detailed reports and remittance reconciliations provided at least monthly by the servicing entities.

Loan Approval Procedures and Authority

The Bank's lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by management and the Board of Directors. Our policies are designed to provide loan officers with guidelines on acceptable levels of risk, given a broad range of factors. The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the collateral that will secure the loan, if applicable.

The Board of Directors grants loan officers individual lending authority to approve extensions of credit. The level of authority for loan officers varies based upon the loan type, total relationship, form of collateral and risk rating of the borrower. Each loan officer is charged with the responsibility of achieving high credit standards. Individual lending authority can be increased, suspended or removed by the Board of Directors, as recommended by the President or Executive Vice President and Chief Banking Officer.

If a loan is in excess of any individual loan officer's lending authority, the extension of credit must be referred to the Officer Loan Committee ("OLC"). The OLC is comprised of the President (serving as chairman), the Executive Vice President and Chief Banking Officer (serving as chair in the absence of the President), the Executive Vice President, Chief Operating Officer, as well as other members of the management team and retail and commercial lenders as may be appointed by the President. The OLC has authority to approve all commercial loans, and one-to-four family residential real estate loans where the total related credit is $1.2 million or less which are not within the lenders' individual authority. In addition, the OLC may approve all municipal loans, where the total related credit is $2.5 million or less, and the individual loan amount is $2.5 million or less for rated municipal loans, and $1.5 million for unrated credits. The OLC has the authority to approve all consumer loans where the total related credit is $2.5 million or less and the individual loan amount is $200,000 for unsecured loans or $750,000 for secured loans. The Directors Loan Committee, which consists of members of the Bank's Board of Directors, must approve all extensions of credit in excess of the limits for the OLC and lenders' individual authority.

Loans to One Borrower

Under New York law, New York commercial banks are subject to loans-to-one borrower limits, which are substantially similar as those applicable to national banks, which generally restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus, which was $22.4 million at December 31, 2022, on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus, which was $14.9 million at December 31, 2022, if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate), subject to exceptions.

Additionally, our internal loan policies limit the total related credit to be extended to any one borrower (after application of the rules of attribution), with respect to any and all loans with the Bank to 10% of Tier 1 and 2 capital, subject to certain exceptions. The indebtedness includes all credit exposure whether direct or contingent, used or unused.

ASSET QUALITY

Loan Delinquencies and Collection Procedures

When a loan becomes delinquent, we make attempts to contact the borrower to determine the cause of the delayed payments and seek a solution to permit the loan to be brought current within a reasonable period of time. The outcome can vary with each individual borrower. In the case of mortgage loans and consumer loans, a late notice is sent 15 days after an account becomes delinquent. If delinquency persists, notices are sent at the 30 day delinquency mark, the 45 day delinquency mark and the 60 day delinquency mark. We also attempt to establish telephone contact with the borrower early on in the process. In the case of residential mortgage loans, included in every late notice is a letter that includes information regarding home-ownership counseling. As part of a workout agreement, we will accept partial payments during the month in order to bring the account current. If attempts to reach an agreement are unsuccessful and the customer is unable to comply with the terms of the workout agreement, we will review the account to determine if foreclosure is warranted, in which case, consistent with New York law, we send a 90 day notice of foreclosure and then a 30 day notice before legal proceedings are commenced. A consumer final demand letter is sent in the case of a consumer loan. In the case of commercial loans and commercial mortgage loans, we follow a similar notification practice with the exception of the previously mentioned information on home-ownership counseling. In addition, commercial loans do not require 90 day notices of foreclosure. Generally, commercial borrowers only receive 10 day notices before legal proceedings can be commenced. Commercial loans may experience longer workout times that may trigger a need for a loan modification that could meet the requirements of a troubled debt restructured loan.

Impaired Loans, Non-performing Loans and Troubled Debt Restructurings

The policy of the Bank is to provide a continuous assessment of the quality of its loan portfolio through the maintenance of an internal and external loan review process. The process incorporates a loan risk grading system designed to recognize degrees of risk on individual commercial and mortgage loans in the portfolio. Management is responsible for monitoring of asset quality and risk grade designations, which are communicated to the board on a regular basis.

We generally cease accruing interest on our loans when contractual payments of principal or interest have become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income is reversed. Interest received on non-accrual loans generally is applied against principal or interest if it is recognized on the cash basis method. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally for a minimum of six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Our Allowance for Loan and Lease Losses policy ("ALLL") establishes criteria for selecting loans to be measured for impairment based on the following:

Residential and Consumer Loans:

- All loans rated substandard or worse, on nonaccrual, and above our total related credit ("TRC") threshold balance of $300,000.
- All Troubled Debt Restructured Loans

Commercial Lines and Loans, Commercial Real Estate and Tax-exempt loans:

- All loans rated substandard or worse, on nonaccrual, and above our TRC threshold balance of $100,000.
- All Troubled Debt Restructured Loans

Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses as compared to the loan carrying value.

Troubled Debt Restructurings ("TDR")

TDRs are loan restructurings in which we, for economic or legal reasons related to an existing borrower's financial difficulties, grant a concession to the debtor that we would not otherwise consider. Typically, a troubled debt restructuring involves a modification of terms of debt, such as reduction of the stated interest rate for the remaining original life of the debt, extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, reduction of the face amount of the debt, or reduction of accrued interest. We consider modifications only after analyzing the borrower's current repayment capacity, evaluating the strength of any guarantors based on documented current financial information, and assessing the current value of any collateral pledged. These modifications are made only when there is a reasonable and attainable workout plan that has been agreed to by the borrower and that is in our best interests.

Loans on non-accrual status at the date of modification are initially classified as non-accrual troubled debt restructurings. Our policy provides that troubled debt restructured loans are returned to accrual status after a period of satisfactory and reasonable future payment performance under the terms of the restructuring. Satisfactory payment performance is generally no less than six consecutive months of timely payments and demonstrated ability to continue to repay.

Foreclosed real estate

Fair values for foreclosed real estate are initially recorded based on market value evaluations by third parties, less costs to sell ("initial cost basis"). Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to foreclosed real estate are charged to the allowance for loan losses. Values are derived from appraisals of underlying collateral or discounted cash flow analysis. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the initial cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as, changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition. Either change could result in adjustment to lower the property value estimates indicated in the appraisals.

Loan delinquencies together with properties within our Foreclosed Real Estate portfolio are reviewed monthly by the Board of Directors.

Classified Assets

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

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover losses that are both probable and reasonable to estimate. General allowances represent allowances which have been established to cover accrued losses associated with lending activities that are both probable and reasonable to estimate, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific allowances.

In connection with the filing of our periodic regulatory reports and in accordance with our classification of assets policy, we continuously assess the quality of our loan portfolio and we regularly review the loans in our loan portfolio to determine whether any loans require classification in accordance with applicable regulations. Loans are listed on the "watch list" initially because of emerging financial weaknesses even though the loan is currently performing in accordance with its terms, or delinquency status, or if the loan possesses weaknesses although currently performing. Management reviews the status of our loan portfolio delinquencies, by loan types, with the full Board of Directors on a monthly basis. Individual classified loan relationships are discussed as warranted. If a loan deteriorates in

asset quality, the classification is changed to "special mention," "substandard," "doubtful" or "loss" depending on the circumstances and the evaluation. Generally, loans 90 days or more past due are placed on nonaccrual status and classified "substandard."

We also employ a risk grading system for our loans to help assure that we are not taking unnecessary and/or unmanageable risk. The primary objective of the loan risk grading system is to establish a method of assessing credit risk to further enable management to measure loan portfolio quality and the adequacy of the allowance for loan losses. Further, we contract with an external loan review firm to complete a credit risk assessment of the loan portfolio on a regular basis to help determine the current level and direction of our credit risk. The external loan review firm communicates the results of their findings to the Directors Loan Committee in writing and by periodically attending the Directors Loan Committee meetings. Any material issues discovered in an external loan review are also communicated immediately to the President of the Bank. See Note 5 to the consolidated financial statements for further details on the Company's credit quality indicators that define our risk grading system.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the date of the statement of condition and it is recorded as a reduction of loans. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All or part of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all or part of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, unless productive collection efforts are providing results. Consumer loans may be charged off earlier in the event of bankruptcy, or if there is an amount that is deemed uncollectible. No portion of the allowance for loan losses is restricted to any individual loan type and the entire allowance is available to absorb any and all loan losses.

The allowance is based on three major components which are: (i) specific components for impaired loans, (ii) recent historical losses and several qualitative factors applied to a general pool of loans, and (iii) an unallocated component.

The first component is the specific allowance that relates to loans that are classified as impaired. For these loans, an allowance is established when the discounted cash flows or collateral value of the impaired loan are lower than the carrying value of the loan. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is measured by either the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral if the loan is collateral dependent. The majority of our loans utilize the fair value of the underlying collateral. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reason for the delay, the borrower's prior payment record and the amount of shortfall in relation to what is owed.

The second component is the general allowance which covers pools of loans, by loan class, not considered impaired, smaller balance homogenous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based on historical loss rates for each of these categories of loans. The ratio of net charge-offs to loans outstanding within each loan class over the most recent eight quarters, lagged by one quarter, is used to generate the historical loss rates.

In addition, qualitative factors are added to the historical loss rates in arriving at the total allowance for loan losses needed for this general pool of loans. The qualitative factors include changes in national and local economic trends, the rate of growth in the portfolio, trends of delinquencies and nonaccrual balances, changes in loan policy, and changes in lending management experience and related staffing. Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. These qualitative factors, applied to each product class, make the evaluation inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The third component may consist of an unallocated allowance which is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance, when present, reflects an additional margin for potential imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. This component would typically be appropriate in times of significant economic dislocations or uncertainties in either, or both, the local and national economies. The unallocated allowance generally comprises less than 10% of the total allowance for loan losses and can be as little as 0% of total allowance.

When a loan is determined to be impaired, we will reevaluate the collateral which secures the loan. For real estate loans, we will obtain a new appraisal or broker's opinion, whichever is considered to provide the most accurate value in the event of sale. An evaluation of equipment held as collateral will be obtained from an independent firm able to provide such an evaluation. Collateral will be inspected not less than annually for all impaired loans and will be reevaluated not less than every two years. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property. For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of homogeneous loans, including purchased loans, are evaluated for impairment in the aggregate. Accordingly, we do not separately identify individual residential mortgage loans with outstanding principal balances less than $300,000, home equity and other consumer loans for impairment disclosures. We make exceptions to this general rule when such loans are (1) rated substandard or worse, on nonaccrual status and are related to borrowers with total related credit exposure in excess of our threshold balance of $300,000; or (2) the loans are subject to a troubled debt restructuring agreement. The projected credit losses related to purchased loan pools are evaluated prior to purchase and the performance of those loans against expectations are analyzed at least monthly. Over the life of the purchased loan pools, the allowance for loan losses is adjusted, through the provision for loan losses, for expected loss experience, over the projected life of the loans. The expected credit loss experience is determined at the time of purchase and is modified, to the extent necessary, during the life of the purchased loan pools. The Bank does not initially increase the allowance for loan losses on the purchase date of the loan pools.

In addition, the FDIC and NYSDFS, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, we believe the current level of the allowance for loan losses is adequate.

INVESTMENT AND HEDGING ACTIVITIES

Our investment policy is established by the Board of Directors. Our investment policy dictates that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management objectives. The Asset Liability Management Committee (the "ALCO") of the Board of Directors acts in the capacity of an investment committee and is responsible for overseeing our investment program and evaluating on an ongoing basis our investment policy and objectives. Our President, Chief Operating Officer and Chief Financial Officer have the authority to purchase and sell securities within specific guidelines established by the investment policy. All transactions are reviewed by the Board of Directors at its regular meetings.

The general objectives of the investment securities portfolio are to assist in the overall interest rate risk management of the Bank, while generating a reasonable rate of return consistent with the risk of purchased principal, provide a source of liquidity, and reduce our overall credit risk profile. We also purchase securities to provide necessary liquidity for day-to-day operations and when investable funds exceed loan demand, as well as to provide highly liquid assets under collateralization arrangements related to municipal deposits. The effect that the proposed security purchase would have on our overall credit and interest rate risk profile and our risk-based equity ratios is also considered in evaluating the timing, mix and characteristics of investment security purchases.

All investment securities purchased/held must meet regulatory guidelines and be permissible bank investments. Our investment securities include a broad range of debt securities issued by the United States Government and its agencies and sponsored enterprises, state and municipal governments and agencies, and corporations. The Company also invests in mortgage-backed securities issued or guaranteed by United States Government sponsored enterprises, collateralized mortgage obligations and similar debt securities issued by both government sponsored entities and private (non-governmental) issuers, and asset-backed securities that are generally issued by private entities. The Company invests primarily in debt securities but will from time to time also invest, within certain regulatory limits, in mutual funds and equity securities.

All securities purchased are classified at the time of purchase as either held-to-maturity or available-for-sale. We do not maintain a trading account. Securities purchased with the intent and ability to hold until maturity will be classified as held-to-maturity. Securities placed in the held-to-maturity category will be accounted for at amortized cost.

Securities that do not qualify or are not categorized as held-to-maturity are classified as available-for-sale. This classification includes securities that may be sold in response to changes in interest rates, the security's prepayment risk, liquidity needs, the availability of and the yield on alternative investments, and funding sources and terms. These securities are reported at fair value, which is determined on

a monthly basis. Unrealized gains and losses are reported as a separate component of capital, net of tax. The aggregate change in value of the portfolio is reported to the Board of Directors monthly.

The composition of the investment portfolio is substantially the same for securities classified as both held-to-maturity and available-for-sale, although the portion of the securities portfolio classified as available-for-sale generally has a higher concentration of shorter-term, and/or more liquid assets. Such securities are held as part of the Bank's liquidity management programs. The Bank holds a significant portion of its investment securities in mortgage-backed securities and collateralized mortgage obligations (many, but not all of which are issued by government-sponsored enterprises) and direct federal government and federal agency obligations. Federal agency issuers include the Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Government National Mortgage Association ("Ginnie Mae"), among others. For a discussion on mortgage backed securities, see "Mortgage-Backed Securities and Collateralized Mortgage Obligations."

As part of our membership in the FHLBNY, we are required to maintain a dividend-earning investment in FHLBNY stock. This investment is classified separately from securities due to significant restrictions on sale or transfer of the stock. For further information regarding our securities portfolio, see Note 4 to the consolidated financial statements.

MORTGAGE-BACKED SECURITIES AND COLLATERALIZED MORTGAGE OBLIGATIONS

We purchase mortgage-backed securities and collateralized mortgage obligations guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. In recent years, the Bank has also increased the level of its investments in mortgage-backed securities and collateralized mortgage obligations issued by private entities. These securities are generally senior tranches, and most often the most senior tranche of multi-class issuances that provide substantial credit enhancements to their senior tranches and therefore reasonable, but not absolute, protection for the Bank from the risks of default. We invest in mortgage-backed securities and collateralized mortgage obligations to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk through geographic diversification. These securities are generally relatively short in duration and therefore reduce the Bank's sensitivity to changes in interest rates. All privately issued mortgage-backed securities held by the Bank at December 31, 2022 were either rated at or above the lowest investment grade for credit quality by a nationally-recognized statistical rating organization (a "NRSRO") or were the most senior tranches of securitizations that were not rated by a NRSRO at the time of the securities' issuance. We regularly monitor the credit quality of this portfolio. At December 31, 2022, no securities held by the Bank in this category had been downgraded by a NRSRO.

Mortgage-backed securities and collateralized mortgage obligations are created by pooling mortgages and issuing a security with an interest rate which is less than the interest rate on the underlying mortgages. These securities typically represent a participation interest in a pool of single- or multi-family mortgages and certain types of commercial real estate loans, although we generally focus our investments on mortgage related securities backed by one-to-four family real estate loans. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as the Bank, and in the case of government agency sponsored issues, guarantee the payment of principal and interest to investors. Mortgage-backed securities and collateralized mortgage obligations generally yield less than the loans that underlie such securities because of the cost of payment guarantees, if any, and credit enhancements. These securities, which are most often fixed-rate, are usually substantially more liquid than individual mortgage loans.

Investments in collateralized mortgage obligations involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected in a rising interest rate environment, particularly since vast majority our collateralized mortgage obligations have a fixed rate of interest. The relatively short weighted average remaining life of our collateralized mortgage obligation portfolio mitigates our potential risk of loss in a rising interest rate environment.

ASSET-BACKED SECURITIES

We also purchase asset-backed securities issued by private entities. These securities typically represent a participation interest in a pool of non-mortgage loans. Asset-backed securities are created by pooling homogenous non-mortgage loans (such as unsecured consumer loans) and issuing a security with an interest rate which is less than the interest rate on the underlying loan notes. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as the Bank. Asset-backed securities generally yield less than the loans that underlie such securities because of the cost of credit enhancements. These securities, which may be fixed or adjustable-rate are usually substantially more liquid than individual loans.

The securities of the type the Bank typically invests in are collateralized by consumer loans or commercial business trade receivables and are generally senior tranches of multi-class issuances. These tranches are offered with substantial credit enhancements and therefore reasonable, but not absolute, protection for the Company from the risks of default. We invest in asset-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk through geographical and asset-type

diversification. These securities are generally relatively short in duration and therefore reduce the Bank's sensitivity to changes in interest rates. All asset-backed securities held by the Bank at December 31, 2022 were either rated at or above the lowest investment grade for credit quality by a NRSRO or were the most senior tranches of securitizations that were not rated by a NRSRO at the time of the securities' issuance. We regularly monitor the underlying credit quality of this portfolio. At December 31, 2022, no securities held by the Bank in this category had been downgraded by a NRSRO.

SOURCES OF FUNDS

General

Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also rely on advances from the FHLBNY, the Certificates of Deposit Account Registry Service ("CDARS") provided by an independent third-party, IntraFi Network, and other deposits acquired through unaffiliated third-party financial institutions as forms of brokered deposits. In addition to deposits and borrowings, we derive funds from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on interest-earning assets. While scheduled loan payments and income on interest-earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing market interest rates, economic conditions and competition from other financial institutions.

Deposits

A majority of our depositors are persons or businesses who work, reside or operate in Oswego and Onondaga Counties. We offer a variety of deposits, including checking, savings, money market deposit accounts, and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We establish interest rates, maturity terms, service fees and withdrawal penalties on a periodic basis. Management determines the rates and terms based on rates paid by competitors, our need for funds or liquidity, overall growth goals and federal and state regulations. The flow of deposits is influenced significantly by general economic conditions, changes in interest rates and competition. The variety of deposit accounts that we offer allows us to be competitive in generating deposits and to respond with flexibility to changes in our customers' demands. We believe that deposits are a stable source of funds, but our ability to attract and maintain deposits at favorable rates will be affected by market conditions, including competition and prevailing interest rates. In addition, the Bank holds municipal deposits, which have been a more seasonally volatile source of funds.

The CDARS program is a form of a brokered deposit facility in which we have been a participant since 2009. In addition to offering depositors enhanced FDIC insurance coverage, being a participant in CDARS allows us to fund our balance sheet through the CDARS One-Way Buy program. This program uses a competitive bid process for available deposits, up to a varying amount that was approximately $50 million at any one weekly bidding session as of December 31, 2022, at specified terms. These deposits work well for us because of their weekly availability, coupled with their short term duration, which allows us to more closely mirror our funding needs. We believe this arrangement is a viable source of funding provided that we maintain our "well-capitalized" status. See Note 11 to the consolidated financial statements for further details on our brokered deposits.

In addition, from time to time, the Bank will acquire larger blocks of brokered deposits, outside of the CDARS program, that are obtained from unaffiliated third-party financial institutions. These brokered deposits generally have longer maturity dates than the CDARS deposits, can be acquired in more substantial block size, and generally have issuance rates similar to the CDARS program.

Brokered deposits are employed by the Bank's management to supplement the funding that the Bank obtains from customer deposits and other borrowings, principally from the FHLBNY, and are used to increase the overall efficiency of the Bank's funding mix. Management intends to continue to use brokered deposits in the future as an integral part of its overall funding strategies.

Borrowings

The Bank has a number of existing credit facilities available to it. At December 31, 2022, the Bank had existing lines of credit at FHLBNY, the Federal Reserve Bank ("FRB"), and two other correspondent banks. We obtain advances primarily from the FHLBNY utilizing the common stock we own in the FHLBNY, qualifying residential mortgage loans held in portfolio, and certain investment securities as collateral provided certain standards related to creditworthiness are met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. FHLBNY advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending.

Subordinated Debt

The Company has a non-consolidated subsidiary trust, Pathfinder Statutory Trust II, of which the Company owns 100% of the common equity. The Trust issued $5,000,000 of 30-year floating rate Company-obligated pooled capital securities of Pathfinder Statutory Trust II ("Floating-Rate Debentures"). 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 2037 and are treated as Tier 1 capital by the FDIC and the Federal Reserve. The capital securities of the trust are a pooled trust preferred fund of Preferred Term Securities VI, Ltd., with interest rates that reset quarterly, and are indexed to the 3-month London Interbank Offered Rate ("LIBOR)" plus 1.65%. These securities have a five-year call provision. The Company guarantees all of these securities.

The United Kingdom's Financial Conduct Authority ("FCA"), the organization responsible for regulating LIBOR, ceased publishing LIBOR indices at the end of 2021. The Alternative Reference Rates Committee (the "ARRC"), formed by the Federal Reserve Board and the Federal Reserve Bank of New York, had been charged with developing an alternative rate that replaced LIBOR in the United States (U.S. dollar-denominated LIBOR). The ARRC identified the Secured Overnight Financing Rate ("SOFR") as the rate that represents best practice for use in U.S. dollar-denominated LIBOR derivatives and other financial contracts. Accordingly, SOFR has currently replaced LIBOR in the substantial majority of contracts in which LIBOR was used. Management has analyzed the Company's aggregate exposure to instruments that are indexed to LIBOR (including the Company's acquired loan participations, fixed-income investments, hedging instruments and the Floating-Rate debt) and concluded that the adoption of SOFR will not materially impact the Company or the results of its operations.

The Company's equity interest in the trust subsidiary is included in other assets on the Consolidated Statements of Financial Condition at December 31, 2022 and 2021. 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.

On April 1, 2021 the Company redeemed its then currently-outstanding $10.0 million non-amortizing subordinated debt that was originally scheduled to mature on October 1, 2025. The Company had the right to prepay the Subordinated Debt at any time after October 15, 2020 without penalty. The terms of the Subordinated Debt required fixed interest payments at an annual interest rate of 6.25% after February 29, 2016 until the Loan's scheduled maturity date. In the first quarter of 2021, the Company exercised its existing contractual option and issued a Notice of Redemption ("NOR") to the holders of the 2015 Subordinated Debt, which was scheduled to mature on October 1, 2025. With the issuance of this NOR, the Company redeemed the $10.0 million 2015 Subordinated Debt, plus accrued interest on April 1, 2021. The redemption of this $10.0 million component of the Company's outstanding subordinated debt prospectively reduced interest expense after April 1, 2021 by $625,000 annually. Interest expense, related to this borrowing, of $-0- and $156,000 was recorded in the years ended December 31, 2022 and 2021, respectively.

On October 14, 2020, the Company executed a private placement of $25.0 million of its 5.50% Fixed to Floating Rate non-amortizing Subordinated Debt (the "2020 Subordinated Debt") to certain qualified institutional buyers and accredited institutional investors. The 2020 Subordinated Debt has a maturity date of October 15, 2030 and initially bear interest, payable semi-annually, at a fixed annual rate of 5.50% per annum until October 15, 2025. Commencing on that date, the interest rate applicable to the outstanding principal amount due will be reset quarterly to an interest rate per annum equal to the then current three month SOFR plus 532 basis points, payable quarterly until maturity. The Company may redeem the 2020 Subordinated Debt at par, in whole or in part, at its option, any time after October 15, 2025 (the first redemption date). The 2020 Subordinated Debt is senior in the Company's credit repayment hierarchy only to the Company's common equity and, and any future senior indebtedness and is intended to qualify as Tier 2 capital for regulatory capital purposes for the Company. The Company paid $783,000 in origination and legal fees as part of this transaction. These fees will be amortized over the life of the 2020 Subordinated Debt through its first redemption date using the effective interest method, giving rise to an effective cost of funds of 6.22% from the issuance date calculated under this method. Accordingly, interest expense related to this transaction of $1.6 million and $1.5 million was recorded in the years ended December 31, 2022 and 2021, respectively.

SUPERVISION AND REGULATION

General

Pathfinder Bank is a New York-chartered commercial bank and the Company is a Maryland corporation and a registered bank holding company. The Bank's deposits are insured up to applicable limits by the FDIC. The Bank is subject to extensive regulation by NYSDFS, as its chartering agency, and by the FDIC, its primary federal regulator and deposit insurer. The Bank is required to file reports with, and is periodically examined by, the FDIC and the NYSDFS 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 financial institutions. As a registered bank holding company, the Company is regulated by the Federal Reserve Board.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance funds, rather than for the protection of shareholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the New York State legislature, the NYSDFS, the FDIC, the Federal Reserve Board or the United States Congress, could have a material adverse impact on the financial condition and results of operations of the Company and the Bank.

Set forth below is a summary of certain material statutory and regulatory requirements applicable to the Company and the Bank. The summary is not intended to be a complete description of such statutes and regulations and their effects on the Company and the Bank.

The Dodd-Frank Act

The Dodd-Frank Act significantly changed bank regulation and has affected the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act created the Consumer Financial Protection Bureau with extensive powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Banks and savings institutions with $10 billion or less in assets, such as Pathfinder Bank, continue to be examined by their applicable federal bank regulators. The Dodd-Frank Act also gave state attorneys general the ability to enforce applicable federal consumer protection laws.

The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the "EGRRCPA")

On May 24, 2018, the EGRRCPA was enacted, which repealed or modified certain provisions of the Dodd-Frank Act and eased regulations on all financial institutions with the exception of the largest banks. The EGRRCPA's provisions include, among other items: (i) exempting banks with less than $10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) not requiring appraisals for certain transactions valued at less than $400,000 in rural areas; (iii) exempting banks that originate fewer than 500 open-end and 500 closed-end mortgages from HMDA's expanded data disclosures; (iv) clarifying that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the FDIC's brokered-deposit regulations; (v) raising eligibility for the 18-month exam cycle from $1 billion to banks with $3 billion in assets; and (vi) simplifying capital calculations by requiring regulators to establish for institutions under $10 billion in assets a community bank leverage ratio at a percentage not less than 8% and not greater than 10%; that such institutions may elect to replace the general applicable risk-based capital requirements for determining well-capitalized status. In addition, the law required the Federal Reserve Board to raise the asset threshold under its Small Bank Holding Company Policy Statement from $1 billion to $3 billion for bank or savings and loan holding companies that are exempt from consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities.

New York Bank Regulation

Pathfinder Bank derives its lending, investment, branching and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the NYSDFS, as limited by federal laws and regulations. Under these laws and regulations, commercial banks, including Pathfinder Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies, certain types of corporate equity securities and certain other assets. Under the statutory authority for investing in equity securities, a bank may invest up to 2% of its assets or 20% of its capital, whichever is less in exchange-registered corporate stock. Investment in the stock of a single corporation is limited to the lesser of 1% of the bank's assets or 15% of the Bank's capital. The Bank's authority to invest in equity securities is constrained by federal law, as explained later. Such equity securities must meet certain earnings ratios and other tests of financial performance. A bank may also exercise trust powers upon approval of the NYSDFS. Pathfinder Bank does not presently have trust powers.

New York State chartered banks may also invest in subsidiaries. A bank may use this power to invest in corporations that engage in various activities authorized for banks, plus any additional activities that may be authorized by the NYSDFS.

Furthermore, New York banking regulations impose requirements on loans which a bank may make to its executive officers and directors and to certain corporations or partnerships in which such persons have equity interests. These requirements include that (i) certain loans must be approved in advance by a majority of the entire Board of Directors and the interested party must abstain from participating directly or indirectly in voting on such loan, (ii) the loan must be on terms that are not more favorable than those offered to unaffiliated third parties, and (iii) the loan must not involve more than a normal risk of repayment or present other unfavorable features.

Under the New York State Banking Law, the Superintendent may issue an order to a New York State chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. Upon a finding by the NYSDFS that any director, trustee or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee or officer may be removed from office after notice and an opportunity to be heard. The Bank does not know of any past or current practice, condition or violation that may lead to any proceeding by the Superintendent or the NYSDFS against the Bank or any of its directors or officers.

New York State Community Reinvestment Regulation

Pathfinder Bank is also subject to provisions of the New York State Banking Law which imposes 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 Federal Community Reinvestment Act ("CRA"). Pursuant to the NYCRA, a bank must file copies of all federal CRA reports with the NYSDFS. The NYCRA requires the NYSDFS to make a written assessment of a bank's compliance with the NYCRA every 24 to 36 months, 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. Pathfinder Bank's NYCRA most recent rating, dated September 30, 2021, was "satisfactory."

Federal Regulations

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Pathfinder Bank exercised the opt-out election. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, regulators take into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions when and where deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management personnel if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. Notwithstanding the foregoing, pursuant to the EGRRCPA, the FDIC finalized a rule that established a community bank leverage ratio ("CBLR"). The CBLR (Tier 1 capital to average consolidated assets) was established at 9% for institutions under $10 billion in assets and such institutions may elect to utilize the CBLR threshold level of capital in lieu of the generally-applicable risk-based capital requirements under Basel III. Such institutions that meet the CBLR threshold and certain other qualifying criteria will automatically be deemed to be well-capitalized. The new rule took effect on January 1, 2020. Pursuant to the CARES Act, the federal banking agencies issued final rules to set the Community Bank Leverage Ratio at 8% beginning in the second quarter of 2020 through

the end of 2020. Beginning in 2021, the Community Bank Leverage Ratio increased to 8.5% for the calendar year. On January 1, 2022, the Community Bank Leverage Ratio requirement returned to 9%. A financial institution can elect to be subject to this new definition. The Bank did not elect to become subject to the Community Bank Leverage Ratio.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and, more recently, safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Business and Investment Activities. Under federal law, all state-chartered FDIC-insured banks, including commercial banks, have been limited in their activities as principal and in their equity investments to the type and the amount authorized for national banks, notwithstanding state law. Federal law permits certain exceptions to these limitations.

The FDIC is also authorized to permit state banks to engage in state authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if they meet all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the FDIC insurance fund. The FDIC has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specified that a state bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary," if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

"Undercapitalized" banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank's compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional measures, including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after being designated "critically undercapitalized."

At December 31, 2022, Pathfinder Bank was well-capitalized.

Transactions with Related Parties. Transactions between a bank (and, generally, its subsidiaries) and its related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company ("BHC") and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B of the Federal Reserve Act limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of such institution's capital stock and surplus and contain an aggregate limit on all such transactions with all affiliates to an amount

equal to 20% of such institution's capital stock and surplus. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions.

In addition, loans or other extensions of credit by the institution to the affiliate are required to be collateralized in accordance with specified requirements. The law also requires that affiliate transactions be on terms and conditions that are substantially the same, or at least as favorable to the institution, as those provided to non-affiliates.

Pathfinder Bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Pathfinder Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by Pathfinder Bank's Board of Directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The FDIC has extensive enforcement authority over insured state banks, including Pathfinder Bank. That enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC also has authority under federal law to appoint a conservator or receiver for an insured bank under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if the bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized."

Federal Insurance of Deposit Accounts. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

The FDIC assesses insured depository institutions to maintain its Deposit Insurance Fund. Under the FDIC's risk-based assessment system, institutions deemed less risky pay lower assessments. Assessments for institutions of less than $10 billion of assets are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure of an institution's failure within three years. Assessment rates for institutions of the Bank's size ranged from 1.5 to 30 basis points effective through December 31, 2022. The FDIC has authority to increase insurance assessments and adopted a final rule in October 2022 to increase initial base deposit insurance assessment rates by two basis points beginning in the first quarterly assessment period of 2023. As a result, effective January 1, 2023, assessment rates for institutions of the Bank's size will range from 2.5 to 32 basis points.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Community Reinvestment Act. Under the CRA, a 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. The CRA does require the FDIC, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to establish or acquire branches and merger with other depository institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Pathfinder Bank's latest FDIC CRA rating, dated May 13, 2019, was "satisfactory."

Federal Reserve System. The Federal Reserve Board regulations require banks to maintain non-interest-earning reserves against their transaction accounts (primarily negotiable order of withdrawal (NOW) and regular checking accounts). In March 2020, due to a change in its approach to monetary policy due to COVID-19, the Federal Reserve Board announced an interim rule to amend Regulation D requirements and reduce reserve requirement ratios to zero. The Federal Reserve Board has indicated that it has no plans to re-impose reserve requirements, but may do so in the future if conditions warrant.

Federal Home Loan Bank System. Pathfinder Bank is a member of the Federal Home Loan Bank System, which consists of eleven regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLBNY, Pathfinder Bank is required to acquire and hold a specified amount of shares of capital stock in the FHLBNY. As of December 31, 2022, Pathfinder Bank was in compliance with this requirement.

Other Regulations

Interest and other charges collected or contracted for by Pathfinder Bank are subject to state usury laws and federal laws concerning interest rates. Pathfinder Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one-to-four family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- The TILA-RESPA Integrated Disclosure Rule, commonly known as the TRID rule. This rule amended the Truth in Lending Act and the Real Estate Settlement Procedures Act to integrate several consumer disclosures for mortgage loans;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act;
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- USA PATRIOT Act, which requires banks operating to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

The Company, as a BHC, is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. The Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or BHC if it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company.

A BHC is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the

principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing securities brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property under certain conditions; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings association.

The Gramm-Leach-Bliley Act of 1999 authorizes a BHC that meets specified conditions, including depository institutions subsidiaries that are "well capitalized" and "well managed," to opt to become a "financial holding company." A "financial holding company" may engage in a broader array of financial activities than permitted a typical bank holding company. Such activities can include insurance underwriting and investment banking. The Company has elected to be a "financial holding company."

In December 2014, legislation was passed by Congress that required the Federal Reserve Board to revise its "Small Bank Holding Company Policy Statement" to exempt bank and savings and loan holding companies with less than $1.0 billion of consolidated assets from the consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities. The Federal Reserve Board maintains authority to apply the consolidated capital requirements to any bank or savings and loan holding company as warranted for supervisory purposes. Regulations implementing the exemption were effective in May 2015.

On August 28, 2018, pursuant to EGRRCPA, the Federal Reserve Board issued an interim final rule revising the Policy Statement increasing the consolidated asset limit to $3 billion. Under the Policy Statement, a BHC that meets certain Qualitative Requirements:

- is exempt from the FRB's risk-based capital and leverage rules (Appendixes A and D of Regulation Y); and
- may use debt to finance up to 75% of the purchase price of an acquisition allowing a BHC to have a debt-to-equity ratio of up to 3:1.

The Policy Statement now applies to a BHC with consolidated assets of less than $3 billion that meets the following Qualitative Requirements: (i) it is not engaged in significant non-banking activities either directly or through a non-bank subsidiary; (ii) it does not conduct significant off-balance sheet activities, including securitizations or asset management or administration, either directly or through a non-bank subsidiary; or (iii) it does not have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC. BHCs that meet these Qualitative Requirements are determined to be "Qualifying BHCs". A Qualifying BHC is exempt from the FRB's risk-based capital and leverage rules. As a consequence, it does not have to comply with the Basel III Capital Adequacy rules. Each subsidiary bank of a Qualifying BHC must comply with the Basel III Capital Adequacy rules (or the Community Bank Leverage Ratio) and must be well-capitalized. If any subsidiary bank is not, the Federal Reserve Board expects it to become well-capitalized within a brief period of time. This Policy Statement applies to the Company.

A BHC is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. The Federal Reserve Board has adopted an exception to that approval requirement for well-capitalized bank holding companies that meet certain other conditions. The Federal Reserve Board has issued guidance which requires consultation with the Federal Reserve Board prior to a redemption or repurchase in certain circumstances.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends by BHCs. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the BHC appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a BHC serve as a source of financial strength to its subsidiary banks by using available resources to provide capital funds during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength policy. Under the prompt corrective action laws, the ability of a BHC to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

The Company and the Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of the Company or the Bank.

The Company's status as a registered BHC under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Federal Securities Laws

The Company's common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. We are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of the Company's shares of common stock issued in the Company's initial stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. We have prepared policies, procedures and systems designed to ensure compliance with these regulations.

FEDERAL AND STATE TAXATION

Deferred Income Tax Assets and Liabilities. Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is recognized for the future tax consequences. This is attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating and capital loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. If current available evidence about the future raises doubt about the likelihood of a deferred tax asset being realized, a valuation allowance is established. The judgment about the level of future taxable income, including that which is considered capital, is inherently subjective and is reviewed on a continual basis as regulatory and business factors change.

Federal Taxation

General. The Bank and the Company are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. 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.

The Company's federal tax returns are statutorily subject to potential audit for the years 2019 through 2022. No federal income tax returns are under audit as of the date of this report.

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal and state income tax returns.

Bad Debt Reserves. Prior to 1996, Pathfinder 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 our taxable income. As a result of tax law changes in 1996, Pathfinder Bank was required to use the specific charge-off method in computing its bad debt deduction beginning with its 1996 federal tax return. Savings institutions were required to recapture any excess reserves over those established as of December 31, 1987 (base year reserve). At December 31, 2022, Pathfinder Bank had no reserves subject to recapture in excess of its base year reserves. The Bank continues to be required to use the specific charge-off method to account for tax bad debt deductions.

Taxable Distributions and Recapture. Prior to 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if Pathfinder Bank failed to meet certain thrift asset and definitional tests or made certain distributions. Tax law changes in 1996 eliminated thrift-related recapture rules. However, under current law, pre-1988 tax bad debt reserves remain subject to recapture if Pathfinder Bank makes certain non-dividend distributions, repurchases any of its common stock, pays dividends in excess of earnings and profits, or fails to qualify as a "bank" for tax purposes. At December 31, 2022, our total federal pre-base year bad debt reserve was approximately $1.3 million.

Net Operating Loss Carryovers. Federal tax law allows net operating losses to be carried forward indefinitely with the net operating loss deduction limited to 80% of taxable income in any carryforward year.

Corporate Dividends Received Deduction. The Company may exclude from its federal taxable income 100% of dividends received from Pathfinder Bank as a wholly-owned subsidiary by filing consolidated tax returns. The corporate dividends received deduction is 65% when the corporation receiving the dividend owns at least 20% of the stock of the distributing corporation. The dividends-received deduction is 50% when the corporation receiving the dividend owns less than 20% of the distributing corporation.

Employee Compensation. A publicly held corporation is not permitted to deduct compensation in excess of $1 million per year paid to certain employees. Federal tax law eliminates certain exceptions to the $1 million limit applicable under prior law related to performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals.

Business Asset Expensing. Federal tax law allows taxpayers to immediately expense the entire cost of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% bonus depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).

State Taxation

Pathfinder Bancorp, Inc., Pathfinder Bank, Whispering Oaks, and Pathfinder Risk Management Corporation report income on a combined basis to New York State. The New York State franchise tax is imposed in an amount equal to the greater of 6.5% of Business Income for companies with a Business Income Base up to $5 million, or 7.25% for companies with a Business Income Base greater than $5 million, 0.025% and 0.1875% of average Business Capital for 2021 and 2022, respectively, or a fixed dollar amount based on New York sourced gross receipts.

As a Maryland business corporation, the Company is required to file an annual report with, and pay franchise taxes to, the State of Maryland.

Human Capital Resources

Our Mission

Our Mission, which is thoroughly communicated to all of our team members, is “To foster relationships with individuals and businesses within our communities to be the financial provider of choice. Our goal is to continually enhance the value of the Bank for the benefit of our shareholders, customers, employees and communities.”

Our Values

Our workplace culture is grounded in our customer and employee value proposition. We have adopted a formally-stated set of Values, which are also ingrained in our human capital resource management programs. These Values state that we are:

- Competent Professionals
- Service-Driven
- A Family
- Respectful
- Compassionate
- Proud
- Honest

Each of the Values, outlined above, are further defined in our internal communications, recognition programs, training programs and team-oriented activities.

Human Capital

The success of our business is highly dependent on our team members, who provide value to our customers and communities through their dedication to our mission and values. We define, exemplify and foster our culture by the Values listed above. We value our team members by investing in a healthy work-life balance, competitive compensation and benefit packages, and a vibrant, team-oriented environment centered on professional service and open communication among team members. We strive to build and maintain a high-

performing culture by creating a work environment that attracts and retains outstanding, engaged team members who embody our company mantra of "*Local. Community. Trust.*"

Demographics

At December 31, 2022, we employed 174 team members, of which 160 were full-time, 10 were part-time, two were interns, and two were temporary employees working on special projects/initiatives. Our staff is comprised of approximately 75% women. We continue to grow and employ team members respectively across our three-county footprint as follows:

Date	Headcount
12/31/2022	174
12/31/2021	173
12/31/2020	183
12/31/2019	162

At December 31, 2022, approximately 60% of our staff was employed at our bank branch and loan production offices, with the remainder of our team employed within all other functional areas, including our customer-facing electronic commerce and call center units. None of these employees are represented by a collective bargaining agreement and management considers its relationship with employees to be good. During fiscal year 2022, we hired 36 employees, of which 29 were full-time, five were part-time, and two were interns. Our voluntary turnover rates for the previous four years are as follows:

Year	Voluntary Turnover %
2022	25.0%
2021	24.2%
2020	13.2%
2019	18.8%

Diversity and Inclusion

An inclusive open-minded community that engages excellence and embraces diversity is fundamental to supporting the Pathfinder Bank vision to be a local bank that the community trusts. The communities in which we serve include persons of various race, ethnicity, gender, sexual orientation, socio-economic status, age, physical and cognitive ability, religion and political belief. We are committed to valuing and sharing the strength of our differences in a safe and positive environment.

Our primary goal is to attract and cultivate a dynamic and cultural sensitivity that exemplifies, promotes and celebrates diversity. This definition of diversity includes recognition and appreciation of the uniqueness of each individual. We seek to hire well-qualified team members who are, at least as importantly, a good fit for our value system. Our selection and promotion processes are without bias and include the active recruitment of minorities and women.

With a commitment to equality, inclusion and workplace diversity, we focus on understanding, accepting, and valuing the differences between people. To accomplish this, we continue our efforts through our Diversity, Equity and Inclusion Committee made up of several employee representatives from areas located throughout our market footprint. We collaborate with local business partners to better our understanding and position ourselves to improve and fulfill our commitment to diversity and inclusion. Our goal is to build and leverage a diverse and inclusive workforce and workplace by building leadership capability and organizational capacity. This requires all team members to do their part. Management must possess diversity and inclusion competencies to lead and manage an engaged workforce. All team members must treat their colleagues with respect by listening to different viewpoints, opinions, thoughts and ideas and embracing a culture of inclusion.

A commitment to diversity and inclusion is essential to reflecting the values of our team members and the society we serve today. It makes business sense because it helps us to attract and retain the best talent, it enables us to understand and meet clients' needs more effectively and thus provide a better quality service. We continue our commitment to equal employment opportunity through a robust affirmative action plan, which includes annual compensation analyses and ongoing reviews of our selection and hiring practices, alongside a continued focus on building and maintaining a diverse workforce.

For the year 2022, the population of our workforce was as follows:

Ethnicity	%
American Indian or Alaska Native	0.6%
Asian	1.7%
Black or African American	2.9%
Hispanic or Latino	4.6%
Two or more races (Not Hispanic or Latino)	1.1%
White	89.1%

Age Demographics	
Age Range	Total
18-25	25
26-35	50
36-45	44
46-55	18
56-65	33
Over 65	4
Grand Total	174

Compensation and Benefits

We provide a competitive compensation and benefits program to help meet the needs of our team members. In addition to salaries, these programs include annual bonuses, stock awards, a 401(k) Plan with an employer matching contribution in addition to an employer-paid annual contribution, healthcare and other insurance benefits, health savings, flexible spending accounts, paid time off, family leave, identity theft protection, telemedicine service, and an employee assistance program, including mental health services. A survey was conducted to determine employee preferences and changes were made accordingly.

Learning and Development

We invest in the growth and development of our team members by providing a multi-dimensional approach to learning that empowers, intellectually grows, and professionally develops our colleagues. We encourage and support the growth and development of our team members and, wherever possible, seek to fill positions by promotion and transfer from within the organization. Continual learning and career development is advanced through performance and development conversations between team members and their managers, internally developed training programs, customized corporate training engagements and educational reimbursement programs. Reimbursement is available to team members enrolled in pre-approved degree or certification programs at accredited institutions that teach skills or knowledge relevant to our business, in compliance with Section 127 of the Internal Revenue Code, and for seminars, conferences, and other training events team members attend in connection with their job duties. We will be recruiting for a Corporate Trainer in early 2023. This individual will report to Human Resources and be dedicated to this initiative.

Retention Efforts

Employee retention helps us operate efficiently and achieve one of our business objectives. We believe our commitment to living out our core values, actively prioritizing concern for our team members' well-being, supporting our team members' career goals, offering competitive wages and providing valuable fringe benefits aids in retention of our top-performing team members . In addition, nearly all of our team members are stockholders of the Company through participation in our Employee Stock Ownership Plan, which aligns employee and stockholder interests by providing stock ownership on a tax-deferred basis at no investment cost to our employees. At December 31, 2022, over 34% of our current staff had been with us for ten years or more. There is a team assigned to retention efforts as a strategic initiative for 2023 and forward.

ITEM 1A: RISK FACTORS

Not required of a smaller reporting company.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The Company has seven offices located in Oswego County, four offices located in Onondaga County and one limited purpose office located in Oneida County. Management believes that the Bank's facilities are adequate for the business conducted. The following table sets forth certain information concerning the main office and each branch office of the Bank at December 31, 2022. The aggregate net book value of the Bank's premises and equipment was $17.9 million at December 31, 2022. For additional information regarding the Bank's properties, see Notes 8 and 28 to the consolidated financial statements.

Location	Opening Date	Owned/Leased
Main Office	1874	Owned
214 West First Street		
Oswego, New York 13126		
Plaza Branch	1989	Owned (1)
291 State Route 104 East		
Oswego, New York 13126		
Mexico Branch	1978	Owned
3361 Main Street		
Mexico, New York 13114		
Oswego East Branch	1994	Owned
34 East Bridge Street		
Oswego, New York 13126		
Lacona Branch	2002	Owned
1897 Harwood Drive		
Lacona, New York 13083		
Fulton Branch	2003	Owned (2)
5 West First Street South		
Fulton, New York 13069		
Central Square Branch	2005	Owned
3025 East Ave		
Central Square, New York 13036		
Cicero Branch	2011	Owned
6194 State Route 31		
Cicero, New York 13039		
Pike Block Branch	2014	Leased (3)
109 West Fayette Street		
Syracuse, New York 13202		
Clay Branch	2018	Leased (4)
3775 State Route 31		
Liverpool, NY 13090		
Southwest Corridor Branch	2022	Leased (5)
506 West Onondaga Street		
Syracuse, NY 13204		
Utica Loan Production Office	2017	Leased (6)
258 Genesee Street		
Utica, New York 13502		

(1) The building is owned; the underlying land is leased with an annual rent of $38,000.
(2) The building is owned; the underlying land is leased with an annual rent of $37,000.
(3) The premises are leased with an annual rent of $90,000.
(4) The premises are leased with an annual rent of $74,000.
(5) The premises are leased with an annual rent of $257,000.
(6) The premises are leased with an annual rent of $16,000.

ITEM 3: LEGAL PROCEEDINGS

There are various claims and lawsuits to which the Company is periodically involved that are incidental to the Company's business, most notably foreclosures. In the opinion of management, such claims and lawsuits in the aggregate are not expected to have a material adverse impact on the Company's consolidated financial condition and results of operations at December 31, 2022.

ITEM 4: MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock trades on the NASDAQ Capital Market under the symbol "PBHC."

There were 310 shareholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms) as of March 22, 2023.

The Company did not repurchase any shares of its common stock for the year ended December 31, 2022.

Equity Compensation Plan Information

The following table provides information as of December 31, 2022 with respect to shares of voting common stock that may be issued under the Company's existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	223,217	$ 10.94	10,408
Equity compensation plans not approved by stockholders	N/A	N/A	N/A

Dividends and Dividend History

The Company has historically paid regular quarterly cash dividends on its common stock. 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. More details are included within the section titled Regulation and Supervision.

ITEM 6: RESERVED

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

INTRODUCTION

Throughout Management's Discussion and Analysis ("MD&A") the term, the "Company", refers to the consolidated entity of Pathfinder Bancorp, Inc. Pathfinder Bank (the "Bank") and Pathfinder Statutory Trust II are wholly owned subsidiaries of Pathfinder Bancorp, Inc.; however, Pathfinder Statutory Trust II is not consolidated for reporting purposes (see Note 13 of the consolidated financial statements). Pathfinder Risk Management Company, Inc., and Whispering Oaks Development Corp. are wholly owned subsidiaries of Pathfinder Bank.

On October 16, 2014, Pathfinder Bancorp, MHC converted from the mutual to stock form of organization (the "Conversion"). Following the completion of the Conversion, the Company was created substantially in its current form and Pathfinder Bancorp, MHC ceased to exist. The Company had 6,032,112 and 5,983,467 shares of voting and non-voting common stock in aggregate outstanding at December 31, 2022 and December 31, 2021, respectively.

On June 1, 2016, Pathfinder Bank, a savings bank chartered by the NYSDFS, merged into Pathfinder Commercial Bank, a limited purpose commercial bank also chartered by the NYSDFS. Prior to the merger, Pathfinder Bank owned 100% of Pathfinder Commercial Bank. On that same date, NYSDFS expanded the powers that it had previously granted to Pathfinder Commercial Bank and chartered Pathfinder Commercial Bank as a fully-empowered commercial bank. Simultaneously, the entity that had operated as "Pathfinder Commercial Bank" changed its name to "Pathfinder Bank." As a result of this charter conversion and accompanying name change, the entity now known as "Pathfinder Bank" became a commercial bank with the full range of powers granted under a commercial banking charter in New York State. The merger, which had no effect on the Company's results of operations, converted the consolidated Bank from a savings bank to a commercial bank and was completed in order to better align the Bank's organization certificate with its long-term strategic focus.

Since the Conversion, we have substantially transformed our business activities from those of a traditional savings bank to those of a commercial bank. This transformation of activities has significantly affected the overall composition of our balance sheet. While not reducing our role as a leading originator of one-to-four family residential real estate loans within our marketplace, which had been our primary focus as a savings bank, we have substantially grown our commercial business and commercial real estate loan portfolios since the Conversion. As a commercial bank, we have been able to offer customized products and services to meet individual commercial customer needs and thereby more definitively differentiate our services from those offered by our competitors. As a result, we have been able to create a substantially more diversified loan portfolio than the one that was in place before the completion of the Conversion. When compared to the Bank's loan portfolio composition prior to the Conversion, it is our view that our current asset portfolio (1) significantly improves upon the distribution of credit risk across a broader range of borrowers, industries and collateral types, and (2) is more likely to generate consistent net interest margin in a broader range of interest rate environments due to the portfolio's increased percentage of shorter-term and/or adjustable-rate assets. In a concurrent effort, the Bank has been able to fund the majority of the high level of growth in our loan portfolios primarily with deposits gathered from our local community. We believe that we have gathered these deposits at a reasonable overall cost in terms of deposit interest rates, as well as at a reasonable overall level of related infrastructure and customer support service expenses.

On May 8, 2019, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with Castle Creek Capital Partners VII, L.P. ("Castle Creek"), pursuant to which the Company sold: (i) 37,700 shares of the Company's common stock, par value $0.01 per share, at a purchase price of $14.25 per share (the "Common Stock"); (ii) 1,155,283 shares of a new series of preferred stock, Series B convertible perpetual preferred stock, par value $0.01 per share, at a purchase price of $14.25 per share (the "Series B Preferred Stock"); and (iii) a warrant, with an approximate fair value of $373,000, to purchase 125,000 shares of Common Stock at an exercise price initially equal to $14.25 per share (the "Warrant"), in a private placement transaction (the "Private Placement") for gross proceeds of approximately $17.0 million. The Securities Purchase Agreement contains significant representations, warranties, and covenants of the Company and Castle Creek.

On May 8, 2019, the Company filed Articles Supplementary with the Maryland Department of Assessments and Taxation to issue 1,155,283 shares of Series B Preferred Stock to Castle Creek. Each share of the Series B Preferred Stock was convertible on a one-for-one basis into either (i) Common Stock under certain circumstances or (ii) non-voting common stock, par value $0.01 per share (which will also be convertible into Common Stock), subject to approval of the creation of such class of non-voting common stock by the Company's stockholders.

The Company also entered into subscription agreements dated as of May 8, 2019 (the "Subscription Agreements") with certain directors and executive officers of the Company as well as other accredited investors. Pursuant to the Subscription Agreements, the investors purchased an aggregate of 269,277 shares of Common Stock at $14.25 per share for gross proceeds of approximately $3.8 million, before payment of placement fees and related costs and expenses. The Subscription Agreements contain representations, warranties, and

covenants of the purchasers and the Company that are customary in private placement transactions. The subscription agreements were also part of the Private Placement, and the term "Private Placement" includes both transactions.

In total, therefore, the Company issued 306,977 shares of Common Stock, 1,155,283 shares of Series B Preferred Stock and the Warrant at the conclusion of the Private Placement. The transaction raised $20.8 million in gross proceeds and the final net cash received from the Private Placement, after all issuance expenses, including placement fees and all other issuance/due diligence costs of $927,000 and $342,000, respectively, was $19.6 million. The fair value of the Warrant at the time of issuance was $373,000.

Pursuant to NASDAQ rules, Castle Creek could not convert the Series B Preferred Stock or, in the future, the non-voting common stock into Common Stock, or exercise the Warrant if doing so would cause Castle Creek, when combined with the purchases of certain directors and executive officers of the Company as well as other accredited investors in the Private Placement, to own more than 19.99% of the Common Stock outstanding immediately prior to the execution of the Securities Purchase Agreement (the "Exchange Cap"). The Company was required to request stockholder approval to eliminate the Exchange Cap no later than at the 2021 annual meeting of Company shareholders. In addition, at the same meeting, the Company was required to seek shareholder approval to create a class of non-voting convertible common stock. Castle Creek will need the approval or non-objection of the Board of Governors of the Federal Reserve System and the New York State Department of Financial Services if it seeks to increase its ownership of shares of Common Stock in excess of 9.9% of the outstanding shares of Common Stock.

Holders of the Series B Preferred Stock were entitled to receive dividends if declared by the Company's Board of Directors, in the same per share amount as paid on the Common Stock. No dividends would be payable on the Common Stock unless a dividend identical to that paid on the Common Stock was payable at the same time on the Series B Preferred Stock. The Series B Preferred Stock would rank, as to payments of dividends and distribution of assets upon dissolution, liquidation or winding up of the Company, *pari passu* with the Common Stock pro rata. Holders of Series B Preferred Stock had no voting rights except as was required by law. The Series B Preferred Stock was not redeemable by either the Company or by the holder.

As discussed above, pursuant to the Securities Purchase Agreement, on May 8, 2019, the Company issued a Warrant to Castle Creek to purchase 125,000 shares of non-voting common stock at an exercise price equal to $14.25 per share. At the same time, the Company entered into a Warrant Agreement with Castle Creek, to, among other things, authorize and establish the terms of the Warrant. The Warrant is exercisable at any time after May 8, 2019, and from time to time, in whole or in part, until May 8, 2026. However, the exercise of such Warrant remains subject to certain contractual provisions, and regulatory approval if Castle Creek's ownership of Common Stock would exceed 9.9%. At December 31, 2022, Castle Creek owned approximately 8.8% of the Company's common voting stock. The Warrant will receive dividends equal to the amount paid on the Company's common stock. The dividend payment shall be calculated on (1) the unexercised portion of the 125,000 notional shares encompassed within the terms of the Warrant, less (2) any exercised portion of the 125,000 shares, times (3) the amount of the quarterly dividend paid to common shareholders. Dividend payments, if declared on the Company's common stock, will be made on the Warrant until its expiration date.

Following the Private Placement, the Company used the net cash received from the transaction to strengthen the Company's general capital and liquidity positions, fund growth within our marketplace, purchase certain loan assets, and increase the regulatory capital position of the Bank. The Company will continue to use the additional capital raised through the Private Placement primarily to support the realization of continued growth opportunities within our marketplace and, to a lesser extent, for general corporate purposes.

Pursuant to the terms of the Securities Purchase Agreement, Castle Creek is entitled to have one representative appointed to the Company's Board of Directors for so long as Castle Creek, together with its respective affiliates, owns, in the aggregate, 4.9% or more of all of the outstanding shares of the Company's Common Voting Stock. If Castle Creek, together with its respective affiliates, owns, in the aggregate, 4.9% or more of all of the outstanding shares of the Company's Common Voting Stock and does not have a board representative appointed to the Company's Board of Directors, the Company will invite a person designated by Castle Creek to attend meetings of the Company's Board of Directors as an observer. At December 31, 2022, Castle Creek elected to have an observer present at substantially all meetings of the Company's Board of Directors.

On November 13, 2020, the Company entered into an agreement (the "Exchange Agreement") with Castle Creek providing for the exchange of 225,000 shares of the Company's Common stock owned by Castle Creek for 225,000 shares of the Company's Series B Preferred Stock. The exchange was consummated simultaneously with the execution and delivery of the Exchange Agreement. The Company and Castle Creek entered into the Exchange Agreement to enable the equity ownership of Castle Creek to comply with applicable banking laws and regulations.

As a result of the Exchange Agreement, on November 13, 2020, the Company issued to Castle Creek 225,000 shares of its Series B Preferred Stock in exchange for an equivalent number of shares of Company Common Stock held by Castle Creek in a transaction exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended. Castle Creek was the only stockholder of the Series B Preferred Stock. The Company received no cash proceeds as a result of the exchange. In addition, the Company did not pay any commission or remuneration for the solicitation of the exchange.

On November 13, 2020, the Company filed an amendment to the Articles Supplementary to the Articles of Incorporation of the Company designating the Series B Preferred Stock with the Maryland Department of Assessments and Taxation to increase the classified number of shares of the Series B Preferred Stock from 1,155,283 to 1,506,000 to allow for the additional issuance of Series B Preferred Stock to Castle Creek. There were no other changes made to the preferences, limitations, powers and relative rights of the Series B Preferred Stock.

On June 4, 2021, shareholders of the Company approved an amendment to the Company's Articles of Incorporation to authorize Non-Voting Common Stock, and to eliminate the Exchange Cap. On June 9, 2021, the Company filed Articles Supplementary to the Articles of Incorporation of the Company (the "Articles Supplementary") with the Maryland State Department of Assessments and Taxation creating a Class A Non-Voting Common Stock, par value $0.01 per share ("Non-Voting Common Stock"). The Articles Supplementary authorized 1,505,283 shares of the Non-Voting Common Stock which Castle Creek received in exchange for the Company's outstanding Series B Preferred Stock on a one for one basis and allowed for the issuance of 125,000 shares of Non-Voting Common Stock that may be issued upon the exercise of the Warrant.

The preferences, limitations, powers and relative rights of the Non-Voting Common Stock are set forth in the Articles Supplementary, a summary of which follows:

Ranking: The Non-Voting Common Stock will rank, as to the payment of dividends and distribution of assets upon dissolution, liquidation or winding up of the Company, (i) *pari passu* with the Company's Common Stock, and (ii) subordinate and junior to all other securities of the Company which, by their respective terms, are senior to the Non-Voting Common Stock or the Company's Common Stock.

Dividend Rights: Holders of the Non-Voting Common Stock will be entitled to receive dividends when, as and if declared by the Company's Board of Directors, in the same per share amount as paid on Company's Common Stock. No dividends will be payable on the Company's Common Stock unless a dividend identical to that paid on the Company's Common Stock is payable at the same time on the Non-Voting Common Stock in an amount per share equal to the product of (i) the per share dividend declared and paid in respect of each share of the Company's Common Stock and (ii) the number of shares of the Company's Common Stock into which such share of Non-Voting Common Stock is then convertible (without regard to limitations on conversion of such Non-Voting Common Stock); provided that if any stock dividend is declared on the Company's Common Stock, the holders of Non-Voting Common Stock will be entitled to receive such dividend payable in shares of Non-Voting Common Stock.

Voting: The holders of shares of Non-Voting Common Stock have no voting rights, except as may be required by Maryland law and as set forth in the Articles Supplementary. So long as any shares of Non-Voting Common Stock are issued and outstanding, the Company will not (including by means of merger, consolidation or otherwise) without obtaining the approval of the holders of a majority of the issued and outstanding shares of Non-Voting Common Stock:

- alter or change the rights, preferences, privileges or restrictions provided for the benefit of the holders of the Non-Voting Common Stock so as to affect them adversely;
- increase or decrease the authorized number of shares of Non-Voting Common Stock; or
- enter into any agreement, merger or business combination, or engage in any other transaction, or take any action that would have the effect of adversely changing any preference or any relative or other right provided for the benefit of the holders of the Non-Voting Common Stock.

Redemption and Repurchase: The Non-Voting Common Stock is not redeemable by the Company or the holder. However, in the event that the Company offers to repurchase shares of the Company's Common Stock, the Company must offer to repurchase shares of the Non-Voting Common Stock pro rata based upon the number of shares of the Company's Common Stock such holders would be entitled to receive if such shares were converted into shares of the Company's Common Stock immediately prior to such repurchase.

Conversion: Each share of Non-Voting Common Stock will be convertible into one share of the Company's Common Stock (i) at any time and from time to time at the request of the holder thereof or at the written request of the Company; provided that upon such conversion, the holder, together with all affiliates of the holder, will not own or control in the aggregate more than 9.9% of the Company's Common Stock (or of any class of the Company's voting securities), excluding for the purpose of this calculation any reduction in the ownership resulting from transfers by such holder of voting securities (which, for the avoidance of doubt, does not included the Non-Voting Common Stock); or (ii) automatically, without any further action of the part of the holder, on the date that the holder transfers such share of Non-Voting Common Stock to a non-affiliate of the holder in a permissible transfer.

We have consistently maintained our historically strong presence in consumer deposit gathering and residential mortgage lending activities. Notwithstanding the retention of these business lines, we have strategically emphasized developing our business and commercial banking franchise by offering products that are attractive to small-to medium-sized businesses in our market area. We differentiate our commercial loan solutions and related services through the maintenance of high standards of customer service, solution flexibility and convenience. Highlights of our business strategy are as follows:

- ***Continuing our emphasis on commercial business and commercial real estate lending***. In recent years, we have successfully increased our commercial business and commercial real estate lending activities and portfolio size, consistent with safe and sound underwriting practices. In this regard, we have added, and will continue to add, personnel who are experienced in originating, underwriting and servicing commercial real estate and commercial business loans. We view the growth of our commercial business and commercial real estate loans as a means of further diversifying and increasing our interest income. In increasing our business banking activities, we seek to continuously deepen relationships with local businesses, which offer recurring and potentially increasing sources of both fee income and lower-cost transactional deposits. In that regard, our emphasis on commercial business and commercial real estate lending has complemented, and will continue to complement, our traditional one-to-four family residential real estate lending and consumer deposit gathering franchises.

- ***Providing quality customer service.*** Our strategy emphasizes providing quality customer service and meeting the financial needs of our customer base by offering a full complement of loan, deposit, financial services and online banking solutions. Our competitive advantage is our ability to make decisions, such as approving loans, more quickly - and with greater flexibility in many cases - than our market competitors. Customers enjoy, and will continue to enjoy, access to senior executives and local decision makers at the Bank and the flexibility that such access brings to their businesses.

- ***Optimizing our deposit mix.*** We seek to enhance the overall characteristics of our deposit base by emphasizing both consumer and business nonmaturity deposit gathering. During 2022, the Bank recorded an increase in consumer nonmaturity deposits of $38.5 million, or 13.3%, partially offset by a reduction in business nonmaturity deposits of $25.2 million, or 11.0%, and a $7.7 million, or 4.6%, reduction in municipal nonmaturity deposits. The increase in consumer nonmaturity deposits was due to the Bank's continued focus on the gathering of these deposits, including our emphasis on noninterest-bearing transactional accounts. The decrease in business deposits during 2022 was primarily due to the withdrawal of significant deposits as well as the final closure of all deposit accounts by a single credit union customer upon that credit union's dissolution via merger. The decrease in municipal nonmaturity deposits is considered by management to be primarily cyclical in nature. We expect to make nonmaturity deposit gathering a point of significant organizational focus for the foreseeable future.

- ***Continuing to grow our customer relationships and deposit base by expanding our branch network.*** As conditions permit, we will seek to expand our branch network through a combination of *de novo* branching and, potentially, acquisitions of branches and/or other financial services entities. We believe that as we expand our branch network, our customer relationships and deposit base will continue to grow. Our branch expansion focus will be primarily within Onondaga County, NY, which encompasses the greater Syracuse, NY area. We currently have four branches in Onondaga County, including the branches in the Southwest Corridor neighborhood adjacent to downtown, Syracuse, NY and in Clay, NY that we opened in the fourth quarters of 2022 and 2018, respectively. We continue to actively seek opportunities for an increased presence within that marketplace. This is consistent with our belief that we have already achieved meaningful brand recognition among potential customers there. In addition to the full-service branches located in Oswego and Onondaga Counties, in 2017 we opened a loan production office in Utica, located in Oneida County, NY, to increase our availability to potential commercial and business loan customers within that market area. We will continue to seek similar branch network expansion opportunities in the future.

- ***Diversifying our products and services with a goal of increasing noninterest income over time.*** We have sought to reduce our dependence on net interest income by increasing fee-based income across a broad spectrum of loan and deposit products. It is expected that we will also benefit in the future from increased ancillary income for service activities related to new and existing customers utilizing those products. The Company's management continues to monitor the competitive environment for these types of noninterest income opportunities and to improve its product design and customer relationship optimization strategies. A significant number of product design changes were implemented in 2022 and have yielded the expected financial benefits and are expected to continue to do so in future periods. In recent years, we have also sought to increase the breadth of services that we provide to our customers. We offer property and casualty and life insurance through our subsidiary, PRMC, and its insurance agency subsidiary, the FitzGibbons Agency, LLC. Additionally, Pathfinder Bank's investment services operations provide brokerage services to our customers for purchasing stocks, bonds, mutual funds, annuities, and long-term care insurance products. We intend to gradually increase our emphasis on the growth of these businesses. We believe that there will be resultant opportunities to cross-sell these products to our deposit and loan customers which will thereby increase our noninterest income over time.

- ***Investing in our banking platform and technologies.*** We have committed significant resources to establish a banking platform to accommodate future growth by upgrading our information systems and customer service technologies, maintaining a robust risk management and compliance staff, improving credit administration functionality, and upgrading our physical infrastructure. We believe that these investments will enable us to achieve operational efficiencies with minimal additional investments, while providing increased convenience for our customers.

- ***Controlling the rate of growth in operating expenses.*** The Company has sought to reduce the rate of growth in its operating expenses relative to its rate of revenue growth and to thereby increase the Company's overall profitability. In 2022, the Company's efficiency ratio was 61.1%, a 2.0% decline from the 63.1% efficiency ratio in 2021, which is consistent with the implementation of these budgetary and expense control mechanisms.

- ***Managing capital.*** The Company received $24.9 million in net proceeds from the sale of approximately 2.6 million shares of common stock as a result of the Conversion in October 2014. In October 2015, the Company executed the issuance of the $10.0 million non-amortizing Subordinated Debt and subsequently used those proceeds in February 2016 to substantially fund the full retirement of $13.0 million in SBLF Preferred stock. The Company received $19.6 million in net proceeds from the sale of 306,977 shares of common stock and 1,155,283 shares of preferred stock as a result of the Private Placement in May 2019. In October 2020, the Company executed the issuance of $25.0 million in non-amortizing Subordinated Debt. In April 2021, the Company retired the Subordinated Debt that it had issued in October 2015, thereby reducing its outstanding balance of Subordinated Debt from $39.4 million at December 31, 2020 to $29.6 million at December 31, 2021. Since year end 2014, we have therefore successfully leveraged the $44.5 million in net new equity capital and the net $25.0 million in Subordinated Debt by growing our consolidated assets by $838.9 million, or 149.5%, to $1.40 billion at December 31, 2022. It is our intent to balance our future growth with capital adequacy considerations in a manner that will continue to allow us to effectively serve all of our key stakeholders and maintain our "well capitalized" capital position.

Selected Financial Data

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

	At or for the years ended December 31,				
(In thousands, except per share amounts)	2022	2021	2020	2019	2018
Year End					
Total assets	$ 1,399,921	$ 1,285,177	$ 1,227,443	$ 1,093,807	$ 933,115
Investment securities available-for-sale	191,726	190,598	128,261	111,134	177,664
Investment securities held-to-maturity	194,402	160,923	171,224	122,988	53,908
Loans receivable, net	882,435	819,524	812,718	772,782	612,964
Deposits	1,125,430	1,055,346	995,907	881,893	727,060
Borrowings and subordinated debt	145,730	106,661	121,450	108,253	133,628
Shareholders' equity	111,582	110,633	97,722	90,669	64,459
For the Year					
Total interest income	$ 51,098	$ 45,827	$ 42,507	$ 41,758	$ 34,810
Total interest expense	9,695	7,532	10,864	13,528	9,044
Net interest income	41,403	38,295	31,643	28,230	25,766
Provision for loan losses	2,754	1,022	4,707	1,966	1,497
Net interest income after provision for loan losses	38,649	37,273	26,936	26,264	24,269
Total noninterest income	5,914	6,231	6,485	4,917	3,835
Total noninterest expense	28,874	27,495	25,080	25,730	23,549
Income before income taxes	15,689	16,009	8,341	5,451	4,555
Income tax expense	2,656	3,499	1,295	1,165	546
Net income (loss) attributable to noncontrolling interest	101	103	96	10	(22)
Net income attributable to Pathfinder Bancorp, Inc.	$ 12,932	$ 12,407	$ 6,950	$ 4,276	$ 4,031
Convertible preferred stock dividends	-	97	291	208	-
Warrant dividends	45	35	30	23	-
Undistributed earnings allocated to participating securities	2,666	2,699	1,224	467	-
Net income available to common shareholders	$ 10,221	$ 9,576	$ 5,405	$ 3,578	$ 4,031
Per Share					
Income per share - basic	$ 2.13	$ 2.07	$ 1.17	$ 0.80	$ 0.97
Income per share - diluted	2.13	2.07	1.17	0.80	0.94
Book value per common share	18.40	18.43	17.56	15.94	14.72
Tangible book value per common share (a)	17.63	17.66	16.53	14.95	13.65
Cash dividends declared	0.36	0.28	0.24	0.24	0.24
Performance Ratios					
Return on average assets	0.96 %	0.98 %	0.60 %	0.43 %	0.45 %
Return on average equity	11.77	11.91	7.43	5.34	6.33
Average equity to average assets	8.17	8.26	8.02	7.97	7.09
Shareholders' Equity to total assets at end of year	7.93	8.58	7.94	8.27	6.88
Net interest rate spread	3.05	3.06	2.68	2.73	2.85
Net interest margin	3.24	3.21	2.88	2.98	3.02
Average interest-earning assets to average interest-bearing liabilities	124.03	124.61	120.49	116.84	116.52
Noninterest expense to average assets	2.15	2.18	2.15	2.56	2.62
Efficiency ratio (a) (b)	61.11	63.07	68.71	78.75	79.04
Dividend payout ratio	20.87	16.17	20.39	30.21	24.93
Return on average common equity	11.77	11.91	8.92	6.02	6.33

	At December 31,				
	2022	2021	2020	2019	2018
Asset Quality Ratios					
Nonperforming loans to year end loans	1.00 %	1.00 %	2.58 %	0.67 %	0.35 %
Nonperforming assets to total assets	0.66	0.65	1.74	0.49	0.36
Allowance for loan losses to year end loans	1.71	1.57	1.55	1.11	1.18
Allowance for loan losses to nonperforming loans	169.93	155.99	59.89	165.25	340.13
Regulatory Capital Ratios (Bank Only)					
Total capital (to risk-weighted assets)	15.14 %	15.19 %	13.13 %	12.28 %	13.69 %
Tier 1 capital (to risk-weighted assets)	13.88	13.94	11.87	11.16	12.49
Tier 1 capital (to adjusted assets)	9.67	9.52	8.63	8.20	8.31
Tier 1 Common Equity (to risk-weighted assets)	13.88	13.94	11.87	11.16	12.49
Number of:					
Banking offices	12	11	11	11	11
Fulltime equivalent employees	160	161	176	157	160

(a) See table below for reconciliation of the non-GAAP financial measures.

(b) The efficiency ratio is calculated as noninterest expense divided by the sum of net interest income and noninterest income, excluding net gains on sales, redemptions and impairment of investment securities and net gains (losses) on sales of loans and foreclosed real estate.

NON-GAAP FINANCIAL INFORMATION

Regulation G, a rule adopted by the Securities and Exchange Commission (SEC), applies to certain SEC filings, including earnings releases, made by registered companies that contain "non-GAAP financial measures." GAAP is generally accepted accounting principles in the United States of America. Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure (if a comparable GAAP measure exists) and a statement of the Company's reasons for utilizing the non-GAAP financial measure as part of its financial disclosures. The SEC has exempted from the definition of "non-GAAP financial measures" certain commonly used financial measures that are not based on GAAP. When these exempted measures are included in public disclosures, supplemental information is not required. Financial institutions, like the Company and its subsidiary bank, are subject to an array of bank regulatory capital measures that are financial in nature but are not based on GAAP and are not easily reconcilable to the closest comparable GAAP financial measures, even in those cases where a comparable measure exists. The Company follows industry practice in disclosing its financial condition under these various regulatory capital measures, including period-end regulatory capital ratios for its subsidiary bank, in its periodic reports filed with the SEC, and does so without compliance with Regulation G, on the widely-shared assumption that the SEC regards such non-GAAP measures to be exempt from Regulation G. The Company uses in this regulatory filing additional non-GAAP financial measures that are commonly utilized by financial institutions and have not been specifically exempted by the SEC from Regulation G. The Company provides, as supplemental information, such non-GAAP measures included in this document as described immediately below.

(In thousands, except per share amounts)	At or for the years ended December 31, 2022	2021	2020	2019	2018
Per Share					
Book value per common share					
Total Pathfinder Bancorp, Inc. shareholders' equity (book value) (GAAP)	$ 110,997	$ 110,287	$ 97,456	$ 90,434	$ 64,221
Preferred stock	-	-	17,901	15,370	-
Total shares outstanding	6,032	5,983	4,531	4,709	4,362
Book value per common share	$ 18.40	$ 18.43	$ 17.56	$ 15.94	$ 14.72
Total common equity					
Total equity (GAAP)	$ 110,997	$ 110,287	$ 79,555	$ 75,064	$ 64,221
Goodwill	4,536	4,536	4,536	4,536	4,536
Intangible assets	101	117	133	149	165
Tangible common equity	$ 106,360	$ 105,634	$ 74,886	$ 70,379	$ 59,520
Tangible book value per common share					
Tangible common equity	$ 106,360	$ 105,634	$ 74,886	$ 70,379	$ 59,520
Total shares outstanding	6,032	5,983	4,531	4,709	4,362
Tangible book value per common share	$ 17.63	$ 17.66	$ 16.53	$ 14.95	$ 13.65
Performance Ratios					
Efficiency ratio					
Operating expenses (numerator)	$ 28,874	$ 27,495	$ 25,080	$ 25,730	$ 23,549
Net interest income	41,403	38,295	31,643	28,230	25,766
Noninterest income	5,914	6,231	6,485	4,917	3,835
Less: (Losses)/Gains on the sale/redemption of investment securities, fixed assets, loans, and foreclosed real estate	(282)	551	2,255	393	(132)
Less : Gains/(Losses) on marketable securities	352	382	(629)	81	(62)
Denominator	$ 47,247	$ 43,593	$ 36,502	$ 32,673	$ 29,795
Efficiency ratio	61.11 %	63.07 %	68.71 %	78.75 %	79.04 %
Dividend payout ratio					
Dividends declared (numerator)	$ 2,143	$ 1,548	$ 1,102	$ 1,081	$ 1,005
Net income available to common shareholders (denominator)	10,221	9,576	5,405	3,578	4,031
Dividend payout ratio	20.97 %	16.17 %	20.39 %	30.21 %	24.93 %
Return on average common equity					
Net income attributable to Pathfinder Bancorp Inc. (GAAP) (numerator)	$ 12,932	$ 12,407	$ 6,950	$ 4,276	$ 4,031
Average equity	109,898	104,131	93,586	80,136	63,667
Average preferred stock	-	-	15,709	9,074	-
Denominator	$ 109,898	$ 104,131	$ 77,877	$ 71,062	$ 63,667
Return on average common equity	11.77 %	11.91 %	8.92 %	6.02 %	6.33 %

(In thousands, except per share amounts)	At or for the years ended December 31, 2022	2021	2020	2019	2018
Regulatory Capital Ratios (Bank Only)					
Total capital (to risk-weighted assets)					
Total equity (GAAP)	$ 126,148	$ 121,896	$ 106,720	$ 88,138	$ 74,530
Goodwill	(4,536)	(4,536)	(4,536)	(4,536)	(4,536)
Intangible assets	(101)	(117)	(133)	(149)	(165)
Addback: Accumulated other comprehensive income	12,172	1,268	2,236	2,971	6,042
Total Tier 1 Capital	$ 133,683	$ 118,511	$ 104,287	$ 86,424	$ 75,871
Allowance for loan and lease losses	12,076	10,655	11,002	8,669	7,306
Unrealized Gain on available-for-sale securities	-	-	-	-	-
Total Tier 2 Capital	$ 12,076	$ 10,655	$ 11,002	$ 8,669	$ 7,306
Total Tier 1 plus Tier 2 Capital (numerator)	$ 145,759	$ 129,166	$ 115,289	$ 95,093	$ 83,177
Risk-weighted assets (denominator)	962,861	850,157	878,380	774,177	607,414
Total core capital to risk-weighted assets	15.14 %	15.19 %	13.13 %	12.28 %	13.69 %
Tier 1 capital (to risk-weighted assets)					
Total Tier 1 capital (numerator)	$ 133,683	$ 118,511	$ 104,287	$ 86,424	$ 75,871
Risk-weighted assets (denominator)	962,861	850,157	878,380	774,177	607,414
Total capital to risk-weighted assets	13.88 %	13.94 %	11.87 %	11.16 %	12.49 %
Tier 1 capital (to adjusted assets)					
Total Tier 1 capital (numerator)	$ 133,683	$ 118,511	$ 104,287	$ 86,424	$ 75,871
Total average assets	1,387,480	1,249,752	1,212,512	1,059,060	917,740
Goodwill	(4,536)	(4,536)	(4,536)	(4,536)	(4,536)
Intangible assets	(101)	(117)	(133)	(149)	(165)
Adjusted assets (denominator)	$ 1,382,843	$ 1,245,099	$ 1,207,843	$ 1,054,375	$ 913,039
Total capital to adjusted assets	9.67 %	9.52 %	8.63 %	8.20 %	8.31 %
Tier 1 Common Equity (to risk-weighted assets)					
Total Tier 1 capital (numerator)	$ 133,683	$ 118,511	$ 104,287	$ 86,424	$ 75,871
Risk-weighted assets (denominator)	962,861	850,157	878,380	774,177	607,414
Total Tier 1 Common Equity to risk-weighted assets	13.88 %	13.94 %	11.87 %	11.16 %	12.49 %

Paycheck Protection Program ("PPP")

The Bank participated in all rounds of the PPP funded by the U.S. Treasury Department and administered by the SBA pursuant to the CARES Act and subsequent legislation. PPP loans have an interest rate of 1.0% and a two-year or five-year loan term to maturity. The SBA guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and the loan proceeds are used for qualifying expenses. The PPP ended in May 2021. Information related to the Company's PPP loans are included in the following tables:

Unaudited *(In thousands, except number of loans)*	For the years ended December 31, 2022	December 31, 2021
Number of PPP loans originated in the year	-	478
Funded balance of PPP loans originated in the year	$ -	$ 36,369
Number of PPP loans forgiven in the year	251	796
Balance of PPP loans forgiven in the year	$ 13,091	$ 77,054
Deferred PPP fee income recognized in the year	$ 707	$ 2,150

(In thousands)	December 31, 2022	December 31, 2021
Unearned PPP deferred fee income at end of year	$ 12	$ 716

(In thousands, except number of loans)	Number	Balance
Total PPP loans originated since inception	1,177	$ 111,721
Total PPP loans forgiven since inception	1,172	111,518
Total PPP loans remaining at December 31, 2022	5	$ 203

CRITICAL ACCOUNTING ESTIMATES

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 consolidated 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 consolidated 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 allowance for loan losses, deferred income tax assets and liabilities, pension obligations, the evaluation of investment securities for other than temporary impairment, the annual evaluation of the Company’s goodwill for possible impairment, and the estimation of fair values for accounting and disclosure purposes to be the accounting areas that require the most subjective and complex judgments. These areas could be the most subject to revision as new information becomes available.

Allowance for Loan Losses. 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 on 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 environmental factors, all of which may be susceptible to significant change. The Company establishes a specific allowance for all commercial loans in excess of the total related credit threshold of $100,000 and single borrower residential mortgage loans in excess of the total related credit threshold of $300,000 identified as being impaired which are on nonaccrual and have been risk rated under the Company’s risk rating system as substandard, doubtful, or loss. The Company also establishes a specific allowance, regardless of the size of the loan, for all loans subject to a troubled debt restructuring agreement. In addition, an accruing substandard loan could be identified as being impaired. 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 the fair value of the collateral, less costs to sell. At December 31, 2022, the Bank’s position in impaired loans consisted of 81 loans totaling $20.2 million. Of these loans, 15 loans, totaling $1.5 million, were valued using the present value of future cash flows method; and 66 loans, totaling $18.7 million, were valued based on a collateral analysis. For all other loans, the Company uses the general allocation methodology that establishes an allowance to estimate the probable incurred loss for each risk-rating category. 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.

As noted above, the allowance for loan and lease losses (“ALLL”) represents management’s estimate of probable incurred losses in the Bank’s loan portfolio. Determining the amount of the ALLL requires significant judgment on the part of management 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, consideration of current economic trends and conditions, and other qualitative and quantitative factors, all of which may be susceptible to significant change. Qualitative loss factors are applied to each portfolio segment with the amounts determined by historical loan charge-offs of a peer group of similar-sized regional banks. It is difficult to estimate how potential changes in any one economic factor or input might affect the overall allowance because a wide variety of factors and inputs are considered in estimating the allowance and changes in those factors and inputs considered may not occur at the same rate and may not be consistent across all product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others.

In estimating the ALLL on loans, management considers the sensitivity of the model and significant judgments and assumptions that could result in an amount that is materially different from management’s estimate. At December 31, 2022, the Bank held $508.5 million in commercial real estate and commercial & industrial loans (collectively, commercial loans) representing 56.6% of the Bank’s entire loan portfolio. The Bank allocated $12.8 million to the ALLL for these loans, including $7.9 million derived from the use of qualitative factors in the calculation. Given the concentration of ALLL allocation to the total commercial loan portfolio and the significant judgments made by management in deriving the qualitative loss factors, management considers the impact that changes in judgments could have on the ALLL. The ALLL could increase (or decrease) by approximately $2.0 million, assuming a 25% negative (or positive) change within the group of qualitative factors used to determine the ALLL for commercial loans. The sensitivity and related range of

impacts for various judgments on the ALLL is a hypothetical analysis and is used to determine management's judgments or assumptions of qualitative loss factors that were utilized at December 31, 2022 in the final recorded estimation of the ALLL on loans recognized on the Statement of Financial Condition.

If the assumptions underlying the determination of the ALLL prove to be incorrect, the ALLL may not be sufficient to cover actual loan losses and an increase to the ALLL may be necessary in future periods to allow for different assumptions or adverse developments. In addition, future problems with one or more specifically-identified loans or one or more specifically-identified borrower relationships could require a significant increase to the ALLL.

Management's methodology and policy in determining the allowance for loan losses can be found in Note 1 to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The activity in the allowance for loan losses is depicted in supporting tables in Note 6 to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard's stated main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables (such as loans) and other financial assets in scope. The ASU requires entities to measure credit losses on most financial assets carried at amortized costs and certain other instruments using an expected credit loss model. Banks in the United States above $5.0 billion in assets generally adopted this new way of measuring loan losses called the "Current Expected Credit Loss" ("CECL") model in 2020, with smaller public and private banks, such as Pathfinder, required to convert to this method in fiscal years beginning after December 15, 2022. The Company computed its Allowance for Loan Losses at December 31, 2022 using a methodology called the "Incurred Loss Model" ("ILM"), which remained applicable GAAP at that date. ILM (current GAAP) assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value. CECL requires that an estimate of loss for the entire life cycle of each asset with credit loss exposure be recorded at the funding date of that asset as a component of the reported Allowance for Credit Losses. For additional information regarding current expected credit losses, see Notes 2 and 6 to the consolidated financial statements.

The three major differences between CECL and ILM are: (1) CECL requires that reserves for the full, expected life of any asset with credit loss exposure be established at the funding date of the asset. The reserve must consider all expected credit and credit-related losses in aggregate to the asset's maturity (including prepayment projections) using a methodology that both a.) requires an evaluation of the Bank's segmented internal credit dynamics (historical loss rate, underwriting standards, etc.); and b.) requires evaluations of the macroeconomic environment at funding and at the end of each subsequent reporting period; (2) CECL requires that a broader array of assets, in addition to outstanding loans, must be included in the CECL calculation than were includable under the ILM model; and (3) CECL requires substantially enhanced documentation and underlying assumption, input and calculation support, due to its more extensive modeling assumptions and inputs, as well as its more complex calculations, than were previously considered necessary under ILM.

Beginning on January 1, 2023, the Bank will have to account for all credit loss exposures using this CECL methodology. A nonrecurring adjustment from ILM to CECL was made on January 1, 2023, increasing the ALLL at December 31, 2022 by $2.2 million in determining the beginning ACL for the quarter ended March 31, 2023. This transition adjustment was booked to retained earnings in the first quarter of 2023 and therefore will be a subtraction from tangible book value ("TBV"), after tax effects of approximately $1.7 million.

Deferred Income Tax Assets and Liabilities. Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is recognized for the future tax consequences. This is attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating and capital loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income tax expense in the period that includes the enactment date. If current available evidence about the future raises doubt about the likelihood of a deferred tax asset being realized, a valuation allowance is established. The judgment about the level of future taxable income, including that which is considered capital, is inherently subjective and is reviewed on a continual basis as regulatory and business factors change. For additional information regarding the Company's deferred income taxes, see Note 17 to the consolidated financial statements.

Pension Obligations. Pension and postretirement benefit plan liabilities and expenses are based upon actuarial assumptions of future events, including fair value of plan assets, interest rates, and the length of time the Company will have to provide those benefits. The assumptions used by management are discussed in Note 14 to the consolidated financial statements contained herein.

Evaluation of Investment Securities for Other-Than-Temporary-Impairment ("OTTI"). The Company carries all of its available-for-sale investments at fair value with any unrealized gains or losses reported net of tax as an adjustment to shareholders' equity and included

in accumulated other comprehensive income (loss), except for the credit-related portion of debt security impairment losses and OTTI of equity securities which are charged to earnings. The Company's ability to fully realize the value of its investments in various securities, including corporate debt securities, is dependent on the underlying creditworthiness of the issuing organization. In evaluating the debt security (both available-for-sale and held-to-maturity) portfolio for other-than-temporary impairment losses, management considers (1) if we intend to sell the security before recovery of its amortized cost; (2) if it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. When the fair value of a held-to-maturity or available-for-sale security is less than its amortized cost basis, an assessment is made as to whether OTTI is present. The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer and (guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of the security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

Evaluation of Goodwill. Management performs an annual evaluation of the Company's goodwill for possible impairment. Based on the results of the 2022 evaluation, management has determined that the carrying value of goodwill is not impaired as of December 31, 2022. The evaluation approach is described in Note 10 of the consolidated financial statements contained herein.

Estimation of Fair Value. The estimation of fair value is significant to several of our assets; including investment securities available-for-sale, interest rate derivative (discussed in detail in Note 22 of the consolidated financial statements), intangible assets, foreclosed real estate, and the value of loan collateral when valuing loans. These are all recorded at either fair value, or the lower of cost or fair value. Fair values are determined based on third party sources, when available. Furthermore, accounting principles generally accepted in the United States require disclosure of the fair value of financial instruments as a part of the notes to the consolidated financial statements. Fair values on our available-for-sale securities may be influenced by a number of factors; including market interest rates, prepayment speeds, discount rates, and the shape of yield curves.

Fair values for securities available-for-sale are obtained from an independent third party pricing service. Where available, fair values are based on quoted prices on a nationally recognized securities exchange. If quoted prices are not available, fair values are measured using quoted market prices for similar benchmark securities. Management made no adjustments to the fair value quotes that were provided by the pricing source. The fair values of foreclosed real estate and the underlying collateral value of impaired loans are typically determined based on evaluations by third parties, less estimated costs to sell. When necessary, appraisals are updated to reflect changes in market conditions.

RECENT EVENTS

On December 23, 2022, the Company announced that its Board of Directors had declared a cash dividend of $0.09 per share on the Company's voting common and non-voting common stock, and a cash dividend of $0.09 per notional share for the issued Warrant relating to the fiscal quarter ended December 31, 2022. The dividend was paid on February 10, 2023 to shareholders of record on January 17, 2023.

EXECUTIVE SUMMARY AND RESULTS OF OPERATIONS

The Company's total assets were $1.40 billion at December 31, 2022 as compared to $1.29 billion at December 31, 2021. The increase in total assets of $114.7 million, or 8.9%, was primarily the result of a $62.9 million increase in net loans receivable and a $33.5 million increase in held-to-maturity securities. All other assets, excluding cash and cash equivalents, increased by a net of $20.2 million. Cash and cash equivalents decreased by $1.9 million. The increase in total assets in 2022 was funded largely by a $70.1 million increase in deposits, specifically a $90.8 million increase in brokered deposits, partially offset by a $20.7 million decrease in customer deposits.

The Company reported net income of $12.9 million for 2022, an increase of $525,000, or 4.2%, as compared to net income of $12.4 million for 2021. Net income increased during 2022, as compared to the previous year, due to an increase in net interest income before the provision for loan losses of $3.1 million, and a decrease in income tax expense of $843,000. These increases were partially offset by a $1.7 million increase in provision for loan losses and a decrease in noninterest income of $317,000, combined with an increase in noninterest expenses for the year ended December 31, 2022 of $1.4 million. Basic and diluted earnings per share in 2022 were both $2.13 per share, as compared to $2.07 per share in 2021. Return on average assets decreased two basis points to 0.96% in 2022 from 0.98% in 2021. Return on average equity decreased 14 basis points to 11.77% in 2022 as compared to 11.91% in 2021. The decrease in return on average assets in 2022, as compared to the previous year, was primarily due to the increase in average asset growth outpacing the increase in net income. Average assets increased in 2022 by $84.4 million, or 6.7%, as the Company grew its total assets from $1.29 billion at December 31, 2021 to $1.40 billion at December 31, 2022. The decrease in return on average equity in 2022, as compared to the previous year, was primarily due to the increased growth in average equity outpacing the increase in net income.

Net interest income, before provision for loan losses, increased $3.1 million, or 8.1%, to $41.4 million in 2022 on average interest earning assets of $1.28 billion, as compared to net interest income before provision for loan losses of $38.3 million in 2021 on average interest earning assets of $1.19 billion. Interest and dividend income increased $5.3 million in 2022 to $51.1 million, as compared to $45.8 million in 2021. The aggregate increase in the average balance of interest-earning assets of $87.4 million was partially enhanced by an increase of 14 basis points in the overall average yield earned on those assets. The $5.3 million increase in interest and dividend income was partially offset by an increase in interest expense of $2.2 million due to an increase in the average rate paid on interest-bearing liabilities of 15 basis points in 2022 as compared to 2021, enhanced by an increase in the average balance of interest-bearing liabilities of $75 million during the same time period.

The Company recorded a provision for loan losses of $2.8 million in 2022 as compared to $1.0 million in the prior year. The $1.8 million year-over-year increase in provision for loan losses was primarily due to the downgrading of a limited number of relatively large commercial real estate and commercial loan relationships. Additionally, the provision for loan losses in 2022 reflected an increase in nonperforming loans of $723,000 at December 31, 2022, as compared to December 31, 2021. In addition, the provision for loan losses increased in 2022, as compared to the previous year, by an increase in outstanding loan balances of $65.3 million, or 7.8%, in 2022 as compared to 2021. The Company recorded $370,000 in net charge-offs in 2022 as compared to $866,000 in 2021. The ratio of net charge-offs to average loans therefore decreased to 0.04% in 2022 from 0.10% in 2021.

Total noninterest income was $5.9 million in 2022, a decrease of $317,000, or 5.1%, from $6.2 million in 2021. This decrease was due in part from a $451,000 increase in net losses on sale of premises and equipment, a $206,000 increase in net losses on sales and redemptions of investment securities, and a $176,000 decrease in net gains on sales of loans and foreclosed real estate when compared to the prior year. The increased losses in net premises and equipment resulted primarily from a $379,000 impairment write down on a property that was reclassed from net premises and equipment to assets held for sale, see Note 25 to the consolidated financial statements. The decrease in net gains on sales of loans and foreclosed real estate was primarily due to twenty one fewer loans being sold into the secondary market in 2022 as compared to 2021. These decreases were partially offset by a gain on the sale of foreclosed real estate held by our subsidiary Whispering Oaks.

Noninterest income before recorded gains (losses), increased $546,000, or 10.3%, to $5.8 million in 2022 as compared to $5.3 million in 2021. The $713,000 increase in other charges, commissions and fees was primarily due to the receipt of Federal and New York historical tax credits in connection with the restoration of the newly opened Southwest Corridor branch of $521,000 and realized hedge income of $176,000 recorded in March of 2022. The $117,000 year-over-year increase in loan servicing fees was primarily due to increased fee collections in 2022. Fee collections of this type are generally related to commercial mortgage and commercial real estate loan activity and will vary from year to year based on a number of factors including the level of fee waivers and other concessions offered to customers as a part of refinancing negotiations. These increases were partially offset by a $338,000 decrease in services charges on deposit accounts when compared to the prior year.

Since 2016, the Company held a passive equity investment, acquired for $534,000, in an otherwise unaffiliated financial institution. The issuer of that originally-purchased common stock was acquired in June 2020 by another financial institution (the acquiring bank). Upon the closing of the transaction, the acquisition resulted in the Company receiving total cash and stock compensation of $911,000 for its equity investment, based on the closing stock price of the acquiring bank on June 30, 2020. As a result, during the second quarter of 2020, the Company recorded a net gain on sales and redemptions of investment securities of $115,000 and a gain on equity securities of $438,000. The Company retained its shares of the acquiring bank, valued at $677,000 at December 31, 2021. The investment was sold in its entirety in May of 2022. As a result of this sale, the Company recorded a net loss of $15,000 in 2022.

Net loan charge-offs to average loans were 0.04% for 2022, as compared to 0.10% for 2021. Nonperforming loans to total loans remained at 1.00% at December 31, 2022, compared to December 31, 2021. The allowance for loan losses to non-performing loans at December 31, 2022 was 169.93%, compared with 155.99% at December 31, 2021. Total nonperforming assets increased $944,000, or 11.4%, between December 31, 2021 and December 31, 2022, driven by an increase of $221,000 in foreclosed real estate, increases of $1.1 million and $221,000 in nonperforming consumer and residential real estate loans respectively, partially offset by a decrease of $577,000 in commercial and commercial real estate loans.

Management monitors its loan portfolio closely and has incorporated our current estimate of the ultimate collectability of all loans into the reported allowance for loan losses at December 31, 2022. Overall the ratio of the allowance for loan losses to year end loans increased to 1.71% at December 31, 2022 from 1.57% at December 31, 2021.

Total past due loans measured as a percent of total loans, increased from 2.14% at December 31, 2021 to 3.21% at December 31, 2022, primarily due to an increase of $6.4 million in past due commercial loans, a $3.8 million increase in past due consumer loans, and a $911,000 increase in past due residential loans. The level of nonperforming loans increased in aggregate by $723,000 led by an increase of $1.1 million in consumer loans, a $221,000 increase in residential mortgage loans, partially offset by a $577,000 decrease in

commercial and commercial real estate loans. Commensurate with the increase in nonperforming loans to year end loans, the ratio of nonperforming assets to total assets increased to 0.66% at December 31, 2022 from 0.65% at December 31, 2021.

The Company's shareholders' equity increased $710,000, or 0.6%, to $111.0 million at December 31, 2022 from $110.3 million at December 31, 2021. This increase was primarily due to a $10.4 million increase in retained earnings, a $1.1 million increase in additional paid in capital and a $180,000 increase in ESOP shares earned. Comprehensive loss increased by $10.9 million, primarily as the result of unrealized losses on available for sale securities and retirement plans, partially offset by gains on derivatives and hedging activities during 2022. The increase in retained earnings resulted from $12.9 million in net income recorded in 2022. Partially offsetting this increase in retained earnings were $1.6 million for cash dividends declared on our voting common stock, $497,000 for cash dividends on our non-voting common stock, $45,000 for cash dividends declared on our issued warrant, and $368,000 for cumulative effect of affiliate capital allocation.

Net Interest Income

Net interest income is the Company's primary source of operating income. It is the amount by which interest earned on interest-earning deposits, loans and investment securities exceeds the interest paid on deposits and borrowed money. Changes in net interest income and the net interest margin ratio resulted from the interaction between the volume and composition of interest-earning assets, interest-bearing liabilities, and their respective yields and funding costs.

The following comments refer to the table of Average Balances and Rates and the Rate/Volume Analysis, both of which follow below.

Net interest income, before provision for loan losses, increased $3.1 million, or 8.12%, to $41.4 million in 2022 as compared to $38.3 million in the previous year. Our net interest margin for the year ended December 31, 2022 increased to 3.24% from 3.21% for the comparable prior year. The increase in net interest income was primarily due to a $5.2 million, or 11.5%, increase in interest and dividend income in 2022 to $51.1 million primarily as a result of the $87.4 million, or 7.34%, increase in the average balance of interest-earning assets and an increase in the average yield of interest-earning assets of 14 basis points. This increase in net interest income was partially offset by an increase in interest expense of $2.2 million, or 28.7%, during 2022, as compared to the previous year. The increase in interest expense was primarily due to an increase in the balance of average interest-bearing liabilities of $75.0 million and an increase in the average cost of interest-bearing liabilities of 15 basis points.

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 has not been adjusted for tax equivalency. 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. Nonaccrual loans have been included in interest-earning assets for purposes of these calculations.

	For the years ended December 31,					
	2022			2021		
Unaudited *(Dollars in thousands)*	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
Interest-earning assets:						
Loans	$ 869,591	$ 38,322	4.41%	$ 833,308	$ 37,026	4.44%
Taxable investment securities	351,898	11,454	3.25%	313,392	8,576	2.74%
Tax-exempt investment securities	38,456	1,173	3.05%	16,191	216	1.33%
Fed funds sold and interest-earning deposits	19,134	149	0.78%	28,765	9	0.03%
Total interest-earning assets	1,279,079	51,098	3.99%	1,191,656	45,827	3.85%
Noninterest-earning assets:						
Other assets	89,391			82,130		
Allowance for loan losses	(13,196)			(13,992)		
Net unrealized (losses) gains on available-for-sale securities	(9,580)			1,482		
Total assets	$ 1,345,694			$ 1,261,276		
Interest-bearing liabilities:						
NOW accounts	$ 102,223	$ 319	0.31%	$ 93,950	$ 286	0.30%
Money management accounts	16,201	18	0.11%	15,916	17	0.11%
MMDA accounts	260,594	1,941	0.74%	245,329	990	0.40%
Savings and club accounts	138,954	210	0.15%	122,275	159	0.13%
Time deposits	412,536	4,584	1.11%	366,724	3,262	0.89%
Subordinated debt	29,639	1,749	5.90%	32,736	1,790	5.47%
Borrowings	71,152	874	1.23%	79,362	1,028	1.30%
Total interest-bearing liabilities	1,031,299	9,695	0.94%	956,292	7,532	0.79%
Noninterest-bearing liabilities:						
Demand deposits	192,106			189,434		
Other liabilities	12,391			11,419		
Total liabilities	1,235,796			1,157,145		
Shareholders' equity	109,898			104,131		
Total liabilities & shareholders' equity	$ 1,345,694			$ 1,261,276		
Net interest income		$ 41,403			$ 38,295	
Net interest rate spread			3.05%			3.06%
Net interest margin			3.24%			3.21%
Ratio of average interest-earning assets to average interest-bearing liabilities			124.03%			124.61%

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 changes in 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 years 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. Tax-exempt securities have not been adjusted for tax equivalency.

	Years Ended December 31,					
	2022 vs 2021 Increase/(Decrease) Due to			2021 vs 2020 Increase/(Decrease) Due to		
(In thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest Income:						
Loans	$ 1,601	$ (305)	$ 1,296	$ 1,609	$ (4)	$ 1,605
Taxable investment securities	1,132	1,746	2,878	1,550	178	1,728
Tax-exempt investment securities	494	463	957	103	(46)	57
Interest-earning deposits	(4)	144	140	(14)	(56)	(70)
Total interest income	3,223	2,048	5,271	3,248	72	3,320
Interest Expense:						
NOW accounts	26	7	33	33	94	127
Money management accounts	-	1	1	-	(1)	(1)
MMDA accounts	65	886	951	198	(589)	(391)
Savings and club accounts	23	28	51	30	32	62
Time deposits	441	881	1,322	(598)	(2,597)	(3,195)
Subordinated debt	(177)	136	(41)	673	16	689
Borrowings	(103)	(51)	(154)	(41)	(582)	(623)
Total interest expense	275	1,888	2,163	295	(3,627)	(3,332)
Net change in net interest income	$ 2,948	$ 160	$ 3,108	$ 2,953	$ 3,699	$ 6,652

Interest Income

Changes in interest income result from changes in the average balances of loans, securities, and interest-earning deposits and the related average yields on those balances.

Interest and dividend income increased $5.3 million, or 11.5%, to $51.1 million in 2022 as compared to $45.8 million in 2021 due principally to the $87.4 million, or 7.3%, increase in average interest-earning assets. The average balance of loans increased $36.3 million, or 4.4%, in 2022, as compared to the previous year. This increase primarily reflected the Company's continued success in its expansion within the greater Syracuse market. The average yield earned on loans decreased of 0.03% in 2022, when compared to 2021. This modest decrease in loan yields was more than offset by a $36.3 million increase in the average balance of loans in 2022, therefore resulting in a $1.3 million increase in loan income recorded in 2022 as compared to 2021. The average balance of taxable investment securities increased $38.5 million, or 12.3%, when compared to the prior year. In addition, The average yields earned on taxable investment securities increased 51 basis points to 3.25% in 2022 as compared to 2.74% in 2021 as a result of the rising interest rate environment. In combination, these factors resulted in a $2.9 million increase in interest income associated with taxable investment securities in 2022, as compared to 2021.

Interest Expense

Changes in interest expense result from changes in the average balances of deposits and borrowings and the related average interest costs on those balances. Interest expense increased $2.2 million, or 28.7%, to $9.7 million in 2022, as compared to $7.5 million in the previous year. The increase in interest expense was primarily the result of an increase in interest paid on time and MMDA deposits of $1.3 million and $951,000, respectively. Increases between 2022 and 2021 in these deposits were primarily due to increases of 22 and 34 basis points on time and MMDA deposits, respectively, primarily due to the general increase in market interest rates during 2022.

Provision for Loan Losses

We establish a provision for loan losses, which is charged to operations, at a level management believes is appropriate to absorb probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types and amount of loans in the loan portfolio, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. The provision for loan losses represents management's estimate of the amount necessary to maintain the allowance for loan losses at an adequate level.

The Company recorded a provision for loan losses of $2.8 million in 2022 as compared to $1.0 million in the prior year. The $1.8 million year-over-year increase in the provision for loan losses was primarily due to the results of a loan portfolio evaluation that indicated the need for certain downgrades of four large commercial real estate and commercial loan relationships totaling approximately $12.0 million. The provision for loan losses in 2022 reflected an increase in nonperforming loans of $723,000 at December 31, 2022 as compared to December 31, 2021. In addition, the provision for loan losses increased in 2022, as compared to the previous year, by an increase in outstanding loan balances of $65.3 million or 7.8%, in 2022 as compared to 2021. The Company recorded $370,000 in net charge-offs in 2022 as compared to $866,000 in net charge-offs in 2021. The ratio of net charge-offs to average loans therefore decreased to 0.04% in 2022 from 0.10% in 2021.

Nonperforming loans to total loans remained constant at 1.00% at December 31, 2022 and 2021, respectively. The allowance for loan losses to non-performing loans at December 31, 2022 was 169.9%, compared with 156.0% at December 31, 2021. Total nonperforming loans increased $723,000, or 8.7%, between December 31, 2021 and December 31, 2022, driven by increases of $1.1 million in consumer loans and an increase of $221,000 in residential mortgage loans, partially offset by a $577,000 decrease in commercial and commercial real estate loans.

Noninterest Income

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

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

	Years Ended December 31,			
(Dollars in thousands)	2022	2021	Change	
Service charges on deposit accounts	$ 1,126	$ 1,464	$ (338)	-23.1%
Earnings and gain on bank owned life insurance	589	559	30	5.4%
Loan servicing fees	363	246	117	47.6%
Debit card interchange fees	867	923	(56)	-6.1%
Insurance agency revenue	1,128	1,048	80	7.6%
Other charges, commissions and fees	1,771	1,058	713	67.4%
Noninterest income before (losses) gains	5,844	5,298	546	10.3%
Net (losses) gains on sales of securities, fixed assets, loans and foreclosed real estate	(282)	551	(833)	-151.2%
Gains on marketable securities	352	382	(30)	-7.9%
Total noninterest income	$ 5,914	$ 6,231	$ (317)	-5.1%

Total noninterest income was $5.9 million in 2022, a decrease of $317,000, or 5.1%, from $6.2 million in 2021. This decrease was due in part from a $451,000 increase in net losses on sale of premises and equipment, a $206,000 increase in net losses on sales and redemptions of investment securities, and a $176,000 decrease in net gains on sales of loans and foreclosed real estate when compared to the prior year. The increased losses in net premises and equipment resulted primarily from a $379,000 impairment write down on a property that was reclassed from net premises and equipment to assets held for sale. The decrease in net gains on sales of loans and foreclosed real estate was primarily due to twenty one fewer loans being sold into the secondary market in 2022 as compared to 2021. These decreases were partially offset by a gain on the sale of foreclosed real estate held by our subsidiary Whispering Oaks. The decrease in sales of loans and foreclosed real estate was primarily due to twenty one fewer newly-originated 1-4 family residential mortgages being sold into the secondary market in 2022 as compared to 2021.

Noninterest income before recorded gains and losses, increased $546,000, or 10.3%, to $5.8 million in 2022 as compared to $5.3 million in 2021. The $713,000 increase in other charges, commissions and fees was primarily due to the receipt of Federal and New York historical tax credits in connection with the restoration of the newly opened Southwest Corridor branch of $521,000 and realized hedge income of $176,000 recorded in March of 2022. The $117,000 year-over-year increase in loan servicing fees was primarily due to

increased fee collections in 2022. Fee collections of this type are generally related to commercial mortgage and commercial real estate loan activity and will vary from year to year based on a number of factors including the level of fee waivers and other concessions offered to customers as a part of refinancing negotiations. These increases were partially offset by a $338,000 decrease in services charges on deposit accounts when compared to the prior year.

Since 2016, the Company held a passive equity investment, acquired for $534,000, in an otherwise unaffiliated financial institution. The issuer of that originally-purchased common stock was acquired in June 2020 by another financial institution (the acquiring bank). Upon the closing of the transaction, the acquisition resulted in the Company receiving total cash and stock compensation of $911,000 for its equity investment, based on the closing stock price of the acquiring institution on June 30, 2020. As a result, during the second quarter of 2020, the Company recorded a net gain on sales and redemptions of investment securities of $115,000 and a gain on equity securities of $438,000. The Company retained its shares of the acquiring bank, valued at $677,000 at December 31, 2021. The investment was sold in its entirety in May, 2022. As a result of this sale, the Company recorded a net loss of $15,000 in 2022.

In addition, the Company held a fixed-income investment, previously categorized as available-for-sale, which was managed since its acquisition in 2017 by an external party. In August 2021, the investment, including all interest and dividends received from its issuer since its initial purchase date had substantially reached a breakeven position on a cash flow basis and was sold in its entirety. In 2021, dividend income related to this investment and the net improvement in the fair market value of this investment, recognized through earnings, were $78,000 and $387,000, respectively.

Noninterest Expense

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

	Years Ended December 31,			
(Dollars in thousands)	2022	2021	Change	
Salaries and employee benefits	$ 16,022	$ 14,384	$ 1,638	11.4%
Building occupancy	3,380	3,121	259	8.3%
Data processing	2,042	2,555	(513)	-20.1%
Professional and other services	1,528	1,627	(99)	-6.1%
Advertising	905	1,198	(293)	-24.5%
FDIC assessments	606	874	(268)	-30.7%
Audits and exams	688	725	(37)	-5.1%
Insurance agency expense	906	825	81	9.8%
Community service activities	267	220	47	21.4%
Foreclosed real estate expenses	78	46	32	69.6%
Other expenses	2,452	1,920	532	27.7%
Total noninterest expenses	$ 28,874	$ 27,495	$ 1,379	5.0%

Noninterest expense increased $1.4 million, or 5.0%, to $28.9 million in 2022 from $27.5 million in 2021. The increase in noninterest expenses in 2022, as compared to 2021, was primarily a result of an increase in salaries and employee benefits expense of $1.6 million, or 11.4%, that was primarily comprised of a $737,000, or 7.2%, increase in salaries due to the competitive market for talent, a $531,000 reduction in the level of deferred employee-related expenses related to loan origination volume declines following the cessation of the PPP, and a $370,000 increase in all other salaries and employee benefit expenses. Building and occupancy costs increased $259,000 in 2022 when compared to the prior year primarily due to the opening of the Company's new Southwest Corridor branch. The decrease of $513,000 in data processing expenses for 2022 is largely due to contract re-negotiations and timing of payments when compared to 2021. Advertising decreased $293,000 when compared to the same prior year period due to changes in management's strategic initiatives. The decrease in FDIC assessments in 2022 is primarily due to the change in fees calculated on total liabilities and insured deposits. Other expenses increased $532,000 in 2022 primarily due an increase in servicing fees for brokered deposits of $247,000, offset by mortgage recording tax refunds received in 2021 of $206,000, and $79,000 of other general expenses.

Income Tax Expense

The Company reported income tax expense of $2.7 million in 2022 and $3.5 million in 2021, a decrease of $800,000 when compared to the previous year. This decrease was primarily the result of anticipated federal and state historic rehabilitation credits.

The Company’s effective tax rate was 17.5% in 2022, as compared to 22.4% in 2021. The Company’s effective tax rate in 2022 was decreased from the federal statutory income tax rate of 21.0% primarily due to the effects of New York State taxation, net of federal tax benefit, partially offset by the effects of tax exempt income received in the form of interest on tax exempt loans and investment securities, historic tax credits, and the increase in the value of its bank owned life insurance.

During 2022, the Company disposed of an equity security investment and realized a sale of real property that was held for investment, both resulting in a capital gain. These capital gains were able to fully offset prior capital loss carryforwards, thereby allowing the reversal of a valuation allowance recorded in the prior year.

As a Maryland business corporation, the Company is required to file an annual report with, and pay franchise taxes to, the State of Maryland.

See Note 17 to the consolidated financial statements for the reconciliation of the statutory tax rate to the effective tax rate.

Earnings Per Share

Basic and diluted earnings per share for the year ended December 31, 2022 were both $2.13, as compared to basic and diluted earnings per share of $2.07 for the year ended December 31, 2021. The increase in earnings per share between these two years was due to the increase in net income available to common shareholders between these two time periods. Further information on earnings per share can be found in Note 3 of this Form 10-K.

CHANGES IN FINANCIAL CONDITION

Total assets were $1.40 billion at December 31, 2022 as compared to $1.29 billion at December 31, 2021. The increase in total assets of $114.7 million, or 8.9%, was primarily the result of a $62.9 million increase in net loans receivable and a $33.5 million increase in held-to-maturity securities. All other assets, excluding cash and cash equivalents, increased by a net of $20.2 million. Cash and cash equivalents decreased by $1.9 million. The increase in total assets in 2022 was funded largely by a $70.1 million increase in deposits, specifically a $90.8 million increase in brokered deposits, partially offset by a $20.7 million decrease in customer deposits.

Investment Securities

The average investment portfolio represented 30.5% of the Company's average interest-earning assets in 2022 and is designed to generate a favorable rate of return in consideration of all risk factors associated with debt securities while assisting the Company in meeting its liquidity needs and interest rate risk strategies. All of the Company's investments, with the exception of marketable equity securities, are classified as either available-for-sale or held-to-maturity. The Company does not hold any trading securities. The Company invests primarily in securities issued by United States Government agencies and sponsored enterprises ("GSE"), mortgage-backed securities, collateralized mortgage obligations, state and municipal obligations, mutual funds, equity securities, investment grade corporate debt instruments, and common stock issued by the FHLBNY. By investing in these types of assets, the Company reduces the credit risk of its asset base through geographical and collateral-type diversification but must accept lower yields than would typically be available on loan products. Our mortgage-backed securities and collateralized mortgage obligations portfolios include privately-issued but substantially over-collateralized pass-through securities as well as pass-through securities guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae.

At December 31, 2022, available-for-sale investment securities increased 0.6% to $191.7 million and held-to-maturity investment securities increased 20.8% to $194.4 million as compared to December 31, 2021. There were no securities that exceeded 10% of consolidated shareholders' equity.

Our available-for-sale investment securities are carried at fair value and our held-to-maturity investment securities are carried at amortized cost.

The following table sets forth the carrying value of the Company's investment portfolio at December 31:

	Available-for-Sale			Held-to-Maturity		
(In thousands)	2022	2021	2020	2022	2021	2020
Investment Securities:						
US treasury, agencies and GSEs	$ 29,364	$ 32,273	$ 6,416	$ 3,852	$ -	$ 1,000
State and political subdivisions	45,385	39,199	23,753	15,211	14,790	16,482
Corporate	11,829	14,127	12,668	45,086	46,290	36,441
Asset backed securities	15,400	13,613	8,607	19,158	14,636	18,414
Residential mortgage-backed - US agency	16,400	22,164	25,211	7,489	9,740	11,807
Collateralized mortgage obligations - US agency	11,708	12,285	26,464	15,109	11,362	24,482
Collateralized mortgage obligations - Private label	61,434	56,731	24,936	88,497	64,105	62,598
Common stock - financial services industry	206	206	206	-	-	-
Total investment securities	$ 191,726	$ 190,598	$ 128,261	$ 194,402	$ 160,923	$ 171,224

The following table sets forth the scheduled maturities, amortized cost, fair values and average yields for the Company's investment securities at December 31, 2022. Average yield is calculated on the amortized cost to maturity. Adjustable rate mortgage-backed securities are included in the period in which interest rates are next scheduled to be reset.

AVAILABLE FOR SALE

	One Year or Less		More Than One to Five Years		More Than Five to Ten Years	
(Dollars in thousands)	Amortized Cost	Annualized Weighted Avg Yield	Amortized Cost	Annualized Weighted Avg Yield	Amortized Cost	Annualized Weighted Avg Yield
Debt investment securities:						
US Treasury, agencies and GSEs	$ -	0.00%	$ -	0.00%	$ 30,062	1.39%
State and political subdivisions	449	0.85%	523	1.82%	-	0.00%
Corporate	4,619	5.42%	4,235	4.51%	2,005	3.87%
Asset backed securities	-	0.00%	-	0.00%	2,513	6.02%
Total	$ 5,068	5.02%	$ 4,758	4.21%	$ 34,580	1.87%
Mortgage-backed securities:						
Residential mortgage-backed - US agency	$ -	0.00%	$ -	0.00%	$ -	0.00%
Collateralized mortgage obligations - US agency	-	0.00%	2,755	1.14%	1,780	2.16%
Collateralized mortgage obligations - Private label	2,006	6.55%	16,888	3.29%	13,302	3.08%
Total	$ 2,006	6.55%	$ 19,643	2.99%	$ 15,082	2.97%
Other non-maturity investments:						
Equity securities	$ 206	0.53%	$ -	0.00%	$ -	0.00%
Total	$ 206	0.53%	$ -	0.00%	$ -	0.00%
Total investment securities	$ 7,280	5.31%	$ 24,401	3.23%	$ 49,662	2.20%

	More Than Ten Years		Total Investment Securities		
(Dollars in thousands)	Amortized Cost	Annualized Weighted Avg Yield	Amortized Cost	Fair Value	Annualized Weighted Avg Yield
Debt investment securities:					
US Treasury, agencies and GSEs	$ 2,471	4.34%	$ 32,533	$ 29,364	1.39%
State and political subdivisions	47,030	2.42%	48,002	45,385	2.42%
Corporate	944	5.06%	11,803	11,829	4.72%
Asset backed securities	13,546	4.81%	16,059	15,400	2.41%
Total	$ 63,991	2.80%	$ 108,397	$ 101,978	2.39%
Mortgage-backed securities:					
Residential mortgage-backed - US agency	$ 17,982	1.39%	$ 17,982	$ 16,400	0.46%
Collateralized mortgage obligations - US agency	8,535	2.82%	13,070	11,708	1.66%
Collateralized mortgage obligations - Private label	33,585	3.97%	65,781	61,434	4.22%
Total	$ 60,102	3.03%	$ 96,833	$ 89,542	3.20%
Other non-maturity investments:					
Equity securities	$ -	0.00%	206	$ 206	0.53%
Total	$ -	0.00%	$ 206	$ 206	0.53%
Total investment securities	$ 124,093	2.91%	$ 205,436	$ 191,726	2.76%

HELD-TO-MATURITY

(Dollars in thousands)	One Year or Less			More Than One to Five Years			More Than Five to Ten Years	
		Amortized Cost	Annualized Weighted Avg Yield		Amortized Cost	Annualized Weighted Avg Yield		Amortized Cost	Annualized Weighted Avg Yield
Debt investment securities:								
US Treasury, agencies and GSEs	$	-	0.00%	$	-	0.00%	$	1,497	3.18%
State and political subdivisions		-	0.00%		1,803	3.08%		5,017	2.45%
Corporate		-	0.00%		10,444	4.26%		34,642	4.75%
Asset backed securities		-	0.00%		5,744	4.14%		-	0.00%
Total	$	-	0.00%	$	17,991	4.10%	$	41,156	4.41%
Mortgage-backed securities:									
Residential mortgage-backed - US agency	$	14	2.00%	$	1,284	3.65%	$	2,181	2.81%
Collateralized mortgage obligations - US agency		989	3.05%		1,365	3.63%		5,184	2.83%
Collateralized mortgage obligations - Private label		22,085	7.15%		15,128	5.11%		9,915	6.14%
Total	$	23,088	6.97%	$	17,777	4.89%	$	17,280	4.73%
Total investment securities	$	23,088	6.97%	$	35,768	4.49%	$	58,436	4.51%

(Dollars in thousands)	More Than Ten Years			Total Investment Securities				
		Amortized Cost	Annualized Weighted Avg Yield		Amortized Cost		Fair Value	Annualized Weighted Avg Yield
Debt investment securities:								
US Treasury, agencies and GSEs	$	2,355	2.74%	$	3,852	$	3,572	1.97%
State and political subdivisions		8,391	2.43%		15,211		12,871	2.65%
Corporate		-	0.00%		45,086		42,502	2.25%
Asset backed securities		13,414	3.77%		19,158		17,867	2.64%
Total	$	24,160	3.20%	$	83,307	$	76,812	2.40%
Mortgage-backed securities:								
Residential mortgage-backed - US agency	$	4,010	2.39%	$	7,489	$	6,750	3.02%
Collateralized mortgage obligations - US agency		7,571	2.73%		15,109		13,858	3.06%
Collateralized mortgage obligations - Private label		41,369	4.00%		88,497		84,071	5.60%
Total	$	52,950	3.70%	$	111,095	$	104,679	5.10%
Total investment securities	$	77,110	3.46%	$	194,402	$	181,491	3.95%

The yield information disclosed above does not give effect to changes in fair value that are reflected in accumulated other comprehensive loss in consolidated shareholders' equity.

Loans Receivable

Average loans receivable represented 67.9% of the Company's average interest earning assets in 2022 and account for the greatest portion of total interest income. At December 31, 2022, the Company had the largest portion of its loan portfolio in commercial loan products that represented 56.7% of total loans. These products include credits extended to businesses and political subdivisions within its marketplace that are typically secured by commercial real estate, equipment, inventories, and accounts receivable. The residential mortgage loans product segment represents 29.2% of total loans at December 31, 2022. The consumer loan products represents 14.1% of total loans at December 31, 2022. The Company has seen the proportion of commercial loan products to total loans increase in recent years and it will continue to emphasize these types of loans. Notwithstanding this emphasis, the Company also anticipates a continued commitment to financing the purchase or improvement of residential real estate in its market area.

The following table sets forth the composition of our loan portfolio, including net deferred costs, in dollar amount and as a percentage of loans.

	December 31,									
(Dollars in thousands)	2022		2021		2020		2019		2018	
Residential real estate	$ 262,008	29.2%	$ 246,344	29.6%	$ 233,094	28.2%	$ 212,663	27.2%	$ 238,894	38.5%
Residential real estate held-for-sale	19	0.0%	513	0.1%	1,526	0.2%	35,936	4.6%	-	0.0%
Commercial real estate	344,721	38.4%	287,279	34.5%	286,066	34.7%	254,781	32.6%	212,622	34.3%
Commercial and tax exempt	163,806	18.3%	156,167	18.8%	194,963	23.6%	148,776	19.0%	116,914	18.8%
Home equity and junior liens	34,349	3.8%	32,048	3.8%	38,941	4.7%	46,688	6.0%	26,416	4.3%
Consumer loans	92,851	10.3%	110,108	13.2%	70,905	8.6%	82,607	10.6%	25,424	4.1%
Total loans receivable	$ 897,754	100.0%	$ 832,459	100.0%	$ 825,495	100.0%	$ 781,451	100.0%	$ 620,270	100.0%

The following table shows the amount of loans outstanding, including net deferred costs, as of December 31, 2022 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Demand loans having no stated schedule of repayments, no stated maturity, and overdrafts are reported as one year or less. Adjustable and floating rate loans are included in the period on which interest rates are next scheduled to adjust, rather than the period in which they contractually mature. 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 > 5 Years to Fifteen Years	Due Over Fifteen Years	Total
Real estate:					
Commercial real estate	$ 6,480	$ 12,866	$ 82,454	$ 242,921	$ 344,721
Residential real estate	1,011	3,984	54,234	202,798	262,027
Total real estate loans	7,491	16,850	136,688	445,719	606,748
Commercial and tax exempt	80,323	42,150	34,442	6,891	163,806
Home Equity and junior liens	19,955	1,489	9,747	3,158	34,349
Consumer	4,656	12,000	9,355	66,840	92,851
Total loans	$ 112,425	$ 72,489	$ 190,232	$ 522,608	$ 897,754

The following table sets forth fixed- and adjustable-rate loans at December 31, 2022 that are contractually due after December 31, 2023:

(In thousands)	Due After One Year
Interest rates:	
Fixed	$ 442,322
Variable	343,007
Total loans	$ 785,329

Total loans receivable, including net deferred costs, increased $65.3 million, or 7.8%, to $897.8 million at December 31, 2022 when compared to $832.5 million at December 31, 2021, due to increases in commercial real estate loans, residential mortgage loans and commercial loans of $57.4 million, $15.3 million and $7.6 million, respectively. These increases in outstanding loan balances were partially offset by a decrease of $15.0 million in consumer loans. Although the Company maintained its previously established credit standards, the outstanding balances of commercial real estate and commercial loans increased as the Bank continued to benefit from the expanding relationship-derived business activity within the markets that the Bank serves. The increase in residential mortgage loans was primarily the result of increases in the percentage of originated loans allocated for addition to the Bank's portfolio as rates generally increased throughout 2022. The Company does not originate sub-prime, Alt-A, negative amortizing or other higher risk structured residential mortgages.

Nonperforming Loans and Assets

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

	December 31				
(Dollars In thousands)	2022	2021	2020	2019	2018
Nonaccrual loans:					
Commercial and commercial real estate loans	$ 5,720	$ 6,297	$ 17,978	$ 3,002	$ 830
Consumer	2,183	1,104	747	631	142
Residential mortgage loans	1,112	891	2,608	1,613	1,176
Total nonaccrual loans	9,015	8,292	21,333	5,246	2,148
Total nonperforming loans	9,015	8,292	21,333	5,246	2,148
Foreclosed real estate	221	-	-	88	1,173
Total nonperforming assets	$ 9,236	$ 8,292	$ 21,333	$ 5,334	$ 3,321
Accruing troubled debt restructurings	$ 3,047	$ 3,605	$ 3,554	$ 2,008	$ 2,574
Nonperforming loans to total loans	1.00%	1.00%	2.58%	0.67%	0.35%
Nonperforming assets to total assets	0.66%	0.65%	1.74%	0.49%	0.36%

Nonperforming assets include nonaccrual loans, nonaccrual troubled debt restructurings (“TDR”), and foreclosed real estate (“FRE”). Loans are considered a TDR when, due to a borrower’s financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the categories of nonaccrual loans or accruing TDRs.

Management monitors its loan portfolios closely and has incorporated our current estimate of the ultimate collectability of all loans into the reported allowance for loan losses at December 31, 2022. The ratio of the allowance for loan losses to year end loans was 1.71% and 1.55% at December 31, 2022 and December 31, 2021, respectively.

Total nonperforming assets increased $944,000, or 11.4%, between December 31, 2021 and December 31, 2022, driven by an increase of $221,000 in foreclosed real estate, increases of $1.1 million and $221,000 in nonperforming consumer and residential real estate loans respectively, partially offset by a decrease of $577,000 in commercial and commercial real estate loans. The $1.1 million increase in nonperforming consumer loans was due to increases of $1.1 million in purchased loans that are 90 days or greater past due. Of these loans, $489,000 relates to loans for which the Bank has full or partial recourse, or a significant secured collateral position. The decrease in nonperforming commercial and commercial real estate loans in 2022 was primarily due to the return of multiple relationships to accrual status during the year, primarily due to relationship-specific improvements in the credit profiles of those businesses and the charge-off of multiple relationships during the year in the amount of $586,000. These loans were initially placed on nonaccrual status during 2021. These relationships, which included loans collateralized by commercial real estate, made all required payments, as agreed, at December 31, 2022.

Management is monitoring these entities closely and has incorporated our current estimate of the ultimate collectability of these loans into the reported allowance for loan losses at December 31, 2022. Management believes that the value of the collateral properties underlying the loans is sufficient to preclude any significant losses related to these loans. Management continues to monitor and react to national and local economic trends as well as general portfolio conditions which may impact the quality of the portfolio, and considers these environmental factors in support of the allowance for loan loss reserve. Management believes that the current level of the allowance for loan losses, at $15.3 million at December 31, 2022, adequately addresses the current level of risk within the loan portfolio, particularly considering the types and levels of collateralization supporting the substantial majority of the portfolio. The Company maintains strict loan underwriting standards and carefully monitors the performance of the loan portfolio.

Foreclosed Real Estate (“FRE”) balances increased by $221,000 at December 31, 2022, compared to $-0- from the prior year end.

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. There are no loans that are past due 90 days or more and still accruing interest. 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. Had the loans in

nonaccrual status performed in accordance with their original terms, additional interest income of $476,000 and $592,000 would have been recorded for the years ended December 31, 2022 and December 31, 2021, respectively.

The measurement of impaired loans is based upon the fair value of the collateral or the present value of future cash flows discounted at the historical effective interest rate for impaired loans when the receipt of contractual principal and interest is probable. At December 31, 2022 and December 31, 2021, the Company had $20.2 million and $11.4 million in loans, which were deemed to be impaired, having specific reserves of $4.8 million and $1.9 million, respectively. The $8.8 million year-over-year increase in impaired loans was principally due to increases of $5.1 million, $2.6 million, $750,000, $293,000 and $86,000 in impaired commercial lines of credit, other commercial and industrial, commercial real estate, residential mortgages, and home equity and junior liens, respectively.

The threshold for individually measuring impairment on commercial real estate or commercial loans remains at $100,000 and for residential mortgage loans remains at $300,000 at December 31, 2022. The thresholds described above do not apply to loans that have been classified as troubled debt restructurings, which are individually measured for impairment at the time that the restructuring is affected.

Appraisals are obtained at the time a real estate secured loan is originated. For commercial real estate held as collateral, the property is inspected every two years.

Management has identified certain loans with potential credit profiles that may result in the borrowers not being able to comply with the current loan repayment terms and which may result in possible future impaired loan reporting. Potential problem loans decreased $5.1 million to $38.6 million at December 31, 2022, compared to $43.7 million at December 31, 2021. These loans have been internally classified as special mention, substandard, or doubtful, yet are not currently considered impaired. The decrease in potential problem loans was primarily due to a $3.1 million decrease in potential problem commercial real estate loans and a $3.1 million decrease in potential problem commercial and industrial loans and commercial lines. These decreases were partially offset by an increase in potential problem residential loans of $1.3 million. The decrease in potential problem commercial and industrial loans and commercial real estate loans in 2022 was a result of loan-specific and/or total relationship-specific improvements in the credit profiles of certain borrowers in 2022, as compared to the previous year. Management continues to monitor these loans and relationships closely.

Total potential problem loans, including impaired loans, were $38.6 million at December 31, 2022, were comprised of special mention, substandard and doubtful loans of $20.0 million, $17.0 million and $1.6 million, respectively. Total potential problem loans, including impaired loans, were $43.7 million at December 31, 2021, and were comprised of special mention, substandard and doubtful loans of $18.3 million, $23.8 million and $1.6 million, respectively. Special mention loans increased $1.8 million, while there were decreases in substandard loans of $6.8 million and doubtful loans of $84,000 at December 31, 2022 as compared to December 31, 2021. The decrease in loans classified as substandard was primarily due to a $5.3 million decrease in commercial real estate and a $3.7 million decrease in commercial and industrial loans in 2022, due to two relationships being removed from problem loan status, partially offset by a $2.0 million increase in commercial lines and a $275,000 increase in residential and consumer loans. These relationships, include secured loans (secured by third-party pledges, other governmental grants and/or business assets), unsecured loans, and loans collateralized by commercial real estate.

The Company measures delinquency based on the amount of past due loans as a percentage of total loans. The ratio of delinquent loans to total loans increased to 3.21% at December 31, 2022 as compared to 2.14% at December 31, 2021. This increase was due to an increase of $6.4 million in past due commercial loans, a $3.8 million increase in past due consumer loans, and a $911,000 increase in past due residential loans. At December 31, 2022, there were $28.9 million in loans past due including $13.0 million, $4.3 million and $8.7 million in loans 30-59 days, 60-89 days, and 90 days and over past due, respectively. At December 31, 2021, there were $17.9 million in loans past due including $5.2 million, $4.6 million and $8.0 million in loans 30-59 days, 60-89 days, and 90 days and over past due, respectively.

The increase of $11.0 million in total loans past due at December 31, 2022, as compared to December 31, 2021, was primarily due to an increase of $7.8 million in loans 30-59 days past due and a $644,000 increase in 90 days and over past due, partially offset by a $304,000 decrease in loans 60-89 days past due. The increase in loans 30-59 days past due was primarily due to an increase of $7.3 million in commercial loans. At December 31, 2022, there were 61 loans with an outstanding aggregate balance of $13.0 million that were 30-59 days past due, while at December 31, 2021, there were 13 loans with an outstanding aggregate balance of $5.2 million. The decrease in loans 60-89 days past due was primarily due to a decrease of $458,000 in commercial loans. The increase in loans 90 days and over past due was primarily due to an increase of $476,000 in delinquent commercial loans.

Loans purchased outside of the Bank's general market area are subject to substantial pre-purchase due diligence. Homogenous pools of purchased loans are subject to pre-purchase analyses led by a team of the Bank's senior executives and credit analysts. In each case, the Bank's analytical processes consider the types of loans being evaluated, the underwriting criteria employed by the originating entity, the historical performance of such loans, especially in the most recent deeply recessionary period, the offered collateral enhancements

and other credit loss mitigation factors offered by the seller and the capabilities and financial stability of the servicing entities involved. From a credit risk perspective, these loan pools also benefit from broad diversification, including wide geographic dispersion, the readily-verifiable historical performance of similar loans issued by the originators, as well as the overall experience and skill of the underwriters and servicing entities involved as counterparties to the Bank in these transactions. The performance of all purchased loan pools are monitored regularly from detailed reports and remittance reconciliations provided at least monthly by the servicing entities.

The projected credit losses related to purchased loan pools are evaluated prior to purchase and the performance of those loans against expectations are analyzed at least monthly. Over the life of the purchased loan pools, the allowance for loan losses is adjusted, through the provision for loan losses, for expected loss experience, over the projected life of the loans. The expected credit loss experience is determined at the time of purchase and is modified, to the extent necessary, during the life of the purchased loan pools. The Bank does not initially increase the allowance for loan losses on the purchase date of the loan pools.

In the normal course of business, the Bank has, from time to time, sold residential mortgage loans and participation interests in commercial loans. As is typical in the industry, the Bank makes certain representations and warranties to the buyer. Pathfinder Bank maintains a quality control program for closed loans and considers the risks and uncertainties associated with potential repurchase requirements to be minimal.

Allowance for Loan Losses

The allowance for loan losses is established through provision for loan losses and reduced by loan charge-offs net of recoveries. The allowance for loan losses represents the amount available for probable credit losses in the Company's loan portfolio as estimated by management. In its assessment of the qualitative factors used in arriving at the required allowance for loan losses, management considers changes in national and local economic trends, including the COVID-19 pandemic, the rate of the portfolios' growth, trends in delinquencies and nonaccrual balances, changes in loan policy, and changes in management experience and staffing. These factors, coupled with the recent historical loss experience within the loan portfolio by product segment support the estimable and probable losses within the loan portfolio.

The Company establishes a specific allocation for all commercial loans identified as being impaired with a balance in excess of $100,000 that are also on nonaccrual or have been risk rated under the Company's risk rating system as substandard, doubtful, or loss. The measurement of impaired loans is based upon either the present value of future cash flows discounted at the historical effective interest rate or the fair value of the collateral, less costs to sell for collateral dependent loans. At December 31, 2022, the Bank's position in impaired loans consisted of 81 loans totaling $20.2 million. Of these loans, 15 loans, totaling $1.5 million, were valued using the present value of future cash flows method; and 66 loans, totaling $18.7 million, were valued based on a collateral analysis. For all other loans, the Company uses the general allocation methodology that establishes an allowance to estimate the probable incurred loss for each risk-rating category. The Company uses the fair value of collateral, less costs to sell to measure impairment on commercial and commercial real estate loans. Residential real estate loans in excess of $300,000 will also be included in this individual loan review. Residential real estate loans less than this amount will be included in impaired loans if it is part of the total related credit to a previously identified impaired commercial loan. The Company also establishes a specific allowance, regardless of the size of the loan, for all loans subject to a troubled debt restructuring agreement.

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard's stated main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables (such as loans) and other financial assets in scope. The ASU requires entities to measure credit losses on most financial assets carried at amortized costs and certain other instruments using an expected credit loss model. Banks in the United States above $5.0 billion in assets generally adopted this new way of measuring loan losses called the "Current Expected Credit Loss" ("CECL") model in 2020, with smaller public and private banks, such as Pathfinder, required to convert to this method in fiscal years beginning after December 15, 2022. The Company computed its Allowance for Loan Losses at December 31, 2022 using a methodology called the "Incurred Loss Model" ("ILM"), which remained applicable GAAP at that date. ILM (current GAAP) assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value. CECL requires that an estimate of loss for the entire life cycle of each asset with credit loss exposure be recorded at the funding date of that asset as a component of the reported Allowance for Credit Losses. For additional information regarding current expected credit losses, see Notes 2 and 6 to the consolidated financial statements.

The three major differences between CECL and ILM are: (1) CECL requires that reserves for the full, expected life of any asset with credit loss exposure be established at the funding date of the asset. The reserve must consider all expected credit and credit-related losses in aggregate to the asset's maturity (including prepayment projections) using a methodology that both a.) requires an evaluation of the Bank's segmented internal credit dynamics (historical loss rate, underwriting standards, etc.); and b.) requires evaluations of the macroeconomic environment at funding and at the end of each subsequent reporting period; (2) CECL requires that a broader array of assets, in addition to outstanding loans, must be included in the CECL calculation than were includable under the ILM model; and (3)

CECL requires substantially enhanced documentation and underlying assumption, input and calculation support, due to its more extensive modeling assumptions and inputs, as well as its more complex calculations, than were previously considered necessary under ILM.

Beginning on January 1, 2023, the Bank will have to account for all credit loss exposures using this CECL methodology. A nonrecurring adjustment from ILM to CECL was made on January 1, 2023, increasing the ALLL at December 31, 2022 by $2.2 million in determining the beginning ACL for the quarter ended March 31, 2023. This transition adjustment was booked to retained earnings in the first quarter of 2023 and therefore will be a subtraction from tangible book value ("TBV"), after tax effects of approximately $1.7 million.

The allowance for loan losses at December 31, 2022 and 2021 was $15.3 million and $12.9 million respectively, or 1.71% and 1.57% of total year end loans on those dates, respectively. The Company recorded $370,000 in net charge-offs in 2022, as compared to $866,000 in net charge-offs in 2021. The ratio of net charge-offs to average loans decreased to 0.04% in 2022 from 0.10% in 2021.

For further discussion of our allowance for loan losses procedures, please see "Business-Allowance for Loan Losses" and Note 6 to the consolidated financial statements contained in this Annual Report on Form 10-K.

The following table sets forth the allocation of allowance for loan losses by loan category for the years 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.

	2022		2021		2020		2019		2018	
(Dollars in thousands)	Allocation of the Allowance	Percent of Loans to Total Loans	Allocation of the Allowance	Percent of Loans to Total Loans	Allocation of the Allowance	Percent of Loans to Total Loans	Allocation of the Allowance	Percent of Loans to Total Loans	Allocation of the Allowance	Percent of Loans to Total Loans
Residential real estate	$ 714	29.2%	$ 872	29.6%	$ 931	28.2%	$ 580	27.2%	$ 766	38.5%
Commercial real estate	5,881	38.4%	5,308	34.5%	4,776	34.7%	4,010	32.6%	3,578	34.3%
Commercial and tax exempt	6,937	18.3%	3,701	18.8%	4,663	23.6%	2,841	19.0%	2,016	18.8%
Home equity and junior liens	741	3.8%	774	3.8%	739	4.7%	553	6.0%	409	4.3%
Consumer loans	1,046	10.3%	1,297	13.2%	1,123	8.6%	413	10.6%	385	4.1%
Unallocated [1]	-	-	983	0.1%	545	0.20%	272	4.60%	152	-
Total	$ 15,319	100.0%	$ 12,935	100.0%	$ 12,777	100.0%	$ 8,669	100.0%	$ 7,306	100.0%

[1] Includes loans held-for-sale at December 31, 2022, 2021, 2020 and 2019. There were no loans classified as held for sale at December 31, 2018.

The following table sets forth the allowance for loan losses for the years indicated:

(Dollars In thousands)	2022	2021	2020	2019	2018
Balance at beginning of year	$ 12,935	$ 12,777	$ 8,669	$ 7,306	$ 7,126
Provisions charged to operating expenses	2,754	1,022	4,707	1,966	1,497
Recoveries of loans previously charged-off:					
Commercial real estate and loans	296	70	4	1	66
Consumer and home equity	95	88	95	60	58
Residential real estate	-	-	2	2	21
Total recoveries	391	158	101	63	145
Loans charged off:					
Commercial real estate and loans	(585)	(764)	(222)	(294)	(952)
Consumer and home equity	(147)	(240)	(353)	(361)	(265)
Residential real estate	(29)	(20)	(125)	(11)	(245)
Total charged-off	(761)	(1,024)	(700)	(666)	(1,462)
Net charge-offs	(370)	(866)	(599)	(603)	(1,317)
Balance at end of year	$ 15,319	$ 12,935	$ 12,777	$ 8,669	$ 7,306
Net charge-offs to average loans outstanding	0.04%	0.10%	0.08%	0.09%	0.22%
Allowance for loan losses to year-end loans	1.71%	1.57%	1.55%	1.11%	1.18%

The following table sets forth the loan net charge-off ratios for the years indicated:

	2022	2021
Allowance for loan losses to year-end loans	1.71%	1.57%
Allowance for loan losses to nonperforming loans	169.93%	155.99%
Nonaccrual Loans to total loans	1.00%	1.00%
Allowance for loan losses to nonaccrual loans	169.93%	155.99%
Net charge-offs to average loans outstanding		
Commercial real estate and loans	0.03%	0.15%
Consumer and home equity	0.01%	0.13%
Residential real estate	0.00%	0.01%
Total charged-off	0.04%	0.10%

Bank Owned Life Insurance

The Company held $24.0 million and $23.4 million in bank owned life insurance at December 31, 2022 and 2021, respectively. Bank owned life insurance increased $589,000, or 2.5%, to $24.0 million at December 31, 2022, as compared to December 31, 2021. The increase was primarily due to an increase in the cash value of the policies recorded as income in 2022.

Deposits

The Company's deposit base is drawn from eleven full-service offices in its market area. The deposit base consists of demand deposits, money management and money market deposit accounts, savings, and time deposits. Average deposits increased $89.0 million, or 8.6%, in 2022. For the year ended December 31, 2022, 63.3% of the Company's average deposit base of $1.1 billion consisted of core deposits. Core deposits, which exclude time deposits, are considered to be more stable and provide the Company with a lower cost of funds than time deposits. The Company will continue to emphasize retail and business core deposits by providing depositors with a full range of deposit product offerings and will maintain its recent focus on deposit gathering within the Syracuse market.

At December 31, 2022, business deposits and municipal deposits decreased $25.2 million and $7.7 million, respectively, and consumer deposits increased $12.4 million, when compared to December 31, 2021. Noninterest-bearing deposits, which are primarily demand deposits, were $183.7 million at year end, compared with $191.9 million on December 31, 2021. The increase in consumer deposits during the year ended December 31, 2022, reflected the Bank's increased market penetration among non-business customers, particularly in Onondaga County. The decrease in business deposits was primarily due to the deposits from a large credit union being withdrawn when the credit union was sold. Additionally, increases in business deposits from the activity of PPP loans generated in 2021 did not recur in 2022. The decrease in municipal deposits in 2022, as compared to the previous year, resulted from transitory factors and cyclical activity among a small number of the Bank's largest municipal depositors.

Total deposits of $1.13 billion at December 31, 2022 consisted in part of $248.6 million in brokered money market and certificates of deposit accounts. Brokered deposits represented 22.1% of all deposits at December 31, 2022. Total deposits of $1.06 billion at December 31, 2021 consisted in part of $157.8 million in brokered money market and certificates of deposit accounts. Brokered deposits represented 15.0% of all deposits at December 31, 2021.

The following table sets forth our deposit composition in dollar amount and as a percentage of total deposits.

	December 31,					
(Dollars in thousands)	2022		2021		2020	
Savings accounts	$ 134,880	12.0%	$ 131,176	12.4%	$ 103,093	10.4%
Time accounts	314,109	27.9%	253,564	24.0%	305,074	30.6%
Time accounts in excess of $250,000	71,696	6.4%	67,450	6.4%	91,976	9.2%
Money management accounts	16,107	1.4%	16,124	1.5%	15,650	1.6%
MMDA accounts	270,326	24.0%	256,963	24.3%	227,970	22.9%
Demand deposit interest-bearing	127,395	11.3%	130,816	12.4%	83,129	8.3%
Demand deposit noninterest-bearing	183,711	16.3%	191,858	18.2%	162,057	16.3%
Mortgage escrow funds	7,206	0.7%	7,395	0.8%	6,958	0.7%
Total Deposits	$ 1,125,430	100.0%	$ 1,055,346	100.0%	$ 995,907	100.0%

The Company has deposits that exceeds the FDIC insurance limit of $250,000 of $501.2 million at December 31, 2022 and $492.0 million at December 31, 2021. At December 31, 2022, time deposit accounts in excess of $250,000 totaled $71.7 million, or 18.6% of

time deposits and 6.4% of total deposits. At December 31, 2021, these deposits totaled $67.5 million, or 21.0% of time deposits and 6.4% of total deposits.

The following table indicates the amount of the Company's time deposit accounts in excess of $250,000 by time remaining until maturity as of December 31, 2022:

(In thousands)		
Remaining Maturity:		
Three months or less	$	21,710
Three through six months		9,190
Six through twelve months		11,276
Over twelve months		29,520
Total	$	71,696

Borrowings

Borrowings are comprised primarily of advances and overnight borrowings at the FHLBNY.

The following table represents information regarding short-term borrowings for the years ended December 31:

(Dollars in thousands)		2022		2021		2020
Maximum outstanding at any month end	$	60,333	$	12,500	$	10,158
Average amount outstanding during the year		12,492		3,677		8,985
Balance at the end of the period		60,333		12,500		4,020
Average interest rate during the year		2.48%		0.28%		1.65%
Average interest rate at the end of the period		3.86%		1.28%		0.26%

The following table represents information regarding long-term borrowings for the years ended December 31:

(Dollars in thousands)		2022		2021		2020
Maximum outstanding at any month end	$	67,371	$	85,125	$	83,299
Average amount outstanding during the year		58,593		75,724		72,430
Balance at the end of the period		55,664		64,598		78,030
Average interest rate during the year		0.96%		1.34%		2.08%
Average interest rate at the end of the period		1.39%		1.12%		1.60%

Subordinated Debt

The Company has a non-consolidated subsidiary trust, Pathfinder Statutory Trust II, of which the Company owns 100% of the common equity. The Trust issued $5,000,000 of 30-year floating rate Company-obligated pooled capital securities of Pathfinder Statutory Trust II ("Floating-Rate Debentures"). 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 2037 and are treated as Tier 1 capital by the FDIC and Federal Reserve. The capital securities of the trust are a pooled trust preferred fund of Preferred Term Securities VI, Ltd., whose interest rate resets quarterly, and are indexed to the 3-month U.S. dollar-denominated ("USD") LIBOR rate plus 1.65%. These securities have a five-year call provision. The Company paid $178,000 and $94,000 in interest expense related to this issuance in 2022 and 2021, respectively. The Company guarantees all of these securities.

In December 2020 the United Kingdom's Financial Conduct Authority ("FCA"), the organization responsible for regulating LIBOR, stated that it would (i) cease publishing indices at December 31, 2020 for one-week and two-month USD LIBOR after December 31, 2021, and (ii) cease publishing of all other tenors of USD LIBOR (specifically, one, three, six and 12-month tenors) after June 30, 2023. The Alternative Reference Rates Committee (the "ARRC"), formed by the Federal Reserve Board and the Federal Reserve Bank of New York, was charged with developing an alternative rate that will replace USD LIBOR. The ARRC subsequently identified the Secured SOFR as the rate that represents best practice for use in USD LIBOR derivatives and other financial contracts. U.S. banking regulators also encouraged banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and, in any event, by December 31, 2021. Management has analyzed the Company's aggregate exposure to instruments that are indexed to USD LIBOR (including the Company's acquired loan participations, fixed-income investments, hedging instruments and the Floating-Rate Debentures) and concluded that the adoption of SOFR will not materially impact the Company or the results of its operations.

The Company's equity interest in the trust subsidiary is included in other assets on the Consolidated Statements of Condition at December 31, 2022 and 2021. 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 at its discretion.

On October 15, 2015, the Company executed a $10.0 million non-amortizing Subordinated Debt (the 2015 Subordinated Debt) with an unrelated third party that was scheduled to mature on October 1, 2025. The Company had the right to prepay the 2015 Subordinated Debt on the first day of any calendar quarter after October 15, 2020 without penalty. The effective annual interest rate charged to the Company was be 6.25% through the maturity date of the 2015 Subordinated Debt. In the first quarter of 2021, the Company exercised its existing contractual option and issued a Notice of Redemption ("NOR") to the holders of the 2015 Subordinated Debt, which was scheduled to mature on October 1, 2025. With the issuance of this NOR, the Company redeemed the $10.0 million 2015 Subordinated Debt, plus accrued interest on April 1, 2021. Interest expense, related to this borrowing, of $-0- and $156,000 was recorded in the years ended December 31, 2022 and 2021, respectively.

On October 14, 2020, the Company executed a private placement of $25.0 million of its 5.50% Fixed to Floating Rate non-amortizing Subordinated Debt (the "2020 Subordinated Debt") to certain qualified institutional buyers and accredited institutional investors. The 2020 Subordinated Debt has a maturity date of October 15, 2030 and initially bear interest, payable semi-annually, at a fixed annual rate of 5.50% per annum until October 15, 2025. Commencing on that date, the interest rate applicable to the outstanding principal amount due will be reset quarterly to an interest rate per annum equal to the then current three month SOFR plus 532 basis points, payable quarterly until maturity. The Company may redeem the 2020 Subordinated Debt at par, in whole or in part, at its option, any time after October 15, 2025 (the first redemption date). The 2020 Subordinated Debt is senior in the Company's credit repayment hierarchy only to the Company's common equity and, any future senior indebtedness and is intended to qualify as Tier 2 capital for regulatory capital purposes for the Company, when applicable. The Company paid $783,000 in origination and legal fees as part of this transaction. These fees will be amortized over the life of the 2020 Subordinated Debt through its first redemption date using the effective interest method, giving rise to an effective cost of funds of 6.22% from the issuance date calculated under this method. Accordingly, interest expense of $1.6 million and $1.5 million was recorded for the years ended December 31, 2022 and 2021, respectively, related to this transaction.

Capital

The Company's shareholders' equity increased $710,000, or 0.6%, to $111.0 million at December 31, 2022 from $110.3 million at December 31, 2021. This increase was primarily due to a $10.4 million increase in retained earnings, a $1.0 million increase in additional paid in capital and a $180,000 increase in ESOP shares earned, offset by a $10.9 million increase in comprehensive loss. The increase in retained earnings resulted from $12.9 million in net income recorded in 2022. Partially offsetting this increase in retained earnings were $1.6 million for cash dividends declared on our voting common stock, $497,000 for cash dividends declared on our non-voting common stock and $45,000 for cash dividends declared on our issued warrant, and $368,000 for the cumulative effect of affiliate capital allocation. Comprehensive loss increased primarily as the result of increased losses on available for sale securities of $10.6 million and a $1.0 million adjustment to pension and post retirement, partially offset by a $669,000 gain on derivatives and hedging activities.

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 support growth and expansion activities, while maintaining a strong capital position and exceeding regulatory standards. At December 31, 2022, the Bank exceeded all regulatory required minimum capital ratios and met the regulatory definition of a "well-capitalized" institution. See "Supervision and Regulation – Federal Regulations – Capital Requirements"

As a result of the Dodd-Frank Act, the Company's ability to raise new capital through the use of trust preferred securities may be limited because these securities will no longer be included in Tier 1 capital. In addition, our ability to generate or originate additional revenue producing assets may be constrained in the future in order to comply with capital standards required by federal regulation. See Note 20 to the consolidated financial statements contained herein and the regulation and supervision section within Part I of this Annual Report on Form 10-K for further discussion on regulatory capital requirements.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios 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).

As of December 31, 2022, 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 specified total risk-based, Tier 1 risk-based and Tier 1 leverage ratios. There are no conditions or events since that notification that management believes have changed the Bank's category.

The regulations also impose a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The buffer is separate from the capital ratios required under the Prompt Corrective Action ("PCA") standards and imposes restrictions on dividend distributions and discretionary bonuses for senior officers. In order to avoid these restrictions, the capital conservation buffer effectively increases the minimum the following capital to risk-weighted assets ratios: (1) Core Capital, (2) Total Capital and (3) Common Equity. At December 31, 2022, the Bank exceeded all current regulatory required minimum capital ratios, including the capital buffer requirements.

LIQUIDITY

Liquidity management involves the Company's ability to generate cash or otherwise obtain funds at reasonable rates to support asset growth, meet deposit withdrawals, maintain reserve requirements, and 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 ability to borrow from the FHLBNY, 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, brokered deposits, negotiated time deposits, the sale of "available-for-sale" investment securities, or the sale of loans. Such actions could result in higher interest expense costs and/or losses on the sale of securities or loans.

For the year ended December 31, 2022, cash and cash equivalents decreased by $1.9 million. The Company reported net cash flows from financing activities of $107.6 million generated principally by a $47.8 million increase in short term borrowings and a $90.8 million increase in brokered deposits, offset by a decrease in customer deposits of $20.7 million, a decrease in net proceeds from long-term borrowings of $8.9 million, and an aggregate decrease in net cash of all other financing sources, including dividends paid to common shareholders, and the holder of the Warrant of $2.1 million. Additionally, $21.7 million was provided through operating activities generated principally by net income and proceeds from loan sales. These cash flows were primarily invested in: $114.9 million in purchases of investment securities in 2022, and $66.3 million net increases in loans outstanding.

Certificates of deposit due within one year of December 31, 2022 totaled $216.2 million, representing 56.0% of certificates of deposit at December 31, 2022, a decrease from 57.9% at December 31, 2021. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2023.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and making payments on its subordinated debt. The Company may repurchase shares of its common stock. The Company's primary sources of funds are the proceeds it retained from the Private Placement, the issuance of the 2020 Subordinated Debt, interest and dividends on securities and, potentially, dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without prior regulatory approval, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. The Company believes that this restriction will not have an impact on the Company's ability to meet its ongoing cash obligations. At December 31, 2022 and 2021, the Company had cash and cash equivalents of $35.3 million and $37.1 million, respectively.

The Bank has a number of existing credit facilities available to it. At December 31, 2022, total credit available under the existing lines of credit was approximately $163.4 million at FHLBNY, the FRB, and two other correspondent banks. At December 31, 2022, the Company had $116.0 million of the available lines of credit utilized, including encumbrances supporting the outstanding letters of credit, described above, on its existing lines of credit with the remainder of $47.4 million available.

The Asset Liability Management Committee of the Company is responsible for implementing the policies and guidelines for the maintenance of prudent levels of liquidity. As of December 31, 2022, management reported to the Board of Directors that the Bank was in compliance with its liquidity policy guidelines.

Due to a variety of macroeconomic and bank-specific factors, there was a small number of large bank failures in the first quarter of 2023 that resulted in those banks being placed into receivership by the FDIC. These failures were highly-publicized and created significant concerns related to 'systemic' risk within the banking sector. It was generally understood that those particular failures resulted primarily from imprudent depositor concentrations, a loss of large-balance depositor confidence in those institutions and, consequently, unsustainably large depositor withdrawals. In an effort to increase depositor confidence across the United States' banking system, the Federal Reserve Board, pursuant to section 13(3) of the Federal Reserve Act, authorized all 12 Reserve Banks to establish the Bank Term Funding Program ("BTFP") to make available additional funding to eligible depository institutions, such as the Bank, in order to help assure those institutions have the ability to meet the liquidity needs of all of their depositors.

The BTFP will be an additional source of liquidity provided against any insured depository institution's high-quality securities, eliminating an eligible depository institution's need to quickly sell those securities in times of liquidity stress. Significant features of the BTFP include the following:

- Advances can be requested under the Program until at least March 11, 2024;
- There is no limit to the number or size of advances in the aggregate. Eligible depository institutions may borrow up to the value of eligible collateral they pledge. The collateral valuation will be at par value. Therefore, there will be no market value 'haircut' adjustments applied to qualifying collateral and available margin to participating financial institutions will consequently be 100% of par value;
- Borrowers may prepay advances (including for purposes of refinancing) at any time without penalty;
- Advances will be made available to eligible depository institutions for a term of up to one year;
- The rate for term advances will be the one-year overnight index swap rate plus 10 basis points and will be fixed for the term of the advance on the day the advance is made;
- Advances made under the Program are made with recourse beyond the pledged collateral to the eligible depository institution;

The BTFP will be an additional source of potential liquidity for the Bank until the date of the Program's termination. The BTFP may be accessed by the Bank if management determines that there is a potential or realized short-term liquidity requirement for which this facility should be used to support the Bank's operations. Management could also electively choose to use the facility in certain other circumstances to create other financial or operational benefits at the time that the BTFP line is accessed. As of the date of this filing, the BTFP has not been accessed by the Bank.

OFF-BALANCE SHEET ARRANGEMENTS

The Bank is also 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. At December 31, 2022, the Bank had $216.0 million in outstanding commitments to extend credit and standby letters of credit. See Note 18 within the Notes to consolidated financial statements contained herein.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required of a smaller reporting company.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Pathfinder Bancorp, Inc.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") (the Company's principal executive officer and principal financial officer), management conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2022. The term "disclosure controls and procedures," under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the filing of the Annual Report on Form 10-K as of December 31, 2022, our CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2022 at a reasonable assurance level.

Overview of Internal Control

Internal control processes and procedures help entities achieve important objectives and sustain and improve performance. The COSO Framework (as defined below) enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks at acceptable levels and support sound decision making and governance of organizations. The COSO Framework defines internal control as "a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance." The COSO Framework provides three categories of objectives, which allow organizations to focus on differing aspects of internal control: (a) Operations Objectives, (b) Reporting Objectives and (c) Compliance Objectives.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management evaluates the effectiveness of internal control over financial reporting and tests for reliability of recorded financial information through a program of ongoing internal audits. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation. Under applicable SEC accounting related rules, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements would not be prevented or detected on a timely basis.

Management conducted the Evaluation based on the 2013 framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

As a result of the Evaluation as of December 31, 2022, management has determined that there were no material weaknesses in the Company's internal controls over financial reporting.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes made in our internal controls during the year ended December 31, 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ James A. Dowd
James A. Dowd
President and Chief Executive Officer

/s/ Walter F. Rusnak
Walter F. Rusnak
Senior Vice President, Chief Financial Officer

Oswego, New York
March 31, 2023

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of condition of Pathfinder Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

As described in Notes 1 and 6 to the consolidated financial statements, the Company's allowance for loan losses is management's estimate of losses inherent in the loan portfolio as of the date of the statement of condition and it is recorded as a reduction to loans. The allowance for loan losses was $15.3 million at December 31, 2022, which consists of three components (i) specific reserves based on probable losses on specific loans ("specific reserves"), and (ii) a general allowance based on historical loan loss experience, general economic conditions and other qualitative risk factors both internal and external to the Company ("general reserves"). The specific reserve component relates to loans that are classified as impaired and is established when the collateral value or discounted cash flows of the impaired loan are lower than the carrying value of the loan. The general reserve component of the allowance for loan losses covers pools of loans, by loan class, and is based on a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, known information about individual loans and other factors.

Qualitative factors include various considerations regarding the general economic environment in the Company's market area. The qualitative adjustment for the general reserve includes management's consideration of changes in national and local economic trends, the rate of growth in the portfolio, trends of delinquencies and nonaccrual balances, changes in loan policy, and changes in lending management experience and related staffing.

The qualitative adjustment contributes significantly to the general reserve component of the allowance for loan losses. Management's identification and analysis of these considerations and related adjustments requires significant judgment and could have a significant effect on the allowance for loan losses. We identified the estimate of the qualitative adjustments of the general reserve for the allowance for loan losses as a critical audit matter as they represent a significant portion of the total general reserve and because management's estimate relies on a qualitative analysis to determine a quantitative adjustment which required especially subjective auditor judgment.

The primary procedures we performed to address this critical audit matter included performing substantive testing, including evaluating management's judgments and assumptions for developing the general reserve qualitative adjustments for the allowance for loan losses, which consisted of the following:

- Assessing management's methodology and considering whether relevant risks were reflected in the modeled provision and whether adjustments to modeled calculations were appropriate.
- Evaluating the completeness and accuracy of data inputs used as a basis for the adjustments relating to qualitative general reserve factors and considering whether the sources of data and factors that management used in forming the assumptions are relevant, reliable, and sufficient for the purpose based on the information gathered.
- Evaluating the reasonableness of management's judgments related to the qualitative and quantitative assessment of the data used in the determination of the general reserve qualitative adjustments for consistency with each other, the supporting data, relevant historical data, and industry data.
- Assessing whether historical data is comparable and consistent with data of the current year and considering whether the data is sufficiently reliable. Among other procedures, our evaluation considered evidence from internal and external sources, loan portfolio performance and whether such assumptions were applied consistently period to period.
- Analytically evaluating the qualitative adjustment in the current year compared to prior years for directional consistency and reasonableness.
- Evaluated whether management's judgments and assumptions adequately contemplated the impact of COVID-19 on management's quantitative and qualitative assessment.
- Testing the calculations used by management to translate the assumptions and key factors into the allowance estimated amount.

We have served as the Company's auditor since 2011.

/s/ BONADIO & CO., LLP

Bonadio & Co., LLP
Pittsford, New York
March 31, 2023

Pathfinder Bancorp, Inc.
Consolidated Statements of Condition

(In thousands, except share and per share data)		December 31, 2022		December 31, 2021
ASSETS:				
Cash and due from banks (including restricted balances of $0 and $1,600, respectively)	$	13,939	$	13,856
Interest-earning deposits (including restricted balances of $0 and $0, respectively)		21,343		23,293
Total cash and cash equivalents		35,282		37,149
Available-for-sale securities, at fair value		191,726		190,598
Held-to-maturity securities, at amortized cost (fair value of $181,491 and $162,805, respectively)		194,402		160,923
Marketable securities, at fair value		1,862		677
Federal Home Loan Bank stock, at cost		5,982		4,189
Loans		897,735		831,946
Loans held-for-sale		19		513
Less: Allowance for loan losses		15,319		12,935
Loans receivable, net		882,435		819,524
Premises and equipment, net		17,872		21,659
Assets held-for-sale		3,042		-
Operating lease right-of-use assets		2,098		2,136
Finance lease right-of-use assets		4,213		-
Accrued interest receivable		6,168		4,520
Foreclosed real estate		221		-
Intangible assets, net		101		117
Goodwill		4,536		4,536
Bank owned life insurance		24,012		23,423
Other assets		25,969		15,726
Total assets	$	1,399,921	$	1,285,177
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Deposits:				
Interest-bearing	$	941,719	$	863,488
Noninterest-bearing		183,711		191,858
Total deposits		1,125,430		1,055,346
Short-term borrowings		60,333		12,500
Long-term borrowings		55,664		64,598
Subordinated debt		29,733		29,563
Accrued interest payable		975		106
Operating lease liabilities		2,417		2,440
Finance lease liabilities		4,422		596
Other liabilities		9,365		9,395
Total liabilities		1,288,339		1,174,544
Shareholders' equity:				
Voting common stock, par value $0.01; 25,000,000 authorized shares; 4,651,829 and 4,603,184 shares issued and outstanding, respectively		47		46
Non-Voting common stock, par value $0.01; 1,505,283 authorized shares; 1,380,283 and 1,380,283 shares issued and outstanding, respectively		14		14
Additional paid in capital		52,101		51,044
Retained earnings		71,322		60,946
Accumulated other comprehensive loss		(12,172)		(1,268)
Unearned ESOP		(315)		(495)
Total Pathfinder Bancorp, Inc. shareholders' equity		110,997		110,287
Noncontrolling interest		585		346
Total equity		111,582		110,633
Total liabilities and shareholders' equity	$	1,399,921	$	1,285,177

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Income

(In thousands, except per share data)		For the years ended December 31, 2022		December 31, 2021
Interest and dividend income:				
Loans, including fees	$	38,322	$	37,026
Debt securities:		-		-
Taxable		11,225		8,312
Tax-exempt		1,173		171
Dividends		229		309
Federal funds sold and interest earning deposits		149		9
Total interest and dividend income		51,098		45,827
Interest expense:				
Interest on deposits		7,072		4,714
Interest on short-term borrowings		310		10
Interest on long-term borrowings		564		1,018
Interest on subordinated debt		1,749		1,790
Total interest expense		9,695		7,532
Net interest income		41,403		38,295
Provision for loan losses		2,754		1,022
Net interest income after provision for loan losses		38,649		37,273
Noninterest income:				
Service charges on deposit accounts		1,126		1,464
Earnings and gain on bank owned life insurance		589		559
Loan servicing fees		363		246
Net (losses) gains on sales and redemptions of investment securities		(169)		37
Gains on marketable securities		352		382
Net gains on sales of loans and foreclosed real estate		137		313
Net (losses) gains on sale of premises and equipment		(250)		201
Debit card interchange fees		867		923
Insurance agency revenue		1,128		1,048
Other charges, commissions & fees		1,771		1,058
Total noninterest income		5,914		6,231
Noninterest expense:				
Salaries and employee benefits		16,022		14,384
Building and occupancy		3,380		3,121
Data processing		2,042		2,555
Professional and other services		1,528		1,627
Advertising		905		1,198
FDIC assessments		606		874
Audits and exams		688		725
Insurance agency expense		906		825
Community service activities		267		220
Foreclosed real estate expenses		78		46
Other expenses		2,452		1,920
Total noninterest expense		28,874		27,495
Income before income taxes		15,689		16,009
Provision for income taxes		2,656		3,499
Net income attributable to noncontrolling interest and Pathfinder Bancorp, Inc.		13,033		12,510
Net income attributable to noncontrolling interest		101		103
Net income attributable to Pathfinder Bancorp Inc.	$	12,932	$	12,407
Voting Earnings per common share - basic and diluted	$	2.13	$	2.07
Series A Non-Voting Earnings per common share- basic and diluted	$	2.13	$	2.07
Dividends per common share (Voting and Series A Non-Voting)	$	0.36	$	0.28

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Comprehensive Income

(In thousands)	For the years ended December 31, 2022	December 31, 2021
Net Income	$ 13,033	$ 12,510
Other Comprehensive Income		
Retirement Plans:		
Retirement plan net gains recognized in plan expenses	2	105
Plan (losses) gains not recognized in plan expenses	(1,380)	818
Net unrealized (losses) gains on retirement plans	(1,378)	923
Available-for-sale securities:		
Unrealized holding losses arising during the period	(14,448)	(535)
Reclassification adjustment for net losses (gains) included in net income	160	(19)
Net unrealized losses on available-for-sale securities	(14,288)	(554)
Derivatives and hedging activities:		
Unrealized holding gains arising during the period	906	921
Net unrealized gains on derivatives and hedging activities	906	921
Accretion of net unrealized (losses) gains on securities transferred to held-to-maturity[1]	(2)	21
Other comprehensive (loss) income, before tax	(14,762)	1,311
Tax effect	3,858	(343)
Other comprehensive (loss) income, net of tax	(10,904)	968
Comprehensive income	$ 2,129	$ 13,478
Comprehensive income, attributable to noncontrolling interest	$ 101	$ 103
Comprehensive income attributable to Pathfinder Bancorp, Inc.	$ 2,028	$ 13,375
Tax Effect Allocated to Each Component of Other Comprehensive Income		
Retirement plan net gains recognized in plan expenses	$ -	$ (27)
Plan losses (gains) not recognized in plan expenses	363	(215)
Unrealized holding losses arising during the period	3,775	140
Reclassification adjustment for net (losses) gains included in net income	(42)	5
Unrealized gains on derivatives and hedging arising during the period	(238)	(241)
Accretion of net unrealized loss on securities transferred to held-to-maturity[1]	-	(5)
Income tax effect related to other comprehensive income	$ 3,858	$ (343)

[1] The accretion of the unrealized holding losses in accumulated other comprehensive loss at the date of transfer at September 30, 2013 partially offsets the amortization of the difference between the par value and the fair value of the investment securities at the date of transfer, and is an adjustment of yield.

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2022 and December 31, 2021

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Non-Voting Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP	Non-controlling Interest	Total
Balance, January 1, 2022	$ -	$ 46	$ 14	$ 51,044	$ 60,946	$ (1,268)	$ (495)	$ 346	$ 110,633
Net income	-	-	-	-	12,932	-	-	101	13,033
Other comprehensive income, net of tax	-	-	-	-	-	(10,904)	-	-	(10,904)
ESOP shares earned (24,442 shares)	-	-	-	290	-	-	180	-	470
Stock based compensation	-	-	-	156	-	-	-	-	156
Stock options exercised	-	1	-	417	-	-	-	-	418
Common stock dividends declared ($0.36 per share)	-	-	-	-	(1,646)	-	-	-	(1,646)
Non-Voting common stock dividends declared ($0.36 per share)	-	-	-	-	(497)	-	-	-	(497)
Warrant dividends declared ($0.36 per share)	-	-	-	-	(45)	-	-	-	(45)
Cumulative effect of affiliate capital allocation	-	-	-	194	(368)	-	-	174	-
Distributions from affiliates	-	-	-	-	-	-	-	(36)	(36)
Balance, December 31, 2022	$ -	$ 47	$ 14	$ 52,101	$ 71,322	$ (12,172)	$ (315)	$ 585	$ 111,582
Balance, January 1, 2021	$ 14	$ 45	$ -	$ 50,024	$ 50,284	$ (2,236)	$ (675)	$ 266	$ 97,722
Net income	-	-	-	-	12,407	-	-	103	12,510
Conversion of Preferred stock to Non-Voting common stock	(14)	-	14	-	-	-	-	-	-
Other comprehensive income, net of tax	-	-	-	-	-	968	-	-	968
ESOP shares earned (24,442 shares)	-	-	-	196	-	-	180	-	376
Stock based compensation	-	-	-	241	-	-	-	-	241
Stock options exercised	-	1	-	550	-	-	-	-	551
Common stock dividends declared ($0.28 per share)	-	-	-	-	(1,258)	-	-	-	(1,258)
Non-Voting common stock dividends declared ($0.21 per share)	-	-	-	-	(290)	-	-	-	(290)
Preferred stock dividends declared ($0.07 per share)	-	-	-	-	(97)	-	-	-	(97)
Warrant dividends declared ($0.28 per share)	-	-	-	-	(35)	-	-	-	(35)
Cumulative effect of affiliate capital allocation	-	-	-	33	(65)	-	-	32	-
Distributions from affiliates	-	-	-	-	-	-	-	(55)	(55)
Balance, December 31, 2021	$ -	$ 46	$ 14	$ 51,044	$ 60,946	$ (1,268)	$ (495)	$ 346	$ 110,633

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Cash Flows

(In thousands)	For the years ended December 31, 2022	2021
OPERATING ACTIVITIES		
Net income attributable to Pathfinder Bancorp, Inc.	$ 12,932	$ 12,407
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan losses	2,754	1,022
Deferred income expense (benefit) tax	298	481
Amortization of operating leases	(372)	19
Proceeds from sales of loans	8,035	9,224
Originations of loans held-for-sale	(7,404)	(7,898)
Realized (gains) losses on sales, redemptions and calls of:		
Loans	(137)	(313)
Available-for-sale investment securities	160	(19)
Held-to-maturity investment securities	9	(18)
Premises and equipment	(130)	(201)
Marketable securities	(352)	(382)
Impairment of asset	380	-
Depreciation	1,067	1,787
Amortization of mortgage servicing rights	(11)	(5)
Amortization of deferred loan costs	385	1,820
Amortization of deferred financing from subordinated debt	170	163
Earnings on bank owned life insurance	(589)	(559)
Net amortization of premiums and discounts on investment securities	2,002	2,418
Amortization of intangible assets	16	16
Stock based compensation and ESOP expense	626	617
Net change in accrued interest receivable	(1,648)	29
Payment of executive deferred compensation and SERP contracts, expensed in prior periods	-	(571)
Net change in other assets and liabilities	3,542	117
Net cash flows from operating activities	21,733	20,154
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(52,375)	(156,548)
Purchase of investment securities held-to-maturity	(62,566)	(43,914)
Purchase of Federal Home Loan Bank stock	(15,896)	(6,665)
Proceeds from redemption of Federal Home Loan Bank stock	14,103	6,866
Purchase of marketable securities	(1,628)	-
Proceeds from maturities and principal reductions of investment securities available-for-sale	19,230	52,202
Proceeds from maturities and principal reductions of investment securities held-to-maturity	27,148	50,155
Proceeds from sales, redemptions and calls of:		
Available-for-sale investment securities	8,358	38,243
Held-to-maturity investment securities	2,206	3,784
Marketable securities	714	1,555
Purchase of bank owned life insurance	-	(5,000)
Net change in loans	(66,302)	(9,648)
Purchase of premises and equipment	(1,898)	(1,212)
Insurance proceeds from fixed assets	66	-
Disposal of premises and equipment	(3,311)	-
Proceeds from sale of premises and equipment	991	231
Net cash outflows from investing activities	(131,160)	(69,951)
FINANCING ACTIVITIES		
Net change in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits	5,337	95,431
Net change in time deposits	(26,079)	(23,824)
Net change in brokered deposits	90,826	(12,168)
Net change in short-term borrowings	47,833	8,480
Payments on long-term borrowings	(18,227)	(25,969)
Proceeds from long-term borrowings	9,293	12,537
Payments on sub-debt borrowings	-	(10,000)

Proceeds from exercise of stock options		418		551
Cash dividends paid to common voting shareholders		(1,568)		(1,227)
Cash dividends paid to common non-voting shareholders		(469)		(194)
Cash dividends paid to preferred shareholders		-		(180)
Cash dividends paid on warrants		(43)		(35)
Change in noncontrolling interest, net		239		80
Net cash flows from financing activities		107,560		43,482
Change in cash and cash equivalents		(1,867)		(6,315)
Cash and cash equivalents at beginning of period		37,149		43,464
Cash and cash equivalents at end of period	$	35,282	$	37,149
CASH PAID DURING THE PERIOD FOR:				
Interest	$	1,754	$	7,439
Income taxes		3,218		2,460
NON-CASH INVESTING ACTIVITY				
Real estate acquired in exchange for loans		252		-
Transfer from net premises for held for sale investment		3,042		-
RESTRICTED CASH				
Collateral deposits for hedge position included in cash and due from banks		1,600		1,600

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 consolidated financial statements include the accounts of Pathfinder Bancorp, Inc. (the “Company”) and its wholly owned subsidiary, Pathfinder Bank (the “Bank”). The Company is a Maryland corporation headquartered in Oswego, New York. On October 16, 2014, the Company completed its conversion from the mutual holding company structure and the related public offering and is now a stock holding company that is fully owned by the public. As a result of the conversion, the mutual holding company and former mid-tier holding company were merged into Pathfinder Bancorp, Inc. The primary business of the Company is its investment in Pathfinder Bank (the "Bank") which is 100% owned by the Company. The Bank has two wholly owned operating subsidiaries, Pathfinder Risk Management Company, Inc. (“PRMC”) and Whispering Oaks Development Corp. All significant inter-company accounts and activity have been eliminated in consolidation. Although the Company owns, through its subsidiary PRMC, 51% of the membership interest in FitzGibbons Agency, LLC (“FitzGibbons”), the Company is required to consolidate 100% of FitzGibbons within the consolidated financial statements. The 49% of which the Company does not own is accounted for separately as noncontrolling interests within the consolidated financial statements.

The Company has seven branch offices located in Oswego County, four branch offices in Onondaga County and one limited purpose office in Oneida 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 commercial real estate, business assets, one-to-four family residential real estate and investment securities.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in accordance 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 consolidated 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, deferred income taxes, pension obligations, the annual evaluation of the Company’s goodwill for possible impairment and the evaluation of investment securities for other than temporary impairment and the estimation of fair values for accounting and disclosure purposes 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 Onondaga counties of New York State. A large portion of the Company’s portfolio is centered in residential and commercial real estate. The Company closely monitors real estate collateral values and requires additional reviews of commercial real estate appraisals by a qualified third party for commercial real estate loans in excess of $400,000. All residential loan appraisals are reviewed by an individual or third party who is independent of the loan origination or approval process and was not involved in the approval of appraisers or selection of the appraiser for the transaction, and has no direct or indirect interest, financial or otherwise in the property or the transaction. Note 4 discusses the types of securities that the Company invests in. Note 5 discusses the types of lending that the Company engages in.

Advertising

The Company generally follows the policy of charging the costs of advertising to expense as incurred. Expenditures for new marketing and advertising material designs and/or media content, related to specifically-identifiable marketing campaigns are capitalized and expensed over the estimated life of the campaign. Such periods of time are generally 12-24 months in duration and do not exceed 36 months.

Noncontrolling Interest

Noncontrolling interest represents the portion of ownership and profit or loss that is attributable to the minority owners of FitzGibbons.

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 either available-for-sale or held-to-maturity. The Company does not hold any securities considered to be trading. 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. Held-to-maturity securities are those that the Company has the ability and intent to hold until maturity and are reported at amortized cost.

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 maturity.

The Company records its investment in marketable equity securities ("MES") at fair value. Changes in the fair value of MES are recorded as additions to, or subtractions from, net income in the period that the change occurs. These changes in fair value are separately disclosed as gains (losses) on equity securities on the Consolidated Statements of Income.

Note 4 to the consolidated financial statements includes additional information about the Company's accounting policies with respect to the impairment of investment securities.

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.

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

The Company grants mortgage, commercial, municipal, and consumer loans to customers. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at their outstanding unpaid principal balances, less the allowance for loan losses plus net deferred loan origination costs. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the market area. 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.

The loans receivable portfolio is segmented into residential mortgage, commercial and consumer loans. The residential mortgage segment consists of one-to-four family first-lien residential mortgages and construction loans. Commercial loans consist of the following classes: real estate, lines of credit, other commercial and industrial, and tax-exempt loans. Consumer loans include both home equity lines of credit and loans with junior liens and other consumer loans.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the date of the statement of condition and it is recorded as a reduction of loans. The allowance is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent

recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, unless productive collection efforts are providing results. Consumer loans may be charged off earlier in the event of bankruptcy, or if there is an amount that is deemed uncollectible. No portion of the allowance for loan losses is restricted to any individual loan product and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on three major components which are; specific components for larger loans, recent historical losses and several qualitative factors applied to a general pool of loans, and an unallocated component.

The first component is the specific component that relates to loans that are classified as impaired. For these loans, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan.

The second or general component covers pools of loans, by loan class, not considered impaired, smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure first based on historical loss rates for each of these categories of loans. The ratio of net charge-offs to loans outstanding within each product class, over the most recent eight quarters, lagged by one quarter, is used to generate the historical loss rates. In addition, qualitative factors are added to the historical loss rates in arriving at the total allowance for loan loss need for this general pool of loans. The qualitative factors include changes in national and local economic trends, the rate of growth in the portfolio, trends of delinquencies and nonaccrual balances, changes in loan policy, and changes in lending management experience and related staffing. Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. These qualitative factors, applied to each product class, make the evaluation inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss analysis and calculation.

The third or 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 and generally comprises less than 10% of the total allowance for loan loss.

A loan is considered impaired when, based on current information and events, it is probable that 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. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reason for the delay, the borrower's prior payment record and the amount of shortfall in relation to what is owed. Impairment is measured by either the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral, if the loan is collateral dependent. The majority of the Company's loans utilize the fair value of the underlying collateral.

An allowance for loan loss is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals, less costs to sell. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans less than $300,000, home equity and other consumer loans for impairment disclosures, unless such loans are related to borrowers with impaired commercial loans or they are subject to a troubled debt restructuring agreement. Loans that are related to borrowers with impaired commercial loans or are subject to a troubled debt restructuring agreement are evaluated individually for impairment.

Commercial loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally include but are not limited to a temporary reduction in the interest rate or an extension of a loan's stated maturity date. Commercial loans classified as troubled debt restructurings are designated as impaired and evaluated individually as discussed above.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of the collateral, if appropriate, are evaluated not less than annually for commercial loans or when credit deficiencies arise on all loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. See Note 5 for a description of these regulatory classifications.

In addition, Federal and State regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Beginning on January 1, 2023, the Company adopted ASU 2016-13: *Financial Instruments—Credit Losses [Topic 326]: Measurement of Credit Losses on Financial Instruments.* See Notes 2 and 6 for a further discussion of this transition.

Income Recognition on Impaired and Nonaccrual Loans

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is either well secured or guaranteed and in the process of collection. When a loan is placed on nonaccrual status, unpaid interest is reversed and charged to interest income. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

For nonaccrual loans, when future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual 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 40 years for premises and leasehold improvements 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

Physical possession of residential real estate property collateralizing a residential mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed-in-lieu of foreclosure or through a similar legal agreement. Properties acquired through foreclosure, or by deed-in-lieu of foreclosure, are recorded at their fair value less estimated costs to sell. Fair value is typically determined based on evaluations by third parties. Costs incurred in connection with preparing the foreclosed real estate for disposition are capitalized to the extent that they enhance the overall fair value of the property. Any write-downs on the asset's fair value less costs to sell at the date of acquisition are charged to the allowance for loan losses. Subsequent write downs and expenses of foreclosed real estate are included as a valuation allowance and recorded in noninterest expense.

Goodwill and Intangible Assets

Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is evaluated annually or when there is a triggering event for impairment. Intangible assets, such as customer lists, are amortized over their useful lives, generally 15 years.

Mortgage Servicing Rights

Originated mortgage servicing rights are recorded at their fair value at the time of transfer of the related loans 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 or between annual evaluations under certain circumstances.

Stock-Based Compensation

Compensation costs related to share-based payment transactions are recognized based on the grant-date fair value of the stock-based compensation issued. Compensation costs are recognized over the period that an employee provides service in exchange for the award. Compensation costs related to the Employee Stock Ownership Plan are dependent upon the average stock price and the shares committed to be released to plan participants through the period in which income is reported.

Retirement Benefits

The Company has a non-contributory defined benefit pension plan that covered substantially all employees. On May 14, 2012, the Company informed its employees of its decision to freeze participation and benefit accruals under the plan, primarily to reduce some of the volatility in earnings that can accompany the maintenance of a defined benefit plan. The plan was frozen on June 30, 2012. Compensation earned by employees up to June 30, 2012 is used for purposes of calculating benefits under the plan but there will be no future benefit accruals after this date. Participants as of June 30, 2012 will continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. 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.

Gains and losses, prior service costs and credits, and any remaining transition amounts that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive loss, net of tax effects, until they are amortized as a component of net periodic cost. Plan assets and obligations are measured as of the Company's statement of condition date.

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.

The Bank sponsors an Employee Stock Ownership Plan ("ESOP") covering substantially all full time employees. The cost of shares issued to the ESOP but not committed to be released to the participants is presented in the consolidated statement of condition as a reduction of shareholders' equity. ESOP shares are released to the participants on an annual basis in accordance with a predetermined schedule. The Company records ESOP compensation expense based on the shares committed to be released and allocated to the participant's accounts multiplied by the average share price of the Company's stock over the period. Dividends related to unallocated shares are recorded as compensation expense.

Derivative Financial Instruments

Derivatives are recorded on the statement of condition as assets and liabilities measured at their fair value. The accounting for changes in the fair value of a derivative depends on whether or not the derivative has been designated and qualifies as part of a hedging relationship. The Company acquires derivatives with the intent of designating and qualifying those instruments as part of hedging relationships to other balance sheet assets or liabilities. The specific accounting treatment for increases and decreases in the value of derivatives further depends upon the use of the specific derivatives. There are two primary types of interest rate derivatives that may be employed by the Company:

- *Fair Value Hedge* - As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in fair value over the course of their economic lives prior to maturity. When effectively hedged, this appreciation or depreciation will generally be offset by fluctuations in the fair value of derivative instruments that are linked to the hedged assets and liabilities. This strategy is referred to as a fair value hedge. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the

fair value of the hedged asset or liability are expected to substantially offset each other and these changes are recognized currently in earnings.

- *Cash Flow Hedge* - Cash flows related to floating rate assets and liabilities will fluctuate with changes in the underlying rate index. When effectively hedged, the increases or decreases in cash flows related to the floating-rate asset or liability will generally be offset by changes in cash flows of the derivative instruments designated as a hedge. This strategy is referred to as a cash flow hedge. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings.

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 consolidated financial statements. Deferred tax assets and liabilities are reported in the consolidated 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 net income per share was calculated using the two-class method by dividing net income (less any dividends on participating securities) by the weighted average number of shares of common stock and participating securities outstanding for the period. Diluted earnings per share may include the additional effect of other securities, if dilutive, in which case the dilutive effect of such securities is calculated by applying either the two-class method or the Treasury Stock method to the assumed exercise or vesting of potentially dilutive common shares. The method yielding the more dilutive result is ultimately reported for the applicable period. Potentially dilutive common stock equivalents primarily consist of employee stock options and restricted stock units. Unallocated common shares held by the ESOP are not included in the weighted average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released to plan participants. Note 3 provides more information related to earnings per share.

Segment Reporting

The Company has evaluated the activities relating to its strategic business units. The controlling interest in the FitzGibbons Agency is dissimilar in nature and management when compared to the Company's other strategic business units which are judged to be similar in nature and management. The Company has determined that the FitzGibbons Agency is below the reporting threshold in size in accordance with Accounting Standards Codification 280. Accordingly, the Company has determined it has no reportable segments.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities 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.

Accumulated other comprehensive loss represents the sum of these items, with the exception of net income, as of the balance sheet date and is represented in the table below.

	As of December 31,	
Accumulated Other Comprehensive Loss By Component:	2022	2021
Unrealized loss for pension and other postretirement obligations	$ (3,286)	$ (1,907)
Tax effect	859	495
Net unrealized loss for pension and other postretirement obligations	(2,427)	(1,412)
Unrealized (loss) gain on available-for-sale securities	(13,710)	579
Tax effect	3,583	(151)
Net unrealized (loss) gain on available-for-sale securities	(10,127)	428
Unrealized holding gain (loss) on hedging activities arising during the period	517	(388)
Tax effect	(135)	102
Net unrealized gain (loss) on hedging activities	382	(286)
Unrealized loss on securities transferred to held-to-maturity	-	(2)
Tax effect	-	4
Net unrealized gain (loss) on securities transferred to held-to-maturity	-	2
Accumulated other comprehensive loss	$ (12,172)	$ (1,268)

Reclassifications

Certain amounts in the 2021 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

The Financial Accounting Standards Board ("FASB") and, to a lesser extent, other authoritative rulemaking bodies promulgate GAAP to regulate the standards of accounting in the United States. From time to time, the FASB issues new GAAP standards, known as Accounting Standards Updates ("ASUs") some of which, upon adoption, may have the potential to change the way in which the Company recognizes or reports within its consolidated financial statements. The following table provides a description of standards that were adopted in 2022 and standards not yet adopted as of December 31, 2022, but could have an impact on the Company's consolidated financial statements upon adoption.

Standards Not Yet Adopted as of December 31, 2022

Standard	**Description**	**Required Date of Implementation**	**Effect on Consolidated Financial Statements**
Measurement of Credit Losses on Financial Instruments *(ASU 2016-13: Financial Instruments—Credit Losses [Topic 326]: Measurement of Credit Losses on Financial Instruments)*	The amended guidance replaces the currently-required (as of December 31, 2022) incurred loss model for determining the allowance for credit losses. The new guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses will represent a valuation account that is deducted from the amortized cost basis of the financial assets to present their net carrying value at the amount expected to be collected. The income statement will reflect the measurement of credit losses for newly recognized financial assets as well as expected increases or decreases of expected credit losses that have taken place during the reporting period. When determining the allowance, expected credit losses over the contractual term of the financial asset(s) (taking into account prepayments) will be estimated considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amended guidance also requires recording an allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The initial allowance for these assets will be added to the purchase price at acquisition rather than being reported as an expense. Subsequent changes in the allowance will be recorded through the income statement as an expense adjustment. In addition, the amended guidance requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. The calculation of credit losses for available-for-sale securities will be substantially unchanged from how it is determined under existing guidance.	January 1, 2023 (early adoption permitted as of January 1, 2019)	The Company adopted the new guidance on January 1, 2023. On that date, the Company recorded a one-time CECL transition adjustment by increasing the Company's allowance for credit losses by $2.3 million and simultaneously increasing its deferred tax asset balance (a component of other assets on the Statement of Financial Condition) by $610,000. These entries resulted in a one-time reduction in the Company's January 1, 2023 retained earnings (a component of tangible common equity) of $1.7 million on the adoption date. Per the new guidance, this one-time transitional adjustment was not recorded as a charge to net income and will have no effect on reported net income in the first quarter of 2023.

Standard	**Description**	**Required Date of Implementation**	**Effect on Consolidated Financial Statements**
Transition Relief for the Implementation of ASU-2016-13 *(ASU 2019-5: Financial Instruments—Credit Losses [Topic 326]: Targeted Transition Relief)*	The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments—Overall*, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently apply the guidance in Subtopics 820-10, *Fair Value Measurement—Overall*, and 825-10. General guidance for the use of the fair value option is contained in Subtopic 825-10. The irrevocable election of the fair value option must be applied on an instrument-by-instrument basis for eligible instruments, whose characteristics are within the scope of Subtopic 326-20. Upon adoption of Topic 326, for items measured at fair value in accordance with paragraph 326-10-65-1(i), the difference between the carrying amount and the fair value shall be recorded by means of a cumulative-effect adjustment to the opening retained earnings balance as of the beginning of the first reporting period that an entity has adopted ASU 2016-13. Those differences may include, but are not limited to: (1) unamortized deferred costs, fees, premiums, and discounts (2) valuation allowances (for example, allowance for loan losses), or (3) accrued interest.	January 1, 2023 (early adoption permitted as of January 1, 2019)	The Company's management evaluated the option to irrevocably elect the fair value option in Subtopic 825-10, upon adoption of Topic 326. Management does not intend to exercise this irrevocable option and therefore does not believe that the provisions of this Update will have a material effect on either the Company's operations or the reported results of those operations in future periods.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Financial Instruments—Credit Losses *(ASU 2019-11- Codification Improvements to Topic 326)*	On June 16, 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments, which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost basis. That model replaces the probable, incurred loss model for those assets. Through the amendments in that Update, the Board added Topic 326, *Financial Instruments—Credit Losses*, and made several consequential amendments to the Codification. The items addressed in that project generally are not expected to have a significant effect on current accounting practice for most entities. The amendments in this Update clarify or address stakeholders' specific issues about certain aspects of the amendments in Update 2016-13, with potential applicability to the Company, as described below: 1. Expected Recoveries for Purchased Financial Assets with Credit Deterioration (PCDs): The amendments clarify that the allowance for credit losses for PCD assets should include in the allowance for credit losses expected recoveries of amounts previously written off and expected to be written off by the entity and should not exceed the aggregate of amounts of the amortized cost basis previously written off and expected to be written off by an entity. 2. Transition Relief for Troubled Debt Restructurings (TDRs): The amendments provide transition relief by permitting entities an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumptions in effect immediately before the restructuring. 3. Disclosures Related to Accrued Interest Receivables: The amendments extend the disclosure relief for accrued interest receivable balances to additional relevant disclosures involving amortized cost basis.	The effective dates and transition requirements for the amendments are the same as the effective dates and transition requirements in Update 2016-13.	The Company adopted ASU-2016-13 on January 1, 2023, as discussed above. The additional guidance provided in ASU 2019-11 was considered in the calculations, a one-time CECL transition adjustment was recorded on that date, and will not have a material effect on the operations of the Company or the reported results of those operations in future periods.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions *(ASU 2022-03)*	ASU 2022-03 provides clarification that a "contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security" and is not included in the equity security's unit of account. Accordingly, an entity should not consider the contractual sale restriction when measuring the equity security's fair value (i.e., the entity should not apply a discount related to the contractual sale restriction, as stated in ASC 820-10-35-36B as amended by the ASU). In addition, the ASU prohibits an entity from recognizing a contractual sale restriction as a separate unit of account. Under the existing guidance in ASC 820-10-35-6B, "although a reporting entity must be able to access the market, the reporting entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market." ASU 2022-03 clarifies that an entity should apply this existing guidance when measuring the fair value of equity securities that are subject to contractual sale restrictions (i.e., a contractual sale restriction on the reporting entity that prevents the sale of an equity security in the market does not prevent the entity from measuring the fair value of the equity security on the basis of the price in that principal market). In transition, all entities other than investment companies as defined in ASC 946 should apply the amendments in ASU 2022-03 prospectively and recognize in earnings on the adoption date any adjustments made as a result of adoption.	For public business entities, such as the Company, fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted.	The Company is assessing the new guidance to determine the financial impact of this transition and does not expect that the guidance will have a material effect on its consolidated statements of financial condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Derivatives and Hedging *(Topic 815): Fair Value Hedging - Portfolio Layer Method (ASU 2022-01)*	Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. ASU 2022-01 expands the scope of this guidance to allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and non-prepayable financial assets. Under the new guidance, an entity will adjust the basis of the hedged item for the change in fair value that is attributable to changes in the hedged risk (i.e., interest rate risk), as of each reporting date, by adjusting the basis of the hedged asset at the portfolio level and not allocate the adjustment to individual assets within the portfolio. The ASU does not change an entity's current requirement to allocate the portfolio-level basis adjustment to the individual assets within a closed portfolio upon a de-designation of a hedging relationship.	For public business entities, fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.	The Company adopted this Update on January 1, 2023. Management does not believe that the adoption of ASU-2022-1 will have a material effect on the operations of the Company or the reported results of those operations in future periods.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Financial Instruments - Credit Losses *(Topic 326): Troubled Debt Restructurings and Vintage Disclosures ASU 2022-02*	ASU 2022-02 supersedes the accounting guidance for TDRs for creditors in ASC 310-40 in its entirety and requires entities to evaluate all receivable modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The ASU also amends other subtopics to remove references to TDRs for creditors. In addition to the elimination of TDR guidance, an entity that has adopted ASU 2022-02 no longer considers renewals, modifications, and extensions that result from reasonably expected TDRs in their calculation of the allowance for credit losses in accordance with ASC 326-20. Due to the removal of the TDR accounting model, all loan modifications will be accounted for under the general loan modification guidance in Subtopic 310-20.	The effective dates and transition requirements for the amendments are the same as the effective dates and transition requirements in Update 2016-13.	The Company adopted ASU-2016-13 on January 1, 2023, as discussed above. The additional guidance provided in ASU 2022-02 was considered in the calculations and the one-time CECL transition adjustment, and related adjustments and reclassifications recorded on that date, will not have a material effect on the operations of the Company or the reported results of those operations in future periods.

NOTE 3: EARNINGS PER SHARE

Following shareholder approval received on June 4, 2021, the Company converted 1,380,283 shares of its Series B Convertible Perpetual Preferred Stock to an equal number of shares of its newly-created Series A Non-Voting Common Stock. The conversion, which was effective on June 28, 2021, represented 100% of the Company's Convertible Perpetual Preferred Stock outstanding at the time of the conversion and retired the Convertible Perpetual Preferred Stock in perpetuity.

The Company has voting common stock, non-voting common stock and a warrant that are all eligible to participate in dividends equal to the voting common stock dividends on a per share basis. Securities that participate in dividends, such as the Company's non-voting common stock and warrant, are considered "participating securities." The Company calculates net income available to voting common shareholders using the two-class method required for capital structures that include participating securities.

In applying the two-class method, basic net income per share was calculated by dividing net income (less any dividends on participating securities) by the weighted average number of shares of common stock and participating securities outstanding for the period. Diluted earnings per share may include the additional effect of other securities, if dilutive, in which case the dilutive effect of such securities is calculated by applying either the two-class method or the Treasury Stock method to the assumed exercise or vesting of potentially dilutive common shares. The method yielding the more dilutive result is ultimately reported for the applicable period. Potentially dilutive common stock equivalents primarily consist of employee stock options and restricted stock units. Unallocated common shares held by the ESOP are not included in the weighted average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released to plan participants.

Anti-dilutive shares are common stock equivalents with average exercise prices in excess of the weighted average market price for the period presented. Anti-dilutive stock options, not included in the computation below, were $-0- for the years ended 2022 and 2021, respectively.

The following table sets forth the calculation of basic and diluted earnings per share.

	Years Ended December 31,	
(In thousands, except per share data)	2022	2021
Net income attributable to Pathfinder Bancorp, Inc.	$ 12,932	$ 12,407
Convertible preferred stock dividends	-	180
Series A Non-Voting Common Stock dividends	497	206
Warrant dividends	45	35
Undistributed earnings allocated to participating securities	2,667	2,699
Net income available to common shareholders- Voting	$ 9,723	$ 9,287
Net income attributable to Pathfinder Bancorp, Inc.	$ 12,932	$ 12,407
Convertible preferred stock dividends	-	180
Voting Common Stock dividends	1,646	1,258
Warrant dividends	45	35
Undistributed earnings allocated to participating securities	8,298	9,392
Net income available to common shareholders- Series A Non-Voting	$ 2,943	$ 1,542
Basic and diluted weighted average common shares outstanding- Voting	4,559	4,478
Basic and diluted weighted average common shares outstanding- Series A Non-Voting	1,380	745
Basic and diluted earnings per common share- Voting	$ 2.13	$ 2.07
Basic and diluted earnings per common share- Series A Non-Voting	$ 2.13	$ 2.07

1NOTE 4: INVESTMENT SECURITIES

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

	December 31, 2022			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 32,533	$ 37	$ (3,206)	$ 29,364
State and political subdivisions	48,002	384	(3,001)	45,385
Corporate	11,803	676	(650)	11,829
Asset backed securities	16,059	-	(659)	15,400
Residential mortgage-backed - US agency	17,982	-	(1,582)	16,400
Collateralized mortgage obligations - US agency	13,070	-	(1,362)	11,708
Collateralized mortgage obligations - Private label	65,781	8	(4,355)	61,434
Total	205,230	1,105	(14,815)	191,520
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 205,436	$ 1,105	$ (14,815)	$ 191,726
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 3,852	$ -	$ (280)	$ 3,572
State and political subdivisions	15,211	-	(2,340)	12,871
Corporate	45,086	2	(2,586)	42,502
Asset backed securities	19,158	-	(1,291)	17,867
Residential mortgage-backed - US agency	7,489	-	(739)	6,750
Collateralized mortgage obligations - US agency	15,109	-	(1,251)	13,858
Collateralized mortgage obligations - Private label	88,497	4	(4,430)	84,071
Total held-to-maturity	$ 194,402	$ 6	$ (12,917)	$ 181,491

(In thousands)	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 32,669	$ 17	$ (413)	$ 32,273
State and political subdivisions	37,860	1,383	(44)	39,199
Corporate	13,603	562	(38)	14,127
Asset backed securities	13,693	9	(89)	13,613
Residential mortgage-backed - US agency	22,482	148	(466)	22,164
Collateralized mortgage obligations - US agency	12,658	30	(403)	12,285
Collateralized mortgage obligations - Private label	56,848	285	(402)	56,731
Total	189,813	2,434	(1,855)	190,392
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 190,019	$ 2,434	$ (1,855)	$ 190,598
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ -	$ -	$ -
State and political subdivisions	14,790	416	(140)	15,066
Corporate	46,290	1,252	(102)	47,440
Asset backed securities	14,636	67	(188)	14,515
Residential mortgage-backed - US agency	9,740	277	(18)	9,999
Collateralized mortgage obligations - US agency	11,362	367	(9)	11,720
Collateralized mortgage obligations - Private label	64,105	222	(262)	64,065
Total held-to-maturity	$ 160,923	$ 2,601	$ (719)	$ 162,805

A substantial percentage of the Company's investments in mortgage-backed securities include pass-through securities and collateralized mortgage obligations issued and guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. At December 31, 2022, the Company also held a total of 100 private-label mortgage-backed securities, collateralized mortgage obligations or asset-backed securities with an aggregate book balance of $169.8 million. At December 31, 2021, the Company also held a total of 88 private-label mortgage-backed securities, collateralized mortgage obligations or asset-backed securities with an aggregate book balance of $149.2 million. These investments are relatively short-duration securities with significant credit enhancements. The Company's investments in state and political obligation securities are generally municipal obligations that are categorized as general obligations of the issuer that are supported by the overall taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are generally supported by state administered insurance funds or credit enhancement programs.

The amortized cost and estimated fair value of debt investments at December 31, 2022 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.

	Available-for-Sale		**Held-to-Maturity**	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,068	$ 5,739	$ -	$ -
Due after one year through five years	4,758	4,510	17,991	17,577
Due after five years through ten years	34,580	31,146	41,156	38,083
Due after ten years	63,991	60,583	24,160	21,152
Sub-total	108,397	101,978	83,307	76,812
Residential mortgage-backed - US agency	17,982	16,400	7,489	6,750
Collateralized mortgage obligations - US agency	13,070	11,708	15,109	13,858
Collateralized mortgage obligations - Private label	65,781	61,434	88,497	84,071
Totals	$ 205,230	$ 191,520	$ 194,402	$ 181,491

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, is as follows:

	December 31, 2022								
	Less than Twelve Months			Twelve Months or More			Total		
(Dollars in thousands)	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value
Available-for-Sale Portfolio									
US Treasury, agencies and GSE's	-	$ -	$ -	3	$ (3,206)	$ 26,167	3	$ (3,206)	$ 26,167
State and political subdivisions	10	(830)	12,601	17	(2,171)	20,128	27	(3,001)	32,729
Corporate	7	(269)	5,720	2	(381)	1,319	9	(650)	7,039
Asset backed securities	5	(148)	5,473	5	(511)	9,926	10	(659)	15,399
Residential mortgage-backed - US agency	10	(131)	2,747	5	(1,451)	13,653	15	(1,582)	16,400
Collateralized mortgage obligations - US agency	6	(238)	4,009	6	(1,124)	7,700	12	(1,362)	11,709
Collateralized mortgage obligations - Private label	15	(1,684)	20,429	19	(2,671)	33,707	34	(4,355)	54,136
Totals	53	$ (3,300)	$ 50,979	57	$ (11,515)	$ 112,600	110	$ (14,815)	$ 163,579
Held-to-Maturity Portfolio									
US Treasury, agencies and GSE's	2	$ (280)	$ 3,573	-	$ -	$ -	2	$ (280)	$ 3,573
State and political subdivisions	7	(871)	7,277	7	(1,469)	5,077	14	(2,340)	12,354
Corporate	31	(1,786)	29,213	9	(800)	6,803	40	(2,586)	36,016
Asset backed securities	6	(625)	9,742	3	(666)	3,674	9	(1,291)	13,416
Residential mortgage-backed - US agency	10	(736)	6,577	1	(3)	107	11	(739)	6,684
Collateralized mortgage obligations - US agency	10	(1,236)	12,965	1	(15)	892	11	(1,251)	13,857
Collateralized mortgage obligations - Private label	38	(2,719)	58,061	8	(1,711)	12,532	46	(4,430)	70,593
Totals	104	$ (8,253)	$ 127,408	29	$ (4,664)	$ 29,085	133	$ (12,917)	$ 156,493

	December 31, 2021								
	Less than Twelve Months			Twelve Months or More			Total		
(Dollars in thousands)	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value
Available-for-Sale Portfolio									
US Treasury, agencies and GSE's	3	$ (413)	$ 31,195	-	$ -	$ -	3	$ (413)	$ 31,195
State and political subdivisions	3	(44)	4,847	-	-	-	3	(44)	4,847
Corporate	2	(5)	1,162	1	(33)	722	3	(38)	1,884
Asset backed securities	5	(89)	11,206	-	-	-	5	(89)	11,206
Residential mortgage-backed - US agency	3	(466)	13,090	-	-	-	3	(466)	13,090
Collateralized mortgage obligations - US agency	3	(126)	6,504	2	(277)	2,204	5	(403)	8,708
Collateralized mortgage obligations - Private label	18	(388)	38,816	2	(14)	1,539	20	(402)	40,355
Totals	37	$ (1,531)	$ 106,820	5	$ (324)	$ 4,465	42	$ (1,855)	$ 111,285
Held-to-Maturity Portfolio									
State and political subdivisions	4	(28)	2,013	2	(112)	3,988	6	(140)	6,001
Corporate	9	(102)	7,636	-	-	-	9	(102)	7,636
Asset backed securities	2	(130)	2,974	2	(58)	1,610	4	(188)	4,584
Residential mortgage-backed - US agency	1	(18)	1,941	-	-	-	1	(18)	1,941
Collateralized mortgage obligations - US agency	-	-	-	1	(9)	1,109	1	(9)	1,109
Collateralized mortgage obligations - Private label	6	(163)	13,070	3	(99)	3,820	9	(262)	16,890
Totals	22	$ (441)	$ 27,634	8	$ (278)	$ 10,527	30	$ (719)	$ 38,161

Other Than Temporary Impairment

The Company conducts a formal review of investment securities on a quarterly basis for the presence of OTTI. The Company assesses whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the statement of condition date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not anticipated to be sufficient to recover the entire amortized cost basis. The guidance requires that credit-related OTTI is recognized in earnings while non-credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income ("OCI"). Non-credit-related OTTI is based on other factors, including illiquidity and changes in the general interest rate environment. Presentation of OTTI is made in the consolidated statement of income on a gross basis, including both the portion recognized in earnings, as well as the portion recorded in OCI. The gross OTTI would then be offset by the amount of non-credit-related OTTI, showing the net as the impact on earnings.

Management does not believe any unrealized losses in individual investment securities within the portfolio as of December 31, 2022 represent OTTI. There were a total of 57 securities classified as available-for-sale with an aggregate amortized historical cost of $124.1 million and an unrealized aggregate loss of $11.5 million, or -9.3%, that were in an unrealized loss position for 12 months or longer at December 31, 2022. In addition, there were 29 securities classified as held-to-maturity with an aggregate amortized historical cost of $33.7 million and an unrealized aggregate loss of $4.7 million, or -13.8%, that were in an unrealized loss position for 12 months or longer at December 31, 2022. In total, therefore, at December 31, 2022 there were 86 securities with an aggregate book value of $157.9 million and an aggregate fair value of $141.7 million, representing a loss of $16.2 million, or -10.2%, that were in an unrealized loss position for 12 months or more on that date.

All of the securities which have been in an unrealized loss position for 12 months or more at December 31, 2022 have been individually analyzed and none of the securities are considered to be impaired. These securities have unrealized losses primarily due to fluctuations in general interest rates or changes in expected prepayments. In all cases, price improvement in future periods will be realized as the issuances approach maturity. Of the 86 securities in an unrealized loss position for 12 months or more at December 31, 2022, 16 securities, with aggregate amortized cost balances of $48.5 million and representing 30.7% of the aggregate amortized cost of all securities in an unrealized loss position for 12 months or more, are issued by the United States government or GSEs (collectively, "government-issued securities") and are therefore either explicitly or implicitly guaranteed as to the timely payment of contractual principal and interest These positions are deemed to have no credit impairment, thus, the disclosed unrealized losses relate primarily to changes in prevailing interest rates.

The following table summarizes all debt securities not issued by the United States government or GSEs, held by the Bank at December 31, 2022, whose fair value has been less than their respective amortized cost basis for 12 or more months:

	December 31, 2022									
(Dollars in thousands)	Number of Individual Securities	Amortized Historical Cost	Loss Range In Dollars	Total Loss In Dollars	Loss Range Percentage	Total Loss Percentage	NRSRO Rated Count	NRSRO Rated Percentage	NRSRO Rated In Dollars	OTTI Impairment In Dollars
Available-for-Sale Portfolio										
State and political subdivisions	17	$ 22,300	$25-462	$ 2,171	1%-26%	9.7%	17	100%	$ 22,300	$ -
Corporate	2	1,701	$160-222	381	22%-24%	22.4%	2	100%	1,701	-
Asset backed securities	5	10,436	$53-210	511	2%-12%	4.9%	5	100%	10,436	-
Collateralized mortgage obligations - Private label	19	36,378	$1-654	2,671	1%-21%	7.3%	10	53%	18,674	-
Totals	43	$ 70,815		$ 5,734		8.1%	34	75%	$ 53,111	$ -
Held-to-Maturity Portfolio										
State and political subdivisions	7	$ 6,545	$25-564	$ 1,469	15%-28%	22.4%	7	100%	$ 6,545	$ -
Corporate	9	7,602	$48-201	800	8%-13%	10.5%	3	33%	2,852	-
Asset backed securities	3	4,339	$30-491	666	2%-24%	15.3%	3	100%	4,339	-
Collateralized mortgage obligations - Private label	8	14,244	$6-439	1,711	2%-21%	12.0%	6	75%	10,999	-
Totals	27	$ 32,730		$ 4,646		14.2%	19	76%	$ 24,735	$ -

Of the total 70 securities in an unrealized loss position for 12 months or more at December 31, 2022 (see table above), 53 securities, with aggregate amortized cost balances of $77.8 million and representing 71.2% of the aggregate amortized cost of all non-government-issued securities in an unrealized loss position for 12 months or more, are currently rated by one of more NRSRO at or above the minimum investment grade. These positions are deemed to have no credit impairment, thus, the disclosed unrealized losses relate primarily to changes in prevailing interest rates.

In addition to the government-issued and NRSRO-rated securities discussed above, representing 80.0% of all securities in a loss position greater than 12 months at December 31, 2022, the Company held 17 non-government-issued/backed securities that were in an unrealized loss position for 12 or more months at December 31, 2022 and are unrated by any NRSRO. All of these securities were unrated at the time of their original issuance. These securities are primarily privately-issued asset-backed or mortgage-backed securities (including issuances backed by commercial real estate mortgages). Most of these securities have significant credit enhancements in place in the form of cash reserves or other overcollateralization and of these, the vast majority are the most senior tranche with respect to credit priority in the overall issuance structure for that particular security. Given the characteristics of the underlying loans supporting each of these securities and the credit enhancements in place, it is unlikely that any of the Company's unrated securities, now in a loss position for 12 or more months, will experience any loss of principal in currently foreseeable economic environments prior to the security's respective maturity dates.

Additional Disclosures

Proceeds of $11.0 million and $42.0 million, respectively on sales and redemptions of securities for the years ended December 31, 2022 and 2021 resulted in gross realized gains (losses) detailed below:

(In thousands)	2022	2021
Realized gains on investments	$ 37	$ 120
Realized losses on investments	(206)	(83)
	$ (169)	$ 37

As of December 31, 2022 and December 31, 2021, securities with a fair value of $99.8 million and $103.2 million, respectively, were pledged to collateralize certain municipal deposit relationships. As of the same dates, securities with a fair value of $38.1 million and $9.4 million were pledged against certain borrowing arrangements.

Management has reviewed its loan and mortgage-backed securities portfolios and determined that, to the best of its knowledge, little or no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of investing in, or originating, these types of investments.

NOTE 5: LOANS

Major classifications of loans are as follows:

(In thousands)	December 31, 2022	December 31, 2021
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 257,656	$ 240,434
Construction	5,085	6,329
Loans held-for-sale	19	513
Total residential mortgage loans	262,760	247,276
Commercial loans:		
Real estate	345,330	288,450
Lines of credit	82,050	61,884
Other commercial and industrial	77,273	69,135
Paycheck Protection Program loans	203	19,338
Tax exempt loans	4,280	5,811
Total commercial loans	509,136	444,618
Consumer loans:		
Home equity and junior liens	34,007	31,737
Other consumer	92,851	110,108
Total consumer loans	126,858	141,845
Total loans	898,754	833,739
Net deferred loan fees	(1,000)	(1,280)
Less allowance for loan losses	15,319	12,935
Loans receivable, net	$ 882,435	$ 819,524

Paycheck Protection Program ("PPP")

The Bank participated in all rounds of the PPP funded by the U.S. Treasury Department and administered by the U.S. SBA pursuant to the CARES Act and subsequent legislation. PPP loans have an interest rate of 1.0% and a two-year or five-year loan term to maturity. The SBA guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and the loan proceeds are used for qualifying expenses. The PPP ended in May 2021. Information related to the Company's PPP loans are included in the following tables:

Unaudited	For the years ended	
(In thousands, except number of loans)	December 31, 2022	December 31, 2021
Number of PPP loans originated in the year	-	478
Funded balance of PPP loans originated in the year	$ -	$ 36,369
Number of PPP loans forgiven in the year	251	796
Balance of PPP loans forgiven in the year	$ 13,091	$ 77,054
Deferred PPP fee income recognized in the year	$ 707	$ 2,150

(In thousands)	December 31, 2022	December 31, 2021
Unearned PPP deferred fee income at end of year	$ 12	$ 716

(In thousands, except number of loans)	Number	Balance
Total PPP loans originated since inception	1,177	$ 111,721
Total PPP loans forgiven since inception	1,172	111,518
Total PPP loans remaining at December 31, 2022	5	$ 203

The Bank received $4.0 million in fees from the SBA associated with PPP lending activities during 2020 and 2021 and recognized $707,000 and $2.2 million of those fees in 2022 and 2021, respectively. At December 31, 2022, the Bank held five PPP loans in its portfolio, representing $203,000 in outstanding loan balances, and anticipates that all activities related to the PPP will be completed in the first quarter of 2023.

Future credit-related performance of a loan portfolio generally depends upon the types of loans within the portfolio, concentrations by type of loan and the quality of the collateral securing the loans. The following table details the Company's loan portfolio by collateral type within major categories as of December 31, 2022.

(Dollars in thousands)	Balance	Number of Loans	Average Loan Balance	Minimum/ Maximum Loan Balance		Allowance for Loan Losses	Percent of Total Loans
Residential Mortgage Loans	$ 262,760	1,639	$ 160	$ 469	$ 4,972	$ 714	29%
Commercial Real Estate:							
Mixed Use	$ 70,154	66	$ 1,063	$ 22	$ 8,848	$ 1,195	8%
Multi-Family Residential	45,815	55	833	6	6,008	780	5%
Hotels and Motels	37,816	65	582	8	4,144	644	4%
Office	27,831	8	3,479	291	11,500	474	3%
Retail	25,515	165	155	-	2,449	435	3%
1-4 Family Residential	24,289	50	486	24	4,895	414	3%
Automobile Dealership	16,894	17	994	86	4,543	288	2%
Skilled Nursing Facility	13,575	7	1,939	48	5,821	231	2%
Recreation/ Golf Course/ Marina	11,900	2	5,950	3,800	8,100	203	1%
Warehouse	9,732	10	973	53	3,815	166	1%
Manufacturing/Industrial	9,634	18	535	53	3,444	164	1%
Restaurant	8,193	15	546	60	2,455	140	1%
Automobile Repair	6,133	15	409	9	2,151	104	1%
Hospitals	5,709	22	260	7	1,124	97	1%
Not-For-Profit & Community Service Real Estate	4,111	3	1,370	67	3,070	70	0%
Land	3,242	3	1,081	98	1,647	55	0%
All Other	24,787	31	800	11	7,180	422	2%
Total Commercial Real Estate Loans	$ 345,330	552	$ 626	$ -	$ 11,500	$ 5,882	38%
Commercial and Industrial:							
Secured Term Loans	$ 61,918	382	$ 162	$ -	$ 3,581	$ 2,694	7%
Unsecured Term Loans	15,355	93	165	-	3,574	668	2%
Secured Lines of Credit	57,508	268	215	-	5,000	2,503	6%
Unsecured Lines of Credit	24,542	147	167	-	2,906	1,068	3%
Total Commercial and Industrial Loans	$ 159,323	890	$ 179	$ -	$ 5,000	$ 6,933	18%
Tax Exempt Loans	$ 4,280	11	$ 389	$ 12	$ 2,248	$ 3	0%
Paycheck Protection Program Loans	$ 203	5	$ 41	$ 5	$ 100	$ -	0%
Consumer:							
Home Equity Lines of Credit	$ 34,007	883	$ 39	$ -	$ 918	$ 741	4%
Vehicle	15,136	1,028	15	-	423	171	2%
Consumer Secured	32,613	1,418	23	13	82	367	4%
Consumer Unsecured	42,740	2,309	19	-	72	481	5%
All Others	2,362	595	4	-	55	27	0%
Total Consumer Loans	$ 126,858	6,233	$ 20	$ -	$ 918	$ 1,787	15%
Net deferred loan fees	(1,000)	-	-	-	-	-	-
Unallocated allowance for loan losses	(15,319)	-	-	-	-	-	-
Total Loans	$ 882,435	9,330	$ 95			$ 15,319	100%

In 2019, the Bank acquired seven diverse pools of loans, originated by unrelated third parties. There were six new loan pools added in 2021. No new loan pools were acquired in 2022.

The following table summarizes the purchased loan pool positions, held by the Bank in purchased loans at year end (month and date of acquisition in parentheses):

(In thousands, except number of loans)	December 31, 2022					
	Original Balance	Current Balance	Unamortized Premium/ (Discount)	Number of Loans	Maturity Range	Cumulative net charge-offs
Automobile loans (1/2017)	$ 50,400	$ 4,200	$ 128	537	0-4 years	$ 247
Commercial and industrial loans (6/2019)	6,800	2,100	-	22	3-7 years	-
Home equity lines of credit (8/2019)	21,900	6,000	189	143	1-27 years	-
Unsecured consumer loan pool 2 (11/2019)	26,600	1,500	11	320	0-2 years	-
Residential real estate loans (12/2019)	4,300	3,900	240	49	16-22 years	-
Unsecured consumer loan pool 1 (12/2019)	5,400	1,600	-	50	1-4 years	-
Unsecured consumer installment loans pool 3 (12/2019)	10,300	1,000	38	354	0-9 years	63
Secured consumer installment loans pool 4 (12/2020)	14,500	11,300	(1,484)	518	23-24 years	-
Unsecured consumer loans pool 5 (1/2021)	24,400	17,300	(485)	678	8-24 years	-
Revolving commercial line of credit 1 (3/2021)	11,600	11,400	14	1	0-1 year	-
Secured consumer installment loans (11/2021)	21,300	19,700	(3,237)	850	18-25 years	-
Revolving commercial line of credit 2 (11/2021)	10,500	15,000	23	1	0-1 year	-
Unsecured consumer loans pool 6 (11/2021)	22,200	20,200	(2,441)	540	8-24 years	-
Total	$230,200	$ 115,200	$ (7,004)	4,063		$ 310

(In thousands, except number of loans)	December 31, 2021					
	Original Balance	Current Balance	Unamortized Premium/ (Discount)	Number of Loans	Maturity Range	Cumulative net charge-offs
Automobile loans (1/2017)	$ 50,400	$ 8,800	$ 301	855	0-5 years	$ 239
Commercial and industrial loans (6/2019)	6,800	3,900	-	33	4-8 years	-
Home equity lines of credit (8/2019)	21,900	8,400	243	187	2-28 years	-
Unsecured consumer loan pool 2 (11/2019)	26,600	6,300	30	1,438	1-3 years	-
Residential real estate loans (12/2019)	4,300	4,100	257	51	17-23 years	-
Unsecured consumer loan pool 1 (12/2019)	5,400	2,600	-	66	3-5 years	-
Unsecured consumer installment loans pool 3 (12/2019)	10,300	2,200	74	1,356	0-6 years	30
Secured consumer installment loans pool 4 (12/2020)	14,500	12,600	(1,776)	563	23-24 years	-
Unsecured consumer loans pool 5 (1/2021)	24,400	19,700	(583)	756	8-24 years	-
Revolving commercial line of credit 1 (3/2021)	11,600	7,100	26	1	0-1 year	-
Secured consumer installment loans (11/2021)	21,300	21,400	(3,642)	900	19-25 years	-
Revolving commercial line of credit 2 (11/2021)	10,500	9,300	35	1	0-1 year	-
Unsecured consumer loans pool 6 (11/2021)	22,200	22,100	(2,785)	564	9-24 years	-
Total	$230,200	$ 128,500	$ (7,820)	6,771		$ 269

As of December 31, 2022 and December 31, 2021, residential mortgage loans with a carrying value of $110.3 million and $123.2 million, respectively, have been pledged by the Company to the FHLBNY under a blanket collateral agreement to secure the Company's line of credit and term borrowings.

Risk Characteristics of Portfolio Segments

Each portfolio segment generally carries its own unique risk characteristics.

The residential mortgage loan segment is impacted by general economic conditions, unemployment rates in the Bank's service area, real estate values and the forward expectation of improvement or deterioration in economic conditions. First and second lien residential mortgages, acquired via purchase are impacted by general economic conditions, unemployment rates in the general areas in which the loan collateral is located, real estate values in those areas and the forward expectation of improvement or deterioration in economic conditions.

The commercial loan segment is impacted by general economic conditions but, more specifically, the industry segment in which each borrower participates. Unique competitive changes within a borrower's specific industry, or geographic location could cause significant changes in the borrower's revenue stream, and therefore, impact its ability to repay its obligations. Commercial real estate is also subject to general economic conditions but changes within this segment typically lag changes seen within the consumer and commercial segment. Included within this portfolio are both owner occupied real estate, in which the borrower occupies the majority of the real estate property and upon which the majority of the sources of repayment of the obligation is dependent upon, and non-owner occupied real estate, in which several tenants comprise the repayment source for this portfolio segment. The composition and competitive position of the tenant structure may cause adverse changes in the repayment of debt obligations for the non-owner occupied class within this segment.

The consumer loan segment is impacted by general economic conditions, unemployment rates in the geographic areas in which borrowers and loan collateral are located, and the forward expectation of improvement or deterioration in economic conditions.

Real estate loans, including residential mortgages, commercial real estate loans and home equity, comprised 71.4% and 68.0% of the total loans held in the portfolio in 2022 and 2021, respectively. Loans secured by real estate generally provide strong collateral protection and thus significantly reduce the inherent credit risk in the portfolio.

Management has reviewed its loan portfolio and determined that, to the best of its knowledge, little or no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of originating these types of loans.

Description of Credit Quality Indicators

The Company utilizes an eight tier risk rating system to evaluate the quality of its loan portfolio. Loans that are risk rated "1" through "4" are considered "Pass" loans. In accordance with regulatory guidelines, loans rated "5" through "8" are termed "criticized" loans and loans rated "6" through "8" are termed "classified" loans. A description of the Company's credit quality indicators follows.

For Commercial Loans:

1. Prime: A loan that is fully secured by properly margined Pathfinder Bank deposit account(s) or an obligation of the US Government. It may also be unsecured if it is supported by a very strong financial condition and, in the case of a commercial loan, excellent management. There exists an unquestioned ability to repay the loan in accordance with its terms.
2. Strong: Desirable relationship of somewhat less stature than Prime grade. Possesses a sound documented repayment source, and back up, which will allow repayment within the terms of the loan. Individual loans backed by solid assets, character and integrity. Ability of individual or company management is good and well established. Probability of serious financial deterioration is unlikely.
3. Satisfactory: Stable financial condition with cash flow sufficient for debt service coverage. Satisfactory loans of average strength having some deficiency or vulnerability to changing economic or industry conditions but performing as agreed with documented evidence of repayment capacity. May be unsecured loans to borrowers with satisfactory credit and financial strength. Satisfactory provisions for management succession and a secondary source of repayment exists.
4. Satisfactory Watch: A four is not a criticized or classified credit. These credits do not display the characteristics of a criticized asset as defined by the regulatory definitions. A credit is given a Satisfactory Watch designation if there are matters or trends observed deserving attention somewhat beyond normal monitoring. Borrowing obligations may be handled according to agreement but could be adversely impacted by developing factors such as industry conditions, operating problems, pending litigation of a significant nature or declining collateral quality and adequacy.
5. Special Mention: A warning risk grade that portrays one or more weaknesses that may be tolerated in the short term. Assets in this category are currently protected but are potentially weak. This loan would not normally be booked as a new credit, but may have redeeming characteristics persuading the Bank to continue working with the borrower. Loans accorded this

classification have potential weaknesses which may, if not checked or corrected, weaken the company's assets, inadequately protect the Bank's position or effect the orderly, scheduled reduction of the debt at some future time.

6. Substandard: The relationship is inadequately protected by the current net worth and cash flow capacity of the borrower, guarantor/endorser, or of the collateral pledged. Assets have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt. The relationship shows deteriorating trends or other deficient areas. The loan may be nonperforming and expected to remain so for the foreseeable future. Relationship balances may be adequately secured by asset value; however a deteriorated financial condition may necessitate collateral liquidation to effect repayment. This would also include any relationship with an unacceptable financial condition requiring excessive attention of the officer due to the nature of the credit risk or lack of borrower cooperation.

7. Doubtful: The relationship has all the weaknesses inherent in a credit graded 5 with the added characteristic that the weaknesses make collection on the basis of currently existing facts, conditions and value, highly questionable or improbable. The possibility of some loss is extremely high, however its classification as an anticipated loss is deferred until a more exact determination of the extent of loss is determined. Loans in this category must be on nonaccrual.

8. Loss: Loans are considered uncollectible and of such little value that continuance as bankable assets is not warranted. It is not practicable or desirable to defer writing off this basically worthless asset even though partial recovery may be possible in the future.

For Residential Mortgage and Consumer Loans:

Residential mortgage and consumer loans are assigned a "Pass" rating unless the loan has demonstrated signs of weakness as indicated by the ratings below.

5. Special Mention: All loans sixty days past due are classified Special Mention. The loan is not upgraded until it has been current for six consecutive months.

6. Substandard: All loans 90 days past due are classified Substandard. The loan is not upgraded until it has been current for six consecutive months.

7. Doubtful: The relationship has all the weaknesses inherent in a credit graded 5 with the added characteristic that the weaknesses make collection on the basis of currently existing facts, conditions and value, highly questionable or improbable. The possibility of some loss is extremely high.

The risk ratings for classified loans are evaluated at least quarterly for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential mortgage or consumer loans. See further discussion of risk ratings in Note 1.

The following table presents the segments and classes of the loan portfolio summarized by the aggregate pass rating and the criticized and classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system:

	As of December 31, 2022				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 254,768	$ 1,240	$ 994	$ 654	$ 257,656
Construction	5,085	-	-	-	5,085
Loans held-for-sale	19	-	-	-	19
Total residential mortgage loans	259,872	1,240	994	654	262,760
Commercial loans:					
Real estate	327,438	12,270	5,261	361	345,330
Lines of credit	74,632	1,984	5,400	34	82,050
Other commercial and industrial	67,923	4,482	4,605	263	77,273
Paycheck Protection Program loans	203	-	-	-	203
Tax exempt loans	4,280	-	-	-	4,280
Total commercial loans	474,476	18,736	15,266	658	509,136
Consumer loans:					
Home equity and junior liens	33,050	17	719	221	34,007
Other consumer	92,762	33	56	-	92,851
Total consumer loans	125,812	50	775	221	126,858
Total loans	$ 860,160	$ 20,026	$ 17,035	$ 1,533	$ 898,754

(In thousands)	As of December 31, 2021 Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 238,823	$ 269	$ 811	$ 531	$ 240,434
Construction	6,329	-	-	-	6,329
Loans held-for-sale	513	-	-	-	513
Total residential mortgage loans	245,665	269	811	531	247,276
Commercial loans:					
Real estate	267,388	9,879	10,604	579	288,450
Lines of credit	54,408	4,036	3,387	53	61,884
Other commercial and industrial	56,719	3,907	8,321	188	69,135
Paycheck Protection Program loans	19,338	-	-	-	19,338
Tax exempt loans	5,811	-	-	-	5,811
Total commercial loans	403,664	17,822	22,312	820	444,618
Consumer loans:					
Home equity and junior liens	30,740	133	606	258	31,737
Other consumer	109,979	44	77	8	110,108
Total consumer loans	140,719	177	683	266	141,845
Total loans	$ 790,048	$ 18,268	$ 23,806	$ 1,617	$ 833,739

Nonaccrual and Past Due Loans

Loans are placed on nonaccrual when the contractual payment of principal and interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be performing.

Loans are considered past due if the required principal and interest payments have not been received within thirty days of the payment due date.

An age analysis of past due loans, not including net deferred loan costs, segregated by portfolio segment and class of loans, for the years ended December 31, are detailed in the following tables:

	As of December 31, 2022					
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$ 1,627	$ 620	$ 932	$ 3,179	$ 254,477	$ 257,656
Construction	-	-	-	-	5,085	5,085
Loans held-for-sale	-	-	-	-	19	19
Total residential mortgage loans	1,627	620	932	3,179	259,581	262,760
Commercial loans:						
Real estate	4,974	854	3,499	9,327	336,003	345,330
Lines of credit	1,280	1,584	298	3,162	78,888	82,050
Other commercial and industrial	4,721	999	1,738	7,458	69,815	77,273
Paycheck Protection Program loans	-	-	-	-	203	203
Tax exempt loans	-	-	-	-	4,280	4,280
Total commercial loans	10,975	3,437	5,535	19,947	489,189	509,136
Consumer loans:						
Home equity and junior liens	23	17	279	319	33,688	34,007
Other consumer	391	239	1,904	2,534	90,317	92,851
Total consumer loans	414	256	2,183	2,853	124,005	126,858
Total loans	$ 13,016	$ 4,313	$ 8,650	$ 25,979	$ 872,775	$ 898,754

	As of December 31, 2021					
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$ 960	$ 416	$ 891	$ 2,268	$ 238,166	$ 240,434
Construction	-	-	-	-	6,329	6,329
Loans held-for-sale	-	-	-	-	513	513
Total residential mortgage loans	960	416	891	2,268	245,008	247,276
Commercial loans:						
Real estate	1,735	1,029	4,379	7,143	281,307	288,450
Lines of credit	156	1,180	576	1,913	59,971	61,884
Other commercial and industrial	1,799	1,686	1,056	4,541	64,594	69,135
Paycheck Protection Program loans	-	-	-	-	19,338	19,338
Tax exempt loans	-	-	-	-	5,811	5,811
Total commercial loans	3,691	3,895	6,011	13,597	431,021	444,618
Consumer loans:						
Home equity and junior liens	17	49	251	317	31,420	31,737
Other consumer	571	257	852	1,680	108,428	110,108
Total consumer loans	588	306	1,103	1,998	139,847	141,845
Total loans	$ 5,239	$ 4,617	$ 8,006	$ 17,862	$ 815,877	$ 833,739

Year-end nonaccrual loans, segregated by class of loan, were as follows:

(In thousands)		December 31, 2022		December 31, 2021
Residential mortgage loans:				
1-4 family first-lien residential mortgages	$	1,112	$	891
		1,112		891
Commercial loans:				
Real estate		3,504		4,407
Lines of credit		332		629
Other commercial and industrial		1,884		1,261
		5,720		6,297
Consumer loans:				
Home equity and junior liens		279		252
Other consumer		1,904		852
Total consumer loans		2,183		1,104
Total nonaccrual loans	$	9,015	$	8,292

There were no loans past due ninety days or more and still accruing interest at December 31, 2022 or 2021.

The Company is required to disclose certain activities related to Troubled Debt Restructurings ("TDR") in accordance with accounting guidance. Certain loans have been modified in a TDR where economic concessions have been granted to a borrower who is experiencing, or expected to experience, financial difficulties. These economic concessions could include a reduction in the loan interest rate, extension of payment terms, reduction of principal amortization, or other actions that it would not otherwise consider for a new loan with similar risk characteristics.

The Company is required to disclose new TDRs for each reporting period for which an income statement is being presented. Pre-modification outstanding recorded investment is the principal loan balance less the provision for loan losses before the loan was modified as a TDR. Post-modification outstanding recorded investment is the principal balance less the provision for loan losses after the loan was modified as a TDR. Additional provision for loan losses is the change in the allowance for loan losses between the pre-modification outstanding recorded investment and post-modification outstanding recorded investment.

The table below details loans that had been modified as TDRs for the year ended December 31, 2022.

	For the year ended December 31, 2022						
(In thousands)	Number of loans		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment		Additional provision for loan losses
Commercial real estate loans	2	$	373	$	373	$	-

The TDRs evaluated for impairment for the year ended December 31, 2022 have been classified as TDRs due to economic concessions granted, which include reduction in the stated interest rate, a significant delay in the timing of the payment or an extended maturity date that will result in a significant delay in payment from the original terms.

The table below details loans that have been modified as TDRs for the year ended December 31, 2021.

	For the year ended December 31, 2021						
(In thousands)	Number of loans		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment		Additional provision for loan losses
Commercial real estate loans	1	$	675	$	675	$	-
Commercial and industrial loans	1		200		206		-
Residential mortgages	3		453		459		-
Consumer loans	1		443		504		-

The TDRs evaluated for impairment for the year ended December 31, 2021 have been classified as TDRs due to economic concessions granted, which include reductions in the stated interest rates or an extended maturity date that will result in a delay in payment from the original contractual maturity. One loan has been granted four deferrals and based on the known history of the borrower, Management has determined this loan to be a TDR.

The Company is required to disclose loans that have been modified as TDRs within the previous 12 months in which there was payment default after the restructuring. The Company defines payment default as any loans 90 days past due on contractual payments.

The Company had no loans that had been modified as TDRs during the twelve months prior to December 31, 2022, which had subsequently defaulted during the year ended December 31, 2022.

The Company had no loans that had been modified as TDRs during the twelve months prior to December 31, 2021, which had subsequently defaulted during the year ended December 31, 2021.

When the Company modifies a loan within a portfolio segment that is individually evaluated for impairment, a potential impairment is analyzed either based on the present value of the expected future cash flows discounted at the interest rate of the original loan terms or the fair value of the collateral less costs to sell. If it is determined that the value of the loan is less than its recorded investment, then impairment is recognized as a component of the provision for loan losses, an associated increase to the allowance for loan losses or as a charge-off to the allowance for loan losses in the current period.

Impaired Loans

The following table summarizes impaired loans information by portfolio class at:

	December 31, 2022			December 31, 2021		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
1-4 family first-lien residential mortgages	$ 1,048	$ 1,048	$ -	$ 666	$ 666	$ -
Commercial real estate	5,283	5,386	-	4,708	4,801	-
Commercial lines of credit	2,218	2,218	-	100	104	-
Other commercial and industrial	2,780	2,829	-	357	396	-
Home equity and junior liens	182	182	-	93	93	-
Other consumer	-	-	-	-	-	-
With an allowance recorded:						
1-4 family first-lien residential mortgages	450	450	91	539	539	90
Commercial real estate	2,625	2,625	346	2,450	2,450	300
Commercial lines of credit	3,059	3,066	2,957	53	53	53
Other commercial and industrial	1,998	1,998	1,285	1,852	1,852	1,319
Home equity and junior liens	536	536	114	539	539	114
Other consumer	-	-	-	-	-	-
Total:						
1-4 family first-lien residential mortgages	1,498	1,498	91	1,205	1,205	90
Commercial real estate	7,908	8,011	346	7,158	7,251	300
Commercial lines of credit	5,277	5,284	2,957	153	157	53
Other commercial and industrial	4,778	4,827	1,285	2,209	2,248	1,319
Home equity and junior liens	718	718	114	632	632	114
Other consumer	-	-	-	-	-	-
Totals	$ 20,179	$ 20,338	$ 4,793	$ 11,357	$ 11,493	$ 1,876

The following table presents the average recorded investment in impaired loans for the years ended December 31:

(In thousands)	2022	2021
1-4 family first-lien residential mortgages	$ 1,232	$ 1,439
Commercial real estate	7,285	9,538
Commercial lines of credit	1,951	640
Other commercial and industrial	3,155	5,041
Home equity and junior liens	647	516
Other consumer	-	50
Total	$ 14,270	$ 17,224

The following table presents the cash basis interest income recognized on impaired loans for the years ended December 31:

(In thousands)	2022	2021
1-4 family first-lien residential mortgages	$ 65	$ 62
Commercial real estate	247	285
Commercial lines of credit	143	10
Other commercial and industrial	304	180
Home equity and junior liens	6	6
Other consumer	-	-
Total	$ 765	$ 543

NOTE 6: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the years ended December 31, 2022 and 2021 and information pertaining to the allocation of the allowance for loan losses and balances of the allowance for loan losses and loans receivable based on individual and collective impairment evaluation by loan portfolio class at the indicated dates are summarized in the tables below. An allocation of a portion of the allowance to a given portfolio class does not limit the Company's ability to absorb losses in another portfolio class.

	December 31, 2022					
(In thousands)	1-4 family first-lien residential mortgage	Construction	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
Allowance for loan losses:						
Beginning Balance	$ 872	$ -	$ 5,308	$ 935	$ 2,762	$ -
Charge-offs	(29)	-	(48)	(51)	(486)	-
Recoveries	-	-	250	-	46	-
Provisions (credits)	(129)	-	371	3,106	622	-
Ending balance	$ 714	$ -	$ 5,881	$ 3,990	$ 2,944	$ -
Ending balance: related to loans individually evaluated for impairment	$ 91	$ -	$ 346	$ 2,957	$ 1,285	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 623	$ -	$ 5,535	$ 1,033	$ 1,659	$ -
Loans receivables:						
Ending balance	$ 257,656	$ 5,085	$ 345,330	$ 82,050	$ 77,273	$ 203
Ending balance: individually evaluated for impairment	$ 1,498	$ -	$ 7,908	$ 5,278	$ 4,777	$ -
Ending balance: collectively evaluated for impairment	$ 256,158	$ 5,085	$ 337,422	$ 76,772	$ 72,496	$ 203

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated [1]	Total
Allowance for loan losses:					
Beginning Balance	$ 3	$ 774	$ 1,297	$ 984	$ 12,935
Charge-offs	-	-	(147)	-	(761)
Recoveries	-	-	95	-	391
Provisions	-	(33)	(199)	(984)	2,754
Ending balance	$ 3	$ 741	$ 1,046	$ -	$ 15,319
Ending balance: related to loans individually evaluated for impairment	$ -	$ 114	$ -	$ -	$ 4,793
Ending balance: related to loans collectively evaluated for impairment	$ 3	$ 627	$ 1,046	$ -	$ 10,526
Loans receivables:					
Ending balance	$ 4,280	$ 34,007	$ 92,851	$ 19	$ 898,754
Ending balance: individually evaluated for impairment	$ -	$ 718	$ -	$ -	$ 20,179
Ending balance: collectively evaluated for impairment	$ 4,280	$ 33,289	$ 92,851	$ 19	$ 878,575

[1] The ending balance of the loans receivable for the unallocated portion of the allowance includes loans held-for-sale. At December 31, 2022, the Bank had loans held-for-sale with a principal balance of $19,000. These loans were still part of the portfolio as of December 31, 2022. Based on ASC 948, Mortgage Banking, loans shall be classified as held-for-sale once a decision has been made to sell the loans and shall be transferred to the held-for-sale category at lower of cost or fair value.

(In thousands)	December 31, 2021 1-4 family first-lien residential mortgage	Construction	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
Allowance for loan losses:						
Beginning Balance	$ 931	$ -	$ 4,776	$ 1,670	$ 2,992	$ -
Charge-offs	(20)	-	(7)	(50)	(707)	-
Recoveries	-	-	-	69	1	-
Provisions (credits)	(39)	-	539	(754)	476	-
Ending balance	$ 872	$ -	$ 5,308	$ 935	$ 2,762	$ -
Ending balance: related to loans individually evaluated for impairment	$ 90	$ -	$ 300	$ 53	$ 1,319	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 782	$ -	$ 5,008	$ 882	$ 1,444	$ -
Loans receivables:						
Ending balance	$ 240,434	$ 6,329	$ 288,450	$ 61,884	$ 69,135	$ 19,338
Ending balance: individually evaluated for impairment	$ 1,205	$ -	$ 7,158	$ 153	$ 2,209	$ -
Ending balance: collectively evaluated for impairment	$ 239,229	$ 6,329	$ 281,292	$ 61,731	$ 66,926	$ 19,338

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated [(1)]	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 739	$ 1,123	$ 545	$ 12,777
Charge-offs	-	-	(240)	-	(1,024)
Recoveries	-	-	88	-	158
Provisions	2	35	326	438	1,022
Ending balance	$ 3	$ 774	$ 1,297	$ 984	$ 12,935
Ending balance: related to loans individually evaluated for impairment	$ -	$ 114	$ -	$ -	$ 1,876
Ending balance: related to loans collectively evaluated for impairment	$ 3	$ 660	$ 1,297	$ 984	$ 11,059
Loans receivables:					
Ending balance	$ 5,811	$ 31,737	$ 110,108	$ 513	$ 833,739
Ending balance: individually evaluated for impairment	$ -	$ 632	$ -	$ -	$ 11,357
Ending balance: collectively evaluated for impairment	$ 5,811	$ 31,105	$ 110,108	$ 513	$ 822,382

(1) The ending balance of the loans receivable for the unallocated portion of the allowance includes loans held-for-sale. At December 31, 2021, the Bank had loans held-for-sale with a principal balance of $513,000. These loans were still part of the portfolio as of December 31, 2021. Based on ASC 948, Mortgage Banking, loans shall be classified as held-for-sale once a decision has been made to sell the loans and shall be transferred to the held-for-sale category at lower of cost or fair value.

The Company's methodology for determining its allowance for loan losses includes an analysis of qualitative factors that are added to the historical loss rates in arriving at the total allowance for loan losses needed for this general pool of loans. The qualitative factors include:

- Changes in national and local economic trends;
- The rate of growth in the portfolio;
- Trends of delinquencies and nonaccrual balances;
- Changes in loan policy; and
- Changes in lending management experience and related staffing.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. These qualitative factors, applied to each product class, make the evaluation inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan losses analysis and calculation.

The allocation of the allowance for loan losses summarized on the basis of the Company's calculation methodology was as follows:

	December 31, 2022				
(In thousands)	1-4 family first-lien residential mortgage	Construction	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Specifically reserved	$ 91	$ -	$ 346	$ 2,957	$ 1,285
Historical loss rate	5	-	(32)	-	97
Qualitative factors	618	-	5,567	1,033	1,562
Total	$ 714	$ -	$ 5,881	$ 3,990	$ 2,944

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 114	$ -	$ -	$ 4,793
Historical loss rate	-	321	708	-	1,099
Qualitative factors	3	306	338	-	9,427
Other	-	-	-	-	-
Total	$ 3	$ 741	$ 1,046	$ -	$ 15,319

	December 31, 2021				
(In thousands)	1-4 family first-lien residential mortgage	Construction	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Specifically reserved	$ 90	$ -	$ 300	$ 53	$ 1,319
Historical loss rate	82	-	2	25	227
Qualitative factors	700	-	5,006	857	1,217
Total	$ 872	$ -	$ 5,308	$ 935	$ 2,762

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 114	$ -	$ -	$ 1,876
Historical loss rate	-	324	1,028	-	1,688
Qualitative factors	3	336	269	-	8,388
Other	-	-	-	984	984
Total	$ 3	$ 774	$ 1,297	$ 984	$ 12,935

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard's stated main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables (such as loans) and other financial assets in scope. The ASU requires entities to measure credit losses on most financial assets carried at amortized costs and certain other instruments using an expected credit loss model. Banks in the United States above $5.0 billion in assets generally adopted this new way of measuring loan losses called the "Current Expected Credit Loss" ("CECL") model in 2020, with smaller public and private banks, such as Pathfinder, required to convert to this method in fiscal years beginning after December 15, 2022. The Company computed its Allowance for Loan Losses at December 31, 2022 using a methodology called the "Incurred Loss Model" ("ILM"), which remained applicable GAAP at that date. ILM (current GAAP) assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value. CECL requires that an estimate of loss for the entire life cycle of each asset with credit loss exposure be recorded at the funding date of that asset as a component of the reported Allowance for Credit Losses. For additional information regarding current expected credit losses, see Notes 2 and 6 to the consolidated financial statements.

The three major differences between CECL and ILM are: (1) CECL requires that reserves for the full, expected life of any asset with credit loss exposure be established at the funding date of the asset. The reserve must consider all expected credit and credit-related losses in aggregate to the asset's maturity (including prepayment projections) using a methodology that both a.) requires an evaluation of the Bank's segmented internal credit dynamics (historical loss rate, underwriting standards, etc.); and b.) requires evaluations of the macroeconomic environment at funding and at the end of each subsequent reporting period; (2) CECL requires that a broader array of assets, in addition to outstanding loans, must be included in the CECL calculation than were includable under the ILM model; and (3) CECL requires substantially enhanced documentation and underlying assumption, input and calculation support, due to its more extensive modeling assumptions and inputs, as well as its more complex calculations, than were previously considered necessary under ILM.

Beginning on January 1, 2023, the Bank will have to account for all credit loss exposures using this CECL methodology. A nonrecurring adjustment from ILM to CECL was made on January 1, 2023, increasing the ALLL at December 31, 2022 by $2.2 million in determining the beginning ACL for the quarter ended March 31, 2023. This transition adjustment was booked to retained earnings in the first quarter of 2023 and therefore will be a subtraction from tangible book value ("TBV"), after tax effects of approximately $1.7 million.

NOTE 7: SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of condition. At December 31, 2022 and 2021, the Bank serviced 503 and 493 residential mortgage loans for others, respectively. The unpaid principal balances of mortgage loans serviced for others were $52.2 million and $51.1 million at December 31, 2022 and 2021, respectively. The balance of capitalized servicing rights included in other assets at December 31, 2022 and 2021, was $368,000 and $379,000, respectively.

The following summarizes mortgage servicing rights capitalized and amortized:

(In thousands)	2022	2021
Mortgage servicing rights capitalized	$ 64	$ 72
Mortgage servicing rights amortized	75	69

NOTE 8: PREMISES AND EQUIPMENT

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

(In thousands)	2022	2021
Land	$ 2,063	$ 2,434
Buildings	20,406	23,000
Furniture, fixtures and equipment	17,337	16,861
Construction in progress	320	548
	40,126	42,843
Less: Accumulated depreciation	22,254	21,184
	$ 17,872	$ 21,659

Depreciation expense in 2022 and 2021 was $1.1 million and $1.8 million, respectively.

NOTE 9: FORECLOSED REAL ESTATE

A summary of foreclosed real estate at December 31, is as follows:

(Dollars in thousands)	Number of properties	December 31, 2022	Number of properties	December 31, 2021
Foreclosed real estate	2	$ 221	-	$ -

At December 31, 2022 and December 31, 2021, the Company reported $542,000 and $1.1 million, respectively, in real estate loans in the process of foreclosure.

NOTE 10: GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is evaluated annually for impairment or between annual evaluations in certain circumstances. Management performs an annual assessment of the Company's goodwill to determine whether or not any impairment of the carrying value may exist.

Of the $4.5 million of goodwill carried on the Company's books as of December 31, 2022, $3.8 million of this amount was due to prior periods acquisitions of bank branches and $696,000, initially and currently classified as an identifiable intangible asset, was due to the 2013 acquisition of the FitzGibbons Agency by PRMC and the 2015 acquisition of the Huntington Agency.

In 2020, the Company retained expert, independent consultants to evaluate the recorded goodwill for impairment. The Company updated those evaluations using internal modeling processes for the year ended December 31, 2022. The Company is permitted to assess market-based, prospective analyses and other qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than the carrying value. Based on the results of the assessments made by management, with prior input from the retained consultants, it was determined that the carrying value of goodwill in the amount of $4.5 million is not impaired as of December 31, 2022.

The identifiable intangible asset of $101,000 as of December 31, 2022 was due to the acquisition of the FitzGibbons and Huntington Agencies and represents the amortized carrying amount of the customer lists intangible. The weighted average remaining amortization period of this intangible asset is 3.67 years.

The gross carrying amount and annual amortization for this identifiable intangible asset are as follows:

(In thousands)	December 31, 2022		2021
Gross carrying amount	$ 243	$	243
Accumulated amortization	(142)		(126)
Net amortizing intangibles	$ 101	$	117

The estimated amortization expense for each of the five succeeding years ended December 31, is as follows:

(In thousands)		
2023	$	16
2024		16
2025		16
2026		16
2027		16
Thereafter		21
Total	$	101

NOTE 11: DEPOSITS

A summary of deposits at December 31 is as follows:

(In thousands)		2022		2021
Savings accounts	$	134,880	$	131,176
Time accounts		314,109		253,564
Time accounts in excess of $250,000		71,696		67,450
Money management accounts		16,107		16,124
MMDA accounts		270,326		256,963
Demand deposit interest-bearing		127,395		130,816
Demand deposit noninterest-bearing		183,711		191,858
Mortgage escrow funds		7,206		7,395
Total Deposits	$	1,125,430	$	1,055,346

At December 31, 2022, the scheduled maturities of time deposits are as follows:

(In thousands)		
Year of Maturity:		
2023	$	216,235
2024		60,298
2025		69,540
2026		31,194
2027		6,754
Thereafter		1,784
Total	$	385,805

In addition to deposits obtained from its business operations within its target market areas, the Bank also obtains brokered deposits through various programs administered by IntraFi Network and through other unaffiliated third-party financial institutions.

	At December 31,					
	2022			2021		
(In thousands)	Non-Brokered	Brokered	Total	Non-Brokered	Brokered	Total
Savings accounts	$ 134,880		$ 134,880	$ 131,176		$ 131,176
Time accounts	105,478	208,631	314,109	135,804	117,760	253,564
Time accounts of $250,000 or more	71,696		71,696	67,450		67,450
Money management accounts	16,107		16,107	16,124		16,124
MMDA accounts	270,326		270,326	256,963		256,963
Demand deposit interest-bearing	87,395	40,000	127,395	90,771	40,045	130,816
Demand deposit noninterest-bearing	183,711		183,711	191,858		191,858
Mortgage escrow funds	7,206		7,206	7,395		7,395
Total Deposits	$ 876,799	$ 248,631	$ 1,125,430	$ 897,541	$ 157,805	$ 1,055,346

NOTE 12: BORROWED FUNDS

The composition of borrowings (excluding subordinated debt) at December 31 is as follows:

(In thousands)	2022	2021
Short-term:		
FHLB advances	$ 60,333	$ 12,500
Total short-term borrowings	$ 60,333	$ 12,500
Long-term:		
FHLB advances	$ 55,664	$ 64,598
Total long-term borrowings	$ 55,664	$ 64,598

The principal balances, interest rates and maturities of the outstanding long-term borrowings, all of which are at a fixed rate, at December 31, 2022 are as follows:

Term	Principal	Rates
(Dollars in thousands)		
Advances with FHLB		
Due within 1 year	$ 12,006	0.34 - 3.17%
Due within 2 years	22,850	0.39 - 5.03%
Due within 10 years	20,808	0.52 -4.52%
Total advances with FHLB	$ 55,664	
Total long-term fixed rate borrowings	$ 55,664	

At December 31, 2022, scheduled repayments of long-term debt are as follows:

(In thousands)		
2023	$	12,006
2024		22,850
2025		19,108
2026		1,700
Total	$	55,664

The Company has access to FHLBNY advances, under which it can borrow at various terms and interest rates. Residential mortgage loans with a carrying value of $110.3 million, securities with a carrying value of $27.8 million and FHLB stock with a carrying value of $6.0 million have been pledged by the Company under a blanket collateral agreement to secure the Company's borrowings at December 31, 2022. The total outstanding indebtedness under borrowing facilities with the FHLB cannot exceed the total value of the assets pledged under the blanket collateral agreement. The Company has a $10.3 million line of credit available at December 31, 2022 with the Federal Reserve Bank of New York through its Discount Window and has pledged various corporate and municipal securities against the line. The Company has $15.0 million in lines of credit available with two other correspondent banks. $10.0 million of that line of credit is available on an unsecured basis and the remaining $5.0 million must be collateralized with investment securities. Interest on the lines is determined at the time of borrowing.

NOTE 13: SUBORDINATED DEBT

On October 14, 2020, the Company executed a private placement of $25.0 million of its 5.50% Fixed to Floating Rate non-amortizing Subordinated Debt (the "2020 Subordinated Debt") to certain qualified institutional investors. The 2020 Subordinated Debt has a maturity date of October 15, 2030 and initially bears interest, payable semi-annually, at a fixed annual rate of 5.50% per annum until October 15, 2025. Commencing on that date, the interest rate applicable to the outstanding principal amount due will be reset quarterly to an interest rate per annum equal to the then current three month Secured Overnight Financing Rate ("SOFR") plus 532 basis points, payable quarterly until maturity. The Company may redeem the 2020 Subordinated Debt at par, in whole or in part, at its option, any time after October 15, 2025 (the first redemption date). The 2020 Subordinated Debt is senior in the Company's credit repayment hierarchy only to the Company's common equity and preferred stock and, and any future senior indebtedness and is intended to qualify as Tier 2 capital for regulatory capital purposes for the Company. The Company paid $783,000 in origination and legal fees as part of this transaction. These fees will be amortized over the life of the 2020 Subordinated Debt through its first redemption date using the effective interest method, giving rise to an effective cost of funds of 6.22% from the issuance date calculated under this method. Accordingly, interest expense related to this indebtedness of $1.6 million and $1.5 million was recorded in the years ended December 31, 2022 and December 31, 2021, respectively.

The Company has a non-consolidated subsidiary trust, Pathfinder Statutory Trust II, of which the Company owns 100% of the common equity. The Trust issued $5,000,000 of 30-year floating rate Company-obligated pooled capital securities of Pathfinder Statutory Trust II ("Floating-Rate Debentures"). 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 2037 and are treated as Tier 1 capital by the FDIC and FRB. The capital securities of the trust are a pooled trust preferred fund of Preferred Term Securities VI, Ltd., whose interest rate resets quarterly, and are indexed to the 3-month LIBOR rate plus 1.65%. These securities have a five-year call provision. The Company paid $178,000 and $94,000 in interest expense related to this issuance in 2022 and 2021, respectively. The Company guarantees all of these securities.

The United Kingdom's Financial Conduct Authority ("FCA"), the organization responsible for regulating LIBOR, ceased publishing LIBOR indices at the end of 2021. The Alternative Reference Rates Committee (the "ARRC"), formed by the Federal Reserve Board and the Federal Reserve Bank of New York, had been charged with developing an alternative rate that replaced LIBOR in the United States (U.S. dollar-denominated LIBOR). The ARRC identified the SOFR as the rate that represents best practice for use in U.S. dollar-denominated LIBOR derivatives and other financial contracts. Accordingly, SOFR has currently replaced LIBOR in the substantial majority of contracts in which LIBOR was used. Management has analyzed the Company's aggregate exposure to instruments that are indexed to LIBOR (including the Company's acquired loan participations, fixed-income investments, hedging instruments and the Floating-Rate debt) and concluded that the adoption of SOFR will not materially impact the Company or the results of its operations.

The Company's equity interest in the trust subsidiary is included in other assets on the Consolidated Statements of Financial Condition at December 31, 2022 and 2021. 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.

On April 1, 2021, the Company redeemed a $10.0 million non-amortizing subordinated debt instrument. The terms of the subordinated debt required fixed interest payments at an annual interest rate of 6.25% after February 29, 2016 until the debt's scheduled maturity date. Interest expense, related to this borrowing, of $-0- and $156,000 was recorded in the years ended December 31, 2022 and 2021, respectively.

The composition of subordinated debt at December 31 is as follows:

(In thousands)		2022		2021
Subordinated debt				
Junior subordinated debenture	$	5,155	$	5,155
Subordinated debt	$	25,000	$	25,000
Deferred Financing Charges		(422)		(592)
Total subordinated debt	$	29,733	$	29,563

The principal balances, interest rates and maturities of the subordinated debt at December 31, 2022 are as follows:

Term		Principal	Rates
(Dollars in thousands)			
Subordinated debt:			
Due within 8 years	$	25,000	5.5%
Due within 15 years		5,155	3-Month LIBOR + 1.65%
Total subordinated debt	$	30,155	

Scheduled repayments of the subordinated debt at December 31, 2022 are as follows:

(In thousands)		
2023	$	-
2024		-
2025		25,000
2026		-
2027		-
Thereafter		5,155
Total	$	30,155

NOTE 14: 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. On May 14, 2012, the Company informed its employees of its decision to freeze participation and benefit accruals under the plan, primarily to reduce some of the volatility in earnings that can accompany the maintenance of a defined benefit plan. The plan was frozen on June 30, 2012. Compensation earned by employees up to June 30, 2012 is used for purposes of calculating benefits under the plan but there will be no future benefit accruals after this date. Participants as of June 30, 2012 will continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. In addition, the Company provides certain health and life insurance benefits for a limited number of 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 following tables set forth the changes in the plans' benefit obligations, fair value of plan assets and the plans' funded status as of December 31:

	Pension Benefits		Postretirement Benefits	
(In thousands)	2022	2021	2022	2021
Change in benefit obligations:				
Benefit obligations at beginning of year	$ 12,720	$ 12,967	$ 325	$ 369
Service cost	-	-	-	-
Interest cost	465	441	11	12
Plan participants' contribution	-	-	9	8
Actuarial (gain) loss	(3,368)	(389)	(164)	(19)
Benefits paid	(375)	(299)	(45)	(45)
Benefit obligations at end of year	9,442	12,720	136	325
Change in plan assets:				
Fair value of plan assets at beginning of year	20,531	19,274	-	-
Actual return on plan assets	(3,845)	1,556	-	-
Benefits paid	(375)	(299)	(45)	(45)
Plan participants' contribution	-	-	9	8
Employer contributions	-	-	36	37
Fair value of plan assets at end of year	16,311	20,531	-	-
Funded (unfunded) status - asset (liability)	$ 6,869	$ 7,811	$ (136)	$ (325)

The funded status of the pension was recorded within other assets on the statement of condition. The unfunded status of the postretirement plan is recorded within other liabilities on the statement of condition.

Amounts recognized in accumulated other comprehensive loss as of December 31 are as follows:

	Pension Benefits		Postretirement Benefits	
(In thousands)	2022	2021	2022	2021
Net loss (gain)	$ 3,389	$ 1,843	$ (103)	$ 64
Tax Effect	886	480	(27)	15
	$ 2,503	$ 1,363	$ (76)	$ 49

Gains and losses in excess of 10% of the greater of the benefit obligation or the fair value of assets are amortized over the average remaining service period of active participants.

The Company utilized the actual projected cash flows of the participants in both plans for the years ended December 31, 2022 and December 31, 2021. The following points address the approach taken.

1. An analysis of the defined benefit pension plan's expected future cash flows and high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits yielded a single discount rate of 6.09% at December 31, 2022.
2. An analysis of the postretirement health plan's expected future cash flows and high-quality fixed-income investments currently available and expected to be available during the period to maturity of the retiree medical benefits yielded a single discount rate of 6.09% at December 31, 2022.

3. Each discount rate was developed by matching the expected future cash flows of the Bank to high quality bonds. Every bond considered has earned ratings of at least AA by Fitch Group, AA by Standard & Poor's, or Aa2 by Moody's Investor Services.

The accumulated benefit obligation for the defined benefit pension plan was $9.4 million and $12.7 million at December 31, 2022 and 2021, respectively. The postretirement plan had an accumulated benefit obligation of $136,000 and $325,000 at December 31, 2022 and 2021, respectively.

The significant assumptions used in determining the benefit obligations as of December 31, are as follows:

	Pension Benefits		Postretirement Benefits	
	2022	2021	2022	2021
Weighted average discount rate	6.09%	3.71%	6.09%	3.71%
Rate of increase in future compensation levels	-	-	-	-

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plan. The annual rates of increase in the per capita cost of covered medical and prescription drug benefits for future years were assumed to be 4.50% for 2022, gradually decreasing to 4.20% in 2025 and remain at that level thereafter.

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

	Pension Benefits		Postretirement Benefits	
(In thousands)	2022	2021	2022	2021
Service cost	$ -	$ -	$ -	$ -
Interest cost	465	441	11	12
Expected return on plan assets	(1,068)	(1,146)	-	-
Amortization of transition obligation	-	-	-	-
Amortization of net losses	-	101	7	9
Amortization of unrecognized past service liability	-	-	(5)	(5)
Net periodic benefit plan (benefit) cost	$ (603)	$ (604)	$ 13	$ 16

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

	Pension Benefits		Postretirement Benefits	
	2022	2021	2022	2021
Weighted average discount rate	6.09%	3.71%	6.09%	3.71%
Expected long term rate of return on plan assets	6.00%	5.25%	-	-
Rate of increase in future compensation levels	-	-	-	-

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 6.5% to 8.5% and 2.0% to 4.0%, respectively. The long-term inflation rate was estimated to be 2.5%. When these overall return expectations are applied to the plan's target allocation, the expected rate of return was determined to be in the range of 5.0% to 7.0%. Management chose to use a 5.25% expected long-term rate of return in 2022 and a 6.0% expected long-term rate of return in 2023 reflecting current economic conditions and expected rates of return. Based on the $16.3 million fair value of plan assets at December 31, 2022, each 50 basis point decrease in the expected long-term rate of return would reduce after tax net income at a 2023 expected state and federal combined statutory tax rate of 26.1% by approximately $60,000.

The estimated net actuarial income that will be amortized from accumulated other comprehensive income into net periodic benefit plan income during 2023 is $175,000. The estimated amortization of the unrecognized transition obligation and actuarial income for the postretirement health plan in 2023 is $136,000. The expected net periodic benefit plan benefit for 2023 is estimated to be $174,000 for both retirement plans in aggregate.

Plan assets are invested in three diversified investment portfolios of the Pentegra Retirement Trust (the "Trust", formerly known as RSI Retirement Trust), a private placement investment fund. 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 Investment Policy Statement. The Plan is structured to utilize a Liability Driven Investment (LDI) approach which seeks to fund the current and future liabilities of the Plan and aims to mitigate funded status and contribution volatility.

The Plan's asset allocation targets to hold 48% of assets in equity securities via investment in the Long-Term Growth – Equity Portfolio ('LTGE'), 16% in intermediate-term investment grade bonds via investment in the Long-Term Growth – Fixed-Income Portfolio ('LTGFI'), 35% in long duration bonds via the Liability Focused Fixed-Income Portfolio ('LFFI'), and 1% in a cash equivalents portfolio (for liquidity).

LTGE is a diversified portfolio that invests in a number of actively and passively managed equity-focused mutual funds and collective investment trusts. The Portfolio holds a diversified mix of equity funds in order to gain exposure to the U.S. and non-U.S. equity markets. LTGFI is a diversified portfolio that invests in a number of fixed-income mutual funds and collective investment trusts. The Portfolio invests primarily in intermediate-term bond funds with a focus on Core Plus fixed-income investment approaches. LFFI is a diversified high quality fixed-income portfolio that currently invests in passively managed collective investment trusts that hold long duration bonds.

The investment objectives, investment strategies and risks of each of the daily valued and unitized Portfolios and the funds held within the Portfolios are detailed in the Private Placement Memorandum and the Trust's Investment Policy Statement.

The overall long-term investment objectives are to maintain plan assets at a level that will sufficiently cover long-term obligations and to generate a return on plan assets that will meet or exceed the rate at which long-term obligations will grow. The LTGE and LTGFI Portfolios are designed to provide long-term growth of equity and fixed-income assets with the objective of achieving an investment return in excess of the cost of funding the active life, deferred vested, and all 30-year term and longer obligations of retired lives in the Trust. The LFFI Portfolio is designed to fund the Trust's estimated retired lives class of liabilities for 30 years. Risk/volatility is further managed by the distinct investment objectives of each of the Trust's Portfolios.

Pension plan assets measured at fair value are summarized below:

	At December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Asset Category:				
Mutual Funds - Equity				
Large-cap value (a)	$ -	$ 1,659	$ -	$ 1,659
Large-cap Growth (b)	-	1,239	-	1,239
Large-cap Core (c)	-	993	-	993
Mid-cap Value (d)	-	384	-	384
Mid-cap Growth (e)	-	309	-	309
Mid-cap Core (f)	-	340	-	340
Small-cap Value (g)	-	179	-	179
Small-cap Growth (h)	-	413	-	413
Small-cap Core (i)	-	268	-	268
International Equity (j)	-	2,199	-	2,199
Equity -Total	-	7,983	-	7,983
Fixed Income Funds				
Fixed Income - US Core (k)	-	2,007	-	2,007
Intermediate Duration (l)	-	3,347	-	3,347
Long Duration (m)	-	2,568	-	2,568
Fixed Income-Total	-	7,922	-	7,922
Cash Equivalents-Money market*	54	352	-	406
Total	$ 54	$ 16,257	$ -	$ 16,311

(In thousands)	At December 31, 2021 Level 1	Level 2	Level 3	Total Fair Value
Asset Category:				
Mutual Funds - Equity				
Large-cap value (a)	$ -	$ 1,763	$ -	$ 1,763
Large-cap Growth (b)	-	1,946	-	1,946
Large-cap Core (c)	-	1,234	-	1,234
Mid-cap Value (d)	-	475	-	475
Mid-cap Growth (e)	-	442	-	442
Mid-cap Core (f)	-	398	-	398
Small-cap Value (g)	-	222	-	222
Small-cap Growth (h)	-	533	-	533
Small-cap Core (i)	-	332	-	332
International Equity (j)	-	2,651	-	2,651
Equity -Total	-	9,996	-	9,996
Fixed Income Funds				
Fixed Income - US Core (k)	-	2,380	-	2,380
Intermediate Duration (l)	-	4,249	-	4,249
Long Duration (m)	-	3,521	-	3,521
Fixed Income-Total	-	10,150	-	10,150
Cash Equivalents-Money market*	49	336	-	385
Total	$ 49	$ 20,482	$ -	$ 20,531

*Includes cash equivalents investments in equity and fixed income strategies

a) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
b) This category seeks long-term capital appreciation by investing primarily in large growth companies based in the U.S.
c) This fund tracks the performance of the S&P 500 index by purchasing the securities represented in the index in approximately the same weightings as the index.
d) This category employs an indexing investment approach designed to track the performance of the CRSP US Mid-Cap Value Index.
e) This category employs an indexing investment approach designed to track the performance of the CRSP US Mid-Cap Growth Index.
f) This category seeks to track the performance of the S&P Midcap 400 Index.
g) This category consists of a selection of investments based on the Russell 2000 Value Index.
h) This category consists of a mutual fund invested in small capitalization growth companies along with a fund invested in a selection of investments based on the Russell 2000 Growth Index.
i) This category consists of a mutual fund investing in readily marketable securities of U.S. companies with market capitalizations within the smallest 10% of the market universe, or smaller than the 1000th largest US company.
j) This category invests primarily in medium to large non-US companies in developed and emerging markets. Under normal circumstances, at least 80% of total assets will be invested in equity securities, including common stocks, preferred stocks, and convertible securities.
k) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that index. The third fund targets investments of 50% or more in mortgage-backed securities guaranteed by the US government and its agencies.
l) This category consists mostly of a fund which seeks to track the Barclays Capital US Corporate A or Better 5-20 Year, Bullets only Index, along with a diversified mutual fund holding fixed income securities rated A or better.
m) This category consists of a fund that seeks to approximate the performance of the Barclays Capital US Corporate A or Better, 20+ Year Bullets Only Index over the long term.

For the fiscal year ending December 31, 2023, the Company expects to contribute approximately $17,000 to the postretirement plan.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from both retirement plans:

(In thousands)	Pension Benefits	Postretirement Benefits	Total
Years ending December 31:			
2023	$ 449	$ 17	$ 466
2024	465	16	481
2025	489	15	504
2026	616	14	630
2027	636	13	649
Thereafter	3,639	55	3,694

The Company also offers a 401(k) plan to its employees. Contributions to this plan by the Company were $433,000 and $414,000 for 2022 and 2021, respectively. In addition, the Company made $337,000 and $314,000 of safe harbor contributions to the plan in 2022 and 2021, respectively.

The Company maintains optional deferred compensation plans for its directors and certain executive officers, whereby fees and income normally received are deferred and paid by the Company based upon a payment schedule commencing between the ages of 65 and 70 and continuing monthly for 10 years. At December 31, 2022 and 2021, other liabilities include approximately $3.2 million and $3.0 million, respectively, relating to deferred compensation. Deferred compensation expense for the years ended December 31, 2022 and 2021 amounted to approximately $355,000 and $349,000, respectively.

To assist in the funding of the Company's benefits under the supplemental executive retirement plan and deferred compensation plans, the Company is the owner of single premium life insurance policies on selected participants. At December 31, 2022 and 2021, the cash surrender values of these policies were $24.0 million and $23.4 million, respectively.

The Bank adopted a Defined Contribution Supplemental Executive Retirement Plan (the "SERP"), effective January 1, 2014. The SERP benefits certain key senior executives of the Bank who are selected by the Board to participate, including our named executive officers. The SERP is intended to provide a benefit from the Bank upon retirement, death, disability or voluntary or involuntary termination of service (other than "for cause"), subject to the requirements of Section 409A of the Internal Revenue Code. Accordingly, the SERP obligates the Bank to make a contribution to each executive's account on the last business day of each calendar year. In addition, the Bank, may, but is not required to, make additional discretionary contributions to the executive's accounts from time to time. All executives currently participating in the plan, including the named executive officers, are fully vested in the Bank's contribution to the plan. In the event the executive is terminated involuntarily or resigns for good reason within 24 months following a change in control, the Bank is required to make additional annual contributions the lesser of: (1) three years or (2) the number of years remaining until the executive's benefit age, subject to potential reduction to avoid an excess parachute payment under Code Section 280G. In the event of the executive's death, disability or termination within 24 months after a change in control, the executive's account will be paid in a lump sum to the executive or his beneficiary, as applicable. In the event the executive is entitled to a benefit from the SERP due to retirement or other termination of employment, the benefit will be paid either in a lump sum or in 10 annual installments as detailed in his or her participant agreement. At December 31, 2022 and 2021, other liabilities included $635,000 and $578,000, respectively, accrued under this plan.

NOTE 15: STOCK BASED COMPENSATION PLANS

All share and per share values have been adjusted, where appropriate, by the 1.6472 exchange rate used in the Conversion and Offering that occurred on October 16, 2014.

April 2010 Stock Option Grants

In June 2011, the Board of Directors of the Company approved the grant of stock option awards to its directors and executive officers under the 2010 Stock Option Plan that had 247,080 shares authorized for award. A total of 74,124 stock option awards were granted to the nine directors of the Company, at that time, and 123,540 stock option awards, in total, were granted to the Chief Executive Officer and the Company's then four senior vice presidents. The awards vested ratably over five years (20% per year for each year of the participant's service with the Company) with an expiration date ten years from the date of the grant, or June 2021. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 2.2%; volatility factors of the expected market price of the Company's common stock of 0.45; weighted average expected lives of the options of 7.0 years: cash dividend yield of 1.49%. Based upon these assumptions, the weighted average fair value of options granted was $2.29.

In July 2013, the Board of Directors of the Company approved the grant of 16,472 stock option awards in total to two newly elected directors of the Company. The awards vested ratably over five years (20% per year for each year of the participant's service with the Company) with an expiration date ten years from the date of the grant, or July 2023. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 2.0%; volatility factors of the expected market price of the Company's common stock of 0.45; weighted average expected lives of the options of 7.0 years: cash dividend yield of 1.0%. Based upon these assumptions, the weighted average fair value of options granted was $3.69.

In November 2015, the Board of Directors of the Company approved the grant of 16,472 stock option awards in total to two newly elected directors of the Company. The awards vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or November 2025. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 1.9%; volatility factors of the expected market price of the Company's common stock of 0.23; weighted average expected lives of the options of 7.0 years: cash dividend yield of 1.4%. Based upon these assumptions, the weighted average fair value of options granted was $2.56.

In April 2016, the Board of Directors of the Company approved the grant of 47,768 stock option awards in total to three officers and one recently promoted senior officer. The awards vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or April 2026. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 1.6%; volatility factors of the expected market price of the Company's common stock of 0.32; weighted average expected lives of the options of 7.0 years: cash dividend yield of 1.55%. Based upon these assumptions, the weighted average fair value of options granted was $3.17.

May 2016 Stock Option Grants

In May 2016, the Board of Directors of the Company approved the grant of stock option awards to its directors, executive officers, senior officers and officers under the 2016 Equity Incentive Plan that was approved at the Annual Meeting of Shareholders on May 4, 2016 when 263,605 shares were authorized for award.

A total of 79,083 stock option awards were granted to the nine directors of the Company and 44,812 stock option awards, in total, were granted to thirteen officers. The awards vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or May 2026. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 1.6%; volatility factors of the expected market price of the Company's common stock of 0.32; weighted average expected lives of the options of 7.0 years: cash dividend yield of 1.55%. Based upon these assumptions, the weighted average fair value of options granted was $3.32.

A total of 92,261 stock option awards were granted to the Chief Executive Officer, two executive officers and three senior officers. The awards vest ratably over seven years (approximately 14.28% per year for each year of the participant's service with the Company) with the exception of one senior officer whose awards vested upon retirement on August 1, 2017 and will expire ten years from the date of

the grant, or May 2026. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 1.7%; volatility factors of the expected market price of the Company's common stock of 0.32; weighted average expected lives of the options of 8.5 years: cash dividend yield of 1.55%. Based upon these assumptions, the weighted average fair value of options granted was $3.59.

In September 2020, the Board of Directors of the Company approved the grant of 3,000 stock option awards to one officer. The awards vest ratably over three years (approximately 33.3% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or September 2030. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free rate of 0.35%; volatility factors of the expected market price of the Company's common stock of 0.21; weighted average expected lives of the options of 6.0 years: cash dividend yield of 2.46%. Based upon these assumptions, the weighted average fair value of options granted was $1.32.

In October 2020, the Board of Directors of the Company approved the grant of 9,000 stock option awards in total to two senior officers and four officers. The awards vest ratably over three years (approximately 33.3% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or October 2030. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free rate of 0.45%; volatility factors of the expected market price of the Company's common stock of 0.22; weighted average expected lives of the options of 6.0 years: cash dividend yield of 2.31%. Based upon these assumptions, the weighted average fair value of options granted was $1.51.

In October 2020, the Board of Directors of the Company approved the grant of 39,668 stock option awards to one senior officer. The awards were split between incentive stock option awards and non-qualified stock option awards in accordance with applicable tax regulations that required that allocation of stock option distributions due to the aggregate value of the stock option awards vesting each year. The awards vest ratably over three years (approximately 33.3% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or October 2030. The Black-Scholes model, for the 26,633 incentive stock option awards, used the following weighted average assumptions: risk-free rate of 0.45%; volatility factors of the expected market price of the Company's common stock of 0.25; weighted average expected lives of the options of 6.0 years: cash dividend yield of 2.31%. The Black-Scholes model, for the 13,035 non-qualified stock option awards, used the following weighted average assumptions: risk-free rate of 0.44%; volatility factors of the expected market price of the Company's common stock of 0.26; weighted average expected lives of the options of 5.9 years: cash dividend yield of 2.31%. Based upon these assumptions, the weighted average fair value of the incentive stock options and the non-qualified stock options granted were $1.83 and $1.85, respectively.

Activity in the stock option plans is as follows:

	Options Outstanding			Shares Exercisable		
(Shares in thousands)	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Outstanding at January 1, 2021	320	$	10.89	204	$	10.91
Granted	-		-	-		-
Newly vested	-		-	59		10.97
Exercised	(53)		-	(53)		-
Forfeited	-		-	-		-
Expired	(3)		9.48	-		-
Outstanding at December 31, 2021	264	$	10.98	210	$	11.05
Granted	-	$	-	-	$	-
Newly vested	-		-	27		10.73
Exercised	(37)		-	(37)		-
Forfeited	(4)		11.35	-		-
Expired	-		-	-		-
Outstanding at December 31, 2022	223	$	10.94	200	$	10.98

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options prior to the expiration date. The intrinsic value can change based on fluctuations in the market value of the Company's stock. At December 31, 2022, the intrinsic value of the stock options was $1.8 million. At December 31, 2021, the intrinsic value of the stock options was $1.6 million.

At December 31, 2022, the average remaining contractual life of outstanding options and shares exercisable were 4.2 years and 3.9 years, respectively.

May 2016 Restricted Stock Unit Grants

In May 2016, the Board of Directors of the Company approved the grant of restricted stock units to its directors, executive officers, senior officers and officers under the 2016 Equity Incentive Plan that was approved at the Annual Meeting of Shareholders on May 4, 2016 when 105,442 shares were authorized for award. A total of 31,635 restricted stock units were granted to the nine directors of the Company and 8,436 restricted stock units, in total, were granted to two officers. The units vest ratably over five years (20% per year for each year of the participant's service with the Company).

A total of 46,570 restricted stock units, in total, were granted to the Chief Executive Officer, two executive officers and three senior officers. The units vest ratably over seven years (approximately 14.28% per year for each year of the participant's service with the Company) with the exception of one senior officer whose units vested upon retirement on August 1, 2017.

In September 2020, the Board of Directors of the Company approved the grant of 1,000 restricted stock units to one officer. The units vest ratably over three years (approximately 33.3% per year for each year of the participant's service with the Company).

In October 2020, the Board of Directors of the Company approved the grant of 17,801 restricted stock units to three senior officers and four officers. The units vest ratably over three years (approximately 33.3% per year for each year of the participant's service with the Company).

The compensation expense of the stock option awards and restricted stock units is based on the fair value of the instruments on the date of grant. The Company recorded compensation expense in the amount of $157,000 and $241,000 in 2022 and 2021, respectively, and is expected to record $93,112, and $-0- in 2023 and 2024.

NOTE 16: EMPLOYEE STOCK OWNERSHIP PLAN

The Bank established the Pathfinder Bank Employee Stock Ownership Plan ("Plan") to purchase stock of the Company for the benefit of its employees. In July 2011, the Plan received a $1.1 million loan from Community Bank, N.A., guaranteed by the Company, to fund the Plan's purchase of 125,000 shares of the Company's treasury stock. The loan was being repaid in equal quarterly installments of principal plus interest over ten years beginning October 1, 2011. Interest accrued at the Wall Street Journal Prime Rate plus 1.00%, and was secured by the unallocated shares of the ESOP stock. This loan was refinanced in connection with the Conversion and Offering that occurred on October 16, 2014.

In connection with the Conversion and Offering, the ESOP purchased 105,442 shares issued in the offering by obtaining a loan from the Company which was used to purchase both the additional shares and refinance the remaining outstanding balance on the loan from Community Bank N.A. There were 138,982.5 shares associated with the refinanced loan resulting in a total of 244,424.5 shares associated with the new loan provided by the Company.

The ESOP loan from the Company has a ten year term and is being repaid in equal payments of principal and interest under a fixed rate of interest equal to 3.25% which was the prime rate of interest on the date of the closing of the offering. This ESOP loan from the Company, also referred to as an internally leveraged ESOP, does not appear as a liability on the Company's Consolidated Statement of Condition as of December 31, 2022 in accordance with ASC 718-40-25-9d.

In accordance with the payment of principal on the loan, a proportionate number of shares are allocated to the employees over the ten year time horizon of the loan. Participants' vesting interest in the shares of Company stock is at the rate of 20% per year. Compensation expense is recorded based on the number of shares released to the participants times the average market value of the Company's stock over that same period. Dividends on unallocated shares, recorded as compensation expense on the income statement, are made available to the participants' account. The Company recorded $489,000 and $397,000 in compensation expense in 2022 and 2021, respectively, including $19,000 and $21,000 for dividends on unallocated shares in these same time periods. At December 31, 2022, there were 42,774 unearned ESOP shares with a fair value of $819,000 thousand.

NOTE 17: INCOME TAXES

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

(In thousands)	2022	2021
Current	$ 2,517	$ 3,018
Deferred	139	481
	$ 2,656	$ 3,499

The provision for income taxes includes the following

(In thousands)	2022	2021
Federal Income Tax	$ 2,342	$ 3,273
State Tax	314	226
	$ 2,656	$ 3,499

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

(In thousands)	2022	2021
Assets:		
Deferred compensation	$ 1,051	$ 983
Allowance for loan losses	4,004	3,381
Postretirement benefits	36	85
Subordinated debt interest	37	19
Loan origination fees	261	335
Investment securities	3,583	-
Stock-based compensation	71	80
Capital loss carryover	-	149
Cash flow hedges	-	138
Lease Liabilities	632	638
Other	322	240
Total	9,997	6,048
Liabilities:		
Prepaid pension	(1,795)	(2,041)
Investment securities	-	(151)
Cash flow hedges	(135)	-
Depreciation	(2,097)	(1,902)
Accretion	(494)	(124)
Intangible assets	(1,004)	(1,004)
Mortgage servicing rights	(96)	(99)
Right-of-use assets	(549)	(559)
Prepaid expenses and transaction fees	(112)	(91)
Total	(6,282)	(5,971)
	3,715	77
Less: deferred tax asset valuation allowance	-	(80)
Net deferred tax (liability) asset	$ 3,715	$ (3)

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the statutory carry back period. A valuation allowance is provided when it is more likely than not that some portion, or all of the deferred tax assets, will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income and the projected future level of taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. On the basis of this evaluation, as of December 31, 2022, a reversal of the prior year valuation allowance of $80,000 has been recorded.

Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is recognized for their future tax consequences. This is attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basises as well as net operating and capital loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences

are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. If current available evidence about the future raises doubt about the likelihood of a deferred tax asset being realized, a valuation allowance is established. The judgment about the level of future taxable income, including that which is considered capital, is inherently subjective and is reviewed on a continual basis as regulatory and business factors change.

During 2022, the Company recognized capital gains from the disposal of an equity security and real property held for investment. These capital gains were able to fully offset prior capital loss carryforwards, thereby allowing the reversal of the valuation allowance recorded in the prior year.

In 2022, the Company's effective tax rate was 17.5%, as compared to 22.4% in 2021. A reconciliation of the federal statutory income tax rate to the effective income tax rate for the years ended December 31, is as follows:

	2022	2021
Federal statutory income tax rate	21.0 %	21.0 %
State tax, net of federal benefit	1.6	1.2
Tax-exempt interest income	(1.3)	(0.6)
Increase in value of bank owned life insurance less premiums paid	(0.8)	(0.7)
Change in valuation allowance	(0.4)	0.5
Federal credits	(0.6)	-
Other	(2.5)	0.5
Effective income tax rate - Pathfinder Bancorp, Inc.	17.0 %	21.9 %
Minority interest	0.5	0.5
Effective income tax rate	17.5 %	22.4 %

NOTE 18: 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 Company has in this particular class of financial instrument. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of the instrument. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
(In thousands)	2022	2021
Commitments to grant loans	$ 50,605	$ 93,364
Unfunded commitments under lines of credit	155,453	136,749
Unfunded commitments related to construction loans in progress	7,142	12,308
Standby letters of credit	2,845	2,735

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. Loan commitments outstanding at December 31, 2022 with variable interest rates and fixed interest rates were approximately $160.4 million and $55.6 million, respectively. These outstanding loan commitments carry current market rates.

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.

Letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees.

NOTE 19: DIVIDENDS AND RESTRICTIONS

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 20, regulatory matters, regulations and policies limit the circumstances under which the Bank may pay dividends. The amount of retained earnings legally available under these regulations approximated $37.8 million as of December 31, 2022. 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. The Bank made no dividend payments to the Company in the years ended December 31, 2022 or December 31, 2021.

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 banking operations. This strong capital position serves to support growth and expansion activities while at the same time exceeding regulatory standards. At December 31, 2022, the Bank 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 8%, Tier 1 common equity exceeding 6.5%, and a total risk-based capital ratio exceeding 10%.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The buffer is separate from the capital ratios required under the Prompt Corrective Action (“PCA”) standards. In order to avoid these restrictions, the capital conservation buffer effectively increases the minimum levels of the following capital to risk-weighted assets ratios: (1) Core Capital, (2) Total Capital and (3) Common Equity. The capital conservation buffer requirement is now fully implemented at 2.5% of risk-weighted assets. At December 31, 2022, the Bank exceeded all regulatory required minimum capital ratios, including the capital buffer requirements.

As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies developed a “Community Bank Leverage Ratio” (the ratio of a bank's Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies had set the Community Bank Leverage Ratio at 9%. Pursuant to the CARES Act, the federal banking agencies issued final rules to set the Community Bank Leverage Ratio at 8% beginning in the second quarter of 2020 through the end of 2020. In 2021, the Community Bank Leverage Ratio increased to 8.5% for the calendar year. Community banks had until January 1, 2022, before the Community Bank Leverage Ratio requirement returned to 9%. A financial institution can elect to be subject to this new definition. The new rule took effect on January 1, 2020. The Bank did not elect to become subject to the Community Bank Leverage Ratio.

NOTE 20: REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its 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.

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).

As of December 31, 2022, the Bank’s most recent notification from the FDIC 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.

As noted above, the regulations also impose a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The buffer is separate from the capital ratios required under the Prompt Corrective Action ("PCA") standards and imposes restrictions on dividend distributions and discretionary bonuses. In order to avoid these restrictions, the capital conservation buffer effectively increases the minimum levels of the following capital to risk-weighted assets ratios: (1) Core Capital, (2) Total Capital and (3) Common Equity. The capital conservation buffer requirement is now fully implemented at 2.5% of risk-weighted assets. At December 31, 2022, the Bank exceeded all regulatory required minimum capital ratios, including the capital buffer requirements.

The Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 are presented in the following table.

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be "Well-Capitalized" Under Prompt Corrective Provisions		Minimum for Capital Adequacy With Buffer	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:								
Total Core Capital (to Risk-Weighted Assets)	$ 145,760	15.14%	$ 77,029	8.00%	$ 96,286	10.00%	$ 101,100	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 133,683	13.88%	$ 57,772	6.00%	$ 77,029	8.00%	$ 81,843	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 133,683	13.88%	$ 43,329	4.50%	$ 62,586	6.50%	$ 67,400	7.00%
Tier 1 Capital (to Assets)	$ 133,683	9.67%	$ 55,314	4.00%	$ 69,142	5.00%	$ 69,142	5.00%
As of December 31, 2021:								
Total Core Capital (to Risk-Weighted Assets)	$ 129,166	15.19%	$ 68,013	8.00%	$ 85,016	10.00%	$ 89,266	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 118,511	13.94%	$ 51,009	6.00%	$ 68,013	8.00%	$ 72,263	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 118,511	13.94%	$ 38,257	4.50%	$ 55,260	6.50%	$ 59,511	7.00%
Tier 1 Capital (to Assets)	$ 118,511	9.52%	$ 49,804	4.00%	$ 62,255	5.00%	$ 62,255	5.00%

The Company's goal is to maintain a strong capital position, consistent with the risk profile of its subsidiary bank that supports growth and expansion activities while at the same time exceeding regulatory standards. At December 31, 2022, the 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%.

The Federal Reserve Board regulations previously required banks to maintain non-interest-earning reserves on deposit at the Federal Reserve Bank ("FRB"), against their transaction accounts (primarily negotiable order of withdrawal ("NOW") and regular checking accounts). In March 2020, due to a change in in its approach to monetary policy due to the COVID-19 pandemic, the Federal Reserve Board announced an interim rule to amend Regulation D requirements and reduce reserve requirement ratios to zero. The Federal Reserve Board has indicated that it has no plans to re-impose reserve requirements, but may do so in the future.

NOTE 21: INTEREST RATE DERIVATIVE

The Company is exposed to certain risks from both its business operations and changes in economic conditions. As part of managing interest rate risk, the Company enters into standardized interest rate derivative contracts (designated as hedging agreements) to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate hedging agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate hedging agreements are generally entered into with counterparties that meet established credit standards and the agreements contain master netting, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not material at December 31, 2022. Interest rate hedging agreements are recorded at fair value as other assets or liabilities. The Company had no material derivative contracts not designated as hedging agreements at December 31, 2022 or December 31, 2021.

As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in fair value. When effectively hedged, this appreciation or depreciation will generally be offset by changes in the fair value of derivative instruments that are linked to the hedged assets and liabilities. This strategy is referred to as a fair value hedge. In a fair value hedge, the fair value of the derivative (the interest rate hedging agreement) and changes in the fair value of the hedged item are recorded in the Company's Consolidated Statements of Condition with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate hedging agreements and the hedged items represents hedge ineffectiveness and is recorded as an adjustment to the interest income or interest expense of the respective hedged item.

Cash flows related to floating rate assets and liabilities will fluctuate with changes in underlying rate indices. When effectively hedged, the increases or decreases in cash flows related to the floating-rate asset or liability will generally be offset by changes in cash flows of the derivative instruments designated as a hedge. This strategy is referred to as a cash flow hedge. In a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the derivative's gain or loss on cash flow hedges is accounted for similar to that associated with fair value hedges.

Among the array of interest rate hedging contracts, potentially available to the Company, are interest rate swap and interest rate cap (or floor) contracts. The Company uses interest rate swaps, cap or floor contracts as part of its interest rate risk management strategy. Interest rate swaps involve the receipt of variable (or fixed) amounts from a counterparty in exchange for the Company making fixed (or variable) payments over the life of the agreements without the exchange of the underlying notional amount. An interest rate cap is a type of interest rate derivative in which the buyer receives payments at the end of each contractual period in which the index interest rate exceeds the contractually agreed upon strike price rate. The purchaser of a cap contract will continue to benefit from any rise in interest rates above the strike price. Similarly, an interest rate floor is a derivative contract in which the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price. The purchaser of a floor contract will continue to benefit from any rise in interest rates above the strike price.

The Company records various hedges in the Consolidated Statements of Condition at fair value. The Company's accounting treatment for these derivative instruments is based on the instrument's hedge designation determined at the inception of each derivative instrument's contractual term. The following tables show the Company's outstanding fair value hedges at December 31, 2022 and December 31, 2021:

(In thousands)	Hedge-Adjusted Carrying Amount of the Hedged Assets at December 31, 2022	Cumulative Amount of Fair Value Hedging Adjustment Subtracted from Carrying Amount of the Hedged Assets at December 31, 2022	Hedge-Adjusted Carrying Amount of the Hedged Assets at December 31, 2021	Cumulative Amount of Fair Value Hedging Adjustment Subtracted from Carrying Amount of the Hedged Assets at December 31, 2021
Line item on the balance sheet in which the hedged item is included:				
Available-for-sale securities [1]	$ 68,741	$ 8,240	$ 61,808	$ 1,308
Loans receivable [2]	$ 37,196	$ 1,477	$ 41,651	$ 152

(1) The carrying amount of hedged assets represents the hedge-adjusted amortized cost basis of specifically-identified municipal and GSE-backed securities designated as the underlying assets for the hedging relationships. The notional amount of the designated hedges were $66.8 million and $52.0 million at December 31, 2022 and December 31, 2021, respectively. The fair value of the derivatives (an unrealized gain, receivable from derivative counterparties) recorded in other assets resulted in a net asset position of $8.2 million and $1.3 million at December 31, 2022 and December 31, 2021, respectively. The Company's participation in these fair value hedging transactions increased interest income by $565,000 and reduced interest income by $183,000 in the years ended December 31, 2022 and 2021, respectively.

(2) The carrying amount of hedged assets represents the hedge-adjusted amortized cost of two specific purchased loan pools designated as the underlying asset for the hedging relationship in which the hedged item is the underlying asset's amortized cost projected to be remaining at the end of the contractual term of the hedging instrument. The amount of the designated hedged items were $19.2 million and $20.5 million at December 31, 2022 and December 31, 2021, respectively. At December 31, 2022, the fair value of the derivatives recorded in other assets (an unrealized gain, receivable from derivative counterparties) resulted in a net asset position of $1.5 million, recorded by the Company in other assets. The Company's participation in the fair value hedge had an immaterial effect on recorded interest income for the twelve months ended December 31, 2022 and 2021.

In February 2020, the Company entered into an interest rate cap contract, designated as a cash flow hedging transaction at its inception, in the notional amount of $40.0 million, intended to reduce the Company's exposure to potential rises in short-term interest rates above the contractual level. The Company paid $228,000 in a one-time premium for the cap contract and has no further contractual obligations to the contractual counterparty over the remaining life of the contract. The premium was expected to be amortized ratably over the contractual term of the cap contract, which matures in February 2023. In September of 2021, the Company determined that the specific underlying funding stream, for which the interest rate cap was originally intended to hedge, was no longer going to be a continuing component of the Bank's overall funding strategies. Therefore, although the cap contract continued to remain in force, it was no longer considered to be a hedge against any specific funding liability. Therefore under ASC 815, the Company re-designated the cap as a free-standing derivative and marked the fair value of the cap to market during each reporting period through earnings. The re-designation of the interest rate cap contract to a free-standing derivative resulted in the recognition of a $157,000 increase in interest expense in 2021, prior to its re-designation. The cap contract was terminated in April 2022 resulting in a gain, recorded as other noninterest income, of $26,000.

In March 2020, the Bank entered into an interest rate swap contract with an unaffiliated counterparty that will expire in March 2023. The contract was designated as a cash flow hedging transaction at its inception. The notional amount of the swap was and remains $40.0

million and the Bank will pay a fixed rate of 1.39% to the counterparty and receive a variable payment equivalent to the published three-month LIBOR index rate to be paid by the swap counterparty through the expiration date of the contract. The hedged instrument is a planned series of 90-day revolving borrowings totaling $40.0 million that will be obtained in the brokered certificate of deposit market.

The following table shows the pre-tax gains (losses) of the Company's derivatives designated as cash flow hedges in other comprehensive income at December 31:

(In thousands)		2022		2021
Fair market value adjustment gain/(loss) - interest rate swap	$	519	$	(387)
Total gain (loss) in comprehensive income	$	519	$	(387)

	For the years ended			
(In thousands)		December 31, 2022		December 31, 2021
Balance as of January 1:	$	(387)	$	(1,308)
Amount of unrealized gains recognized in other comprehensive income		906		921
Gain (loss) in other comprehensive income:	$	519	$	(387)

The amounts of hedge ineffectiveness, recognized during the year ended December 31, 2022, and December 31, 2021, for cash flow hedges were not material to the Company's Consolidated Statements of Income. A portion of, or the entire amount included in accumulated other comprehensive loss would be reclassified into current earnings should a portion of, or the entire hedge, no longer be considered effective. Management believes that the hedges will remain fully effective during the remaining term of the respective hedging contracts. The changes in the fair values of the interest rate hedging agreements primarily result from the effects of changing index interest rates and the reduction of the time each quarter between the measurement date and the contractual maturity date of the hedging instrument.

The Company manages its potential credit exposure on interest rate swap transactions by entering into a bilateral credit support agreements with each counterparty. These agreements require collateralization of credit exposures beyond specified minimum threshold amounts.

NOTE 22: FAIR VALUE MEASUREMENTS AND DISCLOSURES

Accounting guidance related to fair value measurements and disclosures specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs, minimize the use of unobservable inputs, to the extent possible, and considers counterparty credit risk in its assessment of fair value.

The Company used the following methods and significant assumptions to estimate fair value:

Investment securities: The fair values of securities available-for-sale are obtained from an independent third party and are based on quoted prices on nationally recognized securities exchanges where available (Level 1). If quoted prices are not available, fair values are measured by utilizing matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). Management made no adjustment to the fair value quotes that were received from the independent third party

pricing service. Level 3 securities are assets whose fair value cannot be determined by using observable measures, such as market prices or pricing models. Level 3 assets are typically very illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges. Management applies known factors, such as currently applicable discount rates, to the valuation of those investments in order to determine fair value at the reporting date.

The Bank holds two corporate investment securities with an aggregate amortized historical cost of $4.1 million and an aggregate fair market value of $4.8 million as of December 31, 2022. The securities had a valuation that is determined using published net asset values (NAV) derived by an analysis of the security's underlying assets. The securities are comprised primarily of broadly-diversified real estate loans and are traded in secondary markets on an infrequent basis. While these securities are redeemable through tender offers made by their respective issuers, the liquidation value of the securities may be below their stated NAVs and also subject to restrictions as to the amount of securities that can be redeemed at any single scheduled redemption. The Company anticipates that these securities will be redeemed by their respective issuers on indeterminate future dates as a consequence of the ultimate liquidation strategies employed by the management of these investments.

The Company also holds two limited partnership investments managed by an unrelated third party with an aggregate fair market value of $1.9 million. The investments are funds comprised of marketable equity securities, primarily focused on community banks and financial technology companies. These investments are recorded at fair value at the end of each reporting period using Level 1 valuation techniques. Unrealized changes in the fair value of these investments are recorded as components of periodic net income in the period in which the changes occur.

Interest rate derivatives: The fair value of the interest rate derivatives, characterized as either fair value or cash flow hedges, are calculated based on a discounted cash flow model. All future floating rate cash flows are projected and both floating rate and fixed rate cash flows are discounted to the valuation date. The benchmark interest rate curve utilized for projecting cash flows and applying appropriate discount rates is built by obtaining publicly available third party market quotes for various swap maturity terms.

Impaired loans: Impaired loans are those loans in which the Company has measured impairment based on the fair value of the loan's collateral or the discounted value of expected future cash flows. Fair value is generally determined based upon market value evaluations by third parties of the properties and/or estimates by management of working capital collateral or discounted cash flows based upon expected proceeds. These appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property), and the cost approach. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as, changes in absorption rates or market conditions from the time of valuation and anticipated sales values considering management's plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

The following tables summarize assets measured at fair value on a recurring basis as of December 31, segregated by the level of valuation inputs within the hierarchy utilized to measure fair value:

	December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 29,364	$ -	$ 29,364
State and political subdivisions	-	45,385	-	45,385
Corporate	-	7,066	-	7,066
Asset backed securities	-	15,400	-	15,400
Residential mortgage-backed - US agency	-	16,400	-	16,400
Collateralized mortgage obligations - US agency	-	11,708	-	11,708
Collateralized mortgage obligations - Private label	-	61,434	-	61,434
Total	-	186,757	-	186,757
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Other Securities:				
Corporate issuances measured at NAV	-	-	-	4,763
Total available-for-sale securities	$ 206	$ 186,757	$ -	$ 191,726
Marketable securities measured at NAV		$ -	$ -	$ 1,862
Interest rate swap derivative fair value hedges (unrealized gain carried as receivable from derivative counterparties)	$ -	$ 9,717	$ -	$ 9,717
Interest rate swap derivative cash flow hedges (unrealized gain carried as receivable from derivative counterparties)	$ -	$ 519	$ -	$ 519

	December 31, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 32,273	$ -	$ 32,273
State and political subdivisions	-	39,199	-	39,199
Corporate	-	9,630	-	9,630
Asset backed securities	-	13,613	-	13,613
Residential mortgage-backed - US agency	-	22,164	-	22,164
Collateralized mortgage obligations - US agency	-	12,285	-	12,285
Collateralized mortgage obligations - Private label	-	56,731	-	56,731
Total	-	185,895	-	185,895
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Other Securities:				
Investment securities issued by corporations measured at NAV	-	-	-	4,497
Total available-for-sale securities	$ 206	$ 185,895	$ -	$ 190,598
Marketable securities measured at NAV		$ -	$ -	$ 677
Interest rate swap derivative fair value hedges (unrealized gain carried as receivable from derivative counterparties)	$ -	$ 1,460	$ -	$ 1,460
Interest rate swap derivative cash flow hedges (unrealized loss carried as payable to derivative counterparties)	$ -	$ (387)	$ -	$ (387)

The following tables summarize assets measured at fair value on a nonrecurring basis as of December 31, segregated by the level of valuation inputs within the hierarchy utilized to measure fair value:

	December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 2,328	$ 2,328
Foreclosed real estate	-	-	221	221

	December 31, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 4,182	$ 4,182
Foreclosed real estate	-	-	-	-

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were used to determine fair value.

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At December 31, 2022			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 35% (17%)
	(Sales Approach)	Costs to Sell	7% - 14% (12%)
	Discounted Cash Flow		
Foreclosed real estate	Appraisal of collateral	Appraisal Adjustments	15% - 15% (15%)
	(Sales Approach)	Costs to Sell	6% - 9% (8%)

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At December 31, 2021			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 30% (15%)
	(Sales Approach)	Costs to Sell	7% - 14% (10%)
	Discounted Cash Flow		

Required disclosures include 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.

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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 period-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 period-end.

FASB ASC Topic 820 for Fair Value Measurements and Disclosures, the financial assets and liabilities were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

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 of these assets approximate their fair value and are classified as Level 1.

Federal Home Loan Bank stock – The carrying amount of these assets approximates their fair value and are classified as Level 2.

Net loans – For variable-rate loans that re-price frequently, fair value is based on carrying amounts. The fair value of other loans (for example, fixed-rate commercial real estate loans, mortgage loans, and commercial and industrial loans) is estimated using discounted cash flow analysis, based on interest rates currently being offered in the market for loans with similar terms to borrowers of similar credit quality. Loan value estimates include judgments based on expected prepayment rates. The measurement of the fair value of loans, including impaired loans, is classified within Level 3 of the fair value hierarchy.

Accrued interest receivable and payable – The carrying amount of these assets approximates their fair value and are classified as Level 1.

Deposits – 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) and are classified within Level 1 of the fair value hierarchy. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates of deposits to a schedule of aggregated expected monthly maturities on time deposits. Measurements of the fair value of time deposits are classified within Level 2 of the fair value hierarchy.

Borrowings – Fixed/variable term structures are valued using a replacement cost of funds approach. These borrowings are discounted to the FHLBNY advance curve. Option structured borrowings' fair values are determined by the FHLB for borrowings that include a call or conversion option. If market pricing is not available from this source, current market indications from the FHLBNY are obtained and the borrowings are discounted to the FHLBNY advance curve less an appropriate spread to adjust for the option. These measurements are classified as Level 2 within the fair value hierarchy.

Subordinated debt – The Company secures quotes from its pricing service based on a discounted cash flow methodology or utilizes observations of recent highly-similar transactions which result in a Level 2 classification.

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

(In thousands)	Fair Value Hierarchy	December 31, 2022 Carrying Amounts	December 31, 2022 Estimated Fair Values	December 31, 2021 Carrying Amounts	December 31, 2021 Estimated Fair Values
Financial assets:					
Cash and cash equivalents	1	$ 35,282	$ 35,282	$ 37,149	$ 37,149
Investment securities - available-for-sale	2	186,757	186,757	185,895	185,895
Investment securities - available-for-sale	NAV	4,763	4,763	4,497	4,497
Investment securities - marketable securities	NAV	1,862	1,862	677	677
Investment securities - held-to-maturity	2	194,402	181,491	160,923	162,805
Federal Home Loan Bank stock	2	5,982	5,982	4,189	4,189
Net loans	3	882,435	844,892	819,524	819,721
Accrued interest receivable	1	6,168	6,168	4,520	4,520
Interest rate derivative fair value hedges receivable - AFS investments	2	8,240	8,240	1,308	1,308
Interest rate derivative fair value hedges receivable - loans	2	1,477	1,477	152	152
Financial liabilities:					
Demand Deposits, Savings, NOW and MMDA	1	$ 699,624	$ 699,624	$ 694,089	$ 694,089
Time Deposits	2	425,806	393,676	361,257	360,680
Borrowings	2	115,997	112,877	77,098	76,957
Subordinated debt	2	29,733	27,378	29,563	30,627
Accrued interest payable	1	975	975	106	106
Interest rate derivative cash flow hedge receivable/(payable)	2	519	519	(387)	(387)

NOTE 23: PARENT COMPANY – FINANCIAL INFORMATION

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

Statements of Condition	2022	2021
(In thousands)		
Assets		
Cash	$ 9,638	$ 13,633
Investments	1,862	677
Investment in bank subsidiary	126,733	122,241
Investment in non-bank subsidiary	155	155
Premise and equipment, net	9	3,577
Assets held-for-sale	3,042	-
Other assets	735	639
Total assets	$ 142,174	$ 140,922
Liabilities and Shareholders' Equity		
Accrued liabilities	$ 859	$ 722
Subordinated debt	29,733	29,564
Shareholders' equity	111,582	110,636
Total liabilities and shareholders' equity	$ 142,174	$ 140,922

Statements of Income		2022		2021
(In thousands)				
Income				
Dividends from non-bank subsidiary	$	5	$	3
Dividends from marketable equity security		15		20
Gain (loss) on marketable securities		352		(5)
Impairment on premise and equipment		(380)		-
Operating, net		128		116
Total income		120		134
Expenses				
Interest		1,749		1,790
Operating, net		1,299		705
Total expenses		3,048		2,495
Loss before taxes and equity in undistributed net income of subsidiaries		(2,928)		(2,361)
Tax benefit		528		527
Loss before equity in undistributed net income of subsidiaries		(2,400)		(1,834)
Equity in undistributed net income of subsidiaries		15,332		14,241
Net income	$	12,932	$	12,407

Statements of Cash Flows		2022		2021
(In thousands)				
Operating Activities				
Net Income	$	12,932	$	12,407
Equity in undistributed net income of subsidiaries		(15,332)		(14,241)
Stock based compensation and ESOP expense		626		617
Amortization of deferred financing from subordinated loan		170		163
Gains on marketable securities		(352)		-
Impairment of fixed asset		380		-
Net change in other assets and liabilities		375		(298)
Net cash flows from operating activities		(1,201)		(1,352)
Investing Activities				
Purchase of investments		(1,628)		-
Proceeds from sales of marketable equity securities		714		-
Disposal of premises and equipment		(3,311)		-
Transfer of fixed asset to held-for-sale		3,042		-
Proceeds from insurance claim for premises and equipment		60		-
Purchase of premises and equipment		(9)		(143)
Net cash flows from investing activities		(1,132)		(143)
Financing activities				
Proceeds from exercise of stock options		418		551
Payments on redemption of subordinated debt		-		(10,000)
Cash dividends paid to common shareholders		(1,568)		(1,227)
Cash dividends paid to non-voting common shareholders		(469)		(194)
Cash dividends paid to preferred shareholders		-		(180)
Cash dividends paid on warrants		(43)		(35)
Net cash flows from financing activities		(1,662)		(11,085)
Change in cash and cash equivalents		(3,995)		(12,580)
Cash and cash equivalents at beginning of year		13,633		26,213
Cash and cash equivalents at end of year	$	9,638	$	13,633

NOTE 24: RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors, executive officers and their affiliates (collectively referred to as "related parties"). None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at December 31, 2022 or 2021.

The following represents the activity associated with loans to related parties during the years ended:

(In thousands)		December 31, 2022		December 31, 2021
Balance at the beginning of the year	$	22,427	$	22,445
Originations and related party additions		15,278		5,663
Principal payments and related party removals		(5,174)		(5,681)
Balance at the end of the period	$	32,531	$	22,427

Deposit accounts of each related party at December 31, 2022 and December 31, 2021 were $19.5 million and $18.4 million, respectively.

NOTE 25: ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale represent land, buildings and land improvements less accumulated depreciation that are being held with a specific intention to sell at some future date. The Company records assets and liabilities held for sale in accordance with ASC 360, *Property, Plant, and Equipment,* at the lower of the individual asset's carrying value or estimated fair value, less estimated cost to sell. Fair value is based on the estimated proceeds from the sale for an individual asset utilizing recent purchase offers, market comparables and/or data obtained from reliable commercial real estate appraisals. Management's estimate as to fair value is regularly reviewed and subject to changes in the commercial real estate markets and other factors.

The Company holds a real estate parcel, including a partially-developed mixed use commercial structure, with a carrying value of $3.4 million. The asset has been classified as held-for-sale and is being actively marketed as of the filing date. It is the Company's intention to complete the sale of this asset during 2023. For the year ended December 31, 2022, the Company recorded an impairment charge of $379,000 on this asset to reflect its estimated realizable value upon sale.

NOTE 26: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in the components of accumulated other comprehensive income (loss) ("AOCI"), net of tax, for the periods indicated are summarized in the table below.

	For the year ended December 31, 2022									
(In thousands)		Retirement Plans		Unrealized Gains and (Losses) on Available-for-Sale Securities		Unrealized (Losses) and Gains on Derivatives and Hedging Activities		Unrealized (Loss) on Securities Transferred to Held-to-Maturity		Total
Beginning balance	$	(1,412)	$	428	$	(286)	$	2	$	(1,268)
Other comprehensive income before reclassifications		(1,017)		(10,673)		668		(2)	$	(11,024)
Amounts reclassified from AOCI		2		118		-		-	$	120
Ending balance	$	(2,427)	$	(10,127)	$	382	$	-	$	(12,172)

(In thousands)	Retirement Plans	Unrealized Gains and (Losses) on Available-for-Sale Securities	Unrealized (Losses) and Gains on Derivatives and Hedging Activities	Unrealized (Loss) on Securities Transferred to Held-to-Maturity	Total
	For the year ended December 31, 2021				
Beginning balance	$ (2,093)	$ 837	$ (966)	$ (14)	$ (2,236)
Other comprehensive income before reclassifications	603	(395)	680	16	904
Amounts reclassified from AOCI	78	(14)	-	-	64
Ending balance	$ (1,412)	$ 428	$ (286)	$ 2	$ (1,268)

The following table presents the amounts reclassified out of each component of AOCI for the indicated annual period:

(In thousands) Details about AOCI[1] components	For the years ended December 31, 2022	December 31, 2021	Affected Line Item in the Statement of Income
Retirement plan items			
Retirement plan net losses recognized in plan expenses[2]	$ (2)	$ (105)	Salaries and employee benefits
	-	27	Provision for income taxes
	$ (2)	$ (78)	Net Income
Available-for-sale securities			
Realized gain (loss) on sale of securities	$ (160)	$ 19	Net (losses) gains on sales and redemptions of investment securities
	42	(5)	Provision for income taxes
	$ (118)	$ 14	Net Income

(1) Amounts in parentheses indicates debits in net income.
(2) These items are included in net periodic pension cost. See Note 14 for additional information.

NOTE 27: NONINTEREST INCOME

The Company has included the following table regarding the Company's noninterest income for the periods presented.

(In thousands)	For the years ended December 31, 2022	December 31, 2021
Service charges on deposit accounts		
Insufficient funds fees	$ 569	$ 888
Deposit related fees	390	393
ATM fees	167	183
Total service charges on deposit accounts	1,126	1,464
Fee Income		
Insurance agency revenue	1,128	1,048
Investment services revenue	446	399
ATM fees surcharge	229	227
Banking house rents collected	229	243
Total fee income	2,032	1,917
Card income		
Debit card interchange fees	867	923
Merchant card fees	70	73
Total card income	937	996
Mortgage fee income and realized gain on sale of loans and foreclosed real estate		
Loan servicing fees	363	246
Net gains on sales of loans and foreclosed real estate	137	313
Total mortgage fee income and realized gain on sale of loans and foreclosed real estate	500	559
Total	4,595	4,936
Earnings and gain on bank owned life insurance	589	559
Net (losses) gains on sales and redemption of investment securities	(169)	37
Gains on marketable securities	352	382
Net (losses) gains on sale of premises and equipment	(250)	201
Other miscellaneous income	797	116
Total noninterest income	$ 5,914	$ 6,231

The following is a discussion of key revenues within the scope of ASC 606:

- *Service charges on deposit accounts* – Revenue is earned through insufficient funds fees, customer initiated activities or passage of time for deposit related fees, and ATM service fees. Transaction-based fees are recognized at the time the transaction is executed, which is the same time the Company's performance obligation is satisfied. Account maintenance fees are earned over the course of the month as the monthly maintenance performance obligation to the customer is satisfied.

- *Fee income* – Revenue is earned through commissions on insurance and securities sales, ATM surcharge fees, and banking house rents collected. The Company earns investment advisory fee income by providing investment management services to customers under investment management contracts. As the direction of investment management accounts is provided over time, the performance obligation to investment management customers is satisfied over time, and therefore, revenue is recognized over time.

- *Card income* – Card income consists of interchange fees from consumer debit card networks and other related services. Interchange rates are set by unaffiliated card processing networks. Interchange fees are based on purchase volumes transacted and certain other factors and are recognized as transactions occur.

- *Mortgage fee income and realized gain on sale of loans and foreclosed real estate* – Revenue from mortgage fee income and realized gain on sale of loans and foreclosed real estate is earned through the origination of residential and commercial mortgage loans, sales of one-to-four family residential mortgage loans, sales of government guarantees portions of SBA loans, and sales of foreclosed real estate, and is earned as the individual transactions occur.

NOTE 28: LEASES

The Company has operating and finance leases for certain banking offices and land under noncancelable agreements. Our leases have remaining lease terms that vary from less than one year up to 30 years, some of which include options to extend the leases for various renewal periods. All options to renew are included in the current lease term when we believe it is reasonably certain that the renewal options will be exercised.

The components of lease expense are as follows:

	For the years ended	
(In thousands)	December 31, 2022	December 31, 2021
Operating lease cost	$ 227	$ 226
Finance lease cost	111	81

Supplemental cash flow information related to leases was as follows:

	For the years ended	
(In thousands)	December 31, 2022	December 31, 2021
Cash paid for amount included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 211	$ 207
Operating cash flows from finance leases	111	81
Financing cash flows from finance leases	90	72

Supplemental balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rate)	December 31, 2022	December 31, 2021
Operating Leases:		
Operating lease right-of-use assets	$ 2,098	$ 2,136
Operating lease liabilities	2,417	2,440
Finance Leases:		
Finance lease right-of-use assets	$ 4,213	$ -
Finance lease liability	4,422	596
Weighted Average Remaining Lease Term:		
Operating Leases	18.28 years	18.29 years
Finance Leases	28.35 years	27.42 years
Weighted Average Discount Rate:		
Operating Leases	3.85%	3.73%
Finance Leases	9.41%	13.75%

Maturities of lease liabilities were as follows:

Years Ending December 31,	
(In thousands)	
2023	$ 162
2024	164
2025	175
2026	186
2027	197
Thereafter	5,955
Total minimum lease payments	$ 6,839

The Company owns certain properties that it leases to unaffiliated third parties at market rates. Lease rental income was $228,000 and $235,000 for the years ended December 31, 2022 and 2021, respectively. All lease agreements are accounted for as operating leases.

NOTE 29: SUBSEQUENT EVENTS

Due to a variety of macroeconomic and bank-specific factors, there was a small number of large bank failures in the first quarter of 2023 that resulted in those banks being placed into receivership by the FDIC. These failures were highly-publicized and created significant concerns related to 'systemic' risk within the banking sector. It was generally understood that those particular failures resulted primarily from imprudent depositor concentrations, a loss of large-balance depositor confidence in those institutions and, consequently, unsustainably large depositor withdrawals. In an effort to increase depositor confidence across the United States' banking system, the Federal Reserve Board, pursuant to section 13(3) of the Federal Reserve Act, authorized all 12 Reserve Banks to establish the Bank Term Funding Program ("BTFP" or the "Program") to make available additional funding to eligible depository institutions, such as the Bank, in order to help assure those institutions have the ability to meet the liquidity needs of all of their depositors.

The BTFP will be an additional source of liquidity provided against any insured depository institution's high-quality securities, eliminating an eligible depository institution's need to quickly sell those securities in times of liquidity stress. Significant features of the BTFP include the following:

- Advances can be requested under the Program until at least March 11, 2024;
- There is no limit to the number or size of advances in the aggregate. Eligible depository institutions may borrow up to the value of eligible collateral they pledge. The collateral valuation will be at par value. Therefore, there will be no market value 'haircut' adjustments applied to qualifying collateral and available margin to participating financial institutions will consequently be 100% of par value;
- Borrowers may prepay advances (including for purposes of refinancing) at any time without penalty;
- Advances will be made available to eligible depository institutions for a term of up to one year;
- The rate for term advances will be the one-year overnight index swap rate plus 10 basis points and will be fixed for the term of the advance on the day the advance is made;
- Advances made under the Program are made with recourse beyond the pledged collateral to the eligible depository institution;

The BTFP will be an additional source of potential liquidity for the Bank until the date of the Program's termination. The BTFP may be accessed by the Bank if management determines that there is a potential or realized short-term liquidity requirement for which this facility should be used to support the Bank's operations. Management could also electively choose to use the facility in certain other circumstances to create other financial or operational benefits at the time that the BTFP line is accessed. As of the date of this filing, the BTFP has not been accessed by the Bank.

On March 29, 2023 the Company announced that James A. Dowd was named President and Chief Executive Officer of the Company and the Bank. Mr. Dowd previously served in these roles on an interim basis since April 14, 2022.

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

None.

ITEM 9A: CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") (the Company's principal executive officer and principal financial officer), management conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2022. The term "disclosure controls and procedures," under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the filing of the Annual Report on Form 10-K as of December 31, 2022, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective at December 31, 2022.

Disclosure Controls and Procedures
During 2022, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")). Management necessarily applied its judgment in assessing the costs and benefits of those controls and procedures, which by their nature, can provide only reasonable assurance about management's control objectives. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot make absolute assurances that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that we record, process, summarize, and report the information we are required to disclose in the reports that we file or submit under the Exchange Act within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that we accumulate and communicate such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING
We did not make any changes in internal control over financial reporting during the year ended December 31, 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

ITEM 9C: DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS
Not applicable.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) Information concerning the directors of the Company is incorporated herein by reference to Proposal 1 of the Company's Proxy Statement for the Annual Meeting of Shareholders.

(b) Information concerning the officers and directors compliance with Section 16(a) of the Securities Exchange Act is incorporated herein by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders under the caption "Delinquent Section 16(a) Reports".

(c) Information concerning the Company's Code of Ethics is incorporated herein by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders under the caption "Code of Ethics".

(d) Information concerning the Company's Audit Committee and "financial expert" thereof is incorporated herein by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders under the caption "Audit Committee".

(e) Set forth below is information concerning the Executive Officers of the Company at December 31, 2022.

Name	Age	Positions Held With the Company
James A. Dowd, CPA	55	President and Chief Executive Officer
Ronald Tascarella	64	Executive Vice President, Chief Banking Officer
Walter F. Rusnak, CPA, CGMA	69	Senior Vice President, Chief Financial Officer and Controller
Daniel R. Phillips	58	Senior Vice President, Chief Information Officer
William O' Brien	57	Senior Vice President, Chief Risk Officer and Corporate Secretary
Calvin L. Corridors	60	Regional President, Syracuse Market/HR Director

ITEM 11: EXECUTIVE COMPENSATION

(a) 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 Shareholders under the caption "Compensation Committee".

(b) Information concerning director compensation is incorporated herein by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders under the caption "Directors Compensation".

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference hereunder in the Company's Proxy Materials for the Annual Meeting of Shareholders under the caption "Voting Securities and Principal Holders Thereof."

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference hereunder in the Company's Proxy Materials for the Annual Meeting of Shareholders under the captions "Independence and Diversity of Directors" and "Transactions with Certain Related Persons".

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

Our independent registered public accounting firm is Bonadio & Co., LLP, Pittsford, NY, Auditor Firm ID 1884. The information required by this item is incorporated by reference hereunder in the Company's Proxy Materials for the Annual Meeting of Shareholders under the caption "Audit and Related Fees".

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements - The Company's consolidated financial statements, for the years ended December 31, 2021 and 2020, 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."

(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 Articles of Incorporation of Pathfinder Bancorp, Inc. (Incorporated herein by reference to Exhibit 3.1 to Pathfinder Bancorp, Inc.'s Registration Statement on Form S-1, file no. 333-196676, originally filed on June 11, 2014)

3.2 Bylaws of Pathfinder Bancorp, Inc. (Incorporated herein by reference to Exhibit 3.2 to Pathfinder Bancorp, Inc.'s Registration Statement on Form S-1, file no. 333-196676, filed on June 11, 2014)

3.3 Articles Supplementary to the Articles of Incorporation of Pathfinder Bancorp, Inc. designating the Company's Series B Convertible Perpetual Preferred Stock, par value $0.01 per share (Incorporated herein by reference to Exhibit 3.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on May 9, 2019)

3.4 Amendment to the Articles Supplementary to the Articles of Incorporation of Pathfinder Bancorp, Inc. designating the Series B Convertible Perpetual Preferred Stock, $0.01 par value per share (Incorporated by reference to Exhibit 3.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on November 17, 2020)

3.5 Articles Supplementary to the Articles of Incorporation of Pathfinder Bancorp, Inc. creating Class A Non-Voting Common Stock, par value $0.01 per share (Incorporated by reference to Exhibit 3.1 to Pathfinder Bancorp Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on June 10, 2021)

4.1 Form of Stock Certificate of Pathfinder Bancorp, Inc. (Incorporated herein by reference to Exhibit 4 to Pathfinder Bancorp, Inc.'s Registration Statement on Form S-1, file no. 333-196676, filed on June 11, 2014)

4.2 Indenture between Pathfinder Bancorp, Inc., a federal corporation, and Wilmington Trust Company, as trustee, dated March 22, 2007 (Incorporated herein by reference to Exhibit 4.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 22, 2014)

4.3 Supplemental Indenture between Pathfinder Bancorp, Inc. and Wilmington Trust Company, as trustee, dated October 16, 2014 (Incorporated herein by reference to Exhibit 4.2 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 22, 2014)

4.4 Warrant Agreement, by and between Pathfinder Bancorp, Inc. and Castle Creek Capital Partners VII, L.P., dated May 8, 2019 (Incorporated herein by reference to Exhibit 4.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on May 9, 2019)

4.5 Description of Common Stock (Incorporated herein by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 file no 000-36695, filed on March 23, 2020)

4.6 Indenture, dated as of October 14, 2020, by and between Pathfinder Bancorp, Inc. and UMB Bank, National Association, as trustee (Incorporated herein by reference to Exhibit 4.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 15, 2020)

4.7 Form of 5.50% Fixed-to-Floating Rate Subordinated Note due 2030 of Pathfinder Bancorp, Inc. (included in Exhibit 4.6)

10.1 2003 Executive Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 file no. 000-23601, filed on March 27, 2009)

10.2 2003 Trustee Deferred Fee Plan (Incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 file no. 000-23601, filed on March 27, 2009)

10.5	Executive Supplemental Retirement Plan Agreement between Pathfinder Bank and James A. Dowd effective February 24, 2014 (Incorporated by reference to Exhibit 10.15 to Pathfinder Bancorp, Inc.'s Current Report Form 8-K, file no. 000-23601, filed on February 25, 2014)
10.6	Amended and Restated Declaration of Trust among Pathfinder Bancorp, Inc., a federal corporation, as Sponsor, Wilmington Trust Company, as Delaware and Institutional Trustee, and the administrative trustees of the Pathfinder Statutory Trust II (Incorporated herein by reference to Exhibit 10.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 22, 2014)
10.7	Amendment two to the Trustee Deferral Fee Plan (Incorporated by reference to Exhibit 10.17 to Pathfinder Bancorp, Inc.'s Annual Report on Form 10-K, file no. 001-36695, filed on March 18, 2015)
10.8	Amendment one to the Executive Deferral Compensation Plan (Incorporated by reference to Exhibit 10.18 to Pathfinder Bancorp, Inc.'s Annual Report on Form 10-K, file no. 001-36695, filed on March 18, 2015)
10.9	Amendment one to the Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.19 to Pathfinder Bancorp, Inc.'s Annual Report on Form 10-K, file no. 001-36695, filed on March 18, 2015)
10.10	Subordinated Loan Agreement (Incorporated herein by reference to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 19, 2015)
10.11	2016 Pathfinder Bancorp, Inc. Equity Incentive Plan (Incorporated by reference to Appendix A to Pathfinder Bancorp, Inc.'s Proxy Statement, file no. 001-36695, filed on March 29, 2016.
10.12	Executive Supplemental Retirement Plan Agreement between Pathfinder Bank and Ronald Tascarella effective February 24, 2014 (Incorporated by reference to Exhibit 10.14 to Pathfinder Bancorp, Inc.'s Annual Report on Form 10-K, file no. 001-36695, filed on March 30, 2018).
10.13	Senior Executive Split Dollar Life Insurance Plan (Incorporated by reference to Exhibit 10.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, filed no. 001-36695, filed on January 7, 2019.
10.14	Change of Control Agreement between Pathfinder Bank and James A. Dowd (Incorporated by reference to Exhibit 10.2 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, filed no. 001-36695, filed on January 7, 2019.
10.15	Change of Control Agreement between Pathfinder Bank and Ronald Tascarella (Incorporated by reference to Exhibit 10.3 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, filed no. 001-36695, filed on January 7, 2019.
10.16	Securities Purchase Agreement, by and between Pathfinder Bancorp, Inc. and the Purchasers Identified on the Signature Pages Thereto, dated May 8, 2019 (Incorporated herein by reference to Exhibit 10.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on May 9, 2019)
10.17	Registration Rights Agreement, by and between Pathfinder Bancorp, Inc. and Castle Creek Capital Partners VII, L.P., dated May 8, 2019 (Incorporated herein by reference to Exhibit 10.2 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on May 9, 2019)
10.18	Form of Subordinated Note Purchase Agreement, dated as of October 14, 2020, by and between Pathfinder Bancorp, Inc. and the Several Purchasers (Incorporated by reference to Exhibit 10.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 15, 2020)
10.19	Form of Registration Rights Agreement, dated as of October 14, 2020, by and between Pathfinder Bancorp, Inc. and the Several Purchasers (Incorporated by reference to Exhibit 10.2 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 15, 2020)

10.20	Exchange Agreement, dated as of November 13, 2020, by and between Pathfinder Bancorp, Inc. and Castle Creek Capital Partners VII, LP. (Incorporated by reference to Exhibit 10.1 to Pathfinder Bancorp, Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on November 17, 2020)
10.21	Separation Agreement and General Release by and Between Pathfinder Bancorp, Inc. and Thomas W. Schneider, Dated September 28, 2022 (Incorporated by reference to Exhibit 10.1 to Pathfinder Bancorp Inc.'s Current Report on Form 8-K, file no. 001-36695, filed on October 7, 2022).
14	Code of Ethics (Incorporated by reference to Exhibit 14 to Pathfinder Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003, file no. 000-23601, filed on March 31, 2004)
21	Subsidiaries of Registrant
23	Consent of Bonadio & Co., LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition as of December 31, 2022 and 2021, (ii) the Consolidated Statements of Income for the years ended December 31, 2022 and 2021, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2022 and 2021, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2022 and 2021, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021, and (vi) the Notes to the Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

ITEM 16: FORM 10-K SUMMARY

None.

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 31, 2023

By: /s/ James A. Dowd
James A. Dowd
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/ James A. Dowd
James A. Dowd, President and
Chief Executive Officer
(Principal Executive Officer)
Date: March 31, 2023

By: /s/ Walter F. Rusnak
Walter F. Rusnak, Senior Vice President,
Chief Financial Officer and Controller
(Principal Financial and Accounting Officer)
Date: March 31, 2023

By: /s/ Lloyd Stemple
Lloyd Stemple, Director
Date: March 31, 2023

By: /s/ William A. Barclay
William A. Barclay, Director
Date: March 31, 2023

By: /s/ John P. Funiciello
John Funiciello, Director
Date: March 31, 2023

By: /s/ Chris R. Burritt
Chris R. Burritt, Director
Date: March 31, 2023

By: /s/ David A. Ayoub
David A. Ayoub, Director
Date: March 31, 2023

By: /s/ John F. Sharkey
John F. Sharkey, Director
Date: March 31, 2023

By: /s/ Adam C. Gagas
Adam C. Gagas, Director
Date: March 31, 2023

By: /s/ Melanie Littlejohn
Melanie Littlejohn, Director
Date: March 31, 2023

By: /s/ Meghan Crawford-Hamlin
Meghan Crawford-Hamlin, Director
Date: March 31, 2023

By: /s/ Eric Allyn
Eric Allyn, Director
Date: March 31, 2023

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation
Pathfinder Bank	New York (direct)
Pathfinder Statutory Trust II	Delaware (direct)
Whispering Oaks Development Corp.	New York (indirect)
Pathfinder Risk Management Company Inc.	New York (indirect)
FitzGibbons Agency, LLC (1)	New York (indirect)

(1) Pathfinder Bancorp, Inc. indirectly owns 51% of FitzGibbons Agency, LLC

The Company has evaluated the activities relating to its strategic business units. The controlling interest in the FitzGibbons Agency is dissimilar in nature and management when compared to the Company's other strategic business units which are judged to be similar in nature and management. The Company has determined that the FitzGibbons Agency is below the reporting threshold in size in accordance with Accounting Standards Codification 280. Accordingly, the Company has determined it has no reportable segments.

EXHIBIT 23: CONSENT OF BONADIO & CO., LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Pathfinder Bancorp, Inc.
Oswego, New York

We consent to the incorporation by reference in the registration statements on Forms S-8 (No. 333-202081 and 333-224388) of our report dated March 31, 2023 of Pathfinder Bancorp, Inc. relating to the consolidated financial statements, which report appears in this Annual Report on Form 10-K.

/s/ Bonadio & Co., LLP
Bonadio & Co., LLP
Pittsford, New York
March 31, 2023

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, James A. Dowd, 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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated 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 officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting, to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 31, 2023

/s/ James A. Dowd
James A. Dowd
President and Chief Executive Officer

EXHIBIT 31.2: Rule 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, Walter F. Rusnak, Senior Vice President, 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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated 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 officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting, to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) 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

    (d) 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 31, 2023

/s/ Walter F. Rusnak
Walter F. Rusnak
Senior Vice President, Chief Financial Officer

EXHIBIT 32 Section 1350 Certification of the Chief Executive and Chief Financial Officers

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

James A. Dowd, President and Chief Executive Officer, and Walter F. Rusnak, Senior Vice President, 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, 2022 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 consolidated 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 31, 2023

/s/ James A. Dowd
James A. Dowd
President and Chief Executive Officer

March 31, 2023

/s/ Walter F. Rusnak
Walter F. Rusnak
Senior Vice President, Chief Financial Officer

CORPORATE INFORMATION
PATHFINDER BANCORP, INC.
BOARD OF DIRECTORS (1)
Chris R. Burritt, Chairman
Eric Allyn
David A. Ayoub, CPA
William A. Barclay
Meghan Crawford-Hamlin
John P. Funiciello
Adam Gagas
Melanie Littlejohn
John F. Sharkey, III
Lloyd "Buddy" Stemple

PATHFINDER EXECUTIVE OFFICERS
James A. Dowd, CPA
President, Chief Executive Officer and Chief Operating Officer

Ronald Tascarella
Executive Vice President, Chief Banking Officer

Calvin L. Corriders
Regional President, Syracuse Market and HR Director

William D. O'Brien
Senior Vice President, Chief Risk Officer, Corporate Secretary

Daniel R. Phillips
Senior Vice President, Chief Information Officer

Walter F. Rusnak, CPA, CGMA
Senior Vice President, Chief Financial Officer and Controller

PATHFINDER OFFICERS
Robert G. Butkowski
First Vice President, Branch Administration and Operations Manager

Joseph P. McManus
First Vice President, Chief Technology Officer

Paloma Sarkar
First Vice President, Enterprise Risk Manager

Ronald G. Tascarella
First Vice President, Chief Lending Officer

Beth K. Alfieri
Vice President, Senior Business Development Officer

Regina Bass
Vice President, Financial Planning and Analysis Manager

William Bower
Vice President, Business Development Officer

Theresa L. Colburn
Vice President, Compliance/BSA Officer/OFAC, CRA/Fair Lending

William "Wink" Doolittle
Vice President, Special Assets Officer

Craig Fitzpatrick
Vice President, Financial Advisor

Cassandra M. Gehrig
Vice President, Marketing Manager

Shari L. Gordon
Vice President, Information Security Officer

Alison X. Ha
Vice President, Business Development Officer

Lorna J. Hall
Vice President, BSA Officer

Karri L. Hibbert
Vice President, Facilities Manager

Mary S. McConkey
Vice President, Electronic Commerce Manager

April L. Phillips
Vice President, Operations Manager

Reyne J. Pierce
Vice President, Loan Operations Manager

Nicholas Tryniski
Vice President, Senior Credit Manager

Heather L. Vashaw
Vice President, Human Resources

Jennifer L. Wright
Vice President, Business Deposit Manager

Tiffany Barrett
Assistant Vice President, Technology Project Manager

Joy E. Campbell
Assistant Vice President, Business Development Officer

Tonya L. Crisafulli
Assistant Vice President, Executive Assistant

Jessica L. DeGrenier
Assistant Vice President, Loss Mitigation Manager

Joleen DiBartolo
Assistant Vice President, Residential Mortgage Team Leader

Sydney DiPierro
Assistant Vice President, Lending Quality Control Manager

Ben Driscoll
Assistant Vice President, Computer Systems Analyst

Brandon Fink
Assistant Vice President, Lending Process Administrator

Mackenzie Kjerstad
Assistant Vice President, Business Development Officer

Laurie L. Lockwood
Assistant Vice President, Assistant Controller

Stephanie A. Magrisi
Assistant Vice President, Corporate Asset and Liability Manager

Michelle Nelson
Assistant Vice President, ACH Operations Manager

Tina Sawyer
Assistant Vice President, Digital Banking Manager

Banking Officers
Daniel Capella, Residential Mortgage Lender
Matthew Hughes, Commercial Lending Portfolio Manager
Sharon Marziale, Residential Mortgage Lender

PATHFINDER BRANCH MANAGERS
John M. Andrews, Assistant Vice President
Randall A. Barnard, Assistant Vice President
James Bligh, Assistant Vice President
David Cavallaro, Assistant Vice President
Shynique Gainey, Assistant Vice President
Jennifer Kaljeskie, Assistant Vice President
Craig J. Nessel, Assistant Vice President
Ruth Scheppard, Assistant Vice President
Amy J. Shaw, Assistant Vice President

ANNUAL MEETING
June 1, 2023, 10:00 AM
The Lake Ontario Event and Conference Center
24 East First Street
Oswego, NY 13126

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

STOCK LISTING
The NASDAQ Capital Market
Symbol: PBHC Listing: PathBcp

SPECIAL COUNSEL
Luse Gorman, PC
5335 Wisconsin Avenue N.W.
Suite 780
Washington, D.C. 20015

INDEPENDENT AUDITORS
Bonadio & Co., LLP
432 North Franklin Street, Suite 60
Syracuse, NY 13204

TRANSFER AGENT
Computershare
480 Washington Blvd, 29th Floor
Jersey City, NJ 07310

INVESTOR RELATIONS
James A. Dowd
President, Chief Executive Officer and Chief Operating Officer

Walter F. Rusnak, CPA, CGMA
Senior Vice President, Chief Financial Officer and Controller

GENERAL INQUIRIES AND REPORTS
A copy of the Bank's 2022 Annual Report to the Securities and Exchange Commission, Form 10-K, may be obtained without charge by written request of shareholders to:
William O'Brien
Senior Vice President, Chief Risk Officer, Corporate Secretary
Pathfinder Bank
214 West First Street
Oswego, NY 13126

A copy of this Annual Report on Form 10K and our 2023 Annual Proxy Statement, is also available free of charge on our website at: www.pathfinderbank.com/annualmeeting

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

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

(1) Information concerning the principal occupation of the Directors is available in the Company's Proxy Statement

pathfinderbank.com

MAIN OFFICE
214 West First Street
Oswego
(315) 343-0057

PLAZA OFFICE
State Route 104 East
Oswego
(315) 343-4483

CENTRAL SQUARE OFFICE
3025 East Avenue
Central Square
(315) 676-2265

FULTON OFFICE
5 West First Street South
Fulton
(315) 592-9545

LACONA OFFICE
1897 Harwood Drive
Lacona
(315) 387-3437

MEXICO OFFICE
Norman & Main Streets
Mexico
(315) 963-7248

DOWNTOWN DRIVE-THRU
34 East Bridge Street
Oswego
(315) 343-2577

CICERO OFFICE
6194 State Route 31
Cicero
(315) 752-0033

SYRACUSE OFFICE
109 West Fayette Street
Syracuse
(315) 207- 8020

UTICA LOAN OFFICE
200 Genesee Street
Utica
315-343-0057

CLAY OFFICE
3775 Route 31
Liverpool
(315) 593-4400

SOUTHWEST CORRIDOR OFFICE
506 W Onondaga St
Syracuse
(315) 413-7714