UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from _______ to _______

PathFinder BANCORP, INC.

(Exact Name of Company as Specified in its Charter)

Maryland	001-36695	38-3941859
(State of Other Jurisdiction of Incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

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

(315) 343-0057
(Issuer's Telephone Number including area code)

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

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 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 an emerging growth company. See definitions 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 ☐

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. ☐

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

As of November 12, 2021, there were 4,583,215 shares outstanding of the registrant's Voting common stock and 1,380,283 shares outstanding of the registrant's Series A Non-Voting common stock.

PATHFINDER BANCORP, INC.
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PART I - FINANCIAL INFORMATION
Item 1 – Consolidated Financial Statements

Pathfinder Bancorp, Inc.
Consolidated Statements of Condition
(Unaudited)

(In thousands, except share and per share data)		September 30, 2021		December 31, 2020
ASSETS:				
Cash and due from banks (including restricted balances of $1,600 and $1,600, respectively)	$	27,230	$	14,906
Interest-earning deposits (including restricted balances of $0 and $0, respectively)		48,010		28,558
Total cash and cash equivalents		75,240		43,464
Available-for-sale securities, at fair value		175,523		128,261
Held-to-maturity securities, at amortized cost (fair value of $164,896 and $174,935, respectively)		161,736		171,224
Marketable equity securities, at fair value		667		1,850
Federal Home Loan Bank stock, at cost		3,737		4,390
Loans		787,854		823,969
Loans held-for-sale		294		1,526
Less: Allowance for loan losses		14,065		12,777
Loans receivable, net		774,083		812,718
Premises and equipment, net		21,943		22,264
Operating lease right-of-use assets		2,170		2,240
Accrued interest receivable		4,599		4,549
Intangible assets, net		121		133
Goodwill		4,536		4,536
Bank owned life insurance		23,282		17,864
Other assets		14,561		13,950
Total assets	$	1,262,198	$	1,227,443
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Deposits:				
Interest-bearing	$	840,004	$	833,850
Noninterest-bearing		206,212		162,057
Total deposits		1,046,216		995,907
Short-term borrowings		-		4,020
Long-term borrowings		67,054		78,030
Subordinated loans		29,522		39,400
Accrued interest payable		145		193
Operating lease liabilities		2,469		2,525
Other liabilities		10,143		9,646
Total liabilities		1,155,549		1,129,721
Shareholders' equity:				
Preferred stock, par value $0.01 per share; no liquidation preference; 10,000,000 shares authorized; 0 and 1,380,283 shares issued and outstanding, respectively		-		14
Voting common stock, par value $0.01; 25,000,000 authorized shares; 4,575,615 and 4,531,383 shares issued and outstanding, respectively		46		45
Non-Voting common stock, par value $0.01; 1,505,283 authorized shares; 1,380,283 and 0 shares issued and outstanding, respectively		14		-
Additional paid in capital		50,693		50,024
Retained earnings		57,490		50,284
Accumulated other comprehensive loss		(1,391)		(2,236)
Unearned ESOP		(540)		(675)
Total Pathfinder Bancorp, Inc. shareholders' equity		106,312		97,456
Noncontrolling interest		337		266
Total equity		106,649		97,722
Total liabilities and shareholders' equity	$	1,262,198	$	1,227,443

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Interest and dividend income:				
Loans, including fees	$ 9,465	$ 8,810	$ 28,096	$ 26,884
Debt securities:				
Taxable	2,049	1,520	6,177	4,761
Tax-exempt	28	50	99	109
Dividends	87	103	261	237
Federal funds sold and interest earning deposits	3	4	7	53
Total interest and dividend income	11,632	10,487	34,640	32,044
Interest expense:				
Interest on deposits	1,154	1,616	3,825	6,376
Interest on short-term borrowings	2	38	8	134
Interest on long-term borrowings	274	331	865	1,215
Interest on subordinated loans	411	191	1,376	589
Total interest expense	1,841	2,176	6,074	8,314
Net interest income	9,791	8,311	28,566	23,730
Provision for loan losses	104	1,682	2,061	3,895
Net interest income after provision for loan losses	9,687	6,629	26,505	19,835
Noninterest income:				
Service charges on deposit accounts	393	339	1,082	998
Earnings and gain on bank owned life insurance	164	133	418	355
Loan servicing fees	54	90	155	218
Net gains on sales and redemptions of investment securities	5	27	56	1,076
Gains (losses) on marketable equity securities	89	118	372	(798)
Net gains on sales of loans and foreclosed real estate	67	134	226	903
Net gains on sale of premises and equipment	-	-	201	-
Debit card interchange fees	236	209	698	577
Insurance agency revenue	303	217	817	739
Other charges, commissions & fees	235	224	800	702
Total noninterest income	1,546	1,491	4,825	4,770
Noninterest expense:				
Salaries and employee benefits	3,624	3,396	10,466	9,615
Building and occupancy	724	788	2,387	2,249
Data processing	686	569	2,016	1,721
Professional and other services	385	282	1,253	899
Advertising	191	236	696	673
FDIC assessments	222	170	652	509
Audits and exams	193	126	572	376
Insurance agency expense	227	113	627	517
Community service activities	59	44	181	163
Foreclosed real estate expenses	8	7	30	42
Other expenses	504	499	1,424	1,469
Total noninterest expense	6,823	6,230	20,304	18,233
Income before income taxes	4,410	1,890	11,026	6,372
Provision for income taxes	1,005	372	2,405	1,266
Net income attributable to noncontrolling interest and Pathfinder Bancorp, Inc.	3,405	1,518	8,621	5,106
Net income attributable to noncontrolling interest	40	44	93	101
Net income attributable to Pathfinder Bancorp Inc.	3,365	1,474	8,528	5,005
Voting Earnings per common share - basic	$ 0.56	$ 0.25	$ 1.43	$ 0.85
Voting Earnings per common share - diluted	$ 0.56	$ 0.25	$ 1.43	$ 0.85
Series A Non-Voting Earnings per common share- basic	$ 0.56	$ -	$ 1.43	$ -
Series A Non-Voting Earnings per common share - diluted	$ 0.56	$ -	$ 1.43	$ -
Dividends per common share (Voting and Series A Non-Voting)	$ 0.07	$ 0.06	$ 0.21	$ 0.18

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	For the three months ended		For the nine months ended	
(In thousands)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net Income	$ 3,405	$ 1,518	$ 8,621	$ 5,106
Other Comprehensive Income (Loss)				
Retirement Plans:				
Retirement plan net losses recognized in plan expenses	26	58	79	175
Unrealized holding (losses) gains on available-for-sale securities:				
Unrealized holding (losses) gains arising during the period	(486)	1,041	477	1,801
Reclassification adjustment for net gains included in net income	(18)	(27)	(18)	(926)
Net unrealized (losses) gains on available-for-sale securities	(504)	1,014	459	875
Derivatives and hedging activities:				
Unrealized holding gains (losses) arising during the period	263	114	590	(1,413)
Net unrealized gains (losses) on derivatives and hedging activities	263	114	590	(1,413)
Accretion of net unrealized loss on securities transferred to held-to-maturity(1)	4	8	17	26
Other comprehensive (loss) income, before tax	(211)	1,194	1,145	(337)
Tax effect	55	(251)	(300)	70
Other comprehensive (loss) income, net of tax	(156)	943	845	(267)
Comprehensive income	$ 3,249	$ 2,461	$ 9,466	$ 4,839
Comprehensive income, attributable to noncontrolling interest	$ 40	$ 44	$ 93	$ 101
Comprehensive income attributable to Pathfinder Bancorp, Inc.	$ 3,209	$ 2,417	$ 9,373	$ 4,738
Tax Effect Allocated to Each Component of Other Comprehensive Income (Loss)				
Retirement plan net losses recognized in plan expenses	$ (7)	$ (13)	$ (22)	$ (37)
Unrealized holding (losses) gains on available-for-sale securities arising during the period	127	(220)	(124)	(379)
Reclassification adjustment for net gains included in net income	5	6	5	194
Unrealized gains (losses) on derivatives and hedging arising during the period	(69)	(23)	(154)	297
Accretion of net unrealized loss on securities transferred to held-to-maturity(1)	(1)	(1)	(5)	(5)
Income tax effect related to other comprehensive (loss) income	$ 55	$ (251)	$ (300)	$ 70

(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
Three months ended September 30, 2021 and September 30, 2020
(Unaudited)

(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, June 30, 2021	$ -	$ 45	$ 14	$ 50,451	$ 54,545	$ (1,235)	$ (585)	$ 297	$ 103,532
Net income	-	-	-	-	3,365	-	-	40	3,405
Other comprehensive loss, net of tax	-	-	-	-	-	(156)	-	-	(156)
ESOP shares earned (6,111 shares)	-	-	-	54	-	-	45	-	99
Restricted stock units (13,436 shares issued)	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	46	-	-	-	-	46
Stock options exercised	-	1	-	142	-	-	-	-	143
Common stock dividends declared ($0.07 per share)	-	-	-	-	(315)	-	-	-	(315)
Non-Voting common stock dividends declared ($0.07 per share)	-	-	-	-	(96)	-	-	-	(96)
Warrant dividends declared ($0.07 per share)	-	-	-	-	(9)	-	-	-	(9)
Capital transfer from affiliates	-	-	-	-	-	-	-	-	-
Balance, September 30, 2021	$ -	$ 46	$ 14	$ 50,693	$ 57,490	$ (1,391)	$ (540)	$ 337	$ 106,649
Balance, June 30, 2020	$ 12	$ 48	$ -	$ 49,747	$ 47,660	$ (4,387)	$ (765)	$ 292	$ 92,607
Net income	-	-	-	-	1,474	-	-	44	1,518
Other comprehensive income, net of tax	-	-	-	-	-	943	-	-	943
ESOP shares earned (6,111 shares)	-	-	-	16	-	-	45	-	61
Stock based compensation	-	-	-	73	-	-	-	-	73
Common stock dividends declared ($0.06 per share)	-	-	-	-	(279)	-	-	-	(279)
Preferred stock dividends declared ($0.06 per share)	-	-	-	-	(70)	-	-	-	(70)
Warrant dividends declared ($0.06 per share)	-	-	-	-	(7)	-	-	-	(7)
Capital transfer from affiliates	-	-	-	7	-	-	-	(7)	-
Cumulative effect of affiliate capital allocation	-	-	-	42	(82)	-	-	40	-
Distributions from affiliates	-	-	-	-	-	-	-	(98)	(98)
Balance, September 30, 2020	$ 12	$ 48	$ -	$ 49,885	$ 48,696	$ (3,444)	$ (720)	$ 271	$ 94,748

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Nine months ended September 30, 2021 and September 30, 2020
(Unaudited)

(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, 2021	$ 14	$ 45	$ -	$ 50,024	$ 50,284	$ (2,236)	$ (675)	$ 266	$ 97,722
Net income	-	-	-	-	8,528	-	-	93	8,621
Conversion of Preferred stock to Non-Voting common stock	(14)	-	14	-	-	-	-	-	-
Other comprehensive income, net of tax	-	-	-	-	-	845	-	-	845
ESOP shares earned (18,332 shares)	-	-	-	138	-	-	135	-	273
Restricted stock units vested (13,769 shares issued)	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	194	-	-	-	-	194
Stock options exercised	-	1	-	304	-	-	-	-	305
Common stock dividends declared ($0.21 per share)	-	-	-	-	(941)	-	-	-	(941)
Non-Voting common stock dividends declared ($0.14 per share)	-	-	-	-	(193)	-	-	-	(193)
Preferred stock dividends declared ($0.07 per share)	-	-	-	-	(97)	-	-	-	(97)
Warrant dividends declared ($0.21 per share)	-	-	-	-	(26)	-	-	-	(26)
Cumulative effect of affiliate capital allocation	-	-	-	33	(65)	-	-	32	-
Distributions from affiliates	-	-	-	-	-	-	-	(54)	(54)
Balance, September 30, 2021	$ -	$ 46	$ 14	$ 50,693	$ 57,490	$ (1,391)	$ (540)	$ 337	$ 106,649
Balance, January 1, 2020	$ 12	$ 47	$ -	$ 49,362	$ 44,839	$ (2,971)	$ (855)	$ 235	$ 90,669
Net income	-	-		-	5,005	-	-	101	5,106
Reevaluation of deferred tax asset valuation allowance (1)	-	-	-	-	-	(206)	-	-	(206)
Other comprehensive loss, net of tax	-	-	-	-	-	(267)	-	-	(267)
ESOP shares earned (18,332 shares)	-	-	-	68	-	-	135	-	203
Restricted stock units (13,437 shares issued)	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	212	-	-	-	-	212
Stock options exercised	-	1	-	194	-	-	-	-	195
Common stock dividends declared ($0.18 per share)	-	-	-	-	(836)	-	-	-	(836)
Preferred stock dividends declared ($0.18 per share)	-	-	-	-	(208)	-	-	-	(208)
Warrant dividends declared ($0.18 per share)	-	-	-	-	(22)	-	-	-	(22)
Capital transfer from affiliates	-	-	-	7	-	-	-	(7)	-
Cumulative effect of affiliate capital allocation	-	-	-	42	(82)	-	-	40	-
Distributions from affiliates	-	-	-	-	-	-	-	(98)	(98)
Balance, September 30, 2020	$ 12	$ 48	$ -	$ 49,885	$ 48,696	$ (3,444)	$ (720)	$ 271	$ 94,748

(1) In the first quarter of 2020, consistent with policy, management reviewed all facts and circumstances related to its deferred taxes and determined that based on the expected filings of future New York State tax returns, the valuation allowance created in 2019 was no longer needed. Therefore management elected to eliminate its New York State net deferred tax asset valuation allowance during the quarter ended March 31, 2020.

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	For the nine months ended September 30, 2021	2020
OPERATING ACTIVITIES		
Net income attributable to Pathfinder Bancorp, Inc.	$ 8,528	$ 5,005
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan losses	2,061	3,895
Amortization of operating leases	14	15
Proceeds from sales of loans	7,076	43,753
Originations of loans held-for-sale	(5,618)	(7,597)
Realized losses (gains) on sales, redemptions and calls of:		
Real estate acquired through foreclosure	-	5
Loans	(226)	(908)
Available-for-sale investment securities	(18)	(1,042)
Held-to-maturity investment securities	(38)	(34)
Premises and equipment	(201)	-
Marketable equity securities	(372)	798
Depreciation	1,361	1,249
Amortization of mortgage servicing rights	(7)	(325)
Amortization of deferred loan costs	1,499	355
Amortization of deferred financing from subordinated debt	122	26
Earnings on bank owned life insurance	(418)	(355)
Net amortization of premiums and discounts on investment securities	1,837	1,572
Amortization of intangible assets	12	12
Stock based compensation and ESOP expense	467	415
Net change in accrued interest receivable	(50)	(1,194)
Payment of executive deferred compensation and SERP contracts, expensed in prior periods	(571)	-
Net change in other assets and liabilities	248	(573)
Net cash flows from operating activities	15,707	45,072
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(133,834)	(107,075)
Purchase of investment securities held-to-maturity	(28,059)	(75,234)
Purchase of Federal Home Loan Bank stock	(3,923)	(3,016)
Proceeds from redemption of Federal Home Loan Bank stock	4,576	2,490
Proceeds from maturities and principal reductions of investment securities available-for-sale	46,491	71,970
Proceeds from maturities and principal reductions of investment securities held-to-maturity	36,091	31,730
Proceeds from sales, redemptions and calls of:		
Available-for-sale investment securities	38,243	24,795
Held-to-maturity investment securities	1,215	1,701
Marketable equity securities	1,555	-
Real estate acquired through foreclosure	-	132
Purchase of bank owned life insurance	(5,000)	-
Net change in loans	35,075	(74,980)
Purchase of premises and equipment	(1,070)	(1,354)
Proceeds from sale of premises and equipment	231	-
Net cash outflows from investing activities	(8,409)	(128,841)
FINANCING ACTIVITIES		
Net change in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits	102,484	130,533
Net change in time deposits	(11,275)	(51,337)

Net change in brokered deposits		(40,900)		37,144
Net change in short-term borrowings		(4,020)		(15,118)
Payments on long-term borrowings		(18,071)		(32,331)
Proceeds from long-term borrowings		7,095		34,550
Payments on sub-debt borrowings		(10,000)		-
Proceeds from exercise of stock options		305		195
Cash dividends paid to common shareholders		(1,005)		(852)
Cash dividends paid to preferred shareholders		(180)		(208)
Cash dividends paid on warrants		(25)		(22)
Change in noncontrolling interest, net		71		36
Net cash flows from financing activities		24,479		102,590
Change in cash and cash equivalents		31,776		18,821
Cash and cash equivalents at beginning of period		43,464		20,160
Cash and cash equivalents at end of period	$	75,240	$	38,981
CASH PAID DURING THE PERIOD FOR:				
Interest	$	6,122	$	8,522
Income taxes		1,355		1,850
NON-CASH INVESTING ACTIVITY				
Real estate acquired in exchange for loans		-		58
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.

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements of Pathfinder Bancorp, Inc., (the "Company"), Pathfinder Bank (the "Bank") and its other wholly owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions for Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a complete presentation of consolidated financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation, have been included. Certain amounts in the 2020 consolidated financial statements may have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income or comprehensive income as previously reported. Operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2021 or any other interim period.

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 accounting 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 unaffiliated third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management.

Although the Company owns, through its subsidiary Pathfinder Risk Management Company, Inc., 51% of the membership interest in FitzGibbons Agency, LLC ("Agency"), the Company is required to consolidate 100% of the Agency 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.

Note 2: New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") and, to a lesser extent, other authoritative rulemaking bodies promulgate generally accepted accounting principles ("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 the accounting standards that are not currently effective, but could have an impact on the Company's consolidated financial statements upon adoption.

Standards Adopted as of September 30, 2021

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Compensation *(ASU 2018-14: Compensation - Retirement Benefits - Defined Benefit Plans - General [Subtopic 715 – 20]: Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans)*	The FASB is issuing the amendments in this ASU as part of the disclosure framework project. The amendments in this ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The following disclosure requirements are removed from Subtopic 715-20: 1. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. 2. The amount and timing of plan assets expected to be returned to the employer. 3. Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan. 4. The effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements are added to Subtopic 715-20: 1. The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates. 2. An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments in this ASU also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: 1. The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets. 2. The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.	The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities.	The adoption of this ASU had no material impact to the Company's consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Investments *(ASU 2020-01- Equity Securities [Topic 321], Investments—Equity Method and Joint Ventures [Topic 323], and Derivatives and Hedging [Topic 815]—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815)*	The amendments in this Update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments clarify that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options.	The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities.	The adoption of this ASU had no material impact to the Company's consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Income Taxes *(ASU 2019-12- Simplifying the Accounting for Income Taxes)*	The FASB Board is issuing this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The amendments in this Update simplify the accounting for income taxes by removing the following exceptions, among others not considered to be applicable to the Company: 1. Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income) 2. Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments in this Update also simplify the accounting for income taxes by doing the following: 1. Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax. 2. Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction. 3. Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority. 4. Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. 5. Making minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.	The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption of the amendments is permitted, including adoption in any interim period for (1) public business entities for periods for which financial statements have not yet been issued and (2) all other entities for periods for which financial statements have not yet been made available for issuance. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period.	The adoption of this ASU had no material impact to the Company's consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Reference Rate Reform *(ASU 2020-04- Facilitation of the Effects of Reference Rate Reform on Financial Reporting)*	The amendments provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments (1) apply to contract modifications that replace a reference rate affected by reference rate reform, (2) provide exceptions to existing guidance related to changes to the critical terms of a hedging relationship due to reference rate reform (3) provide optional expedients for fair value hedging relationships, cash flow hedging relationships, and net investment hedging relationships, and (4) provide a onetime election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020.	The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022.	The adoption of this ASU had no material impact to the Company's consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
1. No. 2021-06 | Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946)	This ASU requires applicable entities to disclose, as of each balance sheet date, in a footnote to the financial statements, the aggregate dollar amount of loans (exclusive of loans to any such persons which in the aggregate do not exceed $60,000 during the latest year) made by the registrant or any of its subsidiaries to directors, executive officers, or principal holders of equity securities of the registrant or any of its significant subsidiaries, or to any associate of such persons. For the latest fiscal year, an analysis of activity with respect to such aggregate loans to related parties should also be provided. The analysis should include the aggregate amount at the beginning of the period, new loans, repayments, and other changes. This disclosure need not be furnished when the aggregate amount of such loans at the balance sheet date (or with respect to the latest fiscal year, the maximum amount outstanding during the period) does not exceed five percent of stockholders equity as of that date. This ASU also requires depository and lending institutions to disclose if a significant portion of the aggregate amount of loans outstanding to related parties at the end of the fiscal year relates to loans that are disclosed as nonaccrual, past due, nonaccrual, or troubled debt restructurings in the consolidated financial statements along with such other information necessary to an understanding of the effects of the transactions on the financial statements. This ASU further requires depository and lending institutions to disclose if any loans were not made in the ordinary course of business during any period for which a statement of comprehensive income is required to be filed.	This ASU is effective immediately for all applicable entities.	This ASU requires additional disclosures to be provided in all reporting periods for which financial statements are presented, but otherwise does not affect the Company's reported statements of financial condition or results of operations.

Standards Not Yet Adopted as of September 30, 2021

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Earnings Per Share, Debt Modifications and Extinguishments, Stock Compensation, and Derivatives and Hedging- Contacts in Entity's own Equity *(ASU 2011-04)*	The amendments in this Update affect all entities that issue freestanding written call options that are classified in equity. Specifically, the amendments affect those entities when a freestanding equity-classified written call option is modified or exchanged and remains equity classified after the modification or exchange. The amendments that relate to the recognition and measurement of EPS for certain modifications or exchanges of freestanding equity-classified written call options affect entities that present EPS in accordance with the guidance in Topic 260, Earnings Per Share. The amendments in this Update do not apply to modifications or exchanges of financial instruments that are within the scope of another Topic. That is, accounting for those instruments continues to be subject to the requirements in other Topics. The amendments in this Update do not affect a holder's accounting for freestanding call options.	The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. Early adoption is permitted for all entities, including adoption in an interim period. If an entity elects to early adopt the amendments in this Update in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes that interim period.	The adoption of this ASU is expected to have no material impact to the Company's consolidated statements of condition or income as the Company does not have any freestanding equities with a written call option.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Leases- Topic 842 (*ASU 2021-05)*	The amendments in this Update affect lessors with lease contracts that (1) have variable lease payments that do not depend on a reference index or a rate and (2) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing. The amendment requires that a lessor determine whether a lease should be classified as a sales-type lease or a direct financing lease at lease commencement on the basis of specified classification criteria (see paragraphs 842-10-25-2 through 25-3). Under ASC 842, a lessor is not permitted to estimate most variable payments and must exclude variable payments that are not estimated and do not depend on a reference index or a rate from the lease receivable. Subsequently, those excluded variable payments are recognized entirely as lease income when the changes in facts and circumstances on which those variable payments are based occur. Consequently, the net investment in the lease for a sales-type lease or a direct financing lease with variable payments of a certain magnitude that do not depend on a reference index or a rate may be less than the carrying amount of the underlying asset derecognized at lease commencement. As a result, the lessor recognizes a selling loss at lease commencement (hereinafter referred to as a day-one loss) even if the lessor expects the arrangement to be profitable overall. The amendments in this Update address stakeholders' concerns by amending the lease classification requirements for lessors to align them with practice under ASC 840. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: (1) The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3 and (2) The lessor would have otherwise recognized a day-one loss. When a lease is classified as operating, the lessor does not recognize a net investment in the lease, does not derecognize the underlying asset, and, therefore, does not recognize a selling profit or loss. The leased asset continues to be subject to the measurement and impairment requirements under other applicable GAAP before and after the lease transaction.	The amendments in this Update amend Topic 842, which has different effective dates for public business entities and most entities other than public business entities. The amendments are effective for fiscal years beginning after December 15, 2021, for all entities, and interim periods within those fiscal years for public business entities and interim periods within fiscal years beginning after December 15, 2022, for all other entities.	The adoption of this ASU is currently not expected to have a material impact to the Company's consolidated statements of condition or income.

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 current incurred loss model for determining the allowance for credit losses. The 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 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 similar to how it is determined under existing guidance.	January 1, 2023 (early adoption was permitted as of January 1, 2019)	The Company is assessing the new guidance to determine what modifications to existing credit estimation processes may be required. The new guidance is complex and management is still evaluating the preliminary output from models that have been developed during this evaluative phase. In addition, future levels of allowances will also reflect new requirements to include estimated credit losses on investment securities classified as held-to-maturity, if any. The Company has formed an Implementation Committee, whose membership includes representatives of senior management, to develop plans that will encompass: (1) internal methodology changes (2) data collection and management activities, (3) internal communication requirements, and (4) estimation of the projected impact of this guidance. It has been generally assumed that the conversion from the incurred loss model, required under current GAAP, to the current expected credit loss (CECL) methodology (as required upon implementation of this Update) will, more likely than not, result in increases to the allowances for credit losses at many financial institutions. However, the amount of any change in the allowance for credit losses resulting from the new guidance will ultimately be impacted by the provisions of this guidance as well as by the loan and debt security portfolios composition and asset quality at the adoption date, and economic conditions and forecasts at the time of adoption. The amendments in this Update should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in Update 2016-13. The cumulative impact of the economic effects of the COVID-19 pandemic on the changes to the allowance for loan losses, that will be required upon the implementation of the CECL methodology, cannot be estimated at this time.

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.	See comments above related to ASU 2016-13.	See comments above related to ASU 2016-13.

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 Board has an ongoing project on its agenda for improving the Codification or correcting its unintended application. The items addressed in that project generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are similar to those items. However, the Board decided to issue a separate Update for improvements to the amendments in Update 2016-13 to increase stakeholder awareness of those amendments and to expedite the improvement process. The amendments include items brought to the Board's attention by stakeholders. The amendments in this Update clarify or address stakeholders' specific issues about certain aspects of the amendments in Update 2016-13 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. In addition, the amendments clarify that when a method other than a discounted cash flow method is used to estimate expected credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount. An entity may include increases in expected cash flows after acquisition. 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. 4. Financial Assets Secured by Collateral Maintenance Provisions: The amendments clarify that an entity should assess whether it reasonably expects the borrower will be able to continually replenish collateral securing the financial asset to apply the practical expedient. The amendments clarify that an entity applying the practical expedient should estimate expected credit losses for any difference between the amount of the amortized cost basis that is greater than the fair value of the collateral securing the financial asset (that is, the unsecured portion of the amortized cost basis). An entity may determine that the expectation of nonpayment for the amount of the amortized cost basis equal to the fair value of the collateral securing the financial asset is zero. 5. Conforming Amendment to Subtopic 805-20: The amendment to Subtopic 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*, clarifies the guidance by removing the cross-reference to Subtopic 310-30 in paragraph 805-20-50-1 and replacing it with a cross-reference to the guidance on PCD assets in Subtopic 326-20.	January 1, 2023 (early adoption was permitted as of January 1, 2019). 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 is assessing the new guidance to determine what modifications to existing credit estimation processes may be required. The new guidance is complex and management is still evaluating the preliminary output from models that have been developed during this evaluative phase. In addition, future levels of allowances will also reflect new requirements to include estimated credit losses on investment securities classified as held-to-maturity, if any. The Company has formed an Implementation Committee, whose membership includes representatives of senior management, to develop plans that will encompass: (1) internal methodology changes (2) data collection and management activities, (3) internal communication requirements, and (4) estimation of the projected impact of this guidance. It has been generally assumed that the conversion from the incurred loss model, required under current GAAP, to the CECL methodology will, more likely than not, result in increases to the allowances for credit losses at many financial institutions. However, the amount of any change in the allowance for credit losses resulting from the new guidance will ultimately be impacted by the provisions of this guidance as well as by the loan and debt security portfolios composition and asset quality at the adoption date, and economic conditions and forecasts at the time of adoption. The amendments in this Update should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in Update 2016-13.

Note 3: Earnings per Common 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 voting 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 three and nine months ended September 30, 2021. Anti-dilutive stock options, not included in the computation below, were 256,145 for the three months ended September 30, 2020 and 170,763 for the nine months ended September 30, 2020.

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2021	2020	2021	2020
Net income attributable to Pathfinder Bancorp, Inc.	$ 3,365	$ 1,474	$ 8,528	$ 5,005
Convertible preferred stock dividends	-	70	180	208
Series A Non-Voting Common Stock dividends	96	-	110	-
Warrant dividends	9	7	26	22
Undistributed earnings allocated to participating securities	739	241	1,833	853
Net income available to common shareholders- Voting	$ 2,521	$ 1,156	$ 6,379	$ 3,922
Net income attributable to Pathfinder Bancorp, Inc.	$ 3,365	$ -	$ 8,528	$ -
Convertible preferred stock dividends	-	-	180	-
Voting Common Stock dividends	315	-	941	-
Warrant dividends	9	-	26	-
Undistributed earnings allocated to participating securities	2,266	-	6,624	-
Net income available to common shareholders- Series A Non-Voting	$ 775	$ -	$ 757	$ -
Basic weighted average common shares outstanding- Voting	4,488	4,650	4,465	4,632
Basic weighted average common shares outstanding- Series A Non-Voting	1,380	-	531	-
Diluted weighted average common shares outstanding- Voting	4,488	4,650	4,465	4,632
Diluted weighted average common shares outstanding- Series A Non-Voting	1,380	-	531	-
Basic earnings per common share- Voting	$ 0.56	$ 0.25	$ 1.43	$ 0.85
Basic earnings per common share- Series A Non-Voting	$ 0.56	$ -	$ 1.43	$ -
Diluted earnings per common share- Voting	$ 0.56	$ 0.25	$ 1.43	$ 0.85
Diluted earnings per common share- Series A Non-Voting	$ 0.56	$ -	$ 1.43	$ -

Supplemental information:	September 30, 2021	December 31, 2020	September 30, 2020
Voting Common Stock shares outstanding at period end	4,576	4,531	4,754
Series A Non-Voting Common Stock shares outstanding at period end	1,380	-	-
Series B Convertible Preferred Stock shares outstanding at period end	-	1,380	1,155
Total shares of all classes of stock outstanding at period end	5,956	5,911	5,909

Note 4: Investment Securities

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

	September 30, 2021			
(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	$ 33,329	$ 19	$ (305)	$ 33,043
State and political subdivisions	27,577	1,333	-	28,910
Corporate	13,620	560	(25)	14,155
Asset backed securities	12,520	33	(57)	12,496
Residential mortgage-backed - US agency	23,567	268	(229)	23,606
Collateralized mortgage obligations - US agency	15,043	56	(291)	14,808
Collateralized mortgage obligations - Private label	48,070	412	(183)	48,299
Total	173,726	2,681	(1,090)	175,317
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 173,932	$ 2,681	$ (1,090)	$ 175,523
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ -	$ -	$ -
State and political subdivisions	17,393	507	(93)	17,807
Corporate	45,301	1,487	(37)	46,751
Asset backed securities	15,099	122	(136)	15,085
Residential mortgage-backed - US agency	10,103	369	-	10,472
Collateralized mortgage obligations - US agency	12,173	483	(5)	12,651
Collateralized mortgage obligations - Private label	61,667	564	(101)	62,130
Total held-to-maturity	$ 161,736	$ 3,532	$ (372)	$ 164,896

(In thousands)	December 31, 2020 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 6,428	$ 12	$ (24)	$ 6,416
State and political subdivisions	23,235	538	(20)	23,753
Corporate	12,393	275	-	12,668
Asset backed securities	8,572	39	(4)	8,607
Residential mortgage-backed - US agency	24,856	355	-	25,211
Collateralized mortgage obligations - US agency	26,776	149	(461)	26,464
Collateralized mortgage obligations - Private label	24,662	384	(110)	24,936
Total	126,922	1,752	(619)	128,055
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 127,128	$ 1,752	$ (619)	$ 128,261
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 1,000	$ 2	$ -	$ 1,002
State and political subdivisions	16,482	527	(58)	16,951
Corporate	36,441	1,101	(7)	37,535
Asset backed securities	18,414	217	(176)	18,455
Residential mortgage-backed - US agency	11,807	475	-	12,282
Collateralized mortgage obligations - US agency	24,482	850	(1)	25,331
Collateralized mortgage obligations - Private label	62,598	902	(121)	63,379
Total held-to-maturity	$ 171,224	$ 4,074	$ (363)	$ 174,935

The amortized cost and estimated fair value of debt investments at September 30, 2021 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	$ 5,892	$ 6,219	$ 6,320	$ 6,416
Due after one year through five years	5,241	5,402	8,232	8,748
Due after five years through ten years	35,544	35,312	40,257	41,365
Due after ten years	40,369	41,671	22,984	23,114
Sub-total	87,046	88,604	77,793	79,643
Residential mortgage-backed - US agency	23,567	23,606	10,103	10,472
Collateralized mortgage obligations - US agency	15,043	14,808	12,173	12,651
Collateralized mortgage obligations - Private label	48,070	48,299	61,667	62,130
Totals	$ 173,726	$ 175,317	$ 161,736	$ 164,896

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, are as follows:

	September 30, 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	$ (305)	$ 31,799	-	$ -	$ -	3	$ (305)	$ 31,799
State and political subdivisions	-	-	-	-	-	-	-	-	-
Corporate	2	(25)	1,689	-	-	-	2	(25)	1,689
Asset backed securities	4	(57)	9,489	-	-	-	4	(57)	9,489
Residential mortgage-backed - US agency	3	(229)	13,440	-	-	-	3	(229)	13,440
Collateralized mortgage obligations - US agency	3	(45)	6,821	2	(246)	2,590	5	(291)	9,411
Collateralized mortgage obligations - Private label	11	(171)	24,927	2	(12)	1,579	13	(183)	26,506
Totals	26	$ (832)	$ 88,165	4	$ (258)	$ 4,169	30	$ (1,090)	$ 92,334
Held-to-Maturity Portfolio									
State and political subdivisions	3	$ (51)	$ 3,333	1	$ (42)	$ 2,034	4	$ (93)	$ 5,367
Corporate	8	(37)	5,963	-	-	-	8	(37)	5,963
Asset backed securities	3	(55)	4,331	2	(81)	1,856	5	(136)	6,187
Collateralized mortgage obligations - US agency	1	(5)	1,209	-	-	-	1	(5)	1,209
Collateralized mortgage obligations - Private label	-	-	-	3	(101)	4,191	3	(101)	4,191
Totals	15	$ (148)	$ 14,836	6	$ (224)	$ 8,081	21	$ (372)	$ 22,917

	December 31, 2020								
	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	-	$ -	$ -	1	$ (24)	$ 4,954	1	$ (24)	$ 4,954
State and political subdivisions	1	(20)	2,521	-	-	-	1	(20)	2,521
Corporate	-	-	-	-	-	-	-	-	-
Asset backed securities	2	(2)	2,487	1	(2)	80	3	(4)	2,567
Residential mortgage-backed - US agency	-	-	-	-	-	-	-	-	-
Collateralized mortgage obligations - US agency	2	(45)	6,974	2	(416)	5,683	4	(461)	12,657
Collateralized mortgage obligations - Private label	3	(78)	8,071	4	(32)	2,574	7	(110)	10,645
Totals	8	$ (145)	$ 20,053	8	$ (474)	$ 13,291	16	$ (619)	$ 33,344
Held-to-Maturity Portfolio									
US Treasury, agencies and GSE's	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
State and political subdivisions	3	(58)	7,063	-	-	-	3	(58)	7,063
Corporate	4	(7)	3,775	-	-	-	4	(7)	3,775
Asset backed securities	4	(36)	4,209	3	(140)	4,683	7	(176)	8,892
Collateralized mortgage obligations - US agency	1	(1)	1,496	-	-	-	1	(1)	1,496
Collateralized mortgage obligations - Private label	4	(115)	6,442	1	(6)	780	5	(121)	7,222
Totals	16	$ (217)	$ 22,985	4	$ (146)	$ 5,463	20	$ (363)	$ 28,448

Excluding the effects of changes in the characteristics of individual debt securities that potentially give rise to other-than-temporary impairment ("OTTI"), as described below, the fair market value of a debt security as of a particular measurement date is highly dependent upon prevailing market and economic environmental factors at the measurement date relative to the prevailing market and economic environmental factors present at the time the debt security was acquired. The most significant market and environmental factors include, but are not limited to (1) the general level of interest rates, (2) the relationship between shorter-term interest rates and longer-term interest rates (referred to as the "slope" of the interest rate yield curve), (3) general bond market liquidity, (4) the recent and expected near-term volume of new issuances of similar debt securities, and (5) changes in the market values of individual loan collateral underlying mortgage-backed debt securities. Changes in interest rates affect the fair market values of debt securities by influencing the discount rate applied to the securities' future expected cash flows. The higher the discount rate, the lower the resultant security price. Conversely, the lower the discount rate, the higher the resultant security price. In addition, the cumulative amount and timing of undiscounted cash flows of debt securities may be also affected by changes in interest rates. For any given level of movement in the general market and economic environmental factors described above, the magnitude of any particular debt security's price changes will also depend heavily upon security-specific factors such as (1) the duration of the security, (2) imbedded optionality contractually granted to the issuer of the security with respect to principal prepayments, and (3) changes in the level of market premiums demanded by investors for securities with imbedded credit risk (where applicable).

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 individual unrealized loss in securities within the portfolio as of September 30, 2021 represents OTTI. At September 30, 2021, the Bank had the following securities, in a loss position for 12 months or more relative to their amortized historical cost, which were deemed to have no credit impairment, thus, the disclosed unrealized losses relate directly to changes in interest rates subsequent to the acquisition of the individual securities. The Company does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities prior to the recovery of the amortized cost.

Of the total of 10 securities in an unrealized loss position for 12 months or more at September 30, 2021 two securities, representing 21.1% of the unamortized cost of the total securities in an unrealized loss position for 12 months or more, are issued by United States agencies or GSEs and consist of mortgage-backed securities, collateralized mortgage obligations and direct agency financings. These positions in US government agency and GSEs are deemed to have no credit impairment, thus, the disclosed unrealized losses relate primarily to changes in prepayment assumptions related to significantly lower general interest rates resulting from the economic effects of the pandemic. The Company does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities prior to the recovery of the amortized cost.

In addition to these securities, the Company held the following eight non-government-issued/backed securities that were in an unrealized loss position for 12 or more months at September 30, 2021:

- Two privately-issued mortgaged-backed securities, categorized as available-for-sale, and collateralized by various forms of commercial mortgages, with an amortized historical cost of $1.6 million and an aggregate market value of $1.6 million (unrealized loss of $12,000 or -0.75%). These securities maintain a credit rating established by one or more nationally-recognized statistical rating organizations (NRSRO) above the minimum level required to be considered as investment grade and therefore, no credit-related OTTI is deemed to be present. These securities were not rated at the time of their issuances by any NRSRO but each security remains significantly collateralized through subordination and other credit enhancement mechanisms. Therefore, no credit-related OTTI is deemed to be present.
- Three privately-issued collateralized mortgage obligation securities, categorized as held-to-maturity, with an aggregate amortized historical cost of $4.3 million and an aggregate market value of $4.2 million (unrealized aggregate loss of $101,000 or -2.4%). These securities each maintain a credit rating established by one or more NRSRO above the minimum level required to be considered as investment grade and therefore, no credit-related OTTI is deemed to be present.
- One privately-issued asset-backed security, categorized as held-to-maturity and collateralized by small business loans with an aggregated amortized historical cost of $323,000 and an aggregate market value of $319,000 (aggregate unrealized loss of $4,000 or -1.2%). This security was not rated at the time of its issuance by any NRSRO but remains significantly collateralized through subordination and other credit enhancements. Therefore, no credit-related OTTI is deemed to be present.
- One privately-issued asset-backed security, categorized as held-to-maturity and collateralized by federally-insured student loans, with an aggregate amortized historical cost of $1.6 million and an aggregate market value of

$1.5 million (aggregate unrealized loss of $77,000 or -4.8%). This security was unrated at the time of its issuance but remains significantly collateralized through subordination. Therefore, no credit-related OTTI is deemed to be present.

- One municipal bond, categorized as held-to-maturity, with an aggregate amortized historical cost of $2.1 million and an aggregate market value of $2.0 million (aggregate unrealized loss of $42,000 or -2.1%). This security maintains a credit rating established by one or more NRSRO above the minimum level required to be considered as investment grade and therefore, no credit-related OTTI is deemed to be present.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the length of time each equity security's fair value has been below the carrying amount. The Company had no equity investment securities that were impaired at September 30, 2021 or December 31, 2020.

Gross realized gains (losses) on sales and redemptions of securities for the indicated periods are detailed below:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2021	2020	2021	2020
Realized gains on investments	$ 55	$ 41	$ 113	$ 1,107
Realized losses on investments	(50)	(14)	(57)	(31)
	$ 5	$ 27	$ 56	$ 1,076

As of September 30, 2021 and December 31, 2020, securities with a fair value of $121.5 million and $96.4 million, respectively, were pledged to collateralize certain municipal deposit relationships. As of the same dates, securities with a fair value of $10.0 million and $21.3 million, respectively, 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, only minimal exposure exists to sub-prime or other high-risk residential mortgages. With limited exceptions in the Company's investment portfolio involving the most senior tranches of securitized bonds, the Company is not in the practice of investing in, or originating, these types of investments or loans.

Note 5: Pension and Postretirement Benefits

The Company has a noncontributory defined benefit pension plan covering most 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 are 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 composition of net periodic pension plan and postretirement plan costs for the indicated periods is as follows:

	Pension Benefits		Postretirement Benefits		Pension Benefits		Postretirement Benefits	
	For the three months ended September 30,				For the nine months ended September 30,			
(In thousands)	2021	2020	2021	2020	2021	2020	2021	2020
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest cost	110	116	4	5	331	349	9	12
Expected return on plan assets	(286)	(273)	-	-	(859)	(820)	-	-
Amortization of prior service credits	-	-	(1)	(1)	-	-	(3)	(3)
Amortization of net losses	26	57	2	2	76	171	6	7
Net periodic benefit plan (benefit) cost	$ (150)	$ (100)	$ 5	$ 6	$ (452)	$ (300)	$ 12	$ 16

The Company will evaluate the need for further contributions to the defined benefit pension plan during the fourth quarter of 2021. The prepaid pension asset is recorded in other assets on the statement of condition as of September 30, 2021 and December 31, 2020.

Note 6: Loans

Major classifications of loans at the indicated dates are as follows:

(In thousands)	September 30, 2021	December 31, 2020
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 234,940	$ 227,185
Construction	7,833	6,681
Loans held-for-sale	294	1,526
Total residential mortgage loans	243,067	235,392
Commercial loans:		
Real estate	277,692	286,271
Lines of credit	57,128	49,103
Other commercial and industrial	72,241	78,629
Paycheck Protection Program loans	27,293	60,643
Tax exempt loans	5,956	7,166
Total commercial loans	440,310	481,812
Consumer loans:		
Home equity and junior liens	32,988	38,624
Other consumer	73,352	70,905
Total consumer loans	106,340	109,529
Total loans	789,717	826,733
Net deferred loan fees	(1,569)	(1,238)
Less allowance for loan losses	14,065	12,777
Loans receivable, net	$ 774,083	$ 812,718

Although the Bank may sometimes purchase or fund loan participation interests outside of its primary market areas, the Bank generally originates residential mortgage, commercial, and consumer loans largely to customers throughout Oswego and Onondaga counties. Although the Bank has a diversified loan portfolio, a substantial portion of its borrowers' abilities to honor their loan contracts is dependent upon the counties' employment and economic conditions.

The Bank acquires diversified pools of loans, originated by unrelated third parties, as part of the Company's overall balance sheet management strategies. These acquisitions occurred in ten separate transactions commencing in 2019 and continuing through 2021, including two separate transactions during the nine months ended September 30, 2021.

(In thousands, except number of loans)		September 30, 2021		December 31, 2020
Purchased residential real estate loans				
Original Balance	$	4,300	$	4,300
Current Balance	$	4,158	$	4,300
Unamortized Premium (Discount)	$	261	$	273
Percent Owned		100%		100%
Number of Loans		51		51
Maturity range		17-23 years		17-25 years
Cumulative net charge-offs	$	-	$	-
Purchased other commercial and industrial loans				
Original Balance	$	6,800	$	6,800
Current Balance	$	4,025	$	5,500
Unamortized Premium (Discount)	$	-	$	-
Percent Owned		100%		100%
Number of Loans		33		39
Maturity range		4-8 years		5-9 years
Cumulative net charge-offs	$	-	$	-
Purchased home equity lines of credit:				
Original Balance	$	21,900	$	21,900
Current Balance	$	9,500	$	13,900
Unamortized Premium (Discount)	$	258	$	309
Percent Owned		100%		100%
Number of Loans		202		275
Maturity range		3-28 years		3-29 years
Cumulative net charge-offs	$	-	$	-
Purchased automobile loans:				
Original Balance	$	50,400	$	50,400
Current Balance	$	10,491	$	17,000
Unamortized Premium (Discount)	$	392	$	602
Percent Owned		90%		90%
Number of Loans		946		1,257
Maturity range		0-5 years		0-6 years
Cumulative net charge-offs	$	240	$	230
Purchased unsecured consumer loan pool 1:				
Original Balance	$	5,400	$	5,400
Current Balance	$	2,700	$	3,600
Unamortized Premium (Discount)	$	-	$	-
Percent Owned		100%		100%
Number of Loans		66		76
Maturity range		3-5 years		3-6 years
Cumulative net charge-offs	$	-	$	-

(In thousands, except number of loans)		September 30, 2021		December 31, 2020
Purchased unsecured consumer loan pool 2:				
Original Balance	$	26,600	$	26,600
Current Balance	$	8,070	$	15,400
Unamortized Premium (Discount)	$	37	$	63
Percent Owned		59%		59%
Number of Loans		1,629		2,246
Maturity range		3 years		2-4 years
Cumulative net charge-offs	$	-	$	-
Purchased unsecured consumer loan pool 3:				
Original Balance	$	10,300	$	10,300
Current Balance	$	2,836	$	5,500
Unamortized Premium (Discount)	$	86	$	138
Percent Owned		100%		100%
Number of Loans		1,764		2,958
Maturity range		0-6 years		0-6 years
Cumulative net charge-offs	$	21	$	-
Purchased secured consumer loan pool 1:				
Original Balance	$	14,500	$	14,500
Current Balance	$	13,200	$	14,500
Unamortized Premium (Discount)	$	(1,859)	$	(2,124)
Percent Owned		68%		68%
Number of Loans		582		619
Maturity range		24-25 years		25 years
Cumulative net charge-offs	$	-	$	-
Purchased secured consumer loan pool 2:				
Original Balance	$	24,400	$	-
Current Balance	$	20,700	$	-
Unamortized Premium (Discount)	$	(606)	$	-
Percent Owned		100%		0%
Number of Loans		772		-
Maturity range		10-24 years		-
Cumulative net charge-offs	$	-	$	-
Purchased commercial line of credit:				
Original Balance	$	11,600	$	-
Current Balance	$	6,800	$	-
Unamortized Premium (Discount)	$	29	$	-
Percent Owned		12%		0%
Number of Loans		1		-
Maturity range		3 years		-
Cumulative net charge-offs	$	-	$	-

As of September 30, 2021 and December 31, 2020, residential mortgage loans with a carrying value of $120.9 million and $115.6 million, respectively, have been pledged by the Company to the Federal Home Loan Bank of New York ("FHLBNY") under a blanket collateral agreement to secure the Company's line of credit and term borrowings.

Loan Origination / Risk Management

The Company's lending policies and procedures are presented in Note 5 to the audited consolidated financial statements included in the 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2021 and have not changed. As part of the execution of the Company’s overall balance sheet management strategies, the Bank will acquire participating interests in loans originated by unrelated third parties on an occasional basis. The purchase of participations in loans that are originated by third parties only occurs after the completion of thorough pre-acquisition due diligence. Loans in which the Company acquires a participating interest are determined to meet, in all material respects, the Company’s internal underwriting policies, including credit and collateral suitability thresholds, prior to acquisition. In addition, the financial condition of the originating financial institutions, which are generally retained as the ongoing loan servicing provider for participations acquired by the Bank, are analyzed prior to the acquisition of the participating interests and monitored on a regular basis thereafter for the life of those interests.

To develop and document a systematic methodology for determining the allowance for loan losses, the Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics but with similar methodologies for assessing risk. Each portfolio segment is broken down into loan classes where appropriate. Loan classes contain unique measurement attributes, risk characteristics, and methods for monitoring and assessing risk that are necessary to develop the allowance for loan losses. Unique characteristics such as borrower type, loan type, collateral type, and risk characteristics define each class.

The following table illustrates the portfolio segments and classes for the Company’s loan portfolio:

Portfolio Segment	**Class**
Residential Mortgage Loans	1-4 family first-lien residential mortgages
	Construction
Commercial Loans	Real estate
	Lines of credit
	Other commercial and industrial
	Tax exempt loans
Consumer Loans	Home equity and junior liens
	Other consumer

The following tables present the classes of the loan portfolio, not including net deferred loan costs, summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of the dates indicated:

	As of September 30, 2021				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 232,084	$ 455	$ 1,904	$ 497	$ 234,940
Construction	7,833	-	-	-	7,833
Loans held-for-sale	294	-	-	-	294
Total residential mortgage loans	240,211	455	1,904	497	243,067
Commercial loans:					
Real estate	253,976	12,594	10,542	580	277,692
Lines of credit	48,949	5,777	2,346	56	57,128
Other commercial and industrial	59,596	10,043	2,411	191	72,241
Paycheck Protection Program loans	27,293	-	-	-	27,293
Tax exempt loans	5,956	-	-	-	5,956
Total commercial loans	395,770	28,414	15,299	827	440,310
Consumer loans:					
Home equity and junior liens	32,016	100	612	260	32,988
Other consumer	73,139	99	106	8	73,352
Total consumer loans	105,155	199	718	268	106,340
Total loans	$ 741,136	$ 29,068	$ 17,921	$ 1,592	$ 789,717

	As of December 31, 2020				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 222,386	$ 1,151	$ 3,196	$ 452	$ 227,185
Construction	6,681	-	-	-	6,681
Loans held-for-sale	1,526	-	-	-	1,526
Total residential mortgage loans	230,593	1,151	3,196	452	235,392
Commercial loans:					
Real estate	267,736	9,541	8,615	379	286,271
Lines of credit	40,733	5,132	3,154	84	49,103
Other commercial and industrial	65,441	4,770	8,153	265	78,629
Paycheck Protection Program loans	60,643	-	-	-	60,643
Tax exempt loans	7,166	-	-	-	7,166
Total commercial loans	441,719	19,443	19,922	728	481,812
Consumer loans:					
Home equity and junior liens	37,926	54	411	233	38,624
Other consumer	70,502	104	218	81	70,905
Total consumer loans	108,428	158	629	314	109,529
Total loans	$ 780,740	$ 20,752	$ 23,747	$ 1,494	$ 826,733

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

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 currently 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, as of September 30, 2021 and December 31, 2020, are detailed in the following tables:

	As of September 30, 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	$ 906	$ 197	$ 647	$ 1,750	$ 233,190	$ 234,940
Construction	-	-	-	-	7,833	7,833
Loans held-for-sale	-	-	-	-	294	294
Total residential mortgage loans	906	197	647	1,750	241,317	243,067
Commercial loans:						
Real estate	5,348	1,088	3,429	9,865	267,827	277,692
Lines of credit	585	1,397	80	2,062	55,066	57,128
Other commercial and industrial	661	2,254	397	3,312	68,929	72,241
Paycheck Protection Program loans	-	-	-	-	27,293	27,293
Tax exempt loans	-	-	-	-	5,956	5,956
Total commercial loans	6,594	4,739	3,906	15,239	425,071	440,310
Consumer loans:						
Home equity and junior liens	141	-	291	432	32,556	32,988
Other consumer	520	297	482	1,299	72,053	73,352
Total consumer loans	661	297	773	1,731	104,609	106,340
Total loans	$ 8,161	$ 5,233	$ 5,326	$ 18,720	$ 770,997	$ 789,717

	As of December 31, 2020					
(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	$ 1,250	$ 570	$ 1,098	$ 2,918	$ 224,267	$ 227,185
Construction	-	-	-	-	6,681	6,681
Loans held-for-sale	-	-	-	-	1,526	1,526
Total residential mortgage loans	1,250	570	1,098	2,918	232,474	235,392
Commercial loans:						
Real estate	480	913	2,511	3,904	282,367	286,271
Lines of credit	734	1,870	194	2,798	46,305	49,103
Other commercial and industrial	441	1,717	1,691	3,849	74,780	78,629
Paycheck Protection Program loans	170	-	-	170	60,473	60,643
Tax exempt loans	-	-	-	-	7,166	7,166
Total commercial loans	1,825	4,500	4,396	10,721	471,091	481,812
Consumer loans:						
Home equity and junior liens	248	78	473	799	37,825	38,624
Other consumer	443	252	187	882	70,023	70,905
Total consumer loans	691	330	660	1,681	107,848	109,529
Total loans	$ 3,766	$ 5,400	$ 6,154	$ 15,320	$ 811,413	$ 826,733

Nonaccrual loans, segregated by class of loan, were as follows:

(In thousands)	September 30, 2021	December 31, 2020
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 1,830	$ 2,608
	1,830	2,608
Commercial loans:		
Real estate	4,830	11,286
Lines of credit	133	194
Other commercial and industrial	703	6,498
	5,666	17,978
Consumer loans:		
Home equity and junior liens	803	473
Other consumer	486	274
Total consumer loans	1,289	747
Total nonaccrual loans	$ 8,785	$ 21,333

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. The pre-modification outstanding recorded investment is the principal loan balance less the provision for loan losses before the loan was modified as a TDR. The 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 Company had no loans that were modified as TDRs for the three months ended September 30, 2021.

The Company had five loans that have been modified as TDRs for the nine months ended September 30, 2021.

	For the nine months ended September 30, 2021			
(In thousands)	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Additional provision for loan losses
Commercial loans	2	$ 961	$ 967	$ 6
Residential real estate loans	2	$ 389	$ 389	$ 12
Home equity and junior liens	1	$ 200	$ 504	$ 219

The loans evaluated for impairment for the nine months ended September 30, 2021 have been classified as TDRs due to economic concessions granted, which consisted of a 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 Company had no loans that were modified as TDRs for the three months ended September 30, 2020.

The Company had no loans that were modified as TDRs for the nine months ended September 30, 2020.

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 were modified as TDRs during the twelve months prior to September 30, 2021, which had subsequently defaulted during the nine months ended September 30, 2021.

The Company had no loans that were modified as TDRs during the twelve months prior to September 30, 2020, which had subsequently defaulted during the nine months ended September 30, 2020.

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 loan information by portfolio class at the indicated dates:

	September 30, 2021			December 31, 2020		
(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	$ 727	$ 727	$ -	$ 665	$ 665	$ -
Commercial real estate	5,125	5,216	-	11,053	11,136	-
Commercial lines of credit	100	100	-	-	-	-
Other commercial and industrial	381	411	-	5,114	5,132	-
Home equity and junior liens	35	35	-	75	75	-
Other consumer	-	-	-	81	81	-
With an allowance recorded:						
1-4 family first-lien residential mortgages	411	411	72	1,182	1,182	205
Commercial real estate	2,156	2,156	234	1,729	1,729	231
Commercial lines of credit	56	60	56	925	925	925
Other commercial and industrial	1,661	1,665	1,128	1,864	1,864	1,278
Home equity and junior liens	540	540	114	142	142	142
Other consumer	-	-	-	-	-	-
Total:						
1-4 family first-lien residential mortgages	1,138	1,138	72	1,847	1,847	205
Commercial real estate	7,281	7,372	234	12,782	12,865	231
Commercial lines of credit	156	160	56	925	925	925
Other commercial and industrial	2,042	2,076	1,128	6,978	6,996	1,278
Home equity and junior liens	575	575	114	217	217	142
Other consumer	-	-	-	81	81	-
Totals	$ 11,192	$ 11,321	$ 1,604	$ 22,830	$ 22,931	$ 2,781

The following table presents the average recorded investment in impaired loans for the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2021	2020	2021	2020
1-4 family first-lien residential mortgages	$ 1,319	$ 1,586	$ 1,498	$ 1,597
Commercial real estate	7,114	4,991	10,133	4,714
Commercial lines of credit	580	255	761	219
Other commercial and industrial	4,654	1,724	5,750	1,316
Home equity and junior liens	577	219	487	219
Other consumer	40	84	63	87
Total	$ 14,284	$ 8,859	$ 18,692	$ 8,152

The following table presents the cash basis interest income recognized on impaired loans for the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2021	2020	2021	2020
1-4 family first-lien residential mortgages	$ 15	$ 35	$ 47	$ 62
Commercial real estate	97	60	206	129
Commercial lines of credit	4	8	8	13
Other commercial and industrial	65	32	139	54
Home equity and junior liens	5	2	11	6
Other consumer	1	2	-	5
Total	$ 187	$ 139	$ 411	$ 269

Note 7: Allowance for Loan Losses

Management extensively reviews recent trends in historical losses, qualitative factors, including concentrations of loans to related borrowers and concentrations of loans by collateral type, and specific reserve needs on loans individually evaluated for impairment in its determination of the adequacy of the allowance for loan losses. We recorded $104,000 in provision for loan losses for the three month period ended September 30, 2021, as compared to $1.7 million for the three month period ended September 30, 2020. For the first nine months of 2021, we recorded $2.1 million in provision for loan losses as compared to $3.9 million in the same prior year nine month period. The provisioning in 2021 and 2020 reflects management's determination of prudent additions to reserves considering loan mix changes, concentrations of loans in certain business sectors, factors related to loan quality metrics, and continued COVID-19 related economic uncertainty. The credit-sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its conservative loan classification and reserve building methodologies to the analysis of these portfolios.

Summarized in the tables below are changes in the allowance for loan losses for the indicated periods and information pertaining to the allocation of the allowance for loan losses, balances of the allowance for loan losses, loans receivable based in individual, and collective impairment evaluation by loan portfolio class. 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.

	For the three months ended September 30, 2021					
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
Allowance for loan losses:						
Beginning Balance	$ 875	$ -	$ 6,120	$ 1,810	$ 3,448	$ -
Charge-offs	-	-	-	(50)	(577)	-
Recoveries	-	-	-	5	-	-
Provisions	41	-	(893)	(912)	(9)	-
Ending balance	$ 916	$ -	$ 5,227	$ 853	$ 2,862	$ -
Ending balance: related to loans individually evaluated for impairment	$ 72	$ -	$ 234	$ 56	$ 1,128	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 844	$ -	$ 4,993	$ 797	$ 1,734	$ -
Loans receivables:						
Ending balance	$ 234,940	$ 7,833	$ 277,692	$ 57,128	$ 72,241	$ 27,293
Ending balance: individually evaluated for impairment	$ 1,138	$ -	$ 7,281	$ 156	$ 2,042	$ -
Ending balance: collectively evaluated for impairment	$ 233,802	$ 7,833	$ 270,411	$ 56,972	$ 70,199	$ 27,293

	Tax exempt	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 805	$ 1,250	$ 294	14,603
Charge-offs	-	-	(32)	-	(659)
Recoveries	-	-	12	-	17
Provisions	-	(27)	502	1,402	104
Ending balance	$ 1	$ 778	$ 1,732	$ 1,696	$ 14,065
Ending balance: related to loans individually evaluated for impairment	$ -	$ 114	$ -	$ -	$ 1,604
Ending balance: related to loans collectively evaluated for impairment	$ 1	$ 664	$ 1,732	$ 1,696	$ 12,461
Loans receivables:					
Ending balance	$ 5,956	$ 32,988	$ 73,352	$ 294	$ 789,717
Ending balance: individually evaluated for impairment	$ -	$ 575	$ -	$ -	$ 11,192
Ending balance: collectively evaluated for impairment	$ 5,956	$ 32,413	$ 73,352	$ 294	$ 778,525

(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
	For the nine months ended September 30, 2021					
Allowance for loan losses:						
Beginning Balance	$ 931	$ -	$ 4,776	$ 1,670	$ 2,992	$ -
Charge-offs	(20)	-	(7)	(50)	(677)	-
Recoveries	-	-	-	68	-	-
Provisions	5	-	458	(835)	547	-
Ending balance	$ 916	$ -	$ 5,227	$ 853	$ 2,862	$ -

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 739	$ 1,123	$ 545	$ 12,777
Charge-offs	-	-	(150)	-	(904)
Recoveries	-	-	63	-	131
Provisions	-	39	696	1,151	2,061
Ending balance	$ 1	$ 778	$ 1,732	$ 1,696	$ 14,065

(In thousands)	For the three months ended September 30, 2020 1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
Allowance for loan losses:						
Beginning Balance	$ 756	$ -	$ 4,258	$ 1,208	$ 2,066	$ -
Charge-offs	-	-	-	(53)	-	-
Recoveries	-	-	-	2	-	-
Provisions	35	-	558	139	581	-
Ending balance	$ 791	$ -	$ 4,816	$ 1,296	$ 2,647	$ -
Ending balance: related to loans individually evaluated for impairment	$ 149	$ -	$ 62	$ 253	$ 1,176	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 642	$ -	$ 4,754	$ 1,043	$ 1,471	$ -
Loans receivables:						
Ending balance	$ 216,802	$ 5,677	$ 282,856	$ 52,411	$ 77,824	$ 75,278
Ending balance: individually evaluated for impairment	$ 1,573	$ -	$ 5,320	$ 331	$ 2,385	$ -
Ending balance: collectively evaluated for impairment	$ 215,229	$ 5,677	$ 277,536	$ 52,080	$ 75,439	$ 75,278

	Tax exempt	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 644	$ 1,055	$ 565	10,553
Charge-offs	-	-	(94)	-	(147)
Recoveries	-	-	13	-	15
Provisions	-	91	127	151	1,682
Ending balance	$ 1	$ 735	$ 1,101	$ 716	$ 12,103
Ending balance: related to loans individually evaluated for impairment	$ -	$ 142	$ -	$ -	1,782
Ending balance: related to loans collectively evaluated for impairment	$ 1	$ 593	$ 1,101	$ 716	10,321
Loans receivables:					
Ending balance	$ 6,998	$ 40,505	$ 62,998	$ 687	822,036
Ending balance: individually evaluated for impairment	$ -	$ 218	$ 83	$ -	9,910
Ending balance: collectively evaluated for impairment	$ 6,998	$ 40,287	$ 62,915	$ 687	$ 812,126

	For the nine months ended September 30, 2020					
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
Allowance for loan losses:						
Beginning Balance	$ 580	$ -	$ 4,010	$ 1,195	$ 1,645	$ -
Charge-offs	(125)	-	-	(101)	(9)	-
Recoveries	1	-	-	4	-	-
Provisions (credits)	335	-	806	198	1,011	-
Ending balance	$ 791	$ -	$ 4,816	$ 1,296	$ 2,647	$ -

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 553	$ 413	$ 272	$ 8,669
Charge-offs	-	(28)	(279)	-	$ (542)
Recoveries	-	29	47	-	$ 81
Provisions (credits)	-	181	920	444	$ 3,895
Ending balance	$ 1	$ 735	$ 1,101	$ 716	$ 12,103

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:

	September 30, 2021				
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other Commercial and industrial
Specifically reserved	$ 72	$ -	$ 234	$ 56	$ 1,128
Historical loss rate	84	-	2	18	37
Qualitative factors	760	-	4,991	779	1,697
Total	$ 916	$ -	$ 5,227	$ 853	$ 2,862

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 114	$ -	$ -	$ 1,604
Historical loss rate	-	325	1,448	-	1,914
Qualitative factors	1	339	284	-	8,851
Other	-	-	-	1,696	1,696
Total	$ 1	$ 778	$ 1,732	$ 1,696	$ 14,065

	September 30, 2020				
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Specifically reserved	$ 149	$ -	$ 62	$ 253	$ 1,176
Historical loss rate	73	-	108	90	46
Qualitative factors	569	-	4,646	953	1,425
Total	$ 791	$ -	$ 4,816	$ 1,296	$ 2,647

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 142	$ -	$ -	$ 1,782
Historical loss rate	-	324	842	-	1,483
Qualitative factors	1	269	259	-	8,122
Other	-	-	-	716	716
Total	$ 1	$ 735	$ 1,101	$ 716	12,103

Note 8: Foreclosed Real Estate

The Company is required to disclose the carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession of the property at each reporting period. The Company had no foreclosed residential real estate at September 30, 2021 and December 31, 2020. At September 30, 2021 and December 31, 2020, the Company reported $613,000 and $185,000, respectively, in residential real estate loans in the process of foreclosure.

Note 9: Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risks 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. The Company had $2.6 million of standby letters of credit as of September 30, 2021. 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. The fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

Note 10: Fair Value Measurements

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 available-for-sale and marketable equity securities 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 Company holds two corporate investment securities with an amortized historical cost of $4.1 million and an aggregate fair market value of $4.4 million as of September 30, 2021. These securities have a valuation that is determined using published net asset values (NAV) derived by an analysis of the securities' underlying assets. These securities are comprised primarily of broadly-diversified real estate and adjustable-rate senior secured business loans and are traded in secondary markets on an infrequent basis. While these securities are redeemable at least annually 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 holds one equity security investment, with an aggregate value of $667,000 at September 30, 2021, valued utilizing readily available market pricing (Level 1) observed from active trading on major national stock exchanges.

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 the indicated dates, segregated by the level of valuation inputs within the hierarchy utilized to measure fair value:

	September 30, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 35,844	$ -	$ 35,844
State and political subdivisions	-	28,910	-	28,910
Corporate	-	9,753	-	9,753
Asset backed securities	-	12,496	-	12,496
Residential mortgage-backed - US agency	-	23,606	-	23,606
Collateralized mortgage obligations - US agency	-	12,007	-	12,007
Collateralized mortgage obligations - Private label	-	48,299	-	48,299
Total		170,915		170,915
Corporate measured at NAV	-	-	-	4,402
Total available-for-sale securities	$ -	$ 170,915	$ -	$ 175,317
Marketable equity securities	$ 667	$ -	$ -	$ 667
Interest rate swap derivative fair value hedges	$ -	$ 994	$ -	$ 994
Interest rate swap derivative cash flow hedges	$ -	$ (718)	$ -	$ (718)

(In thousands)	December 31, 2020 Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 6,416	$ -	$ 6,416
State and political subdivisions	-	23,753	-	23,753
Corporate	-	9,943	-	9,943
Asset backed securities	-	8,607	-	8,607
Residential mortgage-backed - US agency	-	25,211	-	25,211
Collateralized mortgage obligations - US agency	-	26,464	-	26,464
Collateralized mortgage obligations - Private label	-	24,936	-	24,936
Total	-	125,330	-	125,330
Corporate measured at NAV	-	-	-	2,725
Total available-for-sale securities	$ -	$ 125,330	$ -	$ 128,055
Marketable equity securities	$ 1,850	$ -	$ -	$ 1,850
Interest rate swap derivative fair value hedge		136		136
Interest rate swap derivative cash flow hedges	$ -	$ (1,308)	$ -	$ (1,308)

Pathfinder Bank had the following assets measured at fair value on a nonrecurring basis as of September 30, 2021 and December 31, 2020:

(In thousands)	September 30, 2021 Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 3,836	$ 3,836

(In thousands)	December 31, 2020 Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 14,701	$ 14,701

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 at the indicated dates.

	Quantitative Information about Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At September 30, 2021			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 25% (14%)
	(Sales Approach)	Costs to Sell	7% - 14% (11%)
	Discounted Cash Flow		

	Quantitative Information about Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At December 31, 2020			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 25% (18%)
	(Sales Approach)	Costs to Sell	7% - 13% (12%)
	Discounted Cash Flow		

There have been no transfers of assets into or out of any fair value measurement level during the three or nine months ended September 30, 2021.

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 "bullet" 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 loans – 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 the indicated dates are presented in the following table:

		September 30, 2021		December 31, 2020	
(In thousands)	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	1	$ 75,240	$ 75,240	$ 43,464	$ 43,464
Investment securities - available-for-sale	2	170,915	170,915	125,330	125,330
Investment securities - available-for-sale	NAV	4,402	4,402	2,725	2,725
Investment securities - marketable equity	1	667	667	1,850	1,850
Investment securities - held-to-maturity	2	161,736	164,896	171,224	174,935
Federal Home Loan Bank stock	2	3,737	3,737	4,390	4,390
Net loans	3	774,083	780,363	812,718	816,626
Accrued interest receivable	1	4,599	4,599	4,549	4,549
Interest rate swap derivative fair value hedges	2	994	994	191	191
Financial liabilities:					
Demand Deposits, Savings, NOW and MMDA	1	$ 701,163	$ 701,163	$ 598,683	$ 598,683
Time Deposits	2	345,053	345,466	397,224	398,863
Borrowings	2	67,054	67,767	82,050	84,065
Subordinated loans	2	29,522	32,080	39,400	39,416
Accrued interest payable	1	145	145	193	193
Interest rate swap derivative fair value hedges	2	-	-	55	55
Interest rate swap derivative cash flow hedges	2	718	718	1,308	1,308

Note 11: Interest Rate Derivatives

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 September 30, 2021. 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 September 30, 2021 or December 31, 2020.

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 balance sheet 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 amounts from a counterparty in exchange for the Company making fixed 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 Statement of Condition at fair value. The Company's accounting treatment for these derivative instruments is based on the instruments 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 September 30, 2021 and December 31, 2020:

(In thousands)	Carrying Amount of the Hedged Assets at September 30, 2021		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets at September 30, 2021		Carrying Amount of the Hedged Assets at December 31, 2020		Cumulative Amount of Fair Value Hedging Adjustment Included in The Carrying Amount of the Hedged Assets at December 31, 2020	
Line item on the balance sheet in which the hedged item is included:								
Loans receivable (1)	$	-	$	-	$	12,944	$	53
Available-for-sale securities (2)	$	52,023	$	(946)	$	17,055	$	(191)
Loans receivable (3)	$	20,688	$	(44)	$	-	$	-
Interest Rate Cap (4)	$	-	$	4	$	-	$	-

(1) These amounts include the amortized historical cost basis of a specific loan pool 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 hedging instrument matured in April of 2021 and is no longer a component of the Company's Consolidated Statement of Condition at September 30, 2021. The amount of the designated hedged item was $9.2 million and the fair value of the hedging instrument resulted in a net liability position of $55,000, recorded by the Company in other liabilities at December 31, 2020. The Company’s participation in the fair value hedge had an immaterial effect on recorded interest income for the three and nine months ended September 30, 2021 and 2020.

(2) These amounts represent the amortized cost basis of specifically identified municipal securities designated as the underlying assets for the hedging relationship. The notional amount of the designated hedge was $42.3 million and $16.3 million at September 30, 2021 and December 31, 2020, respectively. At September 30, 2021, the fair value of the derivative resulted in a net asset position of $946,000, recorded by the Company in other assets. At December 31, 2020, the fair value of the derivative resulted in a net asset position of $191,000 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 three and nine months ended September 30, 2021 and 2020.

(3) These amounts include the amortized cost of a specific loan pool 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 item was $12.2 million at September 30, 2021. The Company did not have this derivative agreement in place at December 31, 2020. At September 30, 2021, the fair value of the derivative resulted in a net asset position of $44,000, 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 three and nine months ended September 30, 2021 and 2020.

(4) In February 2020, the Company entered into an interest rate Cap contract 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 continues to remain in force, it will no longer be considered to be a hedge against any specific funding liability. Therefore under ASC 815, the Company has determined to re-designate the Cap as a free-standing derivative and mark the fair value of the Cap to market during each reporting period through earnings until the Cap’s contractual maturity date. The changes in the expected future funding requirements of the Company occurred primarily as a result of the unprecedented, and previously unpredictable, measures undertaken by central banking authorities in response to the COVID-19 pandemic. 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 the third quarter of 2021. As a free-standing derivative, future changes in the fair value of this Cap contract, until its maturity date, will be recognized through earnings as an adjustment to interest expense

The following table shows the pre-tax losses of the Company’s derivatives designated as cash flow hedges in other comprehensive income at September 30, 2021 and December 31, 2021:

(In thousands)		September 30, 2021		December 31, 2020
Cash flow hedges:				
Total unamortized premium	$	-	$	204
Fair market value adjustment interest rate cap		-		(197)
Total unamortized cap		-		7
Fair market value adjustment interest rate swap		(718)		(1,111)
Total loss in comprehensive income	$	(718)	$	(1,308)

The amounts of hedge ineffectiveness, recognized during the three and nine months ended September 30, 2021 and 2020 for cash flow hedges were not material to the Company’s consolidated results of operations. 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.

The Company manages its potential credit exposure on interest rate swap transactions by entering into bilateral credit support agreements with each contractual counterparty. These agreements require collateralization of credit exposures beyond specified minimum threshold amounts. At September 30, 2021, the Company posted cash, held in an interest-bearing refundable escrow arrangement, in the amount of $1.6 million in order to satisfy collateral requirements associated with its hedging contracts.

Note 12: 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 tables below.

	For the three months ended September 30, 2021				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Losses on Derivatives and Hedging Activities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,055)	$ 1,549	$ (724)	$ (5)	$ (1,235)
Other comprehensive income before reclassifications	-	(359)	194	3	(162)
Amounts reclassified from AOCI	19	(13)	-	-	6
Ending balance	$ (2,036)	$ 1,177	$ (530)	$ (2)	$ (1,391)

	For the three months ended September 30, 2020				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Losses on Derivatives and Hedging Activities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,812)	$ (341)	$ (1,207)	$ (27)	$ (4,387)
Other comprehensive income before reclassifications	-	821	91	7	919
Amounts reclassified from AOCI	45	(21)	-	-	24
Ending balance	$ (2,767)	$ 459	$ (1,116)	$ (20)	$ (3,444)

	For the nine months ended September 30, 2021				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Losses on Derivatives and Hedging Activities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,093)	$ 837	$ (966)	$ (14)	$ (2,236)
Other comprehensive income before reclassifications	-	353	436	12	801
Amounts reclassified from AOCI	57	(13)	-	-	44
Ending balance	$ (2,036)	$ 1,177	$ (530)	$ (2)	$ (1,391)

	For the nine months ended September 30, 2020				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Losses on Derivatives and Hedging Activities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,717)	$ (216)	$ -	$ (38)	$ (2,971)
Reevaluation of deferred tax asset valuation allowance (1)	(188)	(15)	-	(3)	(206)
Other comprehensive income before reclassifications	-	1,422	(1,116)	21	327
Amounts reclassified from AOCI	138	(732)	-	-	(594)
Ending balance	$ (2,767)	$ 459	$ (1,116)	$ (20)	$ (3,444)

(1) In the first quarter of 2020, consistent with policy, management reviewed all facts and circumstances related to its deferred taxes and determined that based on the expected filings of future New York State tax returns, the valuation allowance created in 2019 was no longer needed. Therefore management elected to eliminate its New York State net deferred tax asset valuation allowance during the quarter ended March 31, 2020.

The following table presents the amounts reclassified out of each component of AOCI for the indicated period:

(In thousands)		Amount Reclassified from AOCI (1) (Unaudited) For the three months ended		Amount Reclassified from AOCI (1) (Unaudited) For the nine months ended	
Details about AOCI (1) components	Affected Line Item in the Statement of Income	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Retirement plan items					
Retirement plan net losses recognized in plan expenses (2)	Salaries and employee benefits	$ (26)	$ (58)	$ (79)	$ (175)
Tax effect	Provision for income taxes	7	12	22	37
	Net Income	$ (19)	$ (46)	$ (57)	$ (138)
Available-for-sale securities					
Realized gain on sale of securities	Net gains on sales and redemptions of investment securities	$ 18	$ 27	$ 18	$ 926
Tax effect	Provision for income taxes	(5)	(6)	(5)	(194)
	Net Income	$ 13	$ 21	$ 13	$ 732

(1) Amounts in parentheses indicates debits in net income.

(2) These items are included in net periodic pension cost. See Note 5 for additional information.

Note 13: Noninterest Income

The Company has included the following table regarding the Company's noninterest income for the periods presented.

(In thousands)	For the three months ended September 30, 2021	2020	For the nine months ended September 30, 2021	2020
Service fees				
Insufficient funds fees	$ 245	$ 195	$ 643	$ 618
Deposit related fees	102	100	296	272
ATM fees	46	44	143	108
Total service fees	393	339	1,082	998
Fee Income				
Insurance commissions	211	215	722	734
Investment services revenue	68	87	313	235
ATM fees surcharge	62	57	172	167
Banking house rents collected	61	47	187	189
Total fee income	402	406	1,394	1,325
Card income				
Debit card interchange fees	236	209	698	577
Merchant card fees	23	20	54	51
Total card income	259	229	752	628
Mortgage fee income and realized gain on sale of loans and foreclosed real estate				
Loan servicing fees	54	90	155	218
Net gains on sales of loans and foreclosed real estate	67	134	226	903
Total mortgage fee income and realized gain on sale of loans and foreclosed real estate	121	224	381	1,121
Total	1,175	1,198	3,609	4,072
Earnings and gain on bank owned life insurance	164	133	418	355
Net gains on sales and redemptions of investment securities	5	27	56	1,076
Gains/(losses) on marketable equity securities	89	118	372	(798)
Net gains on sale of premises and equipment	-	-	201	-
Other miscellaneous income	113	15	169	65
Total noninterest income	$ 1,546	$ 1,491	$ 4,825	$ 4,770

The following is a discussion of key revenues within the scope of the new revenue guidance:

- *Service fees* – 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 the card networks. Interchange fees are based on purchase volumes and 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 Small Business Administration loans ("SBA loans"), and sales of foreclosed real estate, and is earned as the transaction occurs.

Note 14: 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 two years up to 29 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 the lease expense are as follows:

	For the three months ended		For the nine months ended	
(In thousands)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Operating lease cost	$ 57	$ 61	$ 170	$ 182
Finance lease cost	20	20	61	60

	For the three months ended		For the nine months ended	
(In thousands)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cash paid for amount included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 52	$ 56	$ 155	$ 167
Operating cash flows from finance leases	20	20	61	60
Financing cash flows from finance leases	18	18	54	53

Supplemental balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rate)	September 30, 2021	December 31, 2020
Operating Leases:		
Operating lease right-of-use assets	$ 2,170	$ 2,240
Operating lease liabilities	$ 2,469	$ 2,525
Finance Leases:		
Financial Liability	$ 594	$ 587
Weighted Average Remaining Lease Term:		
Operating Leases	18.43 years	19.08 years
Finance Leases	27.67 years	28.42 years
Weighted Average Discount Rate:		
Operating Leases	3.73%	3.73%
Finance Leases	13.75%	13.75%

Maturities of lease liabilities were as follows:

Twelve Months Ending September 30,		
(In thousands)		
2022	$	23
2023		115
2024		118
2025		118
2026		126
Thereafter		2,563
Total minimum lease payments	$	3,063

The Company owns certain properties that it leases to unaffiliated third parties at market rates. Lease rental income was $61,000 and $47,000 for the three months ended September 30, 2021 and 2020, respectively. Lease rental income was $187,000 and $189,000 for the nine months ended September 30, 2021 and 2020, respectively. All lease agreements, in which the Company is the lessor, are accounted for as operating leases.

Note 15: COVID-19

The World Health Organization (the "WHO") declared COVID-19 a global pandemic on March 11, 2020. In the United States, by the end of March 2020, the rapid spread of the COVID-19 virus invoked various Federal and New York State authorities to make emergency declarations and issue executive orders to limit the spread of the disease. Measures included severe restrictions on international and domestic travel, limitations on public gatherings, implementation of social distancing and sanitization protocols, school closings, orders to shelter in place and mandates to close all non-essential businesses to the public. To varying degrees, these very substantial mandated curtailments of social and economic activity had been progressively relaxed in the United States during the first and second quarters of 2021. This relaxation of the social and economic restrictions followed the increasingly wide-spread availability of vaccines that were first made available to the most vulnerable population segments in late 2020. These vaccines are generally considered to be effective in reducing the severity of the infection, if contracted, and in slowing the rate of spread of the coronavirus. However, the percentage of unvaccinated people in the United States, and the potential for future mutations of the coronavirus, remain significant long-term public health and economic concerns.

As a result of the initial and continuing outbreak, and governmental responses thereto, the spread of the coronavirus has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. During the most restrictive periods during the pandemic, the Company had many of its employees working remotely and significantly reduced physical customer contact with employees and other customers until the second quarter of 2021, when New York State relaxed the majority of its safety mandates. On September 30, 2021, the Bank's offices and branches were fully accessible to the public. We will take further actions, focused on safety, as may be required in the future by government authorities or that we determine to be in the best interests of our employees, customers and business partners.

Concerns about the spread of the disease and its anticipated negative impact on economic activity severely disrupted both domestic and international financial markets, prompting the world's central banks to inject significant amounts of monetary stimulus into their respective economies. In the United States, the Federal Reserve System's Federal Open Market Committee swiftly cut the target Federal Funds rate to a range of 0% to 0.25%, where it remains as of the date of this filing. The reductions in the Fed funds target rate included a 50 basis point reduction in the target federal funds rate on March 3, 2020 and an additional 100 basis point reduction on March 15, 2020. In addition, the Federal Reserve initiated various market support programs to ease the stress on financial markets. This significant reduction in short-term interest rates has reduced, and will continue to reduce, the Bank's cost of funds and interest earning-asset yields, as long as these central bank monetary policies remain in effect. The long-term effects of the current interest rate environment, resulting from government and central bank responses to the pandemic, on the Bank's net interest margin cannot be predicted with certainty at this time. However, it is likely that a prolonged period of the current monetary policy will result in the reduction of the Company's net interest margin in future periods, primarily as a result of declines in interest earning-asset yields over time.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, provided financial assistance in various forms to both businesses and consumers, including the establishment and funding of the Paycheck Protection Program ("PPP"). In addition, the CARES Act also created many directives affecting the operations of financial services providers, such as the Company, including a forbearance program for federally-backed mortgage loans and protections for borrowers from negative credit reporting due to loan accommodations related to the national emergency. The banking regulatory agencies likewise issued guidance encouraging financial institutions to work prudently with borrowers who were, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. The Company has worked to assist its business and consumer customers affected by COVID-19. While the CARES Act is widely-considered to have been beneficial to the economic recovery and supportive of the Company's business activities, the long-term effect of this legislation on the operations of the Company cannot be determined with certainty at this time.

On December 27, 2020, following passage by the United States Congress, President Donald J. Trump signed into law the Consolidated Appropriations Act, 2021 which included the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"). The intent of this legislation was to provide another round of Economic Impact Payments to eligible individuals and families, renew the PPP to support small businesses and their employees, ensure needed access to unemployment benefits for Americans who had lost their jobs due to COVID-19, and provide additional funding for schools, vaccine distribution, and other important sectors of the economy. While CRRSSA is widely considered to have been beneficial to the economic recovery and supportive of the Company's business activities, the long-term effect of this legislation on the operations of the Company cannot be determined with certainty at this time.

On March 11, 2021, President Joseph R. Biden signed into law the American Rescue Plan Act of 2021. The intent of this legislation was to provide additional new funding for rural hospitals and health care providers for COVID-19 relief, to increase federal subsidies for COBRA coverage, and make changes to the Medicare wage index. The legislation also included provisions to bolster the nation's COVID-19 health care response with additional resources for vaccines, treatment, personal protective equipment (PPE), testing, contact tracing and workforce development. In addition, non-health care specific provisions provide financial support for families and small businesses, and both extended and expanded support for housing, child care, food and the education system. While The American Rescue Plan Act of 2021 is expected to benefit the economic recovery and be supportive of the Company's business activities, the effect of this legislation on the operations of the Company cannot be determined with certainty at this time.

As of the date of this filing, a variant of the coronavirus, referred to as the "Delta" variant, has emerged in the United States and remains a significant concern in some regions and potentially, throughout the country. This variant is believed to be significantly more contagious than earlier variants of the coronavirus. Certain previously-relaxed social distancing and safety protocols have been reinstated in some areas of the country and it is possible that such protocols will be reinstated broadly in the future. The economic effects of these varying protocol reinstatement actions on the Company's operations cannot be determined with certainty at this time.

During the most restrictive periods of the pandemic, the Bank granted loan payment deferrals to the substantial majority of commercial and consumer customers who had made requests for such accommodations. These deferrals were granted following individual discussions with each borrower and were generally for periods of 90 or 180 days at the outset. Following discussions with certain borrowers, additional loan payment deferral periods of up to 90 days were granted following the expiration of the initial 90- to 180-day deferral periods. Typically, scheduled interest payments placed into deferred status have been added to future scheduled payments and are expected to be collected in total at the original maturity date of the loan. As of September 30, 2021, the Bank had no loans on active pandemic-related deferral. At December 31, 2020, the Bank had 38 residential mortgage and consumer loans, totaling $2.7 million and 24 commercial real estate and other commercial and industrial loans, totaling $14.4 million remained in deferral status.

Note 16: 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 September 30, 2021 or December 31, 2020.

The following represents the activity associated with loans to related parties during the year ended September 30, 2021 and December 31, 2020:

(In thousands)	2021	2020
Balance at the beginning of the year	$ 22,210	$ 19,301
Originations and related party additions	3,298	4,899
Principal payments and related party removals	(3,104)	(1,990)
Balance at the end of the year	$ 22,404	$ 22,210

Note 17 : Subsequent Events

As an integral part of the Bank’s overall balance sheet management strategies, the Bank periodically acquires diversified pools of loans and enters into loan participation agreement that are originated and serviced by unrelated third parties. On November 5, 2021, the Bank entered into a revolving commercial line participation agreement, for an amount up to $15.0 million, secured by the single corporate borrower’s accounts receivable assets. On November 8, 2021, the Bank acquired $22.3 million of broadly-diversified, secured consumer installment loans. Both of these loan asset acquisitions were collateralized by assets that are primarily located outside of the Bank’s market area.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

General

The Company is a Maryland corporation headquartered in Oswego, New York. The Company is 100% owned by public shareholders. The primary business of the Company is its investment in Pathfinder Bank (the "Bank"), a New York State chartered commercial 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” or “Agency”), 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. At September 30, 2021, the Company and subsidiaries had total consolidated assets of $1.26 billion, total consolidated liabilities of $1.16 billion and shareholders' equity of $106.3 million, plus noncontrolling interest of $337,000, which represents the 49% of FitzGibbons not owned by the Company.

The following discussion reviews the Company's financial condition at September 30, 2021 and the results of operations for the three and nine month periods ended September 30, 2021 and 2020. Operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021 or any other period.

The following material under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" is written with the presumption that the users of the interim financial statements have read, or have access to, the Company's latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2021 (“the consolidated annual financial statements”) as of December 31, 2020 and 2019 and for the two years then ended. Therefore, only material changes in financial condition and results of operations are discussed in the remainder of Item 2.

Statement Regarding Forward-Looking Statements

Certain statements contained herein are “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to:

- Credit quality and the effect of credit quality on the adequacy of our allowance for loan losses;
- Deterioration in financial markets that may result in impairment charges relating to our securities portfolio;
- Competition in our primary market areas;
- Changes in interest rates and national or regional economic conditions;
- Changes in monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- Significant government regulations, legislation and potential changes thereto;
- A reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- Increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;
- Cyberattacks, computer viruses and other technological threats that may breach the security of our websites or other systems;
- Technological changes that may be more difficult or expensive than expected;

- Limitations on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations; and
- Other risks described herein and in the other reports and statements we file with the SEC.

In addition to the risk factors enumerated above, the continuing economic impact of the COVID-19 outbreak could adversely affect our financial condition and results of operations. The COVID-19 pandemic caused significant economic dislocation in the United States as many state and local governments ordered non-essential businesses to close and residents to shelter in place. While certain restrictions have started to ease, particularly with the recent widespread availability of novel vaccines, the pace at which the economic recovery unfolds and the sustainability of that recovery cannot be predicted with certainty at this time.

Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and how the economy may be reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following additional risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- Government action in response to the COVID-19 pandemic and its effects on our business and operations, including vaccination mandates and their effects on our workforce, human capital resources and infrastructure;
- Demand for our products and services may decline, making it difficult to grow assets and income;
- If the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- Collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- Our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net income;
- The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- As the result of the decline in the Federal Reserve Board’s target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income;
- A material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend;
- Our cyber security risks are increased as the result of an increase in the number of employees working remotely;
- We rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us; and
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs.

Moreover, our future success and profitability substantially depends on the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

Any one or a combination of the factors identified above could negatively impact our business, financial condition and results of operations and prospects.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

COVID-19 Response

The World Health Organization (the "WHO") declared COVID-19 a global pandemic on March 11, 2020. In the United States, by the end of March 2020, the rapid spread of the COVID-19 virus invoked various Federal and New York State authorities to make emergency declarations and issue executive orders to limit the spread of the disease. Measures included severe restrictions on international and domestic travel, limitations on public gatherings, implementation of social distancing and sanitization protocols, school closings, orders to shelter in place and mandates to close all non-essential businesses to the public. To varying degrees these very substantial mandated curtailments of social and economic activity had been progressively relaxed in the United States during the first and second quarters of 2021. This relaxation of the social and economic restrictions followed the increasingly wide-spread availability of vaccines that were first made available to the most vulnerable population segments in late 2020. These vaccines are generally considered to be effective in reducing the severity of the infection, if contracted, and in slowing the rate of spread of the coronavirus. However, the percentage of unvaccinated people in the United States, and the potential for future mutations of the coronavirus, remain significant long-term public health and economic concerns.

As a result of the initial and continuing outbreak, and governmental responses thereto, the spread of the coronavirus has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. During the most restrictive periods during the pandemic, the Company had many of its employees working remotely and significantly reduced physical customer contact with employees and other customers until the second quarter of 2021, when New York State relaxed the majority of its safety mandates. At September 30, 2021, the Bank's offices and branches were fully accessible to the public. We will take further actions, focused on safety, as may be required in the future by government authorities or that we determine to be in the best interests of our employees, customers and business partners.

Concerns about the spread of the disease and its anticipated negative impact on economic activity, severely disrupted both domestic and international financial markets prompting the world's central banks to inject significant amounts of monetary stimulus into their respective economies. In the United States, the Federal Reserve System's Federal Open Market Committee, swiftly cut the target Federal Funds rate to a range of 0% to 0.25%, where it remains as of the date of this filing. The reductions in the Fed funds target rate included a 50 basis point reduction in the target federal funds rate on March 3, 2020 and an additional 100 basis point reduction on March 15, 2020. In addition, the Federal Reserve initiated various market support programs to ease the stress on financial markets. This significant reduction in short-term interest rates has reduced, and will continue to reduce, the Bank's cost of funds and interest earning-asset yields, as long as these central bank monetary policies remain in effect. The long-term effects of the current interest rate environment, resulting from government and central bank responses to the pandemic, on the Bank's net interest margin cannot be predicted with certainty at this time. However, it is likely that a prolonged period of the current monetary policy will result in the reduction of the Company's net interest margin in future periods, primarily as a result of declines in interest earning-asset yields over time.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, provided financial assistance in various forms to both businesses and consumers, including the establishment and funding of the Paycheck Protection Program ("PPP"). In addition, the CARES Act also created many directives affecting the operations of financial services providers, such as the Company, including a forbearance program for federally-backed mortgage loans and protections for borrowers from negative credit reporting due to loan accommodations related to the national emergency. The banking regulatory agencies issued guidance encouraging financial institutions to work prudently with borrowers who were, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. The Company has worked to assist its business and consumer customers affected by COVID-19. While the CARES Act is widely-considered to have been beneficial to the economic recovery and supportive of the Company's business activities, the long-term effect of this legislation on the operations of the Company cannot be determined with certainty at this time.

On December 27, 2020, following passage by the United States Congress, President Donald J. Trump signed into law the Consolidated Appropriations Act, 2021 which included the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"). The intent of this legislation was to provide another round of Economic Impact Payments to eligible individuals and families, renew the PPP to support small businesses and their employees, ensure needed access to unemployment benefits for Americans who had lost their jobs due to COVID-19, and provide additional funding for schools, vaccine distribution, and other important sectors of the economy. While CRRSSA is widely-considered to have been beneficial to the economic recovery and supportive of the Company's business activities, the long-term effect of this legislation on the operations of the Company cannot be determined with certainty at this time.

On March 11, 2021, President Joseph R. Biden, signed into law the American Rescue Plan Act of 2021. The intent of this legislation was to provide additional new funding for rural hospitals and health care providers for COVID-19 relief, to increase federal subsidies for COBRA coverage, and make changes to the Medicare wage index. The legislation also included provisions to bolster the nation's COVID-19 health care response with additional resources for vaccines, treatment, PPE, testing, contact tracing and workforce development. In addition, non-health care specific provisions provide financial support for families and small businesses, and both extended and expanded support for housing, child care, food and the education system. While The American Rescue Plan Act of 2021 is expected to benefit the economic recovery and be supportive of the Company's business activities, the effect of this legislation on the operations of the Company cannot be determined with certainty at this time.

As of the date of this filing, a variant of the coronavirus, referred to as the "Delta" variant, has emerged in the United States and remains a significant concern in some regions and potentially, throughout the country. This variant is believed to be significantly more contagious than earlier variants of the coronavirus. Certain previously-relaxed social distancing and safety protocols have been reinstated in some areas of the country and it is possible that such protocols will be reinstated broadly in the future. The economic effects of these varying protocol reinstatement actions on the Company's operations cannot be determined with certainty at this time.

During the most restrictive periods of the pandemic, the Bank granted loan payment deferrals to the substantial majority of commercial and consumer customers who had made requests for such accommodations. These deferrals were granted following individual discussions with each borrower and were generally for periods of 90 or 180 days at the outset. Following discussions with certain borrowers, additional loan payment deferral periods of up to 90 days were granted following the expiration of the initial 90- to 180-day deferral periods. Typically, scheduled interest payments placed into deferred status have been added to future scheduled payments and are expected to be collected in total at the original maturity date of the loan. As of September 30, 2021, the Bank had no loans on active pandemic-related deferral, compared to December 31, 2020, the Bank had 38 residential mortgage and consumer loans, totaling $2.7 million and 24 commercial real estate and other commercial and industrial loans, totaling $14.4 million remained in deferral status.

Paycheck Protection Program

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 three months ended		For the nine months ended,	
(In thousands, except number of loans)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Number of PPP loans originated in the period	-	25	478	699
Funded balance of PPP loans originated in the period	$ -	$ 313	$ 36,369	$ 75,352
Number of PPP loans forgiven in the period	287	-	636	-
Average balance of PPP loans in the period	$ 39,799	$ 74,769	$ 59,431	$ 41,056
Balance of PPP loans forgiven in the period	$ 26,621	$ -	$ 68,726	$ -
Deferred PPP fee income recognized in the period	$ 595	$ 350	$ 1,742	$ 639

(In thousands, except number of loans)		September 30, 2021		September 30, 2020
Unearned PPP deferred fee income at end of period	$	1,124	$	1,823

(In thousands, except number of loans)	Number		Balance
Total PPP loans originated since inception	1,177	$	111,721
Total PPP loans forgiven since inception	759	$	84,428
Total PPP loans remaining at September 30, 2021	418	$	27,293

Application of Critical Accounting Policies

The Company's consolidated quarterly 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 quarterly 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 accounting 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 unaffiliated 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 annual audited 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 quarterly 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 taxes, pension obligations, the evaluation of investment securities for other than temporary impairment, the estimation of fair values for accounting and disclosure purposes, and the evaluation of goodwill for impairment 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.

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 consideration of current economic trends and conditions, all of which may be susceptible to significant change.

Our Allowance for Loan and Lease Losses policy 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. For all other loans and leases, the Company uses the general allocation methodology that establishes an allowance to estimate the probable incurred loss for each risk-rating category.

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.

Effective in January 2018, the Company adopted a modification methodology that was at the time newly made available under the New York State tax code, affecting how the Company's state income tax liability is computed. Under this adopted methodology, management determined in the first quarter of 2019, it was unlikely that the Company would be required to pay material income taxes to New York State in future periods under then-existing income tax laws in the State. Management is continuously monitoring its future tax consequences to determine if the Company's deferred taxes are properly stated. In the first quarter of 2020, consistent with policy, management reviewed all facts and circumstances related to its deferred taxes and determined that based on the expected filings of future New York State tax returns, the valuation allowance created in 2019 was no longer needed. Therefore management elected to eliminate its New York State net deferred tax asset valuation allowance during the quarter ended March 31, 2020.

On April 7, 2021, the New York State Legislature approved comprehensive tax legislation as part of the State's 2022 Fiscal Year budget. The legislation includes increased taxes on businesses and high-income individuals among other tax law revisions. Other provisions include amendments to the real estate transfer tax. The legislation increases the corporate franchise tax rate to 7.25% from 6.5% for tax years beginning on or after January 1, 2021 and before January 1, 2024 for taxpayers with a business income base greater than $5.0 million. In addition, the previously scheduled phase-out of the capital base tax has been delayed. The rate of the capital base was to have been reduced to 0% starting in 2021. The legislation imposes the tax at the rate of 0.1875% for tax years beginning on or after January 1, 2021 and before January 1, 2024, with the 0% rate to take effect in 2024. Management continues to evaluate the projected impact of this newly issued New York State tax legislation on the Company's financial condition and results of operations and believes that these provisions require an increase the Company's income tax expense for the nine months ended September 30, 2021, thereby requiring an increase in the Company's effective tax rate to 22.2% for the nine months ended September 30, 2021 as compared to the effective tax rate of 20.5%, for the same nine month period in 2020.

The Company's effective tax rate typically differs from the 21% federal statutory tax rate due primarily to New York State income taxes, partially offset by tax-exempt income from specific types of investment securities and loans, bank owned life insurance, and, to a much lesser degree, the utilization of low income housing tax credits. Other variances from the federal statutory federal tax rate are due to the effects of transitional adjustments related to state income taxes. In addition, the tax effects of certain incentive stock option activity may reduce the Company's effective tax rate on a sporadic basis.

We maintain a noncontributory defined benefit pension plan covering most employees. The plan provides defined benefits based on years of service and final average salary. On May 14, 2012, we informed our employees of our 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. Pension and post-retirement 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 annual financial statements.

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 securities impairment losses and other-than-temporary impairment ("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 securities (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; (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 issue 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 nationally recognized statistical rating organization ("NRSRO"), and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

The estimation of fair value is significant to several of our assets; including available-for-sale and marketable equity investment securities, 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 annual audited 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 unaffiliated third party pricing services. 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 sources. Fair values for marketable equity securities are based on quoted prices on a nationally recognized securities exchange for similar benchmark securities. 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.

Management performs an annual evaluation of our goodwill for possible impairment at each of our reporting units. Based on the results of the December 31, 2020 evaluation, management has determined that the carrying value of goodwill was not impaired as of that date. Management will continuously evaluate all relevant economic and operational factors potentially affecting the Bank or the fair value of its assets, including goodwill. Should the current pandemic, or the future economic consequences thereof, require a significant and sustained change in the operations of the Bank, re-evaluations of the Bank's goodwill valuation will be conducted on a more frequent basis. The evaluation approach is described in Note 10 of the consolidated annual financial statements. Further information on the estimation of fair values can be found in Note 22 to the consolidated annual financial statements.

Recent Events

On September 27, 2021, the Company announced that its Board of Directors declared a cash dividend of $0.07 per share on the Company's voting common and non-voting common stock, and a cash dividend of $0.07 per notional share for the issued warrant relating to the fiscal quarter ending September 30, 2021. The dividend will be payable to all shareholders of record on October 15, 2021 and will be paid on November 5, 2021.

Overview and Results of Operations

The following represents the significant highlights of the Company's operating results between the third quarter of 2021 and the third quarter of 2020.

- Net income increased $1.9 million, or 128.3%, to $3.4 million.
- Basic and diluted earnings per share were both $0.56 per share and increased $0.31 per share from $0.25 per share.
- Return on average assets increased 57 basis points to 1.07% as the increase in income outpaced the increase in average assets.
- Net interest income, after provision for loan losses, increased $3.1 million, or 46.1%, to $9.7 million. Excluding the provision, net interest income increased $1.5 million, or 17.8%, to $9.8 million. The increase in net interest income, after provision for loan losses, was primarily due to the increase in the average balance of interest-earning assets, coupled with an increase in the average yield earned on the average balance of interest-earning assets and a decrease in the average rate paid on average interest-bearing liabilities. Additionally, a reduction in the provision for loan losses of $1.6 million was reflective of improving asset quality metrics. The credit sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its conservative loan classification and reserve building methodologies to the analysis of these portfolios.
- The net interest margin for the third quarter of 2021 was 3.31%, a 30 basis point increase compared to 3.01% for the third quarter of 2020. This improvement reflects both an 18 basis point decline in the average cost paid on interest-bearing liabilities, and a 13 basis point increase in the average yield earned on interest-earning assets.
- The effective income tax rate increased 2.5% to 23.2% for the three months ended September 30, 2021 as compared to 20.7% for the same three month period in 2020. The increase in the tax rate in the third quarter of 2021, as compared to the same quarter in 2020, was primarily related to an increase in pretax income and relatively consistent permanent differences, due to a decrease in the percentage of the Company's total revenues that were derived from investments in tax exempt loans and securities.

The following represents significant highlights of the Company's operating results between the first nine months of 2021 and the first nine months of 2020.

- Net income increased $3.5 million, or 70.4%, to $8.5 million.
- Basic and diluted earnings per share were both $1.43 per share and increased $0.58 per share.
- Return on average assets increased 32 basis points to 0.90% as the increase in income outpaced the increase in average assets.
- Net interest income, after provision for loan losses, increased by $6.7 million, or 33.6%, to $26.5 million. The increase was primarily due to the decrease in total interest expense, combined with an increase in the average balance of interest-earning assets.
- The net interest margin was 3.19%, a 26 basis point increase as compared to 2.93% for the prior year period. This improvement reflects a 39 basis point decline in the average cost paid on interest-bearing liabilities, primarily due to a reduction in the average balance of time deposits of $35.9 million and a 68 basis point decrease in the average rate paid on those time deposits. The average yield earned on interest-earning assets declined eight basis points from the prior year period.
- The effective income tax rate increased 1.7% to 22.2% for the nine months ended September 30, 2021 as compared to 20.5% for the same nine month period in 2020. The increase in the tax rate in the first nine months of 2021, as compared to the same period in 2020, was primarily related to an increase in pretax income.

The following reflects the significant changes in financial condition between December 31, 2020 and September 30, 2021. In addition, the following reflects significant changes in asset quality metrics between September 30, 2020 and September 30, 2021.

- Total assets increased $34.8 million, or 2.8% to $1.26 billion at September 30, 2021, as compared to December 31, 2020, primarily driven by higher investment securities balances and cash and cash equivalents, offset by decreases in loans.
- Asset quality metrics, as measured by net loan charge-offs, remained stable, in comparison to recent reporting periods. The annualized net loan charge-offs to average loans ratio was 0.12% for the third quarter of 2021, compared to 0.08% for the third quarter of 2020, and 0.08% for the fourth quarter of 2020. Nonperforming loans to total loans decreased 50 basis points to 1.11% at September 30, 2021, compared to 1.61% at September 30, 2020. Nonperforming loans to total loans decreased 147 basis points to 1.11% at September 30, 2021 compared to 2.58% at December 31, 2020. Correspondingly, the ratio of the allowance for loan losses to nonperforming loans was 160.10% at September 30, 2021, as compared to 91.44% at September 30, 2020, and 59.89% at December 31, 2020.

The Company had net income of $3.4 million for the three months ended September 30, 2021 compared to net income of $1.5 million for the three months ended September 30, 2020. The $1.9 million increase in net income was due primarily to a $1.1 million increase in interest and dividend income, a $335,000 decrease in interest expense, a $1.6 million decrease in the provision for loan losses and a $55,000 increase in noninterest income. Offsetting the increases to net income was a $593,000 increase in noninterest expense and a $633,000 increase in income tax expense.

Net interest income before the provision for loan losses increased $1.5 million, or 17.8%, to $9.8 million for the three months ended September 30, 2021 as compared to $8.3 million for the same three month period in 2020. The increase was primarily a result of an 18 basis point decrease in the average cost of interest-bearing liabilities between the year-over-year third quarter periods. Further, the increase was a result of increases in average interest-earning asset balances, primarily in the loan and investment categories, coupled with an increase in the average yield of interest-earning assets of 13 basis points to 3.93% for the three months ended September 30, 2021 from 3.80% for the same three month period of the previous year. The increase in interest income was enhanced by the recognition of deferred PPP fee income recognized in the period due to the increased levels of forgiveness in the three month ended September 30, 2021. Please refer to the PPP tables above for the full impact of PPP loans on average loan yields.

The $55,000, or 3.7%, increase in noninterest income in the quarter ended September 30, 2021, as compared to the same quarterly period in 2020, was primarily the result of an $86,000 increase in insurance agency revenue, a $54,000 increase in service charges on deposit accounts, a $31,000 increase in earnings on bank owned life insurance and a $27,000 increase in debit card interchange fees. These increases were partially offset by reductions in gains on foreclosed real estate of $67,000, decreases in loan servicing fees of $36,000, decreases in gains on marketable equity securities of $29,000, and a decrease in the gains recognized on the sales of investment securities of $22,000.

The $593,000 increase in noninterest expense in the quarter ended September 30, 2021, as compared to the same quarterly period in 2020, was primarily the result of an increase in salaries and employee benefits expense, data processing costs, insurance agency expense, professional and other services, audits and exams costs, and the FDIC assessment of $228,000, $117,000, $114,000, $103,000, $67,000, and $52,000, respectively. The increase in salaries and employee benefit expense was due to the increase in net salaries expense due to increased PPP loan originations in 2020 and the deferral of employee-related expenses in 2020 related to those originations. All other employee-related expenses increased an aggregate of $32,000 in the third quarter of 2021, as compared to the same quarterly period in 2020. Data processing costs increased due to increases in internet banking costs and processing costs. Insurance agency expense increased as a result of a general increases in personnel costs and other administrative costs related to the Agency. Professional and other services costs increased due to increased use of third party services. These increases are consistent with the Company's customer and operational growth. The increases in audits and exams expense were primarily related to the Bank's first year of increased internal controls testing under FDICIA requirements for institutions with assets greater than $1 billion and additional expenses for the Company as a result of the COVID-19 pandemic. The FDIC assessment increased as a result of an increase in the average balance of deposits, including an increase in the average balance of brokered time deposits.

For the three months ended September 30, 2021, we recorded $104,000 in provision for loan losses as compared to $1.7 million in the same prior year three month period. This $1.6 million decrease in the provision for loan losses was primarily reflective of improving asset quality metrics. The credit sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its conservative loan classification and reserve building methodologies to the analysis of these portfolios.

In comparing the year-over-year third quarter periods, the return on average assets increased 57 basis points to 1.07% due to the combined effects of the increase in net income (the numerator in the ratio) and the increase in average assets (the denominator in the ratio). Average assets increased due to increases in average loans of $7.3 million, average taxable securities of $60.7 million and average tax-exempt securities of $2.3 million in the third quarter of 2021, as compared to the same quarter of 2020. Average interest-bearing deposits increased $19.7 million in the third quarter of 2021, as compared with the same quarter in 2020. Noninterest-bearing deposits were the primary driver of growth between the comparable periods and totaled $206.2 million at September 30, 2021, an increase of $48.3 million, or 30.6%, compared to September 30, 2020. The increases in noninterest-bearing deposits were primarily a result of the Bank's participation in the PPP, as well as ongoing growth in business banking relationships. In addition, the Bank has seen a general increase in the average account balance for consumer deposits consistent with similar increases generally reported throughout the industry. These increases are expected to be transitory and relate primarily to significant levels of economic stimulus combined with reduced levels of consumer spending related to the pandemic. At this time, it cannot be determined with certainty how long it will be before these deposits return to historically normal levels.

The Company had net income of $8.5 million for the nine months ended September 30, 2021 compared to net income of $5.0 million for the nine months ended September 30, 2020. The $3.5 million increase in net income was due primarily to a $2.6 million increase in interest income, a $2.2 million decrease in interest expense, a $1.8 million decrease in provision for loan losses, and a $55,000 increase in noninterest income. Offsetting the increase in net income was an increase of $2.1 million in noninterest expense and a $1.1 million increase in income tax expense.

Net interest income before the provision for loan losses increased $4.8 million to $28.6 million for the nine months ended September 30, 2021, as compared to $23.7 million for the same nine month period in 2020. The increase was due principally to a $2.6 million, or 8.1%, increase in interest and dividend income that was a result of growth in average interest-earning assets of $113.0 million compared to the prior year nine month period. Average loans for the first nine months of 2021 increased by $51.8 million, or 6.5%, over the prior year period, while the average interest yield on interest-earning assets decreased by eight basis points. The increase in interest income was enhanced by the recognition of deferred PPP fee income recognized in the period due to the increased levels of forgiveness in the three months ended September 30, 2021. Please refer to the PPP tables above for the full impact of PPP loans on average loan yields. Average interest-bearing liabilities increased by $63.5 million, or 7.1%, for the nine months ended September 30, 2021 as compared to the prior year period; however, the average interest rate paid on interest-bearing liabilities decreased by 39 basis points.

The $55,000, or 1.2%, increase in noninterest income for the nine months ended September 30, 2021, when compared to the same nine month period in 2020 was primarily due to the $1.2 million increase in net gains on equity securities and a $201,000 increase in gains on sales of premises and equipment. Offsetting these increases were decreases of $1.0 million in net gains on sales and redemptions of investment securities, and a $677,000 decrease in net gains on the sales of loans and foreclosed real estate, which was primarily the result of the sale of $35.9 million in seasoned, conforming residential mortgage loans that was completed in January 2020.

Excluding the effects of the period over period fluctuations discussed above, all other noninterest income categories increased in the aggregate by $381,000, or 10.6%, to $4.0 million in the nine months ended September 30, 2021 as compared with $3.6 million in the same nine month period of 2020. This period over period increase was a result of debit card interchange fees, other charges, commissions and fees, service charges on deposit accounts, insurance agency revenue, and earnings on bank owned life insurance, which increased $121,000, $98,000, $84,000, $78,000 and $63,000, respectively. The net increase in these categories of noninterest income were in part due to the Company's increased strategic focus on improving recurring noninterest income. Offsetting these increases was a decrease in loan servicing fees of $63,000.

Total noninterest expense for the nine month period of 2021 was $20.3 million, an increase of $2.1 million, or 11.4%, compared with $18.2 million for the prior year period. The increase in noninterest expense for the nine month period ended September 30, 2021, as compared to the same period in 2020, was principally driven by an increase of $851,000 in personnel expenses, a $354,000 increase in professional and other services, a $295,000 increase in data processing expense, a $196,000 increase in audits and exams expense, a $138,000 increase in building and occupancy expense, a $143,000 increase in FDIC assessments and a $110,000 increase in insurance agency expense. The increase in net salaries expense was partially the result of increased PPP loan originations in 2020 and the deferral of employee-related expenses in 2020 related to those originations. The increases in professional and other services fees, and audits and exams expense were primarily related to the Bank's first year of increased internal controls testing under FDICIA requirements for institutions with assets greater than $1 billion and additional expenses for the Company as a result of the COVID-19 pandemic. Building and occupancy costs increased as a result of an increase in maintenance costs and depreciation expense of $168,000 and $51,000, respectively. These increases are consistent with the Company's recent refurbishments of certain branch and administrative locations and the relative timing of certain maintenance activities. Data processing costs increased due to increases in internet banking costs and processing costs. These increases are consistent with the Company's customer and operational growth. The FDIC assessment increased as a result of an increase in the average balance of deposits, including an increase in the average balance of brokered time deposits. Insurance agency expense increased as a result of a general increases in personnel costs and other administrative costs related to the Agency.

For the first nine months of 2021, we recorded $2.1 million in provision for loan losses as compared to $3.9 million in the same prior year nine month period. The provision is reflective of (1) the qualitative factors used in determining the adequacy of the allowance for loan losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The decline in the provision for loan losses in 2021, as compared to the same period in 2020, was primarily related to the improvement in the qualitative factors used by the Company to determine the provision in 2021, as compared to the previous year. The improvement in these qualitative factors was due to observed improvements in economic conditions during 2021 that followed the easing of the most restrictive phases of the COVID-19 pandemic that had existed in 2020. The credit sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its conservative loan classification and reserve building methodologies to the analysis of these portfolios. Please refer to the asset quality section below for a further discussion of asset quality as it relates to the allowance for loan losses.

Return on average assets increased 32 basis points to 0.90% between the year-over-year nine month periods as the change in net income in the nine month period ended September 30, 2021 (the numerator of the ratio) increased by a higher percentage than the rate at which average assets (the denominator of the ratio) grew during the period.

Net Interest Income

Net interest income is the Company's primary source of operating income for payment of operating expenses and providing for loan losses. It is the amount by which interest earned on loans, interest-earning deposits, and investment securities, exceeds the interest paid on deposits and other interest-bearing liabilities. Changes in net interest income and net interest margin result from the interaction between the volume and composition of interest-earning assets, interest-bearing liabilities, related yields, and associated funding costs.

The following tables set forth information concerning average interest-earning assets and interest-bearing liabilities and the average yields and rates thereon for the periods indicated. Interest income and resultant yield information in the tables 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.

	(Unaudited) For the three months ended September 30,					
	2021			2020		
Unaudited *(Dollars in thousands)*	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
Interest-earning assets:						
Loans	$ 822,547	$ 9,465	4.60%	$ 815,212	$ 8,810	4.32%
Taxable investment securities	317,612	2,136	2.69%	256,958	1,623	2.53%
Tax-exempt investment securities	14,863	28	0.75%	12,549	50	1.59%
Fed funds sold and interest-earning deposits	27,984	3	0.04%	18,857	4	0.08%
Total interest-earning assets	1,183,006	11,632	3.93%	1,103,576	10,487	3.80%
Noninterest-earning assets:						
Other assets	83,028			79,901		
Allowance for loan losses	(14,794)			(10,969)		
Net unrealized gains/(losses) on available-for-sale securities	2,209			(206)		
Total assets	$ 1,253,449			$ 1,172,302		
Interest-bearing liabilities:						
NOW accounts	$ 94,654	$ 81	0.34%	$ 80,636	$ 45	0.22%
Money management accounts	16,583	5	0.12%	16,332	4	0.10%
MMDA accounts	241,374	241	0.40%	204,943	316	0.62%
Savings and club accounts	126,511	42	0.13%	99,909	22	0.09%
Time deposits	358,634	785	0.88%	416,190	1,229	1.18%
Subordinated loans	29,496	411	5.57%	15,148	191	5.04%
Borrowings	78,892	276	1.40%	73,655	369	2.00%
Total interest-bearing liabilities	946,144	1,841	0.78%	906,813	2,176	0.96%
Noninterest-bearing liabilities:						
Demand deposits	189,951			158,600		
Other liabilities	11,441			12,567		
Total liabilities	1,147,536			1,077,980		
Shareholders' equity	105,913			94,322		
Total liabilities & shareholders' equity	$ 1,253,449			$ 1,172,302		
Net interest income		$ 9,791			$ 8,311	
Net interest rate spread			3.15%			2.84%
Net interest margin			3.31%			3.01%
Ratio of average interest-earning assets to average interest-bearing liabilities			125.03%			121.70%

Unaudited *(Dollars in thousands)*	For the nine months ended September 30, 2021 Average Balance	Interest	Average Yield / Cost	2020 Average Balance	Interest	Average Yield / Cost
Interest-earning assets:						
Loans	$ 842,850	$ 28,096	4.44%	$ 791,088	$ 26,884	4.53%
Taxable investment securities	310,098	6,438	2.77%	245,228	4,998	2.72%
Tax-exempt investment securities	12,631	99	1.05%	7,839	109	1.85%
Fed funds sold and interest-earning deposits	28,433	7	0.03%	36,848	53	0.19%
Total interest-earning assets	1,194,012	34,640	3.87%	1,081,003	32,044	3.95%
Noninterest-earning assets:						
Other assets	81,779			76,726		
Allowance for loan losses	(13,962)			(9,921)		
Net unrealized gains/(losses) on available for sale securities	1,802			(629)		
Total assets	$ 1,263,631			$ 1,147,179		
Interest-bearing liabilities:						
NOW accounts	$ 94,018	$ 212	0.30%	$ 79,172	$ 109	0.18%
Money management accounts	16,059	13	0.11%	15,450	14	0.12%
MMDA accounts	238,507	737	0.41%	200,529	1,072	0.71%
Savings and club accounts	119,859	115	0.13%	93,926	70	0.10%
Time deposits	376,724	2,748	0.97%	412,625	5,111	1.65%
Subordinated loans	33,814	1,376	5.43%	15,139	589	5.19%
Borrowings	84,001	873	1.39%	82,663	1,349	2.18%
Total interest-bearing liabilities	962,982	6,074	0.84%	899,504	8,314	1.23%
Noninterest-bearing liabilities:						
Demand deposits	186,125			142,379		
Other liabilities	11,660			12,487		
Total liabilities	1,160,767			1,054,370		
Shareholders' equity	102,864			92,809		
Total liabilities & shareholders' equity	$ 1,263,631			$ 1,147,179		
Net interest income		$ 28,566			$ 23,730	
Net interest rate spread			3.03%			2.72%
Net interest margin			3.19%			2.93%
Ratio of average interest-earning assets to average interest-bearing liabilities			123.99%			120.18%

As indicated in the above tables, net interest income, before provision for loan losses, increased $1.5 million, or 17.8%, to $9.8 million for the three months ended September 30, 2021 as compared to $8.3 million for the same prior year period. This increase was due principally to the $79.4 million, or 7.2%, increase in the average balance of interest-earning assets, coupled with an increase of 13 basis points on the average yield earned on those assets. These positive factors on net interest income were partially offset by an increase in the average balance of interest-bearing liabilities of $39.3 million, or 4.3%. The negative effect of this increase in the average balance of interest-bearing liabilities on net interest income however, was partially offset by a decrease of 18 basis points on the average interest rate paid on those liabilities. In total, net interest margin increased 30 basis points to 3.31%. The following analysis should also be viewed in conjunction with the table below which reports the changes in net interest income attributable to rate and volume.

Interest and dividend income increased $1.1 million, or 10.9%, to $11.6 million for the three months ended September 30, 2021 compared to $10.5 million for the same three month period in 2020. The increase in interest income was due principally to the increase in the average yields earned on average interest-earning assets (primarily loans of 28%), which increased 13 basis points between the year-over-year third quarter periods. This increase was also due to an increase in the average balance of interest earning assets, which increased between the year-over-year third quarter period by 7.2%. The average balance of investment securities and loans increased by $63.0 million and $7.3 million, respectively. The increase in the average yield earned on loans was due to the recognition of deferred PPP fee income in the period due to the increased levels of forgiveness in the three month period ended September 30, 2021. Please refer to the PPP tables above for the full impact of PPP loans on average loan yields.

Interest expense for the three months ended September 30, 2021 decreased $335,000, or 15.4%, to $1.8 million when compared to the same prior year period. Deposit interest expense decreased $462,000, or 28.6%, to $1.2 million due to a 24 basis point decrease in the annualized average rate paid on deposits to 0.55% for the three months ended September 30, 2021, as compared to 0.79% for the three months ended September 30, 2020. This was partially offset by a $19.7 million increase in the average balance of interest-bearing deposits during the same time periods. This decrease in the average cost of deposits was primarily due to a 30 basis point decrease in the average rates paid on time deposits, during the three months ended September 30, 2021 as compared to the same three month period in 2020 due to the general decline in market interest rates during the third quarter of 2021.

For the nine month period ended September 30, 2021, net interest income, before the provision for loan losses, increased $4.8 million, or 20.4%, to $28.6 million compared to $23.7 million for the nine months ended September 30, 2020. Interest and dividend income increased $2.6 million, or 8.1%, to $34.6 million for the nine months ended September 30, 2021 from $32.0 million for the same nine month period in 2020. The increase in interest income was due principally to the increase in average balances of taxable investment securities, tax exempt investment securities and loans, which increased 26.5%, 61.1% and 6.5%, respectively, between the year-over-year nine month periods. The increase in the average balance of securities reflected increased purchases in 2021 compared to 2020. The increase in the average balance of loans reflected the Bank’s participation in the PPP, continued success in its expansion within the greater Syracuse, New York market and purchased loan activity. These increases were offset by a reduction of the average balance of federal funds sold and interest-earning deposits, which decreased 22.8% in the year over-year nine month periods. The decrease in the average balance of federal funds sold and interest-earning deposits in 2021 was primarily the result of the effects of the COVID-19 pandemic. The Bank substantially increased its on-hand liquidity in 2020 to support the potential needs of the customers and the communities it serves during the nine month period ended September 30, 2020. This level of liquidity was not considered necessary in 2021. The increase in interest income was partially offset by a decrease in the average yield of interest-earning assets of 8 basis points to 3.87% for the nine months ended September 30, 2021 as compared to the prior year nine month period. Further contributing to the increase in net interest income was a $2.2 million decrease in interest expense, primarily due to a $2.4 million decrease in deposit expense.

Interest expense for the nine months ended September 30, 2021 decreased $2.2 million, or 26.9%, to $6.1 million as compared to $8.3 million for the nine months ended September 30, 2020. The decrease in interest expense was due principally to a 39 basis point decrease in the average rate paid on interest-bearing liabilities to 0.84%, partially offset by a $63.5 million increase in the average balance of these liabilities. The decrease in interest expense was due to a $2.6 million decrease in deposit interest expense and a $476,000 decrease in borrowings expense, offset by a $787,000 increase in subordinated loan expense. The average balance of interest-bearing deposits, which include brokered deposits, increased $43.5 million between the year-over-year nine month periods. The average rate paid on interest-bearing deposits decreased 46 basis points to 0.60% for the nine months ended September 30, 2021 as compared with the same nine month period in 2020. This decrease was primarily due to a 68 basis point decrease in the average rate paid on time deposits, during the nine months ended September 30, 2021 as compared to the same time period in 2020. The decrease in the average rates paid on those deposits reflected the general decline in market interest rates during the first nine months of 2021.

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 periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (change in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) total increase or decrease. Changes attributable to both rate and volume have been allocated ratably. Please refer to the PPP table in the previous section for information on PPP loans and the impact on loan income for the three and nine months ended September 30, 2021 and 2020.

	Three months ended September 30, 2021 vs. 2020 Increase/(Decrease) Due to			Nine months ended September 30, 2021 vs. 2020 Increase/(Decrease) Due to		
Unaudited *(In thousands)*	**Volume**	**Rate**	**Total Increase (Decrease)**	**Volume**	**Rate**	**Total Increase (Decrease)**
Interest Income:						
Loans	$ 79	$ 576	$ 655	$ 1,990	$ (778)	$ 1,212
Taxable investment securities	405	108	513	1,350	90	1,440
Tax-exempt investment securities	49	(71)	(22)	68	(78)	(10)
Interest-earning deposits	7	(8)	(1)	(10)	(36)	(46)
Total interest income	540	605	1,145	3,398	(802)	2,596
Interest Expense:						
NOW accounts	9	27	36	23	80	103
Money management accounts	-	1	1	1	(2)	(1)
MMDA accounts	276	(351)	(75)	267	(602)	(335)
Savings and club accounts	7	13	20	22	23	45
Time deposits	(155)	(289)	(444)	(413)	(1,950)	(2,363)
Subordinated loans	198	22	220	759	28	787
Borrowings	152	(245)	(93)	36	(512)	(476)
Total interest expense	487	(822)	(335)	695	(2,935)	(2,240)
Net change in net interest income	$ 53	$ 1,427	$ 1,480	$ 2,703	$ 2,133	$ 4,836

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 of loans and the amount of loans in the loan portfolio, adverse situations that may affect the 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.

Management extensively reviews recent trends in historical losses, qualitative factors and specific reserve needs on loans individually evaluated for impairment in its determination of the adequacy of the allowance for loan losses. We recorded $104,000 in provision for loan losses for the three month period ended September 30, 2021, as compared to $1.7 million for the three month period ended September 30, 2020. For the first nine months of 2021, we recorded $2.1 million in provision for loan losses as compared to $3.9 million in the same prior year nine month period. The provisioning in 2021 and 2020 reflects management's determination of prudent additions to reserves considering loan mix changes, concentrations of loans in certain business sectors, factors related to loan quality metrics, and continued COVID-19 related economic uncertainty. The decline in the provision for loan losses in 2021, as compared to the same period in 2020, was primarily related to the improvement in the qualitative factors used by the Company to determine the provision in 2021, as compared to the previous year. The improvement in these qualitative factors was due to observed improvements in economic conditions during 2021 that followed the easing of the most restrictive phases of the COVID-19 pandemic that had existed in 2020. The credit-sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its conservative loan classification and reserve building methodologies to the analysis of these portfolios.

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 2.37% at September 30, 2021 as compared to 1.85% at December 31, 2020. Delinquent loans (numerator) increased $3.4 million while total loan balances (denominator) decreased $37.0 million at September 30, 2021, as compared to December 31, 2020. The increase in past due loans was primarily driven by an increase of $4.4 million in loans delinquent 30-59 days, partially offset by an $830,000 decrease in loans delinquent 90 or more days past due, and a $167,000 decrease in loans delinquent 60-89 days.

At September 30, 2021, there were $18.7 million in loans past due including $8.2 million in loans 30-59 days past due, $5.2 million in loans 60-89 days past due and $5.3 million in loans 90 or more days past due. At December 31, 2020, there were $15.3 million in loans past due including $3.8 million in loans 30-59 days past due, $5.4 million in loans 60-89 days past due and $6.1 million in loans 90 or more days past due.

Noninterest Income

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

The following table sets forth certain information on noninterest income for the periods indicated:

Unaudited	For the three months ended				For the nine months ended			
(Dollars in thousands)	September 30, 2021	September 30, 2020	Change		September 30, 2021	September 30, 2020	Change	
Service charges on deposit accounts	$ 393	$ 339	$ 54	15.9%	$ 1,082	$ 998	$ 84	8.4%
Earnings and gain on bank owned life insurance	164	133	31	23.3%	418	355	63	17.7%
Loan servicing fees	54	90	(36)	-40.0%	155	218	(63)	-28.9%
Debit card interchange fees	236	209	27	12.9%	698	577	121	21.0%
Insurance agency revenue	303	217	86	39.6%	817	739	78	10.6%
Other charges, commissions and fees	235	224	11	4.9%	800	702	98	14.0%
Noninterest income before gains (losses)	1,385	1,212	173	14.3%	3,970	3,589	381	10.6%
Net gains on sales and redemptions of investment securities	5	27	(22)	-81.5%	56	1,076	(1,020)	-94.8%
Gains/(losses) on marketable equity securities	89	118	(29)	-24.6%	372	(798)	1,170	146.6%
Net gains on sales of loans and foreclosed real estate	67	134	(67)	-50.0%	226	903	(677)	-75.0%
Gains on sale of premises and equipment	-	-	-	-	201	-	201	>100%
Total noninterest income	$ 1,546	$ 1,491	$ 55	3.7%	$ 4,825	$ 4,770	$ 55	1.2%

The $55,000, or 3.7%, increase in noninterest income in the quarter ended September 30, 2021, as compared to the same quarterly period in 2020, was primarily the result of an $86,000 increase in insurance agency revenue, a $54,000 increase in service charges on deposit accounts, a $31,000 increase in earnings on bank owned life insurance and a $27,000 increase in debit card interchange fees. The increase in insurance revenue was a result of nonrecurring income as a result of the Agency’s PPP loan forgiveness. Noninterest income related to deposit account fees began to return to normal levels when compared to the third quarter of 2020 due to the reduced customer transactional activity levels and the Bank’s increased levels of fee waivers in response to the effects of the COVID-19 pandemic during the three months ended September 30, 2020. These increases in noninterest income were offset by a decrease of $36,000 in loan servicing fees.

Offsetting these increases in noninterest income for the three month period, were decreases of $67,000 in gains on sales of loans and foreclosed real estate a $29,000 decrease in gains on marketable equity securities and a $22,000 decrease in gains on the sale of investment securities in the quarter ended September 30, 2021.

The $55,000, or 1.2%, increase in noninterest income for the nine months ended September 30, 2021, when compared to the same nine month period in 2020 was primarily due to the $1.2 million increase in net gains on equity securities and $201,000 increase in gains on sales of premises and equipment. Offsetting these increases weredecreases of $1.0 million in net gains on sales and redemptions of investment securities, and a $677,000 decrease in net gains on the sales of loans and foreclosed real estate, which was primarily the result of the sale of $35.9 million in seasoned, conforming residential mortgage loans that was completed in January 2020.

Excluding the effects of the period over period fluctuations discussed above, all other noninterest income categories increased in the aggregate by $381,000, or 10.6%, to $4.0 million in the nine months ended September 30, 2021 as compared with $3.6 million in the same nine month period of 2020. This period over period increase in debit card interchange fees, other charges, commissions and fees, service charges on deposit accounts, insurance agency revenue, and earnings on bank owned life insurance, which increased $121,000, $98,000, $84,000, $78,000, and $63,000, respectively. The net increase in these categories of noninterest income was in part due to the Company's increased strategic focus on improving recurring noninterest income. Offsetting these increases was a decrease in loan servicing fees of $63,000.

Noninterest Expense

The following table sets forth certain information on noninterest expense for the periods indicated:

Unaudited	For the three months ended				For the nine months ended			
(Dollars in thousands)	September 30, 2021	September 30, 2020	Change		September 30, 2021	September 30, 2020	Change	
Salaries and employee benefits	$ 3,624	$ 3,396	$ 228	6.7%	$ 10,466	$ 9,615	$ 851	8.9%
Building and occupancy	724	788	(64)	-8.1%	2,387	2,249	138	6.1%
Data processing	686	569	117	20.6%	2,016	1,721	295	17.1%
Professional and other services	385	282	103	36.5%	1,253	899	354	39.4%
Advertising	191	236	(45)	-19.1%	696	673	23	3.4%
FDIC assessments	222	170	52	30.6%	652	509	143	28.1%
Audits and exams	193	126	67	53.2%	572	376	196	52.1%
Insurance agency expense	227	113	114	100.9%	627	517	110	21.3%
Community service activities	59	44	15	34.1%	181	163	18	11.0%
Foreclosed real estate expenses	8	7	1	14.3%	30	42	(12)	-28.6%
Other expenses	504	499	5	1.0%	1,424	1,469	(45)	-3.1%
Total noninterest expenses	$ 6,823	$ 6,230	$ 593	9.5%	$ 20,304	$ 18,233	$ 2,071	11.4%

The $593,000, or 9.5%, increase in noninterest expense between the year-over-year third quarter periods was principally due to increases in salaries and employee benefit, data processing expenses, insurance agency expense, professional and other services expense, other expenses, audits and exams and the FDIC assessment, which was partially offset by decreases in building and occupancy expenses and advertising expenses. The detail of the components of the overall increase in noninterest expense is as follows:

- Salaries and employee benefits expense increased primarily as a result of an increase in salaries and commission expense of $241,000, which is consistent with the Company's increased asset size and general inflationary factors. Additionally, deferred payroll expense decreased $86,000 due to the greater levels of PPP loan originations in 2020, as compared to 2021, and the correspondingly greater level of deferrals of employee-related expenses in 2020 that were related to those originations.
- Data processing costs increased $117,000 due to increased internet banking services, ATM processing charges and maintenance and supply costs increases.
- Insurance agency expense increased as a result of general increases in personnel costs and other administrative costs related to the Agency.
- Professional and other services expense increased $103,000 primarily as a result of an increase in consulting fees and purchased program expenses from the prior year.

- Audits and exam costs increased due to the Bank's first year of increased internal controls testing under FDICIA requirements for institutions with assets greater than $1 billion and additional expenses incurred by the Company as a result of the COVID-19 pandemic.
- FDIC assessments increased $52,000 from the prior year. The FDIC assessment increased as a result of an increase in the average balance of deposits, including an increase in the average balance of brokered time deposits.
- All other noninterest expenses decreased in aggregate in the year-over-year three month periods by a total of $88,000, or 5.6%.

The $2.1 million, or 11.4%, increase in noninterest expenses between the nine month period ended September 30, 2021 and the same nine month period in the prior year was principally due to increases in almost all categories of noninterest expense as explained below:

- Salaries and employee benefits expense increased $851,000 primarily as a result of an increase in salaries and commission expense of $634,000, which is consistent with the Company's increased asset size and general inflationary factors. Additionally, deferred payroll expense decreased $256,000 due increased PPP loan originations in 2020 and the deferral of employee-related expenses in 2020 related to those originations. Commissions' expense increased primarily due to the resumption of accruals related to employee and officer incentive programs in the first nine months of 2021. These accruals were substantially reduced in the first nine months of 2020 in response to the uncertainties presented by the pandemic. All other employee-related expenses decreased in aggregate by $39,000 in the first nine months of 2021, as compared to the same nine month period in 2020.
- Data processing costs increased $295,000 due to increases in internet banking costs and processing costs. These increases are consistent with the Company's customer growth and operational growth, and the costs of increased functionality now being offered to business customers as well as generally increased utilization of the Company's electronic product and service delivery channels.
- The $354,000 increase in professional and other services and the $196,000 increase in audits and exams expense was primarily related to the Bank's first year of increased internal controls testing under FDICIA requirements for institutions with assets greater than $1 billion and additional expenses incurred by the Company as a result of the COVID-19 pandemic.
- FDIC assessments increased $143,000 from the prior year. The FDIC assessment increased as a result of an increase in the average balance of deposits, including an increase in the average balance of brokered time deposits.
- Building and occupancy costs increased primarily as a result of an increase in maintenance costs and depreciation expense of $136,000 and $75,000, respectively. These increases are consistent with the Company's recent refurbishments of certain branch and administrative locations and the relative timing of certain maintenance activities.
- Insurance agency expense increased as result of general increases in personnel costs and other administrative costs related to the Agency.
- All other noninterest expense categories decreased in aggregate in the year-over-year nine month periods by a total of $16,000, or 0.7%.

At September 30, 2021, the Bank serviced 505 residential mortgage loans in the aggregate amount of $51.9 million that have been sold on a non-recourse basis to FNMA. FNMA is the only unrelated third-party that has acquired loans originated by the Bank. On an infrequent basis, loans previously sold to FNMA that subsequently default may be found to have underwriting defects that place the loans out of compliance with the representations and warranties made by the Bank. This can occur at any time while the loan is outstanding. In such cases, the Bank is required to repurchase the defaulted loans from FNMA. Repurchase losses sustained by the Bank include all costs incurred by FNMA as part of the foreclosure process, including items such as delinquent property taxes and legal fees. No such claims against the Bank were made by FNMA in the three or nine month periods ended in either September 30, 2021 or September 30, 2020. Management continues to monitor the underwriting standards applied to all residential mortgage loan originations and subsequent sales through its quality control processes and considers these occurrences and their related expenses to be isolated instances.

During the most restrictive periods following the inception of the COVID-19 pandemic, which began in March 2020, the Company experienced material declines in substantially all forms of noninterest expenses. These reductions in noninterest expenses were the result of the curtailment or elimination of a significant portion of non-critically-essential business and business development activities during that time. These activities were reduced or eliminated for the duration of the substantial restrictions imposed by governmental officials and as a consequence of the internal safety and social distancing protocols initiated by the Company and/or its customers. Accordingly, as the Company progressively returned to less restricted operations, noninterest expenses progressively returned to the levels considered by its management to be prudent for the effective long-term management of the Company. Management has elected to provide a supplemental comparison between 2021 noninterest expenses and the same three and nine month periods in 2019, which were the most recent three and nine month periods not affected by the pandemic. The following table details the components of noninterest expense for the three and nine months ended September 30, 2021 and 2019:

Unaudited	For the three months ended				For the nine months ended,			
(Dollars in thousands)	September 30, 2021	September 30, 2019	Change		September 30, 2021	September 30, 2019	Change	
Salaries and employee benefits	$ 3,624	$ 3,275	$ 349	10.7%	$ 10,466	$ 10,379	$ 87	0.8%
Building and occupancy	724	699	25	3.6%	2,387	1,986	401	20.2%
Data processing	686	587	99	16.9%	2,016	1,749	267	15.3%
Professional and other services	385	352	33	9.4%	1,253	1,068	185	17.3%
Advertising	191	238	(47)	-19.7%	696	719	(23)	-3.2%
FDIC assessments	222	130	92	70.8%	652	371	281	75.7%
Audits and exams	193	104	89	85.6%	572	304	268	88.2%
Insurance agency expense	227	190	37	19.5%	627	618	9	1.5%
Community service activities	59	110	(51)	-46.4%	181	392	(211)	-53.8%
Foreclosed real estate expenses	8	28	(20)	-71.4%	30	324	(294)	-90.7%
Other expenses	504	569	(65)	-11.4%	1,424	1,622	(198)	-12.2%
Total noninterest expenses	$ 6,823	$ 6,282	$ 541	8.6%	$ 20,304	$ 19,532	$ 772	4.0%

Income Tax Expense

Income tax expense increased $633,000 to $1.0 million, with an effective tax rate of 23.2%, for the quarter ended September 30, 2021, as compared to $372,000, with an effective tax rate of 20.7%, for the same three month period in 2020. The increase in income tax expense in the current quarter, as compared to the same quarter in 2020, was primarily attributable to the year-over-year third quarter increase in pre-tax net income. Income tax expense increased $1.1 million, with an effective tax rate of 22.2% for the nine months ended September 30, 2021 as compared to $1.3 million, with an effective tax rate of 20.5%, for the same nine month period in 2020. The federal statutory rate applied to pretax income was 21% for each of the three and nine month periods ended September 30, 2021 and 2020.

Effective in January 2018, the Company adopted a modification methodology that was at the time newly made available under the New York State tax code, affecting how the Company's state income tax liability is computed. Under this adopted methodology, management determined in the first quarter of 2019, it was unlikely that the Company would be required to pay material income taxes to New York State in future periods under then-existing income tax laws in the State. Management is continuously monitoring its future tax consequences to determine if the Company's deferred taxes are properly stated. In the first quarter of 2020, consistent with policy, management reviewed all facts and circumstances related to its deferred taxes and determined that based on the expected filings of future New York State tax returns, the valuation allowance created in 2019 was no longer needed. Therefore management elected to eliminate its New York State net deferred tax asset valuation allowance during the quarter ended March 31, 2020.

On April 7, 2021, the New York State Legislature approved comprehensive tax legislation as part of the State's 2022 Fiscal Year budget. The legislation includes increased taxes on businesses and high-income individuals among other tax law revisions. Other provisions include amendments to the real estate transfer tax. The legislation increases the corporate franchise tax rate to 7.25% from 6.5% for tax years beginning on or after January 1, 2021 and before January 1, 2024 for taxpayers with a business income base greater than $5.0 million. In addition, the previously scheduled phase-out of the capital base tax has been delayed. The rate of the capital base was to have been reduced to 0% starting in 2021. The legislation imposes the tax at the rate of 0.1875% for tax years beginning on or after January 1, 2021 and before January

1, 2024, with the 0% rate to take effect in 2024. Management continues to evaluate the projected impact of this newly issued New York State tax legislation on the Company's financial condition and results of operations and believes that these provisions require an increase the Company's income tax expense for the nine months ended September 30, 2021, thereby requiring an increase in the Company's effective tax rate to 22.2% for the nine months ended September 30, 2021 as compared to the effective tax rate of 20.5%, for the same nine month period in 2020.

The Company's effective tax rate typically differs from the 21% federal statutory tax rate due primarily to New York State income taxes, partially offset by tax-exempt income from specific types of investment securities and loans, bank owned life insurance, and, to a much lesser degree, the utilization of low income housing tax credits. Other variances from the federal statutory federal tax rate are due to the effects of transitional adjustments related to state income taxes. In addition, the tax effects of certain incentive stock option activity may reduce the Company's effective tax rate on a sporadic basis.

Earnings per Share

Basic and diluted earnings per share were $0.56 per share for the third quarter of 2021, as compared to $0.25 per basic and diluted share for the same quarter of 2020.

Basic and diluted earnings per share were $1.43 for the nine month period ended September 30, 2021, as compared to $0.85 for the same prior year period. The increase in earnings per share between these two periods was due to the increase in net income between these two time periods. Further information on earnings per share can be found in Note 3 of this Form 10-Q.

Changes in Financial Condition

Assets

Total assets increased $34.8 million, or 2.8%, to $1.26 billion at September 30, 2021 as compared to $1.23 billion at December 31, 2020. This increase was due primarily to increases in investment securities and cash and cash equivalents.

Investment securities increased $36.6 million, or 12.1%, to $337.9 million at September 30, 2021, as compared to $301.3 million at December 31, 2020, due principally to purchases of securities during the first nine months of 2021, partially offset by sales and redemptions of securities.

Cash and cash equivalents totaled $75.2 million, an increase of $31.8 million compared to $43.5 million at December 31, 2020. This increase in cash and equivalents corresponded to the $50.3 million increase in deposits during the nine months ended September 30, 2021.

These increases were partially offset by a decrease in loans. Total loans of $788.1 million declined by $37.3 million, or 4.5%, compared with $825.5 million at December 31, 2020. The decrease was primarily the result of a decrease of $31.7 million in commercial loans between these two dates, partially offset by increases in residential mortgage loans of $9.3 million. The decrease in commercial loans was a direct result of PPP loan forgiveness.

Liabilities

Total liabilities increased $25.8 million, or 2.3%, to $1.16 billion at September 30, 2021 compared to $1.13 billion at December 31, 2020. Deposits increased $50.3 million, or 5.1%, to $1.04 billion at September 30, 2021, compared to $995.9 million at December 31, 2020. Noninterest-bearing deposits were the primary driver of growth between the comparable periods and totaled $206.2 million at September 30, 2021, an increase of $44.2 million, or 27.2%, from the 2020 year end. The increases in noninterest-bearing deposits were primarily a result of the Bank's participation in the PPP, as well as ongoing growth in business banking relationships. In addition, the Bank has seen a general increase in the average account balance for consumer deposits consistent with similar increases generally reported throughout the industry. These increases are expected to be transitory and relate primarily to significant levels of economic stimulus combined with reduced levels of consumer spending related to the pandemic. At this time, it cannot be determined with certainty how long it will be before these deposits return to historically normal levels.

Borrowed funds balances from the FHLB-NY decreased $15.0 million, or 18.3%, to $67.1 million at September 30, 2021 from $82.1 million at December 31, 2020 as the Bank used excess cash to repay borrowings.

Shareholders' Equity

The Company's shareholders' equity, exclusive of the noncontrolling interest, increased $8.9 million, or 9.1%, to $106.3 million at September 30, 2021, from $97.5 million at December 31, 2020. This increase was principally due to a $7.2 million increase in retained earnings, an $845,000 increase in comprehensive income, a $669,000 increase in additional paid in capital, and a $135,000 increase in ESOP shares. The increase in retained earnings resulted from $8.5 million in net income recorded in the first nine months of 2021. Partially offsetting this increase in retained earnings were $940,000 for cash dividends declared on our common stock, $194,000 for cash dividends declared on our Non-Voting common stock, $97,000 for cash dividends declared on our former preferred stock, $26,000 for cash dividends declared on our issued warrant, and $65,000 in cumulative effect of our affiliate capital allocation Comprehensive income increased primarily as the result of increases in the unrealized gain on the available-for sale investment portfolio during the 2021 nine month period. .

Non-Voting Common Stock Issued

During the second quarter of 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 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.

Capital

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 September 30, 2021, 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 Actions ("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. At September 30, 2021, the Bank exceeded all regulatory required minimum capital ratios, including the capital buffer requirements.

As a result of the recently enacted 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 have set the Community Bank Leverage Ratio at 9%. Pursuant to the CARES Act, the federal banking agencies in April 2020 issued interim 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. Community banks will have until January 1, 2022, before the Community Bank Leverage Ratio requirement will return 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.

Pathfinder Bank's capital amounts and ratios as of the indicated dates are presented in the following tables:

	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 September 30, 2021:								
Total Core Capital (to Risk-Weighted Assets)	$ 124,366	15.42%	$ 64,508	8.00%	$ 80,635	10.00%	$ 84,667	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 114,237	14.17%	$ 48,381	6.00%	$ 64,508	8.00%	$ 68,540	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 114,237	14.17%	$ 36,286	4.50%	$ 52,413	6.50%	$ 56,445	7.00%
Tier 1 Capital (to Assets)	$ 114,237	9.21%	$ 49,621	4.00%	$ 62,026	5.00%	$ 62,026	5.00%
As of December 31, 2020								
Total Core Capital (to Risk-Weighted Assets)	$ 115,289	13.13%	$ 70,270	8.00%	$ 87,838	10.00%	$ 92,230	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 104,287	11.87%	$ 52,703	6.00%	$ 70,270	8.00%	$ 74,662	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 104,287	11.87%	$ 39,527	4.50%	$ 57,095	6.50%	$ 61,487	7.00%
Tier 1 Capital (to Assets)	$ 104,287	8.63%	$ 48,314	4.00%	$ 60,392	5.00%	$ 60,392	5.00%

Non-GAAP Financial Measures

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. 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. The Company provides, below, an explanation of the calculations, as supplemental information, for non-GAAP measures included in the consolidated annual financial statements. In addition, the Company provides a reconciliation of its subsidiary bank’s disclosed regulatory capital measures, below.

(Dollars in thousands)		September 30, 2021			December 31, 2020	
Regulatory Capital Ratios (Bank Only)						
Total capital (to risk-weighted assets)						
Total equity (GAAP)	$	117,503		$	106,720	
Goodwill		(4,536)			(4,536)	
Intangible assets		(121)			(133)	
Addback: Accumulated other comprehensive income		1,391			2,236	
Total Tier 1 Capital	$	114,237		$	104,287	
Allowance for loan and lease losses		10,129			11,002	
Total Tier 2 Capital	$	10,129		$	11,002	
Total Tier 1 plus Tier 2 Capital (numerator)	$	124,366		$	115,289	
Risk-weighted assets (denominator)		806,353			878,380	
Total core capital to risk-weighted assets		15.42	%		13.13	%
Tier 1 capital (to risk-weighted assets)						
Total Tier 1 capital (numerator)	$	114,237		$	104,287	
Risk-weighted assets (denominator)		806,353			878,380	
Total capital to risk-weighted assets		14.17	%		11.87	%
Tier 1 capital (to adjusted assets)						
Total Tier 1 capital (numerator)	$	114,237		$	104,287	
Total average assets		1,245,173			1,212,512	
Goodwill		(4,536)			(4,536)	
Intangible assets		(121)			(133)	
Adjusted assets (denominator)	$	1,240,516		$	1,207,843	
Total capital to adjusted assets		9.21	%		8.63	%
Tier 1 Common Equity (to risk-weighted assets)						
Total Tier 1 capital (numerator)	$	114,237		$	104,287	
Risk-weighted assets (denominator)		806,353			878,380	
Total Tier 1 Common Equity to risk-weighted assets		14.17	%		11.87	%

Loan and Asset Quality and Allowance for Loan Losses

The following table represents information concerning the aggregate amount of non-performing assets at the indicated dates:

(Dollars In thousands)	September 30, 2021	December 31, 2020	September 30, 2020
Nonaccrual loans:			
Commercial and commercial real estate loans	$ 5,666	$ 17,978	$ 11,208
Consumer	1,289	747	576
Residential mortgage loans	1,830	2,608	1,452
Total nonaccrual loans	8,785	21,333	13,236
Total nonperforming loans	8,785	21,333	13,236
Foreclosed real estate	-	-	-
Total nonperforming assets	$ 8,785	$ 21,333	$ 13,236
Accruing troubled debt restructurings	$ 5,302	$ 3,554	$ 1,999
Nonperforming loans to total loans	1.11%	2.58%	1.61%
Nonperforming assets to total assets	0.70%	1.74%	1.10%

Nonperforming assets include nonaccrual loans, nonaccrual troubled debt restructurings ("TDR"), and foreclosed real estate (''FRE"). 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. Loans are considered modified in 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, among others, 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. There were no TDR loans in nonaccrual status at September 30, 2021.

Pursuant to the CARES Act, financial institutions have the option to temporarily suspend certain requirements under U.S. generally accepted accounting principles related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. This provision allows a financial institution the option to not apply the guidance on accounting for troubled debt restructurings to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020 and the earlier of (i) January 1, 2022 or (ii) 60 days after the end of the COVID-19 national emergency. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Bank elected to adopt these provisions of the CARES Act.

As indicated in the table above, nonperforming assets at September 30, 2021 were $8.8 million and were $12.5 million lower than the $21.3 million reported at December 31, 2020, due primarily to a decrease of $12.3 million in nonperforming commercial and commercial real estate loans and a $778,000 decrease in nonperforming residential real estate loans. This decrease was partially offset by an increase of $542,000 in nonperforming consumer loans.

Fair values for commercial FRE are initially recorded based on market value evaluations by third parties, less costs to sell ("initial cost basis"). On a prospective basis, residential FRE assets will be initially recorded at the lower of the net amount of loan receivable or the real estate's fair value less costs to sell. Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to FRE are charged to the allowance for loan losses. Values are derived from appraisals, similar to impaired loans, 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 for the FRE property.

The allowance for loan losses represents management's estimate of the probable losses inherent in the loan portfolio as of the date of the statement of condition. The allowance for loan losses was $14.1 million and $12.8 million at September 30, 2021 and December 31, 2020, respectively. The ratio of the allowance for loan losses to total loans increased 23 basis points to 1.78% at September 30, 2021 from 1.55% at December 31, 2020. Management performs a quarterly evaluation of the allowance for loan losses based on quantitative and qualitative factors and has determined that the current level of the allowance for loan losses is adequate to absorb the losses in the loan portfolio as of September 30, 2021.

The Company considers a loan impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan. The measurement of impaired loans is generally based upon the fair value of the collateral, with a portion of the impaired loans measured based upon the present value of future cash flows discounted at the historical effective interest rate. A specific reserve is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of the majority 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 or broker price opinions. When a loan is determined to be impaired, the Bank will reevaluate the collateral which secures the loan. For real estate, the Company 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 a 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 and broker opinion values are discounted due to the market's perception of a reduced price of Bank-owned property and the Bank's desire to sell the property more quickly 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.

At September 30, 2021 and December 31, 2020, the Company had $11.2 million and $22.8 million in loans, respectively, which were deemed to be impaired, having established specific reserves of $1.6 million and $2.8 million, respectively, on these loans. The decrease in impaired loans between these two dates was primarily driven by decreases of $5.5 million, $4.9 million, $769,000, and $701,000, in impaired commercial real estate loans, commercial and industrial loans, commercial lines of credit and residential real estate loans, respectively. The $1.2 million decrease in specific reserves for impaired loans at September 30, 2021 as compared to December 31, 2020 was primarily due to a $869,000 decrease in specific reserves for other commercial lines of credit.

Management has identified potential credit problems which may result in the borrowers not being able to comply with the current loan repayment terms and which may result in those loans being included in future impaired loan reporting. Potential problem loans totaled $37.4 million as of September 30, 2021, an increase of $14.2 million, or 61.4%, as compared to $23.2 million at December 31, 2020. These loans have been internally classified as special mention, substandard, or doubtful, yet are not currently considered impaired.

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.

In the normal course of business, the Bank has infrequently 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. The Bank maintains a quality control program for closed loans and considers the risks and uncertainties associated with potential repurchase requirements to be minimal.

The future performance of the Company's loan portfolios with respect to credit losses will be highly dependent upon the course and duration, both nationally and within the Company's market area, of the public health and economic factors related to the pandemic, as well as the concentrations in the Company's loan portfolio. Concentrations of loans within a portfolio that are made to a single borrower, to a related group of borrowers, or to a limited number of industries, are generally considered to be additional risk factors in estimating future credit losses. Therefore, the Company monitors all of its credit relationships to ensure that the total loan amounts extended to one borrower, or to a related group of borrowers, does not exceed the maximum permissible levels defined by applicable regulation or the Company's generally more restrictive internal policy limits.

Loans to a single borrower, or to a related group of borrowers, are referred to as related credits. Total related credits encompass all related or affiliated borrower loan balances, including available unused lines of credit, for both personal and business loans. At September 30, 2021, the Company had 26 total related credit relationships, comprised of 231 individual loans, with outstanding balances in excess of $5.0 million. These total related credits ranged from $5.0 million to $15.0 million at September 30, 2021 with outstanding principal balances of $182.5 million and unfunded commitments of $38.1 million with an aggregate total related credit of $220.6 million. Of the $220.6 million in total related credits, $206.4 million was secured by various collateral assets, primarily commercial real estate, $8.7 million was unsecured, and $5.5 million were PPP loans.

In addition, the 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 September 30, 2021:

(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	$ 243,067	2,117	$ 115	$ 0 - $ 1,529	$ 916	31%
Commercial Real Estate:						
Mixed Use	$ 43,989	57	$ 772	$ 33 - $ 6,200	$ 828	6%
Multi-Family Residential	38,291	59	649	23 - 6,239	721	5%
Hotels and Motels	35,320	10	3,532	321 - 11,500	665	4%
Office	32,673	62	527	3 - 4,772	615	4%
Retail	24,146	48	503	30 - 5,060	455	3%
1-4 Family Residential	19,891	157	127	0 - 1,193	374	3%
Automobile Dealership	16,639	10	1,664	163 - 6,641	313	2%
Skilled Nursing Facility	12,068	14	862	16 - 3,150	227	2%
Recreation/ Golf Course/ Marina	11,847	2	5,924	3,800 - 8,048	223	2%
	7,132	12	594	69 - 2,632	134	1%
Manufacturing/Industrial	6,701	17	394	55 - 1,389	126	1%
Restaurant	6,462	24	269	40 - 1,210	122	1%
Automobile Repair	4,619	12	385	40 - 2,266	87	0%
Hospitals	4,036	8	505	65 - 2,000	76	0%
Not-For-Profit & Community Service Real Estate	4,002	3	1,334	76 - 3,105	75	1%
Land	3,391	3	1,130	104 - 1,739	64	0%
All Other	6,485	30	216	8 - 737	122	0%
Total Commercial Real Estate Loans	$ 277,692	528	$ 526		$ 5,227	35%
Commercial and Industrial:						
Secured Term Loans	$ 57,487	367	$ 157	$ - - $ 4,485	$ 1,651	7%
Unsecured Term Loans	14,755	106	139	1 - 2,244	424	2%
Secured Lines of Credit	47,775	262	182	- - 6,821	1,372	6%
Unsecured Lines of Credit	9,352	141	66	- - 3,000	269	1%
Total Commercial and Industrial Loans	$ 129,369	876	$ 148		$ 3,715	16%
Tax Exempt Loans	$ 5,956	20	$ 298	$ 6 - $ 2,248	$ 1	1%
Paycheck Protection Loans	$ 27,293	418	$ 65	$ 0 - $ 870	$ -	3%
Consumer:						
Home Equity Lines of Credit	$ 32,989	922	$ 36	$ - - $ 504	$ 778	4%
Vehicle	20,552	1,440	14	0 - 439	485	3%
Consumer Secured	23,409	838	28	1 - 113	553	3%
Consumer Unsecured	27,011	4,346	6	- - 95	638	3%
All Others	2,380	1,109	2	- - 460	56	0%
Total Consumer Loans	$ 106,340	8,655	$ 12		$ 2,510	13%
Net deferred loan fees	(1,569)	-	-		-	-
Unallocated allowance for loan losses	-	-	-		1,696	-
Total Loans	$ 788,148	12,614	$ 62		$ 14,065	100%

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 composition and 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 Federal Home Loan Bank of New York ("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, the sale of securitized loans, or the sale of whole loans. Such actions could result in higher interest expense and/or losses on the sale of securities or loans.

Through the first nine months of 2021, as indicated in the consolidated statement of cash flows, the Company reported net cash flow from operating activities of $15.7 million and net cash outflow of $8.4 million related to investing activities. The net cash outflow from investing activities primarily was due to a $37.6 million increase in net investment activity and a $5.8 million net increase in all other investing activities in aggregate, partially offset by a net $35.1 million decrease in loan balances. The Company reported net cash flows from financing activities of $24.5 million generated principally by increased customer deposit balances of $91.2 million, partially offset by ay decreased brokered deposit balances of $40.9 million, and an aggregate decrease in net cash of $66.8 million from all other financing sources, including dividends paid to common and preferred shareholders of $1.2 million.

The Company has a number of existing credit facilities available to it. At September 30, 2021, total credit available to the Company under the existing lines of credit was approximately $145.9 million at FHLBNY, the Federal Reserve Bank, and two other correspondent banks. As of September 30, 2021, the Company had $67.1 million of the available lines of credit utilized on its existing lines of credit with $78.8 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 September 30, 2021, management reported to the Board of Directors that the Company is in compliance with its liquidity policy guidelines.

Off-Balance Sheet Arrangements

The Company 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 September 30, 2021, the Company had $190.2 million in outstanding commitments to extend credit and standby letters of credit.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information relating to this item.

Item 4 – 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 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 September 30, 2021. 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.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our CEO and CFO concluded that, solely as a result of the material weaknesses in internal control over financial reporting described below, which continued to exist as of September 30, 2021, our disclosure controls and procedures were not effective as of September 30, 2021.

Previously Disclosed Material Weakness

The Company disclosed in Item 8 – Financial Statements and Supplementary Data in its Annual Report on Form 10-K for the year ended December 31, 2020 two areas that, under applicable SEC accounting rules, each constituted a "material weakness." The first material weakness identified ineffectiveness in the controls related to Related Party (as defined in applicable regulations) transactions that included procedural and documentary deficiencies related to underwriting risk ratings and the completeness of borrower reviews. The second identified area of material weakness related to loan authorization, disbursement and file maintenance controls. As a result of the material weaknesses described above, management has concluded that, as of September 30, 2021, our internal control over financial reporting was not effective.

Management's Financial Reporting Remediation Initiatives

In order to remediate the material weakness related to transactions with Related Parties, management has commenced to initiate enhanced training programs and revise internal operating procedures designed to identify, summarize and monitor all such transactions and relationships.

In order to remediate the material weakness related to loan authorization, disbursement and file maintenance controls, management has commenced the redesign of specific processes and controls associated with each of the loan operations and will increase staffing levels where appropriate, improve training, increase the use of certain automated productivity tools, and install enhanced process oversight and functional controls to ensure that these internal controls are effective.

Management is committed to maintaining a strong internal control environment and believes these remediation efforts will result in an improvement in existing controls. Management anticipates that the new controls, as implemented and when tested for a sufficient period of time, will remediate the material weaknesses. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional measures to address control deficiencies or modify certain activities of the remediation measures described above.

Changes in Internal Control over Financial Reporting

There were no changes made in our internal controls during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

At September 30, 2021, the Company is not currently a named party in a legal proceeding, the outcome of which would have a material and adverse effect on the financial condition or results of operations of the Company.

Item 1A – Risk Factors

A smaller reporting company is not required to provide the information relating to this item.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2020 through July 31, 2020	-	$ -	-	74,292
August 1, 2020 through August 31, 2020	-	$ -	-	74,292
September 1, 2020 through September 30, 2020	-	$ -	-	74,292

(1) On August 29, 2016, our Board of Directors authorized the repurchase of up to 217,692 shares of our common stock, or 5% of the Company's shares outstanding as of that date.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

None

Item 6 – Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
32	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer
101	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements tagged as blocks of text.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

PATHFINDER BANCORP, INC.
(registrant)

November 15, 2021	/s/ Thomas W. Schneider Thomas W. Schneider President and Chief Executive Officer
November 15, 2021	/s/ Walter F. Rusnak Walter F. Rusnak Senior Vice President, Chief Financial Officer

EXHIBIT 31.1: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas W. Schneider, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying 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 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.

November 15, 2021

/s/ Thomas W. Schneider
Thomas W. Schneider
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, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying 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 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.

November 15, 2021

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

EXHIBIT 32 Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Pathfinder Bancorp, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

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.

November 15, 2021	/s/ Thomas W. Schneider Thomas W. Schneider President and Chief Executive Officer
November 15, 2021	/s/ Walter F. Rusnak Walter F. Rusnak Senior Vice President, Chief Financial Officer