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 June 30, 2023

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 August 4, 2023, there were 4,690,065 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)		June 30, 2023		December 31, 2022
ASSETS:				
Cash and due from banks	$	22,517	$	13,939
Interest-earning deposits		14,298		21,343
Total cash and cash equivalents		36,815		35,282
Available-for-sale securities, at fair value		185,822		191,726
Held-to-maturity securities, at amortized cost (fair value of $181,378 and $181,491, respectively)		195,503		194,402
Marketable equity securities, at fair value		2,353		1,862
Federal Home Loan Bank stock, at cost		6,536		5,982
Loans		891,111		897,735
Loans held-for-sale		-		19
Less: Allowance for credit losses		18,796		15,319
Loans receivable, net		872,315		882,435
Premises and equipment, net		17,828		17,872
Assets held-for-sale		3,042		3,042
Operating lease right-of-use assets		2,025		2,098
Finance lease right-of-use assets		4,143		4,213
Accrued interest receivable		6,145		6,168
Foreclosed real estate		277		221
Intangible assets, net		92		101
Goodwill		4,536		4,536
Bank owned life insurance		24,313		24,012
Other assets		30,601		25,969
Total assets	$	1,392,346	$	1,399,921
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Deposits:				
Interest-bearing	$	934,218	$	941,719
Noninterest-bearing		166,882		183,711
Total deposits		1,101,100		1,125,430
Short-term borrowings		69,536		60,333
Long-term borrowings		59,915		55,664
Subordinated debt		29,821		29,733
Accrued interest payable		1,559		975
Operating lease liabilities		2,353		2,417
Finance lease liabilities		4,401		4,422
Other liabilities		9,232		9,365
Total liabilities		1,277,917		1,288,339
Shareholders' equity:				
Voting common stock, par value $0.01; 25,000,000 authorized shares; 4,690,065 and 4,651,829 shares issued and outstanding, respectively		47		47
Non-Voting common stock, par value $0.01; 1,505,283 authorized shares; 1,380,283 shares issued and outstanding, respectively		14		14
Additional paid in capital		52,645		52,101
Retained earnings		72,664		71,322
Accumulated other comprehensive loss		(11,370)		(12,172)
Unearned ESOP		(225)		(315)
Total Pathfinder Bancorp, Inc. shareholders' equity		113,775		110,997
Noncontrolling interest		654		585
Total equity		114,429		111,582
Total liabilities and shareholders' equity	$	1,392,346	$	1,399,921

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 June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Interest and dividend income:				
Loans, including fees	$ 11,791	$ 8,974	$ 22,449	$ 17,666
Debt securities:				
Taxable	4,173	2,523	7,920	4,643
Tax-exempt	479	143	934	261
Dividends	123	51	201	99
Federal funds sold and interest earning deposits	55	15	160	19
Total interest and dividend income	16,621	11,706	31,664	22,688
Interest expense:			-	
Interest on deposits	5,625	1,134	9,662	2,099
Interest on short-term borrowings	578	24	950	29
Interest on long-term borrowings	203	141	397	274
Interest on subordinated debt	483	430	955	842
Total interest expense	6,889	1,729	11,964	3,244
Net interest income	9,732	9,977	19,700	19,444
Provision for credit losses:				
Loans	1,185	59	1,877	161
Held-to-maturity securities	(16)	-	(16)	-
Unfunded commitments	(29)	-	(29)	-
Total provision for credit losses	1,140	59	1,832	161
Net interest income after provision for credit losses	8,592	9,918	17,868	19,283
Noninterest income:				
Service charges on deposit accounts	303	283	570	542
Earnings and gain on bank owned life insurance	143	123	301	285
Loan servicing fees	67	69	139	186
Net gains on sales and redemptions of investment securities	-	36	73	206
(Losses) gains on marketable equity securities	(169)	(29)	(169)	39
Net gains on sales of loans and foreclosed real estate	117	12	142	75
Debit card interchange fees	112	231	433	459
Insurance agency revenue	271	292	691	591
Other charges, commissions & fees	243	279	499	516
Total noninterest income	1,087	1,296	2,679	2,899
Noninterest expense:				
Salaries and employee benefits	3,906	3,785	8,089	7,834
Building and occupancy	979	830	1,831	1,656
Data processing	483	517	1,036	1,067
Professional and other services	503	452	1,039	845
Advertising	166	235	372	422
FDIC assessments	222	222	441	444
Audits and exams	158	142	317	283
Insurance agency expense	283	254	544	458
Community service activities	66	73	96	135
Foreclosed real estate expenses	18	27	32	40
Other expenses	390	609	901	1,214
Total noninterest expense	7,174	7,146	14,698	14,398
Income before income taxes	2,505	4,068	5,849	7,784
Provision for income taxes	530	780	1,199	1,501
Net income attributable to noncontrolling interest and Pathfinder Bancorp, Inc.	1,975	3,288	4,650	6,283
Net (loss) income attributable to noncontrolling interest	(7)	16	69	61
Net income attributable to Pathfinder Bancorp Inc.	$ 1,982	$ 3,272	$ 4,581	$ 6,222
Voting Earnings per common share - basic and diluted	$ 0.32	$ 0.54	$ 0.75	$ 1.03
Series A Non-Voting Earnings per common share- basic and diluted	$ 0.32	$ 0.54	$ 0.75	$ 1.03
Dividends per common share (Voting and Series A Non-Voting)	$ 0.09	$ 0.09	$ 0.18	$ 0.18

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

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

(In thousands)	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Net Income	$ 1,975	$ 3,288	$ 4,650	$ 6,283
Other Comprehensive Income (Loss)				
Retirement Plans:				
Retirement plan net gains recognized in plan expenses	56	1	111	1
Net unrealized gain on retirement plans	56	1	111	1
Unrealized holding gains (losses) on available-for-sale securities:				
Unrealized holding losses arising during the period	(569)	(6,172)	(1,077)	(11,953)
Reclassification adjustment for net (gains) losses included in net income	-	(26)	1,933	(25)
Net unrealized (losses) gains on available-for-sale securities	(569)	(6,198)	856	(11,978)
Derivatives and hedging activities:				
Unrealized holding gains arising during the period	735	321	119	971
Net unrealized gains on derivatives and hedging activities	735	321	119	971
Other comprehensive income (loss), before tax	222	(5,876)	1,086	(11,006)
Tax effect	(58)	1,535	(284)	2,875
Other comprehensive income (loss), net of tax	164	(4,341)	802	(8,131)
Comprehensive income (loss)	$ 2,139	$ (1,053)	$ 5,452	$ (1,848)
Comprehensive (loss) income, attributable to noncontrolling interest	$ (7)	$ 16	$ 69	$ 61
Comprehensive income (loss) attributable to Pathfinder Bancorp, Inc.	$ 2,146	$ (1,069)	$ 5,383	$ (1,909)
Tax Effect Allocated to Each Component of Other Comprehensive (Loss) Income				
Retirement plan net losses recognized in plan expenses	$ (15)	$ -	$ (29)	$ -
Unrealized holding gains on available-for-sale securities arising during the period	149	1,613	281	3,123
Reclassification adjustment for net losses (gains) included in net income	-	6	(505)	6
Unrealized (gains) on derivatives and hedging arising during the period	(192)	(84)	(31)	(254)
Income tax effect related to other comprehensive (loss) income	$ (58)	$ 1,535	$ (284)	$ 2,875

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 June 30, 2023 and June 30, 2022
(Unaudited)

(In thousands, except share and per share data)	Common Stock	Non-Voting Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP	Non-controlling Interest	Total
Balance, March 31, 2023	$ 47	$ 14	$ 52,207	$ 71,236	$ (11,534)	$ (270)	$ 661	$ 112,361
Net income	-	-	-	1,982	-	-	(7)	1,975
Other comprehensive income, net of tax	-	-	-	-	164	-	-	164
ESOP shares earned (6,111 shares)	-	-	42	-	-	45	-	87
Stock based compensation	-	-	28	-	-	-	-	28
Stock options exercised	-	-	368	-	-	-	-	368
Common stock dividends declared ($0.09 per share)	-	-	-	(419)	-	-	-	(419)
Non-Voting common stock dividends declared ($0.09 per share)	-	-	-	(124)	-	-	-	(124)
Warrant dividends declared ($0.09 per share)	-	-	-	(11)	-	-	-	(11)
Balance, June 30, 2023	$ 47	$ 14	$ 52,645	$ 72,664	$ (11,370)	$ (225)	$ 654	$ 114,429
Balance, March 31, 2022	$ 46	$ 14	$ 51,151	$ 63,352	$ (5,058)	$ (450)	$ 391	$ 109,446
Net income	-	-	-	3,272	-	-	16	3,288
Other comprehensive loss, net of tax	-	-	-	-	(4,341)	-	-	(4,341)
ESOP shares earned (6,111 shares)	-	-	77	-	-	45	-	122
Stock based compensation	-	-	46	-	-	-	-	46
Stock options exercised	-	-	114	-	-	-	-	114
Common stock dividends declared ($0.09 per share)	-	-	-	(411)	-	-	-	(411)
Non-Voting common stock dividends declared ($0.09 per share)	-	-	-	(124)	-	-	-	(124)
Warrant dividends declared ($0.09 per share)	-	-	-	(12)	-	-	-	(12)
Balance, June 30, 2022	$ 46	$ 14	$ 51,388	$ 66,077	$ (9,399)	$ (405)	$ 407	$ 108,128

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

Pathfinder Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Six months ended June 30, 2023 and June 30, 2022
(Unaudited)

(In thousands, except share and per share data)	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, 2023	$ 47	$ 14	$ 52,101	$ 71,322	$ (12,172)	$ (315)	$ 585	$ 111,582
Net income	-	-	-	4,581	-	-	69	4,650
Other comprehensive income, net of tax	-	-	-	-	802	-	-	802
ESOP shares earned (12,221 shares)	-	-	112	-	-	90	-	202
Stock based compensation	-	-	64	-	-	-	-	64
Stock options exercised	-	-	368	-	-	-	-	368
Common stock dividends declared ($0.18 per share)	-	-	-	(834)	-	-	-	(834)
Non-Voting common stock dividends declared ($0.18 per share)	-	-	-	(248)	-	-	-	(248)
Warrant dividends declared ($0.18 per share)	-	-	-	(23)	-	-	-	(23)
Adoption of ASU 2016-13 Current Expected Credit Losses	-	-	-	(2,134)	-	-	-	(2,134)
Balance, June 30, 2023	$ 47	$ 14	$ 52,645	$ 72,664	$ (11,370)	$ (225)	$ 654	$ 114,429
Balance, January 1, 2022	$ 46	$ 14	$ 51,044	$ 60,946	$ (1,268)	$ (495)	$ 346	$ 110,633
Net income	-	-	-	6,222	-	-	61	6,283
Other comprehensive loss, net of tax	-	-	-	-	(8,131)	-	-	(8,131)
ESOP shares earned (12,221 shares)	-	-	140	-	-	90	-	230
Stock based compensation	-	-	90	-	-	-	-	90
Stock options exercised	-	-	114	-	-	-	-	114
Common stock dividends declared ($0.18 per share)	-	-	-	(820)	-	-	-	(820)
Non-Voting common stock dividends declared ($0.18 per share)	-	-	-	(248)	-	-	-	(248)
Warrant dividends declared ($0.18 per share)	-	-	-	(23)	-	-	-	(23)
Balance, June 30, 2022	$ 46	$ 14	$ 51,388	$ 66,077	$ (9,399)	$ (405)	$ 407	$ 108,128

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 six months ended June 30, 2023	2022
OPERATING ACTIVITIES		
Net income attributable to Pathfinder Bancorp, Inc.	$ 4,581	$ 6,222
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for credit losses	1,832	161
Proceeds from sales of loans	2,798	1,787
Originations of loans held-for-sale	(2,609)	(1,199)
Realized (gains) losses on sales, redemptions and calls of:		
Real estate acquired through foreclosure	28	-
Loans	(170)	(75)
Available-for-sale investment securities	(79)	(25)
Held-to-maturity investment securities	6	(5)
Marketable securities	-	(39)
Depreciation	706	751
Amortization of mortgage servicing rights	(19)	(1)
Amortization of deferred loan fees and costs	(68)	345
Amortization of operating leases	58	8
Amortization of deferred financing from subordinated debt	88	83
Earnings on bank owned life insurance	(301)	(285)
Net amortization of premiums and discounts on investment securities	1,201	972
Amortization of intangible assets	9	9
Stock based compensation and ESOP expense	266	320
Net change in accrued interest receivable	23	(292)
Net change in other assets and liabilities	(6,447)	(1,727)
Net cash flows from operating activities	1,903	7,010
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(17,809)	(42,202)
Purchase of investment securities held-to-maturity	(12,787)	(38,521)
Purchase of Federal Home Loan Bank stock	(8,214)	(3,622)
Proceeds from redemption of Federal Home Loan Bank stock	7,660	3,642
Purchase of marketable securities	(491)	(707)
Proceeds from maturities and principal reductions of investment securities available-for-sale	6,564	11,806
Proceeds from maturities and principal reductions of investment securities held-to-maturity	11,225	16,104
Proceeds from sales, redemptions and calls of:		
Available-for-sale investment securities	17,396	25
Held-to-maturity investment securities	49	2,076
Real estate acquired through foreclosure	227	
Marketable securities	-	714
Net change in loans	8,023	(34,445)
Purchase of premises and equipment	(662)	(1,060)
Net cash outflows (inflows) from investing activities	11,181	(86,190)

FINANCING ACTIVITIES				
Net change in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits		(71,567)		10,910
Net change in time deposits		59,337		(9,866)
Net change in brokered deposits		(12,100)		81,454
Net change in short-term borrowings		9,203		3,200
Payments on long-term borrowings		(3,525)		(5,227)
Proceeds from long-term borrowings		7,776		650
Proceeds from exercise of stock options		368		114
Cash dividends paid to common voting shareholders		(841)		(737)
Cash dividends paid to common non-voting shareholders		(248)		(221)
Cash dividends paid on warrants		(23)		(20)
Change in noncontrolling interest, net		69		61
Net cash (outflows) inflows from financing activities		(11,551)		80,318
Change in cash and cash equivalents		1,533		1,138
Cash and cash equivalents at beginning of period		35,282		37,149
Cash and cash equivalents at end of period	$	36,815	$	38,287
CASH PAID DURING THE PERIOD FOR:				
Interest	$	11,380	$	3,163
Income taxes		1,700		1,818
NON-CASH INVESTING ACTIVITY				
Real estate acquired in exchange for loans		333		252
RESTRICTED CASH				
Collateral deposits for hedge position included in cash and due from banks		-		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 2022 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 six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2023 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 Not Yet Adopted as of June 30, 2023

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 [Topic 848]: Deferral of the Sunset Date of Topic 848)*	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. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848): Scope. ASU 2021-01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition.	Upon issuance, January 7, 2021, through December 31, 2024, as amended by ASU 2022-06.	The adoption of this ASU is not expected to have a material impact to the Company's consolidated statements of condition or income.

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 ("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 six months ended June 30, 2023, and -0- for the three and six months ended June 30, 2022, respectively.

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

	Three months ended June 30,				Six months ended June 30,			
(In thousands, except share and per share data)		2023		2022		2023		2022
Net income attributable to Pathfinder Bancorp, Inc.	$	1,982	$	3,272	$	4,581	$	6,222
Series A Non-Voting Common Stock dividends		124		124		248		248
Warrant dividends		11		12		22		23
Undistributed earnings allocated to participating securities		350		677		854		1,277
Net income available to common shareholders-Voting	$	1,497	$	2,459	$	3,457	$	4,674
Net income attributable to Pathfinder Bancorp, Inc.	$	1,982	$	3,272	$	4,581	$	6,222
Voting Common Stock dividends		419		411		835		820
Warrant dividends		11		12		22		23
Undistributed earnings allocated to participating securities		1,107		2,104		2,693		3,960
Net income available to common shareholders-Series A Non-Voting	$	445	$	745	$	1,031	$	1,419
Basic and diluted weighted average common shares outstanding-Voting		4,639		4,549		4,624		4,543
Basic and diluted weighted average common shares outstanding-Series A Non-Voting		1,380		1,380		1,380		1,380
Basic and diluted earnings per common share-Voting	$	0.32	$	0.54	$	0.75	$	1.03
Basic and diluted earnings per common share-Series A Non-Voting	$	0.32	$	0.54	$	0.75	$	1.03

Note 4: Investment Securities

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

	June 30, 2023			
(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	$ 43,393	$ 332	$ (3,228)	$ 40,497
State and political subdivisions	33,995	70	(2,112)	31,953
Corporate	11,530	420	(471)	11,479
Asset backed securities	16,065	-	(669)	15,396
Residential mortgage-backed - US agency	17,043	-	(1,431)	15,612
Collateralized mortgage obligations - US agency	11,901	12	(1,182)	10,731
Collateralized mortgage obligations - Private label	64,543	5	(4,600)	59,948
Total	198,470	839	(13,693)	185,616
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 198,676	$ 839	$ (13,693)	$ 185,822
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 3,831	$ -	$ (322)	$ 3,509
State and political subdivisions	15,843	5	(2,039)	13,809
Corporate	45,569	6	(4,075)	41,500
Asset backed securities	18,409	6	(1,254)	17,161
Residential mortgage-backed - US agency	7,294	-	(743)	6,551
Collateralized mortgage obligations - US agency	13,634	-	(1,403)	12,231
Collateralized mortgage obligations - Private label	91,344	36	(4,763)	86,617
Total	195,924	53	(14,599)	181,378
Less: Allowance for credit losses	421	-	-	-
Total held-to-maturity	$ 195,503	$ 53	$ (14,599)	$ 181,378

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

The amortized cost and estimated fair value of debt investments at June 30, 2023 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	$ 8,609	$ 8,991	$ 1,131	$ 1,119
Due after one year through five years	10,728	10,100	18,224	17,739
Due after five years through ten years	35,470	32,849	42,585	38,212
Due after ten years	50,176	47,385	21,712	18,909
Sub-total	104,983	99,325	83,652	75,979
Residential mortgage-backed - US agency	17,043	15,612	7,294	6,551
Collateralized mortgage obligations - US agency	11,901	10,731	13,634	12,231
Collateralized mortgage obligations - Private label	64,543	59,948	91,344	86,617
Totals	$ 198,470	$ 185,616	$ 195,924	$ 181,378

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:

	June 30, 2023								
	Less than Twelve Months			Twelve Months or More			Total		
(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 GSEs	3	$ (45)	$ 5,961	3	$ (3,183)	$ 25,875	6	$ (3,228)	$ 31,836
State and political subdivisions	-	-	-	23	(2,112)	28,595	23	(2,112)	28,595
Corporate	1	(1)	502	5	(470)	4,256	6	(471)	4,758
Asset backed securities	1	(18)	947	10	(651)	14,448	11	(669)	15,395
Residential mortgage-backed - US agency	1	(1)	41	14	(1,430)	15,572	15	(1,431)	15,613
Collateralized mortgage obligations - US agency	1	(76)	1,559	10	(1,106)	7,176	11	(1,182)	8,735
Collateralized mortgage obligations - Private label	3	(93)	5,180	32	(4,507)	49,388	35	(4,600)	54,568
Totals	10	$ (234)	$ 14,190	97	$ (13,459)	$ 145,310	107	$ (13,693)	$ 159,500
Held-to-Maturity Portfolio									
US Treasury, agencies and GSEs	1	$ (85)	$ 1,412	1	$ (237)	$ 2,097	2	$ (322)	$ 3,509
State and political subdivisions	5	(7)	701	14	(2,032)	12,587	19	(2,039)	13,288
Corporate	6	(440)	4,559	34	(3,635)	28,758	40	(4,075)	33,317
Asset backed securities	3	(260)	5,644	5	(994)	6,188	8	(1,254)	11,832
Residential mortgage-backed - US agency	2	(7)	662	9	(736)	5,061	11	(743)	5,723
Collateralized mortgage obligations - US agency	1	(46)	1,308	9	(1,357)	10,923	10	(1,403)	12,231
Collateralized mortgage obligations - Private label	18	(1,312)	27,765	34	(3,451)	48,623	52	(4,763)	76,388
Totals	36	$ (2,157)	$ 42,051	106	$ (12,442)	$ 114,237	142	$ (14,599)	$ 156,288

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

Excluding the effects of changes in the characteristics of individual debt securities that potentially give rise to credit losses, 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” or "shape" 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 an asset-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 fair value at the measurement date. Conversely, the lower the discount rate, the higher the resultant security fair value at the measurement date. In addition, the cumulative amount and timing of undiscounted cash flows of debt securities may also be 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).

When the fair value of any individual security categorized as available-for-sale ("AFS") or held-to-maturity ("HTM") is less than its amortized cost basis, an assessment is made as to whether or not a charge to current earnings for credit loss is required. In assessing potential credit losses, management also makes a quantitative determination of potential credit loss for all HTM securities even if the risk of credit loss is considered remote and uses a best estimate threshold for securities categorized as AFS. The Company considers numerous factors when determining whether a potential credit loss exists. The principal factors considered are (1) the financial condition of the issue and (guarantor, if any) any adverse conditions specifically related to the security, industry or geographic area, (2) failure of the issuer of the security to make scheduled interest or principal payments, (3) any changes to the rating of the security by a nationally recognized statistical rating organization ("NRSRO"), and (4) the presence of contractual credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

The Company carries all of its AFS investments at fair value with any unrealized gains or losses reported, net of income tax effects, 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, if any, 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 portfolio (both AFS and HTM) for credit 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 insufficient to recover the entire amortized cost basis.

The portion of the investment securities portfolio, categorized as AFS, with an aggregate amortized historical cost of $198.7 million, had an aggregate fair value that was less than its aggregate amortized historical cost by $13.7 million, or -6.9%, at June 30, 2023. The AFS securities portfolio, with an aggregate amortized historical cost of $205.4 million, had an aggregate fair value that was less than its aggregate amortized historical cost by $14.8 million, or -7.2%, at December 31, 2022. The resultant $1.1 million total improvement in the fair value of the AFS investment portfolio's aggregate fair value relative to its aggregate amortized historical cost, in the six months ended June 30, 2023, was primarily due to changes in the interest rate environment (the general interest rate level and the relationships between shorter-term and longer-term interest rates, known as the 'yield curve') that occurred in that period. These changes in aggregate fair value relative to aggregate amortized historical cost that occurred in the six months ended June 30, 2023 did not represent any changes in credit loss estimations within the portfolio. Management evaluated the individual securities within the AFS securities portfolio and determined that there was no material credit loss in that portfolio at the adoption date of the CECL methodology on January 1, 2023 or at the reporting date of June 30, 2023. Accordingly, no transition adjustment related to the adoption of ASU 2016-13 was recorded on January 1, 2023 and no impairment charges related to this portfolio were taken in the three and six months ended June 30, 2023.

The portion of the investment securities portfolio, categorized as HTM, with an aggregate amortized historical cost of $195.9 million, had an aggregate fair value that was less than its aggregate amortized historical cost by $14.6 million, or -7.4%, at June 30, 2023. The portion of the investment securities portfolio, categorized as HTM, with an aggregate amortized historical cost of $194.4 million, had an aggregate fair value that was less than its aggregate amortized historical cost by $12.9 million, or -6.6%, at December 31, 2023. The resultant $1.6 million reduction in the aggregate fair value of the HTM investment portfolio, relative to its aggregate amortized historical cost, during the six months ended June 30, 2023, was primarily due to changes in the interest rate environment (the general interest rate level and the relationships between shorter-term and longer-term interest rates, known as the 'yield curve') that occurred in that period. These changes in aggregate fair value relative to aggregate amortized historical cost that occurred in the six months ended June 30, 2023 did not represent any changes in credit loss estimations within the portfolio. 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.

As a result of the Company's adoption of ASU 2016-13, the Company established a reserve against the recorded aggregate value of the HTM investment securities portfolio in the amount of $450,000 at January 1, 2023. The reserve was determined using a discounted probability of default ("PD") - loss given default ("LGD") model consistent with the methodologies used to calculate the Company's allowance for credit losses ("ACL"). This calculation, applied in the second quarter of 2023, resulted in a $29,000 reduction the allowance for credit losses to $421,000 at June 30, 2023, reflected as a reduction to the total periodic provision for credit losses recorded in the second quarter of 2023, related to the portion of the investment securities portfolio categorized as HTM.

The following table depicts a rollforward of the allowance for credit losses on investment securities classified as held-to-maturity for the three months ended June 30, 2023:

(In thousands)	Government Issued and Government Sponsored Enterprise Securities	Mortgage and Asset-backed Securities	Securities Issued By State and Political Subdivisions	Corporate Securities	Total
Balance, March 31, 2023	$ -	$ 40	$ 1	$ 409	$ 450
Provision for credit losses	-	(18)	1	(12)	(29)
Allowance on purchased financial assets with credit deterioration	-	-	-	-	-
Charge-offs of securities	-	-	-	-	-
Recoveries	-	-	-	-	-
Balance, June 30, 2023	$ -	$ 22	$ 2	$ 397	$ 421

The following table depicts a rollforward of the allowance for credit losses on investment securities classified as held-to-maturity for the six months ended June 30, 2023:

(In thousands)	Government Issued and Government Sponsored Enterprise Securities	Mortgage and Asset-backed Securities	Securities Issued By State and Political Subdivisions	Corporate Securities	Total
Balance, December 31, 2022	$ -	$ -	$ -	$ -	$ -
Adjustment for the adoption of ASU 2016-13	-	40	1	409	450
Provision for credit losses	-	(18)	1	(12)	(29)
Allowance on purchased financial assets with credit deterioration	-	-	-	-	-
Charge-offs of securities	-	-	-	-	-
Recoveries	-	-	-	-	-
Balance, June 30, 2023	$ -	$ 22	$ 2	$ 397	$ 421

The Company monitors the credit quality of the debt securities categorized as HTM primarily through the use of NRSRO credit ratings. These assessments are made on a quarterly basis. The following table summarizes the amortized cost of debt securities categorized as HTM at June 30, 2023, aggregated by credit quality indicators:

(In thousands)		
AAA or equivalent	$	45,943
AA or equivalent, including securities issued by the United States Government or Government Sponsored Enterprises		49,752
A or equivalent		20,511
BBB or equivalent		14,828
BB or equivalent		982
Unrated		63,908
Total	$	195,924

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

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2023	2022	2023	2022
Realized gains on investments	$ -	$ 36	$ 2,021	$ 36
Realized losses on investments	-	-	(1,948)	(6)
	$ -	$ 36	$ 73	$ 30

As of June 30, 2023 and December 31, 2022, securities with a fair value of $100.4 million and $99.8 million, respectively, were pledged to collateralize certain municipal deposit relationships. As of the same dates, securities with a fair value of $50.3 million and $38.1 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 investment securities.

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 June 30,				For the six months ended June 30,			
(In thousands)	2023	2022	2023	2022	2023	2022	2023	2022
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest cost	141	116	2	2	281	232	4	5
Expected return on plan assets	(242)	(267)	-	-	(483)	(534)	-	-
Amortization of prior service credits	-	-	(1)	(1)	-	-	(2)	(2)
Amortization of net losses	58	-	(2)	2	114	-	(3)	4
Net periodic benefit plan (benefit) cost	$ (43)	$ (151)	$ (1)	$ 3	$ (88)	$ (302)	$ (1)	$ 7

The Company will evaluate the need for further contributions to the defined benefit pension plan during 2023. The prepaid pension asset is recorded in other assets on the consolidated statements of condition as of June 30, 2023 and December 31, 2022.

Note 6: Loans

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

(In thousands)	June 30, 2023	December 31, 2022
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 256,201	$ 257,656
Construction	2,479	5,085
Loans held-for-sale	-	19
Total residential mortgage loans	258,680	262,760
Commercial loans:		
Real estate	355,605	345,330
Lines of credit	70,624	82,050
Other commercial and industrial	84,581	77,273
Paycheck Protection Program loans	181	203
Tax exempt loans	3,963	4,280
Total commercial loans	514,954	509,136
Consumer loans:		
Home equity and junior liens	34,028	34,007
Other consumer	84,646	92,851
Total consumer loans	118,674	126,858
Total loans	892,308	898,754
Net deferred loan fees	(1,197)	(1,000)
Less allowance for credit losses	18,796	15,319
Loans receivable, net	$ 872,315	$ 882,435

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.

From time to time, 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 took place with nine separate transactions, that occurred between 2017 and 2019, with an additional six transactions occurring in 2021. The following tables detail the purchased loan pool positions held by the Bank at June 30, 2023 and December 31, 2022 (the month/year of the earliest acquisition date is depicted in parentheses):

(In thousands, except number of loans)	June 30, 2023					
	Original Balance	Current Balance	Unamortized Premium/ (Discount)	Number of Loans	Maturity Range	Cumulative net charge-offs
Commercial and industrial loans (6/2019)	$ 6,800	$ 1,800	$ -	21	2-6 years	$ -
Home equity lines of credit (8/2019)	21,900	5,300	166	135	1-26 years	-
Unsecured consumer loan pool 2 (11/2019)	26,600	900	5	201	0-2 years	-
Residential real estate loans (12/2019)	4,300	3,700	232	48	16-22 years	-
Unsecured consumer loan pool 1 (12/2019)	5,400	1,200	-	46	1-4 years	-
Unsecured consumer installment loans pool 3 (12/2019)	10,300	700	27	227	0-9 years	66
Secured consumer installment loans pool 4 (12/2020)	14,500	11,000	(1,355)	511	22-24 years	-
Unsecured consumer loans pool 5 (1/2021)	24,400	16,500	(443)	666	7-22 years	-
Commercial Line of Credit 1 (3/2021)	11,600	11,500	8	1	0-1 year	-
Secured consumer installment loans (11/2021)	21,300	18,700	(3,085)	832	18-24 years	-
Commercial Line of Credit 2 (11/2021)	10,500	4,300	5	1	0-1 year	-
Unsecured consumer loans pool 6 (11/2021)	22,200	19,200	(2,290)	531	8-24 years	-
Total	$ 179,800	$ 94,800	$ (6,730)	3,220		$ 66

(In thousands, except number of loans)	December 31, 2022					
	Original Balance	Current Balance	Unamortized Premium/ (Discount)	Number of Loans	Maturity Range	Cumulative net charge-offs
Automobile loans (1/2017) paid in full at 6/30/23	$ 50,400	$ 4,200	$ 128	537	0-4 years	$ 247
Commercial and industrial loans (6/2019)	6,800	2,100	-	22	3-7 years	-
Home equity lines of credit (8/2019)	21,900	6,000	189	143	1-27 years	-
Unsecured consumer loan pool 2 (11/2019)	26,600	1,500	11	320	0-2 years	-
Residential real estate loans (12/2019)	4,300	3,900	240	49	16-22 years	-
Unsecured consumer loan pool 1 (12/2019)	5,400	1,600	-	50	1-4 years	-
Unsecured consumer installment loans pool 3 (12/2019)	10,300	1,000	38	354	0-9 years	63
Secured consumer installment loans pool 4 (12/2020)	14,500	11,300	(1,484)	518	23-24 years	-
Unsecured consumer loans pool 5 (1/2021)	24,400	17,300	(485)	678	8-24 years	-
Revolving commercial line of credit 1 (3/2021)	11,600	11,400	14	1	0-1 year	-
Secured consumer installment loans (11/2021)	21,300	19,700	(3,237)	850	18-25 years	-
Revolving commercial line of credit 2 (11/2021)	10,500	15,000	23	1	0-1 year	-
Unsecured consumer loans pool 6 (11/2021)	22,200	20,200	(2,441)	540	8-24 years	-
Total	$ 230,200	$ 115,200	$ (7,004)	4,063		$ 310

At June 30, 2023 the ACL related to these pools was $2.1 million. As of June 30, 2023 and December 31, 2022, residential mortgage loans with a carrying value of $126.0 million and $110.3 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 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2023 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 credit 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 credit 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, 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:

	Term Loans By Origination Year								
(In thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving loans converted to term loans	Total
Commercial Real Estate:									
Pass	$ 27,676	$ 76,926	$ 60,804	$ 29,884	$ 52,357	$ 90,320	$ -	$ -	$337,967
Special Mention	-	7,117	-	-	-	802	-	-	7,919
Substandard	-	500	2,135	739	396	5,787	-	-	9,557
Doubtful	-	-	-	-	-	162	-	-	162
Total Commercial Real Estate	27,676	84,543	62,939	30,623	52,753	97,071	-	-	355,605
Commercial Lines of Credit:									
Pass	-	-	-	-	-	-	58,786	7,255	66,041
Special Mention	-	-	-	-	-	-	935	397	1,332
Substandard	-	-	-	-	-	-	1,765	1,357	3,122
Doubtful	-	-	-	-	-	-	100	29	129
Total Commercial Lines of Credit	-	-	-	-	-	-	61,586	9,038	70,624
Other Commercial and Industrial:									
Pass	14,111	19,274	7,345	6,277	8,951	13,464	4,849	-	74,271
Special Mention	787	4	250	202	1,174	68	-	-	2,485
Substandard	746	1,826	1,911	634	312	2,346	-	-	7,775
Doubtful	-	-	-	-	50	-	-	-	50
Total Other Commercial and Industrial	15,644	21,104	9,506	7,113	10,487	15,878	4,849	-	84,581
Paycheck Protection Program Loans									
Pass	-	-	-	181	-	-	-	-	181
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Paycheck Protection Program Loans	-	-	-	181	-	-	-	-	181
Tax Exempt Loans									
Pass	-	-	-	196	6	3,761	-	-	3,963
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Tax Exempt Loans	-	-	-	196	6	3,761	-	-	3,963

	Term Loans By Origination Year								
(In thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving loans converted to term loans	Total
1-4 family first-lien residential mortgages:									
Pass	$ 3,436	$ 33,934	$ 53,825	$ 42,043	$ 19,141	$ 100,608	$ -	$ -	$ 252,987
Special Mention	-	-	693	-		53	-	-	746
Substandard	-	-	-	449	223	1,219	-	-	1,891
Doubtful	-	-	-	154	-	423	-	-	577
Total 1-4 family first-lien residential mortgages	3,436	33,934	54,518	42,646	19,364	102,303	-	-	256,201
Construction:									
Pass	2,189	290	-	-	-	-	-	-	2,479
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Construction	2,189	290	-	-	-	-	-	-	2,479
Home Equity and Junior Liens:									
Pass	$ 7,119	$ 2,176	$ 1,616	$ 848	$ 567	$ 2,297	$ 17,979	$ 709	$ 33,311
Special Mention	-	-	-	-	-	-	5	-	5
Substandard	-	-	69	-	-	37	599	7	712
Doubtful	-	-	-	-	-	-	-	-	-
Total Home Equity and Junior Liens	7,119	2,176	1,685	848	567	2,334	18,583	716	34,028
Other Consumer:									
Pass	71,257	4,634	3,348	1,609	1,949	1,359	302	-	84,458
Special Mention	-	-	-	-	9	1	-	-	10
Substandard	-	86	18	-	4	40	30	-	178
Doubtful						-	-	-	-
Total Other Consumer	71,257	4,720	3,366	1,609	1,962	1,400	332	-	84,646
Net Deferred Loan Fees	(1,013)	114	(81)	(16)	84	(285)			(1,197)
Total loans	$ 126,308	$ 146,881	$ 131,933	$ 83,200	$ 85,223	$ 222,462	$ 85,350	$ 9,754	$ 891,111

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 considered past due if the required principal and interest payments have not been received within thirty days of the payment due date. Loans are placed on nonaccrual when the contractual payment of principal and interest has become 90 days past due or when management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing.

An aging analysis of past due loans, not including net deferred loan costs, segregated by portfolio segment and class of loans, as of June 30, 2023 and December 31, 2022, are detailed in the following tables:

	June 30, 2023					
(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	$ 1,226	$ 747	$ 1,376	$ 3,349	$ 252,852	$ 256,201
Construction	-	-	-	-	2,479	2,479
Loans held-for-sale	-	-	-	-	-	-
Total residential mortgage loans	1,226	747	1,376	3,349	255,331	258,680
Commercial loans:						
Real estate	5,190	1,217	7,305	13,712	341,893	355,605
Lines of credit	369	-	3,110	3,479	67,145	70,624
Other commercial and industrial	105	1,667	5,976	7,748	76,833	84,581
Paycheck Protection Program loans	-	-	-	-	181	181
Tax exempt loans	-	-	-	-	3,963	3,963
Total commercial loans	5,664	2,884	16,391	24,939	490,015	514,954
Consumer loans:						
Home equity and junior liens	25	157	136	318	33,710	34,028
Other consumer	512	263	2,267	3,042	81,604	84,646
Total consumer loans	537	420	2,403	3,360	115,314	118,674
Total loans	$ 7,427	$ 4,051	$ 20,170	$ 31,648	$ 860,660	$ 892,308

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

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

(In thousands)	June 30, 2023	December 31, 2022
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 1,549	$ 1,112
	1,549	1,112
Commercial loans:		
Real estate	7,305	3,504
Lines of credit	3,110	332
Other commercial and industrial	5,976	1,884
	16,391	5,720
Consumer loans:		
Home equity and junior liens	136	279
Other consumer	2,273	1,904
Total consumer loans	2,409	2,183
Total nonaccrual loans	$ 20,349	$ 9,015

At June 30, 2023, the Bank's 142 nonperforming loans represented 2.3% of total loans, with an aggregate outstanding balance of $20.3 million, as compared to 126 loans with an aggregate outstanding balance of $9.0 million at December 31, 2022. This increase in nonaccrual balances of $11.3 million was primarily the result of the downgrade of two significant commercial real estate and commercial loan relationships. At June 30, 2023, the number of nonaccrual loans related to these two relationships was 25 loans, with an aggregate outstanding balance of $13.1, as compared to five loans with an aggregate outstanding balance of $1.7 million at December 31, 2022. Management is closely monitoring all nonaccrual loans and has incorporated its current estimate of the ultimate collectability of these loans into the reported allowance for credit losses at June 30, 2023.

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 credit losses, an associated increase to the allowance for credit losses or as a charge-off to the allowance for credit losses in the current period.

Impaired Loans

The following table summarizes impaired loan information by portfolio class at the indicated dates:

	June 30, 2023			December 31, 2022		
(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	$ 744	$ 744	$ -	$ 1,048	$ 1,048	$ -
Commercial real estate	4,640	4,744	-	5,283	5,386	-
Commercial lines of credit	885	885	-	2,218	2,218	-
Other commercial and industrial	3,191	3,191	-	2,780	2,829	-
Home equity and junior liens	84	84	-	182	182	-
With an allowance recorded:						
1-4 family first-lien residential mortgages	930	930	127	450	450	91
Commercial real estate	4,953	4,953	606	2,625	2,625	346
Commercial lines of credit	2,351	2,362	1,891	3,059	3,066	2,957
Other commercial and industrial	5,494	5,494	3,629	1,998	1,998	1,285
Home equity and junior liens	535	535	114	536	536	114
Total:						
1-4 family first-lien residential mortgages	1,674	1,674	127	1,498	1,498	91
Commercial real estate	9,593	9,697	606	7,908	8,011	346
Commercial lines of credit	3,236	3,247	1,891	5,277	5,284	2,957
Other commercial and industrial	8,685	8,685	3,629	4,778	4,827	1,285
Home equity and junior liens	619	619	114	718	718	114
Totals	$ 23,807	$ 23,922	$ 6,367	$ 20,179	$ 20,338	$ 4,793

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

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2023	2022	2023	2022
1-4 family first-lien residential mortgages	$ 1,581	$ 1,166	$ 1,554	$ 1,178
Commercial real estate	10,034	7,035	9,325	7,076
Commercial lines of credit	2,865	146	3,669	148
Other commercial and industrial	8,469	2,071	7,239	2,117
Home equity and junior liens	668	629	684	630
Total	$ 23,617	$ 11,047	$ 22,471	$ 11,149

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

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2023	2022	2023	2022
1-4 family first-lien residential mortgages	$ 24	$ 14	$ 45	$ 30
Commercial real estate	79	70	140	133
Commercial lines of credit	6	1	11	3
Other commercial and industrial	23	22	44	42
Home equity and junior liens	12	6	23	12
Total	$ 144	$ 113	$ 263	$ 220

Note 7: Allowance for Credit 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 credit losses. We recorded $1.1 million in provision for credit losses for the three month period ended June 30, 2023, as compared to $59,000 for the three month period ended June 30, 2022. For the first six months of 2023, we recorded $1.8 million in provision for credit losses compared to $161,000 in the first six months of the prior year.

The increase in provision for credit losses in in the three and six months ended June 30, 2023, as compared to the same three and six month periods in 2022, primarily reflected the recording of additional reserves related to two large loan relationships. The two loan relationships consisted of 25 loans, with aggregate outstanding balances of $13.1 million, including unsecured loan balances of $3.5 million, that have experienced significant credit deterioration during 2023.

At December 31, 2022 the Company calculated its Allowance for Loan losses utilizing the Incurred Loss Model ("ILM") methodology, as required under generally accepted accounting principles ("GAAP") on that date. On January 1, 2023, the Company adopted the Current Expected Credit Loss ("CECL") model methodology in accordance with GAAP requirements that became effective on that date. At December 31, 2022 the Company had a total allowance for loan and lease losses ("ALLL") of $15.3 million, of which $4.8 million was related to specifically-identified loans and $10.5 million was related to loans analyzed collectively on an aggregate pool basis. On January 1, 2023 the Company recorded a one-time CECL transition adjustment (recorded as an adjustment, net of taxes, to retained earnings) of $1.9 million that reversed the $10.5 million in the December 31, 2022 ALLL, that was related to pooled loans, evaluated collectively in the aggregate, as previously calculated under the phased-out ILM methodology, and replaced it with the ACL, as calculated under CECL, in the amount of $12.4 million. The $12.4 million CECL ACL at January 1, 2023 was composed of $8.4 million in reserves calculated using quantitative methodologies based on historical loss experience and $4.0 million based on qualitative factors, as determined by management. The $4.8 million in ALLL related to specifically-identified loans at December 31, 2022 was not affected by the transition to the CECL methodology at January 1, 2023.

The transition to CECL on January 1, 2023 also required that new reserves be created in the amounts of $450,000 and $552,000, related to held-to-maturity investments and unfunded commitments, respectively. Including the $1.9 million CECL transition adjustment related to loans, described above, the total CECL transition adjustment related to loans, securities classified as held-to-maturity and unfunded commitments was $2.9 million on January 1, 2023. This amount was charged to retained earnings on that date and was not included in net income in 2023.

The total PCL for the three and six months ended June 30, 2023 was $1.1 million and $1.8 million, respectively, of which $1.2 million and $1.9 million related to the Company's loan portfolio for the three and six months ended June 30, 2023, respectively. The ACL related to loans was therefore $18.8 million at June 30, 2023, composed of $6.4 million related to specifically-identified loans, $8.6 million in reserves calculated using quantitative methodologies based on historical loss experience and $3.8 million based on qualitative factors, as determined by management. In addition, during the second quarter of 2023, the Company recorded modest PCL reversals of $29,000 and $16,000 for reserves related to securities classified as held-to-maturity and unfunded commitments, respectively.

The following table summarizes all activity related to the ACL from December 31, 2022 to June 30, 2023 and to the recorded PCL for the three and six months ended June 30, 2023:

(In thousands)

ACL - loans	ILM 12/31/2022	CECL transition adjustment 1/1/2023	CECL ACL at 1/1/2023	Q1 2023 Charge-offs	Q1 2023 Recoveries	Q1 2023 PCL	CECL ACL at 3/31/2023	Q2 2023 Charge-offs	Q2 2023 Recoveries	Q2 2023 PCL	CECL ACL at 6/30/2023
Specifically-identified loans	$ 4,793	$ -	$ 4,793	$ -	$ -	$ 834	$ 5,627	$ 263	$ -	$ 1,004	$ 6,368
Pooled loans under ILM	10,526	(10,526)	-	-	-	-	-	-	-	-	-
Pooled loans under CECL - Quantitative		8,444	8,444	100	92	255	8,691	109	116	(106)	8,592
Pooled loans under CECL - Qualitative		3,965	3,965	19		(397)	3,549	-	-	287	3,836
Total ACL related to loans	$ 15,319	$ 1,883	$ 17,202	$ 119	$ 92	$ 692	$ 17,867	$ 372	$ 116	$ 1,185	$ 18,796
ACL - related to held-to-maturity investments (1)	-	450	450	-	-	-	450	-	-	(29)	421
ACL - related to unfunded commitments (2)	-	552	552	-	-	-	552	-	-	(16)	536
		$ 2,885				$ 692				$ 1,140	

(1) - Reported on the Statements of Financial Condition as an adjustment to held-to-maturity investment securities
(2) - Reported on the Statements of Financial Condition as an adjustment to other liabilities

Summarized in the tables below are changes in the allowance for credit losses for loans for the indicated periods and information pertaining to the allocation of the balances of the credit losses, loans receivable based on 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 June 30, 2023					
(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 credit losses:						
Beginning Balance	$ 1,937	$ 700	$ 5,182	$ 2,095	$ 5,082	$ -
Charge-offs	-	-	-	-	(263)	-
Recoveries	-	-	-	-	64	-
Provisions (credits)	99	(66)	249	525	309	-
Ending balance	$ 2,036	$ 634	$ 5,431	$ 2,620	$ 5,192	$ -
Ending balance: related to loans individually evaluated for impairment	$ 127	$ -	$ 4,825	$ 1,891	$ 1,745	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 1,909	$ 634	$ 606	$ 729	$ 3,447	$ -
Loans receivables:						
Ending balance	$ 256,201	$ 2,479	$ 355,605	$ 70,624	$ 84,581	$ 181
Ending balance: individually evaluated for impairment	$ 1,674	$ -	$ 9,593	$ 3,236	$ 6,803	$ -
Ending balance: collectively evaluated for impairment	$ 254,527	$ 2,479	$ 346,012	$ 67,388	$ 77,778	$ 181

	Tax exempt	Home equity and junior liens	Other Consumer	Total
Allowance for credit losses:				
Beginning Balance	$ 15	$ 723	$ 2,135	$ 17,869
Charge-offs	-	-	(109)	(372)
Recoveries	-	-	52	116
Provisions (credits)		(41)	108	- 1,183
Ending balance	$ 15	$ 682	$ 2,186	$ 18,796
Ending balance: related to loans individually evaluated for impairment	$ -	$ 114	$ -	$ 8,702
Ending balance: related to loans collectively evaluated for impairment	$ 15	$ 568	$ 2,186	$ 10,094
Loans receivables:				
Ending balance	$ 3,963	$ 34,028	$ 84,646	$ 892,308
Ending balance: individually evaluated for impairment	$ -	$ 619	$ -	$ 21,925
Ending balance: collectively evaluated for impairment	$ 3,963	$ 33,409	$ 84,646	$ 870,383

(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial
	For the six months ended June 30, 2023				
Allowance for credit losses:					
Beginning Balance	$ 714	$ -	$ 5,881	$ 3,990	$ 2,944
Adoption of New Accounting Standard	1,396	969	(1,744)	95	10
Charge-offs	-	-	-	-	(299)
Recoveries	-	-	-	-	126
Provisions	(74)	(335)	1,294	(1,465)	2,411
Ending balance	$ 2,036	$ 634	$ 5,431	$ 2,620	$ 5,192

	Tax exempt	Home equity and junior liens	Other consumer	Total
Allowance for credit losses:				
Beginning Balance	$ 3	$ 741	$ 1,046	15,319
Adoption of New Accounting Standard	14	(97)	1,243	1,886
Charge-offs	-	-	(193)	(492)
Recoveries	-	-	80	206
Provisions	(2)	38	10	1,877
Ending balance	$ 15	$ 682	$ 2,186	$ 18,796

(In thousands)	For the three months ended June 30, 2022 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 credit losses:						
Beginning Balance	$ 830	$ -	$ 5,298	$ 1,061	$ 2,737	$ -
Charge-offs	(29)	-	(23)	(21)	(200)	-
Recoveries	-	-	250	-	46	-
Provisions (credits)	96	-	(3)	117	33	-
Ending balance	$ 897	$ -	$ 5,522	$ 1,157	$ 2,616	$ -
Ending balance: related to loans individually evaluated for impairment	$ 95	$ -	$ 44	$ 359	$ 1,208	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 802	$ -	$ 5,478	$ 798	$ 1,408	$ -
Loans receivables:						
Ending balance	$ 240,997	$ 16,241	$ 320,439	$ 76,610	$ 70,205	$ 4,877
Ending balance: individually evaluated for impairment	$ 1,141	$ -	$ 144	$ 6,956	$ 1,974	$ -
Ending balance: collectively evaluated for impairment	$ 239,856	$ 16,241	$ 320,295	$ 69,654	$ 68,231	$ 4,877

	Tax exempt	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning Balance	$ 4	$ 676	$ 1,422	$ 989	$ 13,017
Charge-offs	-	-	(51)	-	(324)
Recoveries	-	-	30	-	326
Provisions (credits)	-	74	142	(400)	59
Ending balance	$ 4	$ 750	$ 1,543	$ 589	$ 13,078
Ending balance: related to loans individually evaluated for impairment	$ -	$ 114	$ -	$ -	$ 1,820
Ending balance: related to loans collectively evaluated for impairment	$ 4	$ 636	$ 1,543	$ 589	$ 11,258
Loans receivables:					
Ending balance	$ 5,390	$ 33,267	$ 99,326	$ -	$ 867,352
Ending balance: individually evaluated for impairment	$ -	$ 628	$ -	$ -	$ 10,843
Ending balance: collectively evaluated for impairment	$ 5,390	$ 32,639	$ 99,326	$ -	$ 856,509

(In thousands)	For the six months ended June 30, 2022 1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Allowance for credit losses:					
Beginning Balance	$ 872	$ -	$ 5,308	$ 935	$ 2,762
Charge-offs	(29)	-	(23)	(38)	(200)
Recoveries	-	-	250	-	46
Provisions	54	-	(13)	260	8
Ending balance	$ 897	$ -	$ 5,522	$ 1,157	$ 2,616

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for credit losses:					
Beginning Balance	$ 3	$ 774	$ 1,297	$ 984	$ 12,935
Charge-offs	-	-	(80)	-	(370)
Recoveries	-	-	56	-	352
Provisions	1	(24)	270	(395)	161
Ending balance	$ 4	$ 750	$ 1,543	$ 589	$ 13,078

The Company's methodology for determining its allowance for credit losses includes an analysis of qualitative factors that are added to the historical loss rates in arriving at the total allowance for credit losses needed for this general pool of loans. The qualitative factors include, but are not limited to, the following:

- 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 credit losses analysis and calculation.

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

	June 30, 2023				
(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	$ 127	$ -	$ 606	$ 1,892	$ 3,628
Historical loss rate	1,569	444	2,795	179	976
Qualitative factors	340	190	2,030	549	588
Total	$ 2,036	$ 634	$ 5,431	$ 2,620	$ 5,192

	Tax exempt	Home equity and junior liens	Other consumer	Total
Specifically reserved	$ -	$ 424	$ 1,818	$ 8,495
Historical loss rate	4	187	324	6,478
Qualitative factors	11	71	44	3,823
Total	$ 15	$ 682	$ 2,186	$ 18,796

	June 30, 2022				
(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	$ 95	$ -	$ 44	$ 359	$ 1,208
Historical loss rate	85	-	1	37	83
Qualitative factors	717	-	5,477	761	1,325
Total	$ 897	$ -	$ 5,522	$ 1,157	$ 2,616

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 114	$ -	$ -	$ 1,820
Historical loss rate	-	321	1,246	-	1,773
Qualitative factors	4	315	297	-	8,896
Other	-	-	-	589	589
Total	$ 4	$ 750	$ 1,543	$ 589	$ 13,078

Note 8: Foreclosed Real Estate

The Company is required to disclose the carrying amount of foreclosed real estate properties held as a result of obtaining physical possession of the property at each reporting period.

(In thousands)	Number of properties	June 30, 2023	Number of properties	December 31, 2022
Foreclosed real estate	6	$ 277	2	$ 221

At June 30, 2023 and December 31, 2022, the Company reported $301,000 and $542,000, respectively, in 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 $2.9 million of standby letters of credit as of June 30, 2023. 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. No provision for credit losses have been made for these commitments. 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 $4.5 million as of June 30, 2023. These securities have an aggregate 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 holdings and are traded in secondary markets on an infrequent basis. While these securities are redeemable at least annually through tender offers made by respective issuers, the liquidation value of these securities may be below stated NAVs and also subject to restrictions as to the amount that can be redeemed at any single scheduled redemption. The Company anticipates that these securities will be redeemed by respective issuers on indeterminate future dates as a consequence of the ultimate liquidation strategies employed by the managers of these portfolios.

The Company held two private equity security investments, acquired in 2022, with an aggregate value of $2.4 million at June 30, 2023, valued utilizing the unit of account (Level 2) which includes; financial metrics for the company, specific operating key performance indicators, and market-related inputs.

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 credit 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:

	June 30, 2023			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 40,497	$ -	$ 40,497
State and political subdivisions	-	31,953	-	31,953
Corporate	-	6,994	-	6,994
Asset backed securities	-	15,396	-	15,396
Residential mortgage-backed - US agency	-	15,612	-	15,612
Collateralized mortgage obligations - US agency	-	10,731	-	10,731
Collateralized mortgage obligations - Private label	-	59,948	-	59,948
Total		181,131		181,131
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Other Securities:				
Corporate measured at NAV	-	-	-	4,485
Total available-for-sale securities	$ 206	$ 181,131	$ -	$ 185,822
Marketable equity securities measured at NAV	$ -	$ -	$ -	$ 2,353
Interest rate swap derivative fair value hedges (unrealized gain carried as receivable from derivative counterparties)	$ -	$ 9,822	$ -	$ 9,822
Interest rate swap derivative cash flow hedges (unrealized loss carried as payable to derivative counterparties)	$ -	$ 637	$ -	$ 637

	December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 29,364	$ -	$ 29,364
State and political subdivisions	-	45,385	-	45,385
Corporate	-	7,066	-	7,066
Asset backed securities	-	15,400	-	15,400
Residential mortgage-backed - US agency	-	16,400	-	16,400
Collateralized mortgage obligations - US agency	-	11,708	-	11,708
Collateralized mortgage obligations - Private label	-	61,434	-	61,434
Total	-	186,757	-	186,757
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Other Securities:				
Corporate measured at NAV	-	-	-	4,763
Total available-for-sale securities	$ 206	$ 186,757	$ -	$ 191,726
Marketable equity securities measured at NAV	$ -	$ -	$ -	$ 1,862
Interest rate swap derivative fair value hedges (unrealized gain carried as receivable from derivative counterparties)	$ -	$ 9,717	$ -	$ 9,717
Interest rate swap derivative cash flow hedges (unrealized gain carried as receivable from derivative counterparties)	$ -	$ 519	$ -	$ 519

Pathfinder Bank had the following assets measured at fair value on a nonrecurring basis as of June 30, 2023 and December 31, 2022:

	June 30, 2023			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 7,994	$ 7,994
Foreclosed real estate	$ -	$ -	$ 277	$ 277

	December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 2,328	$ 2,328
Foreclosed real estate	$ -	$ -	$ 221	$ 221

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 June 30, 2023			
Impaired loans	Appraisal of collateral	Discounted Cash Flow	12% - 43% (25%)
Foreclosed real estate	Appraisal of collateral	Appraisal Adjustments	21% - 24% (22%)

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At December 31, 2022			
Impaired loans	Appraisal of collateral	Discounted Cash Flow	5% - 35% (17%)
	(Sales Approach)	Costs to Sell	7% - 14% (12%)
Foreclosed real estate	Appraisal of collateral	Appraisal Adjustments	15% - 15% (15%)
	(Sales Approach)	Costs to Sell	6% - 9% (8%)

There have been no transfers of assets into or out of any fair value measurement level during the three or six months ended June 30, 2023.

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.

Under 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 debt – The Company secures quotes from its pricing service based on a discounted cash flow methodology or utilizes observations of recent highly-similar transactions which result in a Level 2 classification.

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

		June 30, 2023		December 31, 2022	
(In thousands)	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	1	$ 36,815	$ 36,815	$ 35,282	$ 35,282
Investment securities - available-for-sale	2	181,131	181,131	186,757	186,757
Investment securities - available-for-sale	NAV	4,485	4,485	4,763	4,763
Investment securities - marketable equity	NAV	2,353	2,353	1,862	1,862
Investment securities - held-to-maturity	2	195,503	181,378	194,402	181,491
Federal Home Loan Bank stock	2	6,536	6,536	5,982	5,982
Net loans	3	872,315	823,817	882,435	844,892
Accrued interest receivable	1	6,145	6,145	6,168	6,168
Interest rate derivative fair value hedges receivable - AFS investments	2	6,080	6,080	8,240	8,240
Interest rate derivative fair value hedges receivable - loans	2	3,742	3,742	1,477	1,477
Financial liabilities:					
Demand Deposits, Savings, NOW and MMDA	1	$ 628,057	$ 628,057	$ 699,624	$ 699,624
Time Deposits	2	473,043	465,597	425,806	393,676
Borrowings	2	104,451	101,781	115,997	112,877
Subordinated debt	2	29,821	26,156	29,733	27,378
Interest rate swap derivative cash flow hedge (payable) receivable	2	637	637	519	519
Accrued interest payable	1	1,559	1,559	975	975

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 entered into with counterparties that meet the Company's 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 June 30, 2023. 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 June 30, 2023 or December 31, 2022.

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 decrease in interest rates below the strike price.

The Company records various hedges in the consolidated statements of condition at fair value. The Company's accounting treatment for these derivative instruments is based on the 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 June 30, 2023 and December 31, 2022:

(In thousands)		Carrying Amount of the Hedged Assets at June 30, 2023		Cumulative Amount of Fair Value Hedging Gains Included in the Carrying Amount of the Hedged Assets at June 30, 2023		Carrying Amount of the Hedged Assets at December 31, 2022		Cumulative Amount of Fair Value Hedging Gains Included in The Carrying Amount of the Hedged Assets at December 31, 2022
Line item on the balance sheet in which the hedged item is included:								
Available-for-sale securities [1]	$	54,874	$	6,080	$	68,741	$	8,240
Loans receivable [2]	$	130,765	$	3,742	$	37,196	$	1,477

(1)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 hedged item was $54.9 million and $68.7 million at June 30, 2023 and December 31, 2022, respectively. The fair value of the derivative resulted in a net asset position of $6.1 million and $8.2 million recorded by the Company in other assets at June 30, 2023 and December 31, 2022, respectively.

(2)These amounts include the amortized cost of a specific purchased consumer loan pool and a portion of the Bank's originated residential mortgage loan portfolio designated as the underlying assets for the hedging relationships in which the hedged item is the underlying asset's amortized cost (last layer) projected to be remaining at the end of the contractual term of the hedge instrument. The fair value hedge related to the residential mortgage pool had a notional value of $100 million when it was purchased on April 7, 2023. The amount of the designated hedged assets were $130.8 million and $37.2 million as of June 30, 2023 and December 31, 2022, respectively. At June 30, 2023, the fair value of the derivatives resulted in a net asset position of $3.7 million recorded by the Company in other assets.

The hedging contracts noted above, accounted for as fair value hedges, increased the yield on investment securities and loans by 0.25% and 0.18%, respectively, in the six months ended June 30, 2023. The hedging contracts noted above, accounted for as fair value hedges, decreased the yield on investment securities and loans by 0.57% and 0.01%, respectively, in the six months ended June 30, 2022.

The following tables summarize the net effects of the Company's fair value and cash flow hedges for the three and six months ended June 30, 2023 and June 30, 2022, respectively:

Fair Value Hedges

		Six Months Ended June 30, 2023						
Hedge Category		Average Notional Balance		Period Ending Notional Balance		Net Cash Received (Paid) Recorded In Net Income		Fair Value Receivable (Payable) at Quarter End
Investments	$	54,574	$	52,120	$	940	$	6,080
Loans		69,357		115,687		796		3,742
Total	$	123,931	$	167,807	$	1,736	$	9,822

		Six Months Ended June 30, 2022						
Hedge Category		Average Notional Balance		Ending Notional Balance		Net Cash Received (Paid) Recorded In Net Income		Fair Value Receivable (Payable) at Quarter End
Investments	$	59,066	$	66,845	$	(82)	$	5,920
Loans		20,700		20,700		(24)		1,143
Total	$	79,766	$	87,545	$	(106)	$	7,063

Cash Flow Hedges

	Six Months Ended June 30, 2023			
Hedge Category	Average Notional Balance	Ending Notional Balance	Net Cash Received (Paid) Recorded In Net Income	Fair Value Receivable (Payable) at Quarter End
Borrowed Funds	$ 51,667	$ 40,000	$ 595	$ 637

	Six Months Ended June 30, 2022			
Hedge Category	Average Notional Balance	Ending Notional Balance	Net Cash Received (Paid) Recorded In Net Income	Fair Value Receivable (Payable) at Quarter End
Borrowed Funds	$ 60,000	$ 40,000	$ (171)	$ 583

The following table shows the pre-tax gains and losses of the Company's derivatives designated as cash flow hedges in OCI at June 30, 2023 and December 31, 2022:

(In thousands)	June 30, 2023	December 31, 2022
Cash flow hedges:		
Fair market value adjustment interest rate swap	$ 637	$ 519
Total (loss) gain in comprehensive income	$ 637	$ 519

The hedging contracts noted above, accounted for as cash flow hedges, decreased the interest expense associated with MMDA accounts by 0.47% in the six months ended June 30, 2023 and increased the interest expense associated with MMDA accounts by 0.13% in the six months ended June 30, 2022.

The amounts of hedge ineffectiveness, recognized at June 30, 2023 and December 31, 2022 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 and the reduction of the time each quarter between the measurement date and the contractual maturity date of the hedging instrument.

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

Note 12: Accumulated Other Comprehensive (Loss) Income

Changes in the components of accumulated other comprehensive (loss) income ("AOCI"), net of tax, for the periods indicated are summarized in the tables below.

	For the three months ended June 30, 2023				
(In thousands)	Retirement Plans	Unrealized Loss on Available-for-Sale Securities	Unrealized Gain on Derivatives and Hedging Activities	Unrealized Gain on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,386)	$ (9,075)	$ (73)	$ -	$ (11,534)
Other comprehensive (loss) income before reclassifications	-	(420)	543	-	123
Amounts reclassified from AOCI	41	-	-	-	41
Ending balance	$ (2,345)	$ (9,495)	$ 470	$ -	$ (11,370)

(In thousands)	Retirement Plans	Unrealized Loss on Available-for-Sale Securities	Unrealized Gain on Derivatives and Hedging Activities	Unrealized Gain on Securities Transferred to Held-to-Maturity	Total
	For the three months ended June 30, 2022				
Beginning balance	$ (1,412)	$ (3,842)	$ 194	$ 2	$ (5,058)
Other comprehensive (loss) income before reclassifications	-	(4,559)	237	-	(4,322)
Amounts reclassified from AOCI	1	(20)	-	-	(19)
Ending balance	$ (1,411)	$ (8,421)	$ 431	$ 2	$ (9,399)

(In thousands)	Retirement Plans	Unrealized Loss on Available-for-Sale Securities	Unrealized Gain on Derivatives and Hedging Activities	Unrealized Gain on Securities Transferred to Held-to-Maturity	Total
	For the six months ended June 30, 2023				
Beginning balance	$ (2,427)	$ (10,127)	$ 382	$ -	$ (12,172)
Other comprehensive (loss) income before reclassifications	-	(796)	88	-	(708)
Amounts reclassified from AOCI	82	1,428	-	-	1,510
Ending balance	$ (2,345)	$ (9,495)	$ 470	$ -	$ (11,370)

(In thousands)	Retirement Plans	Unrealized Loss on Available-for-Sale Securities	Unrealized Gain on Derivatives and Hedging Activities	Unrealized Gain on Securities Transferred to Held-to-Maturity	Total
	For the six months ended June 30, 2022				
Beginning balance	$ (1,412)	$ 428	$ (286)	$ 2	$ (1,268)
Other comprehensive income before reclassifications	-	(8,830)	717	-	(8,113)
Amounts reclassified from AOCI	1	(19)	-	-	(18)
Ending balance	$ (1,411)	$ (8,421)	$ 431	$ 2	$ (9,399)

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 six months ended	
Details about AOCI (1) components	Affected Line Item in the Statement of Income	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
<u>Retirement plan items</u>					
Retirement plan net losses recognized in plan expenses (2)	Salaries and employee benefits	$ (56)	$ (1)	$ (111)	$ (1)
Tax effect	Provision for income taxes	15	-	29	-
	Net (losses) income	$ (41)	$ (1)	$ (82)	$ (1)
<u>Available-for-sale securities</u>					
Realized gain (loss) on sale of securities	Net gains on sales and redemptions of investment securities	$ -	$ 26	$ (1,933)	$ 25
Tax effect	Provision for income taxes	-	(6)	505	(6)
	Net (losses) income	$ -	$ 20	$ (1,428)	$ 19

(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 June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Service charges on deposit accounts				
Insufficient funds fees	$ 163	$ 134	$ 307	$ 252
Deposit related fees	112	110	209	211
ATM fees	28	39	54	79
Total service charges on deposit accounts	303	283	570	542
Fee Income				
Insurance agency revenue	271	292	691	591
Investment services revenue	97	128	232	225
ATM fees surcharge	59	59	107	107
Banking house rents collected	48	46	96	102
Total fee income	475	525	1,126	1,025
Card income				
Debit card interchange fees	112	231	433	459
Merchant card fees	15	18	27	33
Total card income	127	249	460	492
Mortgage fee income and realized gain on sale of loans and foreclosed real estate				
Loan servicing fees	67	69	139	186
Net gains on sales of loans and foreclosed real estate	117	12	142	75
Total mortgage fee income and realized gain on sale of loans and foreclosed real estate	184	81	281	261
Total	1,089	1,138	2,437	2,320
Earnings and gain on bank owned life insurance	143	123	301	285
Net gains on sale and redemption of investment securities	-	36	73	30
Gains (losses) on marketable equity securities	(169)	(29)	(169)	39
Other miscellaneous income	24	28	37	225
Total noninterest income	$ 1,087	$ 1,296	$ 2,679	$ 2,899

The following is a discussion of key revenues within the scope of ASC 606 guidance:

•*Service charges on deposit accounts* – Revenue is earned through insufficient funds fees, customer initiated activities or passage of time for deposit related fees, and ATM service fees. Transaction-based fees are recognized at the time the transaction is executed, which is the same time the Company's performance obligation is satisfied. Account maintenance fees are earned over the course of the month as the monthly maintenance performance obligation to the customer is satisfied.

•*Fee income* – Revenue is earned through commissions on insurance and securities sales, ATM surcharge fees, and banking house rents collected. The Company earns investment advisory fee income by providing investment management services to customers under investment management contracts. As the direction of investment management accounts is provided over time, the performance obligation to investment management customers is satisfied over time, and therefore, revenue is recognized over time.

•*Card income* – Card income consists of interchange fees from consumer debit card networks and other related services. Interchange rates are set by 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 2 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 lease expense are as follows:

	For the three months ended		For the six months ended	
(In thousands)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Operating lease cost	$ 59	$ 57	$ 118	$ 113
Finance lease cost	56	21	111	41

Supplemental cash flow information related to leases was as follows:

	For the three months ended		For the six months ended	
(In thousands)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Cash paid for amount included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 54	$ 52	$ 108	$ 105
Operating cash flows from finance leases	56	21	111	41
Financing cash flows from finance leases	31	18	62	37

Supplemental balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rate)	June 30, 2023	December 31, 2022
Operating Leases:		
Operating lease right-of-use assets	$ 2,025	$ 2,098
Operating lease liabilities	2,353	2,417
Finance Leases:		
Finance lease right-of-use assets	$ 4,143	$ 4,213
Finance lease liability	4,401	4,422
Weighted Average Remaining Lease Term:		
Operating Leases	18.06 years	18.28 years
Finance Leases	27.81 years	28.35 years
Weighted Average Discount Rate:		
Operating Leases	9.41 %	3.85 %
Finance Leases	3.88 %	9.41 %

Maturities of lease liabilities are as follows:

Twelve Months Ending June 30, *(In thousands)*		
2024	$	81
2025		181
2026		184
2027		186
2028		198
Thereafter		5,957
Total minimum lease payments	$	6,787

The Company owns certain properties that it leases to unaffiliated third parties at market rates. Lease rental income was $48,000 and $47,000 for the three months ended June 30, 2023 and 2022, respectively. Lease rental income was $96,000 and $102,000 for the six months ended June 30, 2023 and 2022, respectively. The lease agreements in which the Company is the lessor are a mix of operating and finance leases.

Note 15: 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 June 30, 2023 or December 31, 2022.

The following represents the activity associated with loans to related parties during the six months ended June 30, 2023 and the year ended December 31, 2022:

(In thousands)		June 30, 2023		December 31, 2022
Balance at the beginning of the year	$	32,531	$	22,427
Originations and related party additions		75		15,278
Principal payments and related party removals		(1,355)		(5,174)
Balance at the end of the period	$	31,251	$	32,531

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 a noncontrolling interest within the consolidated financial statements. At June 30, 2023, the Company and subsidiaries had total consolidated assets of $1.39 billion, total consolidated liabilities of $1.28 billion and shareholders' equity of $113.8 million, plus noncontrolling interest of $654,000, which represents the 49% of FitzGibbons not owned by the Company.

The following discussion reviews the Company's financial condition at June 30, 2023 and the results of operations for the three and six month periods ended June 30, 2023 and 2022. Operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 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 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2023 (“the consolidated annual financial statements”) as of December 31, 2022 and 2021 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. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions, or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may.” These forward-looking statements are based on current beliefs and expectations of the Company’s and the Bank’s management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company’s and the Bank’s control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from those set forth in the forward-looking statements as a result of numerous factors. Factors that could cause such differences to exist include, but are not limited to: risks related to the real estate and economic environment, particularly in the market areas in which the Company and the Bank operate; fiscal and monetary policies of the U.S. Government; inflation; changes in government regulations affecting financial institutions, including regulatory compliance costs and capital requirements; fluctuations in the adequacy of the allowance for credit losses; decreases in deposit levels necessitating increased borrowing to fund loans and investments; the effects of the COVID-19 pandemic; operational risks including, but not limited to, cybersecurity, fraud and natural disasters; the risk that the Company may not be successful in the implementation of its business strategy; changes in prevailing interest rates; credit risk management; asset-liability management; recent events involving the failure of financial institutions and the impact on the Company's business and the market price of its common stock; any future increase in FDIC insurance assessments or special assessments; and other risks described in the Company’s filings with the Securities and Exchange Commission, which are available at the SEC’s website, www.sec.gov.

The Company and the Bank caution prospective investors not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation to revise or update any forward-looking statements contained in this quarterly report on Form 10-Q to reflect future events or developments.

Application of Critical Accounting Estimates

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 credit losses, deferred income taxes, pension obligations, the evaluation of investment securities for credit losses, 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.

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

The ACL represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment on the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and environmental factors, all of which may be susceptible to significant change. The Company establishes a specific allowance for all commercial loans in excess of the total related credit threshold of $100,000 and single borrower residential mortgage loans in excess of the total related credit threshold of $300,000 identified as being impaired which are on nonaccrual and have been risk rated under the Company's risk rating system as substandard, doubtful, or loss. In addition, an accruing substandard loan could be identified as being impaired.

Loan 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. The measurement of impaired loans is generally based upon the present value of future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral, less costs to sell. At June 30, 2023, the Bank's position in impaired loans consisted of 76 loans totaling $21.9 million. Of these loans, 17 loans, totaling $1.7 million, were valued using the present value of future cash flows method; and 59 loans, totaling $20.2 million, were valued based on a collateral analysis. For all other loans, the Company uses the general allocation methodology that establishes an allowance to estimate the probable incurred loss for each risk-rating category.

In estimating the ACL on loans, management considers the sensitivity of the model and significant judgments and assumptions that could result in an amount that is materially different from management's estimate. At June 30, 2023, the Bank held $510.1 million in commercial real estate and commercial & industrial loans (collectively, commercial loans) representing 57.3% of the Bank's entire loan portfolio. The Bank allocated $11.4 million to the ACL for these loans, including $3.1 million derived from the use of qualitative factors in the calculation. Given the concentration of ACL allocation to the total commercial loan portfolio and the significant judgments made by management in deriving the qualitative loss factors, management considers the impact that changes in judgments could have on the ACL. The ACL could increase (or decrease) by approximately $959,000, assuming a 25% negative (or positive) change within the group of qualitative factors used to determine the ACL for commercial loans. The sensitivity and related range of impacts for various judgments on the ACL is a hypothetical analysis and is used to determine management's judgments or assumptions of qualitative loss factors that were utilized at June 30, 2023 in the final recorded estimation of the ACL on loans recognized on the Statements of Financial Condition.

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.

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. 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.

When the fair value of a security categorized as available-for-sale ("AFS") or held-to-maturity ("HTM") is less than its amortized cost basis, an assessment is made as to whether or not credit loss is present. Management makes a quantitative determination of potential credit loss for all HTM securities even if the risk of credit loss is considered remote and uses a best estimate threshold for securities categorized as AFS. The Company considers numerous factors when determining whether a potential credit loss exists. The principal factors considered are (1) the financial condition of the issue and (guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (2) failure of the issuer of the security to make scheduled interest or principal payments, (3) any changes to the rating of the security by a nationally recognized statistical rating organization ("NRSRO"), and (4) the presence of contractual credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

The Company carries all of its AFS 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 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 portfolio, for both AFS and HTM securities for credit 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 insufficient to recover the entire amortized cost basis.

The estimation of fair value is significant to several of our assets; including AFS 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 AFS 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 AFS 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, 2022 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 pandemic or recent banking crisis, 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.

Recent Events

On June 30, 2023, the Company announced that its Board of Directors declared a cash dividend of $0.09 per share on the Company's voting common and non-voting common stock, and a cash dividend of $0.09 per notional share for the issued warrant relating to the fiscal quarter ended June 30, 2023. The dividends are payable to all shareholders of record on July 21, 2023 and will be paid on August 11, 2023.

Overview and Results of Operations

The following represents the significant highlights of the Company's operating results between the second quarter of 2023 and the second quarter of 2022.

- Net income attributable to Pathfinder Bancorp, Inc. decreased $1.3 million or 39.4% to $2.0 million.
- Basic and diluted earnings per voting common share were both $0.32 per share and decreased $0.22 per share from $0.54 per share.
- Return on average assets decreased 42 basis points to 0.57% due to a decrease in income and increase in average asset balances.
- Net interest income, after provision for credit losses, decreased $1.3 million, or 13.4% to $8.6 million. Excluding the provision, net interest income decreased $245,000, or 2.46%, to $9.7 million. The decrease in net interest income, before provision for credit losses, was primarily due to an increase in the average balance of interest-bearing liabilities of $68.7 million, combined with a 187 basis points increase in the average rates paid on interest-bearing liabilities. These decreases were partially offset by the increase in the average balance of interest-earning assets of $45.9 million, coupled with an increase in the average yield earned on those assets of 136 basis points, from 3.69% for the three months ended June 30, 2022 to 5.05% for the three months ended June 30, 2023.
- The increase in the provision for credit losses of $1.1 million was primarily due to management's decision to downgrade certain commercial real estate and commercial loans with two large credit relationships.
- The net interest margin for the second quarter of 2023 was 2.99%, an 11 basis points decrease compared to 3.14% for the same quarter in 2022. This reflects a 157 basis points increase in the average cost paid on interest-bearing liabilities, offset by a 119 basis points increase in the average yield earned on interest-earning assets.
- The effective income tax rate increased 2.0% to 21.2% for the three months ended June 30, 2023 as compared to 19.2% for the same three month period in 2022. The increase in the tax rate in the second quarter of 2023, as compared to the same quarter in 2022, was primarily related to the reversal of a deferred tax asset valuation allowance in the quarter ended June 30, 2022, and a decrease in other permanent tax differences for the quarter ended June 30, 2023 as compared to the quarter ended June 30, 2022.

The following represents the significant highlights of the Company's operating results between the first six months of 2023 and the first six months of 2022.

- •Net income decreased $1.6 million, or 26.4%, to $4.6 million.
- •Basic and diluted earnings per voting common share were both $0.75 per share and decreased $0.28 per share from $1.03 per share
- •Return on average assets decreased 28 basis points to 0.66% due to a decrease in income and increase in average asset balances.
- •Net interest income, after provision for credit losses, decreased by $1.4 million, or 7.3%, to $17.9 million. This decrease in net interest income after provision for credit losses was primarily due to the increase in total interest expense, partially offset by an increase in the average balances of interest-earning assets.
- •Net interest margin decreased by 11 basis points to 2.99%, primarily as the result of a 34 basis points decrease in the average yield for interest-earning assets, offset by an 8 basis points decline in the average cost for interest-bearing liabilities.
- •The effective income tax rate increased 1.2% to 20.5% for the six months ended June 30, 2023 as compared to 19.3% for the same six month period in 2022. The increase in the tax rate in the second quarter of 2023, as compared to the same quarter in 2022, was primarily related to the reversal of a deferred tax asset valuation allowance in the quarter ended June 30, 2022, and a decrease in other permanent tax differences for the quarter ended June 30, 2023 as compared to the quarter ended June 30, 2022.

The following reflects the significant changes in financial condition between June 30, 2023 and December 31, 2022. In addition, the following reflects significant changes in asset quality metrics between June 30, 2023 and June 30, 2022.

- •Total assets decreased $7.6 million, or 0.54% to $1.39 billion at June 30, 2023 as compared to December 31, 2022, primarily driven by lower investment securities balances and loan balances.
- •Asset quality metrics, as measured by net loan charge-offs, declined in comparison to linked reporting periods. The annualized net loan charge-offs to average loans ratio was 0.06% for the first quarter of 2023, compared to 0.0% for the first quarter of 2022, and 0.04% for the fourth quarter of 2022.
- •Nonperforming loans to total loans were 2.28% at June 30, 2023, compared to 1.35% at June 30, 2022 and 1.00% at December 31, 2022. Correspondingly, the ratio of the allowance for credit losses to nonperforming loans was 92.37% at June 30, 2023, as compared to 111.9% at June 30, 2022, and 169.93% at December 31, 2022.

The Company had net income of $2.0 million for the three months ended June 30, 2023 compared to net income of $3.3 million for the three months ended June 30, 2022. The $1.3 million decrease in net income was due primarily to a $5.2 million increase in total interest expense, a $1.1 million increase in provision for credit losses, a $211,000 decrease in total noninterest income, and a $28,000 increase in total noninterest expense. These year-over-year changes were partially offset by a $4.9 million increase in total interest and dividend income and a $250,000 decrease in provision for income taxes.

Net interest income before the provision for credit losses decreased $245,000, or 2.46%, to $9.7 million for the three months ended June 30, 2023, as compared to $10.0 million for the same three month period in 2022. The decrease in net interest income was due to a 187 basis points increase in the average cost of total interest-bearing liabilities in the second quarter of 2023, as compared to the same quarter in 2022, combined with a $68.7 million increase in the average balance of total interest-bearing liabilities. The increase in the average rates paid on interest-bearing liabilities in the second quarter of 2023, as compared to the same quarter in 2022, reflects the generally increased rates of interest for all financial instruments that has occurred in 2023 due to the rising interest rate environment and increased competition for deposits.

These decreases were partially offset by the result of increases in the average yields of loans and taxable and tax-exempt investment securities portfolios, combined with increases in the average balances of the loan portfolio of $44.2 million and $9.8 million in the investment portfolios. These increases resulted in a 136 basis points increase to 5.05% in total average interest-earning asset yield for the three months ended June 30, 2023 as compared to 3.69% for the same three month period of the previous year. The increase in the average yield received on interest-earning assets in the second quarter of 2023, as compared to the same quarter in 2022, reflects generally increased rates of interest for newly funded loans and investment securities, as compared to the average yields within these portfolios, as well as increases in coupon rates for certain adjustable-rate loans and securities in the rising interest rate environment that has occurred in 2022 and 2023. To some degree, these increases in the average yield on loans during 2023, were partially offset by reduced fee recognition related to PPP loans. PPP fee recognition revenues were nominal in the second quarter of 2023, as compared to $267,000 in the second quarter of the previous year.

The Company's noninterest income for the second quarter of 2023 amounted to $1.1 million, reflecting a reduction of $211,000, compared to the $1.3 million reported in the same quarter of 2022. This variation can primarily be attributed to the factors influencing recurring noninterest income, which excludes volatile items such as unrealized gains or losses on equity securities, as well as nonrecurring gains on sales of loans, investment securities, foreclosed real estate, premises, and equipment.

Noninterest income before gains and losses was $1.1 million in the quarter ended June 30, 2023, a decrease of $140,000, or 11.0%, as compared with the same three month period in 2022. This decrease was largely attributable to a decline of $119,000 in debit card interchange fees received during the quarter ended June 30, 2023, as compared to the same quarterly period in 2022. This quarterly decline relates to timing factors between the first two quarters of 2023. Debit card interchange fees collected in the first half of 2023 remain consistent with the level of fees collected in the first six months of 2022.

Total noninterest expense for the second quarter of 2023 was $7.2 million, a modest increase of $28,000, or 0.4%, compared to the same three month period in 2022. The increase was primarily a result of an increase of $149,000 in building and occupancy expenses, and higher salaries and employee benefits of $121,000, or 3.2%. Both of these increases are largely due to the opening of the Bank's eleventh full-service branch in November 2022. Professional and other service expenses, and insurance agency expenses also increased $51,000 and $29,000, respectively. Mostly offsetting these increases was a $219,000 decrease in other expenses, primarily due to a reclassification of certain issuer fees related to brokered deposit funding from noninterest expense to interest expense during the second quarter of 2023. This reclassification had no effect on overall net income. Advertising and data processing expenses also decreased $69,000 and $34,000, respectively. All other noninterest expense categories netted to zero in the three months ended June 30, 2023, as compared to the same quarter in 2022.

Management extensively reviews recent trends in changes in the size and composition of the loan portfolio, historical loss experience, qualitative factors, and specific reserve needs on loans individually evaluated for impairment, in its determination of the adequacy of the allowance for credit losses. For the three months ended June 30, 2023, $1.1 million was recorded in provision for credit losses as compared to $59,000 in the same prior year three month period. The primary driver of the increased provision expense in the second quarter of 2023, was management's decision to downgrade certain commercial real estate loans and commercial loans within two borrower relationships. These relationships are under active resolution management by the Company. Additionally, the provision in the quarter ended June 30, 2023 was reflective of the qualitative factors used in determining the adequacy of the allowance for credit losses and changes in the levels of delinquent and nonaccrual loans. The second quarter provision for credit losses reflects an addition to reserves considering loan growth and asset quality metrics. The credit-sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its loan classification and reserve building methodologies to the analysis of these portfolios.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, requiring financial institutions, such as the Bank, to adopt the Current Expected Credit Loss (“CECL”) methodology according to a specified implementation timeline. In order to meet this requirement, the Bank adopted the CECL methodology for calculating its Allowance for Credit Losses (“ACL”) on January 1, 2023. The amended guidance replaces the previously-required Allowance for Loan and Lease Losses (“ALLL”) calculated under what was known as the Incurred Loss Model. The ACL represents a valuation account that is deducted from the amortized cost basis of includable financial assets to present their net carrying value at the amount expected to be collected over the entire life of those assets. The income statement now reflects the measurement of credit losses for newly recognized financial assets as well as expected increases, or decreases, of expected credit losses that have taken place during the reporting period. When determining the ACL, expected credit losses over the expected term of the financial asset will be estimated considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the future collectability of the reported amount. In addition, the amended guidance requires credit losses relating to assets such as held-to-maturity debt securities and open contractual funding commitments to be recorded through the ACL. Because the CECL methodology requires that reserves be established within the ACL for a broad range of financial assets, including all loans, through the entirety of their expected lives and also considers new items, such as open funding commitments, the initial ACL upon adoption would, in most cases, be expected to be greater than the ALLL that it replaced.

The transition to CECL also required that new reserves be created in the amounts of $450,000 and $552,000, related to held-to-maturity investments and unfunded commitments, respectively. Including the $1.9 million CECL transition adjustment related to loans, described above, the total CECL transition adjustment was $2.9 million on January 1, 2023, which was charged to retained earnings on that date.

The total PCL for the three and six months ended June 30, 2023 was $1.1 million and $1.8 million, respectively, of which $1.2 million and $1.9 million related to the Company's loan portfolio for the three and six months ended June 30, 2023, respectively. The ACL related to loans was therefore $18.8 million at June 30, 2023. In addition, during the second quarter of 2023, the Company recorded modestly negative PCL charges of $29,000 and $16,000 for reserves related to held-to-maturity securities and unfunded commitments, respectively.

In comparing the year-over-year second quarter periods, the Company’s return on average assets decreased 42 basis points to 0.57% due to the combined effects of the decrease in net income (the numerator in the ratio), and an increase in average assets (the denominator in the ratio). Average assets increased due to increases in the balances of average loans and average investment securities of $44.2 million and $9.8 million, respectively, in the second quarter of 2023 as compared to the same quarter of 2022. Average interest-bearing deposits increased $39.8 million in the second quarter of 2023, as compared with the same quarter in 2022. The increase in deposits was primarily due to increased time deposits, including brokered deposits, of $83.5 million. All other deposit accounts in aggregate decreased $43.7 million when compared with the same quarter in 2022.

The Company had net income of $4.6 million for the six months ended June 30, 2023 compared to net income of $6.2 million for the six months ended June 30, 2022. The $1.6 million decrease in net income was due primarily to an $8.7 million increase in total interest expense, and a $1.7 million increase in the provision for credit losses, partially offset by a $9.0 million increase in interest and dividend income.

Net interest income before the provision for credit losses increased $256,000 to $19.7 million for the six months ended June 30, 2023, as compared to $19.4 million for the same six month period in 2022. Interest expense increased $8.7 million to $12.0 million for the six months ended June 30, 2023 as compared to the prior year period. The average interest rate paid on interest-bearing liabilities increased by 157 basis points for the six months ended June 30, 2022 as compared to the prior year period, and average interest-bearing liabilities increased by $76.8 million, or 7.7%. Average loans for the first six months of 2023 increased by $48.9 million, or 5.7%, over the prior year period, while the average interest yield earned on average loans increased by 83 basis points, resulting in an increase of $4.8 million in interest income on loans for the six months ended June 30, 2023 as compared to the prior year period. Income from investment securities increased $4.1 million to $9.1 million for the six months ended June 30, 2023, as compared to the same prior year period.

Noninterest income decreased $222,000 for the six months ended June 30, 2023, when compared to the same six month period in 2022. This decrease was mostly due to a $208,000 increase in loss on marketable equity securities, a $133,000 loss on sales and redemptions of investment securities, a $47,000 decrease in loan servicing fees, a $26,000 decrease in debit card interchange fees, and a $19,000 decrease in other charges, commissions, and fees. Partially offsetting this decrease was a $100,000 increase in insurance agency revenue, a $67,000 gain on sales of loans and foreclosed real estate, a $28,000 increase in service charges on deposit accounts, and a $16,000 increase in earnings and gain on bank owned life insurance.

Total noninterest expense for the first six month period of 2023 was $14.7 million, an increase of $300,000, or 2.1%, compared with $14.4 million for the prior year period. The increase was primarily a result of higher salaries and employee benefits expense of $255,000, or 3.3%. This increase in salaries was primarily due to increases in individual salaries, enacted early in 2023, as well as modest additions to staff headcount. The Company increased its salary structure where deemed appropriate in order to effectively respond to inflationary and competitive pressures within our marketplace to recruit and retain talent. The increase in noninterest expense was due to an increase in building and occupancy of $175,000 for the six months ended June 30, 2023, when compared to $1.8 million for the same prior year period. This was primarily due to the addition of the Bank's eleventh full-service branch in November 2022. These increases, when comparing both three and six month periods, can be attributed to increasing costs of third party software services, totaling $128,000 during June 2023.

The additional increase when comparing the six month periods was mostly due to substantially nonrecurring legal fees in the amount of $107,000.

For the first six months of 2023, the Bank recorded $1.8 million in provision for credit losses as compared to $161,000 in the same prior year six month period. The provision was reflective of (1) the qualitative factors used in determining the adequacy of the allowance for credit losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The increase in the provision for credit losses in the first half of 2023, as compared to the same period in 2022, was primarily related to the downgrade of two certain commercial real estate and commercial loan relationships, as compared to the same period in the previous year. The credit sensitive portfolios continue to be carefully monitored. Please refer to the asset quality section below for a further discussion of asset quality as it relates to the allowance for credit losses.

Return on average assets decreased 28 basis points to 0.66% between the year-over-year six month periods as there was a decrease in net income in the six month period ended June 30, 2023 (the numerator of the ratio) while the rate of average assets (the denominator of the ratio) grew during the period. Average assets increased due to increases in loans of $48.9 million and investment securities of $26.3 million in the six month period ended June 30, 2023 as compared to the same period of 2022. Average interest-bearing liabilities increased $76.8 million in the six months ended June 30 2023, as compared with the same period in 2022. The increase in deposits was primarily due to increased time deposits, including brokered deposits, of $80.3 million. All other deposit accounts in aggregate decreased $3.5 million as compared with the same period in 2022.

Net Interest Income

Net interest income is the Company's primary source of operating income for payment of operating expenses and providing for credit 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 have 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 of $2,000 and $545,000 for the periods ended June 30, 2023 and June 30, 2022, respectively. The decrease in loan fees for the year over year periods was primarily due to the decrease in PPP loan fee income. Nonaccrual loans have been included in interest-earning assets for purposes of these calculations.

	(Unaudited) For the three months ended June 30,					
	2023			2022		
Unaudited *(In thousands)*	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
Interest-earning assets:						
Loans	$ 907,556	$ 11,791	5.20%	$ 863,369	$ 8,974	4.16%
Taxable investment securities	369,870	4,296	4.65%	351,952	2,574	2.93%
Tax-exempt investment securities	29,013	479	6.60%	37,088	143	1.54%
Fed funds sold and interest-earning deposits	9,723	55	2.26%	17,871	15	0.34%
Total interest-earning assets	1,316,162	16,621	5.05%	1,270,280	11,706	3.69%
Noninterest-earning assets:						
Other assets	94,350			74,842		
Allowance for credit losses	(18,030)			(13,039)		
Net unrealized losses on available-for-sale securities	(12,944)			(9,268)		
Total assets	$ 1,379,538			$ 1,322,815		
Interest-bearing liabilities:						
NOW accounts	$ 93,560	$ 100	0.43%	$ 105,612	$ 78	0.30%
Money management accounts	14,159	4	0.11%	16,467	4	0.10%
MMDA accounts	244,927	1,622	2.65%	261,203	312	0.48%
Savings and club accounts	127,356	67	0.21%	140,365	50	0.14%
Time deposits	468,534	3,832	3.27%	385,049	690	0.72%
Subordinated debt	29,792	483	6.48%	29,619	430	5.81%
Borrowings	99,284	781	3.15%	70,574	165	0.94%
Total interest-bearing liabilities	1,077,612	6,889	2.56%	1,008,889	1,729	0.69%
Noninterest-bearing liabilities:						
Demand deposits	171,882			194,287		
Other liabilities	16,129			11,263		
Total liabilities	1,265,623			1,214,439		
Shareholders' equity	113,915			108,376		
Total liabilities & shareholders' equity	$ 1,379,538			$ 1,322,815		
Net interest income		$ 9,732			$ 9,977	
Net interest rate spread			2.49%			3.00%
Net interest margin			2.96%			3.14%
Ratio of average interest-earning assets to average interest-bearing liabilities			122.14%			125.91%

Unaudited *(In thousands)*	For the six months ended June 30, 2023 Average Balance	Interest	Average Yield / Cost	2022 Average Balance	Interest	Average Yield / Cost
Interest-earning assets:						
Loans	$ 903,255	$ 22,449	4.97 %	$ 854,374	$ 17,666	4.14 %
Taxable investment securities	369,155	8,121	4.40 %	340,684	4,742	2.78 %
Tax-exempt investment securities	32,726	934	5.71 %	34,917	261	1.49 %
Fed funds sold and interest-earning deposits	11,930	160	2.68 %	24,812	19	0.15 %
Total interest-earning assets	1,317,066	31,664	4.81 %	1,254,787	22,688	3.62 %
Noninterest-earning assets:						
Other assets	97,754			83,199		
Allowance for credit losses	(17,542)			(13,035)		
Net unrealized losses on available-for-sale securities	(12,738)			(5,323)		
Total assets	$ 1,384,540			$ 1,319,628		
Interest-bearing liabilities:						
NOW accounts	$ 95,492	$ 191	0.40 %	$ 106,160	$ 149	0.28 %
Money management accounts	14,727	8	0.11 %	16,271	8	0.10 %
MMDA accounts	253,214	2,897	2.29 %	261,549	558	0.43 %
Savings and club accounts	130,427	131	0.20 %	139,480	98	0.14 %
Time deposits	461,793	6,435	2.79 %	381,506	1,286	0.67 %
Subordinated debt	29,770	955	6.42 %	29,598	842	5.69 %
Borrowings	93,057	1,347	2.89 %	67,071	303	0.90 %
Total interest-bearing liabilities	1,078,480	11,964	2.22 %	1,001,635	3,244	0.65 %
Noninterest-bearing liabilities:						
Demand deposits	176,339			196,712		
Other liabilities	16,269			11,585		
Total liabilities	1,271,088			1,209,932		
Shareholders' equity	113,452			109,696		
Total liabilities & shareholders' equity	$ 1,384,540			$ 1,319,628		
Net interest income		$ 19,700			$ 19,444	
Net interest rate spread			2.59 %			2.97 %
Net interest margin			2.99 %			3.10 %
Ratio of average interest-earning assets to average interest-bearing liabilities			122.12 %			125.27 %

In the second quarter of 2023, net interest income, before provision for credit losses, for the Company decreased by $245,000 or 2.5%, to $9.7 million compared to $10.0 million for the same quarter in 2022. This decrease was due principally to a 187 basis points increase on the average cost of interest-bearing liabilities, offset by an increase of 136 basis points in the average yield of interest-earning assets. Net interest income was positively impacted by an increase in the average balance of interest-earning assets of $45.8 million, or 3.61%. The positive effect of this increase on the average balance of interest-earning assets was offset by an increase of $68.7 million in average interest-bearing liabilities. In total, net interest margin decreased 18 basis points to 2.96% for the three months ended June 30, 2023 as compared to the same prior year period.

Interest and dividend income increased by $4.9 million, or 42.0%, to $16.6 million for the three months ended June 30, 2023 compared to $11.7 million for the same three month period in 2022. The increase in interest and dividend income between comparable quarters was a result of a $2.8 million increase in loan interest income and a $2.1 million increase in interest income derived from investment securities. The positive effect on interest income was the result of a 104 basis points increase in the average loan yield, accompanied by a $44.2 million increase in the average outstanding balance of loans and a 199 basis points increase in the average yield on investment securities, accompanied by a $9.8 million increase in the average outstanding balance of investment securities. The increase in the average yield received on interest-earning assets in the second quarter of 2023, as compared to the same quarter in 2022, reflects generally increased rates of interest for newly funded loans and investment securities, as compared to the average yields within these portfolios, as well as increases in coupon rates for certain adjustable-rate loans and securities in the rising interest rate environment that has occurred in 2022 and 2023. These increases in the average yield on loans during 2023 were partially offset by reduced fee recognition related to PPP loans. PPP fee recognition revenues were less than $1,000 for the first six months of 2023, as compared to $545,000 in the six months of the previous year.

Interest expense for the three months ended June 30, 2023 increased by $5.2 million to $6.9 million when compared to the same prior year period due primarily to an increase in interest expense on time deposits and the Company's short-term and long-term borrowings. Interest expense increased due to a 187 basis points increase in the average rates paid on interest-bearing liabilities between the two periods, accompanied by an increase in the average outstanding balance of those liabilities of $68.7 million. The increase in the quarterly interest expense was primarily a result of the increase in cost of deposits resulting from the rapidly rising interest rate environment and increased competition. The deposit mix included an $83.5 million increase in average time deposit balances, an increase of $28.7 million in the Bank's average borrowings offset by a decrease of $43.7 million in the average balance of interest-bearing deposits.

In the six month period ended June 30, 2023, net interest income increased by $256,000, or 1.3%, compared to the same six month period in 2022, reaching $19.7 million. The positive change in net interest income was primarily due to the increase in interest and dividend income for the six months ended June 30, 2023, offset by an increase in the Bank's interest expense on interest-bearing liabilities.

The Bank's interest-earning asset income increased to $31.7 million, a 39.5%, or $9.0 million increase from $22.7 million during the same six months in 2022. The change in interest and dividend income for the first six months of 2023 was mainly from an increase in interest generated from loans totaling $22.4 million, up $4.8 million from $17.7 million in the same six months of 2022. In addition to the increase in interest generated from loans in the six month period ended June 30, 2023, there was a $4.1 million increase in interest earned on investment securities totaling $9.1 million, up from $5.0 million during the same period in 2022 along with a year over year increase of $141,000 in interest on all other interest-earning assets. The average balance of all interest-earning assets for the six month period ended June 30, 2023 was $1.3 billion, an increase of $62.3 million from $1.2 billion in the same six month period in 2022, resulting in a 119 basis points increase on the average yield of interest-earning assets.

The increase in interest collected on the Bank's interest-earning assets was offset by an increase of $8.7 million in interest expense on the Bank's interest-bearing liabilities reaching $12.0 million in the six month period ended June 30, 2023, up from $3.2 million in the same period in 2022. There was an increase in the average balance of the Company's interest-bearing liabilities in the first six months of 2023 totaling $1.1 billion, up $76.8 million from the same six month period in 2022. This upward change in interest-bearing liabilities was primarily due to an increase of $80.3 million in average time deposits and a $1.0 million increase in expense on the Bank's average borrowings in the first six months of 2023 compared to the same six months in 2022. The increase in average time deposits for the six month period ended June 30, 2023 compared to the same six months in 2022 was partially offset by the decrease of all other average interest-bearing deposits of $28.6 million in the first six months of 2023. The 157 basis points increase in the Bank's average cost of interest-bearing liabilities for the six month period ended June 30, 2023 exemplified the effect rising interest rates have on this competitive deposit market.

The resultant net interest margin for the first six months of 2023 was 2.99%, an eleven basis points decrease compared to a net interest margin of 3.10% in first six months of 2022. Over the past year, the Company's management has been able to effectively manage net interest margin by active management of the Bank's assets and liabilities in the current challenging interest rate environment.

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

Unaudited	Three months ended June 30, 2023 vs. 2022 Increase/(Decrease) Due to			Six months ended June 30, 2023 vs. 2022 Increase/(Decrease) Due to		
(In thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest Income:						
Loans	$ 479	$ 2,338	$ 2,817	$ 1,056	$ 3,727	$ 4,783
Taxable investment securities	137	1,585	1,722	425	2,954	3,379
Tax-exempt investment securities	(213)	549	336	(49)	722	673
Interest-earning deposits	(48)	88	40	(34)	175	141
Total interest income	355	4,560	4,915	1,398	7,578	8,976
Interest Expense:						
NOW accounts	(52)	74	22	(40)	82	42
Money management accounts	(2)	2	-	(2)	2	-
MMDA accounts	(136)	1,446	1,310	(54)	2,393	2,339
Savings and club accounts	(28)	45	17	(18)	51	33
Time deposits	180	2,962	3,142	324	4,825	5,149
Subordinated debt	3	50	53	5	108	113
Borrowings	90	526	616	156	888	1,044
Total interest expense	55	5,105	5,160	371	8,349	8,720
Net change in net interest income	$ 300	$ (545)	$ (245)	$ 1,027	$ (771)	$ 256

Provision for Credit Losses

We establish a provision for credit losses, which is charged to operations, at a level management believes is appropriate to absorb expected credit losses in the loan portfolio. In evaluating the level of the allowance for credit 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 credit losses represents management's estimate of the amount necessary to maintain the allowance for credit losses at an adequate level.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* requiring financial institutions, such as the Bank, to adopt the Current Expected Credit Loss ("CECL") methodology according to a specified implementation timeline. In order to meet this requirement, the Bank adopted the CECL methodology for calculating its Allowance for Credit Losses ("ACL") on January 1, 2023. The amended guidance replaces the previously-required Allowance for Loan and Lease Losses ("ALLL") calculated under what was known as the Incurred Loss Model. The ACL represents a valuation account that is deducted from the amortized cost basis of includable financial assets to present their net carrying value at the amount expected to be collected over the entire life of those assets. The income statement now reflects the measurement of credit losses for newly recognized financial assets as well as expected increases, or decreases, of expected credit losses that have taken place during the reporting period. When determining the ACL, expected credit losses over the expected term of the financial asset will be estimated considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the future collectability of the reported amount. In addition, the amended guidance requires credit losses relating to assets such as held-to-maturity debt securities and open contractual funding commitments to be recorded through the ACL. Because the CECL methodology requires that reserves be established within the ACL for a broad range of financial assets, including all loans, through the entirety of their expected lives and also considers new items, such as open funding commitments, the initial ACL upon adoption would, in most cases, be expected to be greater than the ALLL that it replaced.

The Company recorded $1.1 million in provision for credit losses for the three month period ended June 30, 2023, as compared to $59,000 for the three month period ended June 30, 2022. The provisioning in the second quarter of 2023 and 2022 reflects management's determination of the appropriate level of additions to reserves, the composition of the loan portfolio, changes in quantifiable econometric data statistically correlated to historical charge-off rates, subjective qualitative assessments of changes in a broad array of factors including changes to underwriting criteria, loan staffing and local market conditions. The $1.1 million increase in provision for credit losses in the second quarter of 2023, as compared to the same period in 2022, primarily reflected management's decision to downgrade certain loans within two specifically-identified commercial real estate and commercial loan credit relationships with an aggregate outstanding balance of $17.1 million. The Bank's credit sensitive portfolios continue to be carefully monitored, and the Bank will consistently apply its 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 credit losses.

There was an increase in the provision for credit losses in the first six months of 2023 to $1.8 million, an increase of $1.7 million from the same six months in 2022, which was $161,000. The Bank has two large credit relationships that are experiencing deterioration and are the primary impact of this provision, mitigating potential risk. The Lending Department, along with highly experienced specialists, are carefully managing these commercial relationships to the best possible outcome. We are currently working with the borrowers associated with these credit relationships on individual loan repayment plans and the liquidation of loan collateral, where appropriate. The company has adequately reserved for these loans at this time and expects to announce some charge-offs related to these relationships in the next quarter as a component of the final resolution of these troubled credits.

The transition to CECL also required that new reserves be created in the amounts of $450,000 and $552,000, related to held-to-maturity investments and unfunded commitments, respectively. Including the $1.9 million CECL transition adjustment related to loans, described above, the total CECL transition adjustment was $2.9 million on January 1, 2023, which was charged to retained earnings on that date.

The total PCL for the three and six months ended June 30, 2023 was $1.1 million and $1.8 million, respectively, of which $1.2 million and $1.9 million related to the Company's loan portfolio for the three and six months ended June 30, 2023, respectively. The ACL related to loans was therefore $18.8 million at June 30, 2023. In addition, during the second quarter of 2023, the Company recorded modestly negative PCL charges of $29,000 and $16,000 for reserves related to held-to-maturity securities and unfunded commitments, respectively.

The Company measures delinquency based on the amount of past due loans as a percentage of total loans. The ratio of delinquent loans to total loans increased to 3.55% at June 30, 2023 as compared to 2.89% at December 31, 2022. Delinquent loans (numerator) increased $5,700 while total loan balances (denominator) decreased $6.4 million at June 30, 2023, as compared to December 31, 2022. The increase in past due loans was driven by a decrease of $5.6 million in loans delinquent 30-59 days, and a decrease of $262,000 in loans delinquent 60-89 days, offset by a $11.5 million increase in loans delinquent 90 days and over past due at June 30, 2023, as compared to December 31, 2022. The increase of $11.5 million primarily consisted of increases in commercial real estate, commercial lines of credit and commercial loans.

At June 30, 2023, there were $31.6 million in loans past due including $7.4 million in loans 30-59 days past due, $4.0 million in loans 60-89 days past due and $20.1 million in loans 90 or more days past due. At December 31, 2022, there were $26.0 million in loans past due including $13.0 million in loans 30-59 days past due, $4.3 million in loans 60-89 days past due and $8.7 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 six months ended			
(In thousands)	June 30, 2023	June 30, 2022	Change		June 30, 2023	June 30, 2022	Change	
Service charges on deposit accounts	$ 303	$ 283	$ 20	7.1 %	$ 570	$ 542	$ 28	5.2 %
Earnings and gain on bank owned life insurance	143	123	20	16.3 %	301	285	16	5.6 %
Loan servicing fees	67	69	(2)	-2.9 %	139	186	(47)	-25.3 %
Debit card interchange fees	112	231	(119)	-51.5 %	433	459	(26)	-5.7 %
Insurance agency revenue	271	292	(21)	-7.2 %	691	591	100	16.9 %
Other charges, commissions and fees	243	279	(36)	-12.9 %	499	516	(17)	-3.3 %
Noninterest income before gains	1,139	1,277	(138)	-10.8 %	2,633	2,579	54	2.1 %
Net gains on sales of securities, loans and foreclosed real estate	117	48	69	143.8 %	215	281	(66)	-23.5 %
(Losses) gains on marketable equity securities	(169)	(29)	(140)	482.8 %	(169)	39	(208)	533.3 %
Total noninterest income	$ 1,087	$ 1,296	$ (209)	-16.1 %	$ 2,679	$ 2,899	$ (220)	-7.6 %

Second quarter noninterest income was $1.1 million, a decrease of $211,000, or 16.3% compared to $1.3 million for the same three month period in 2022. The decrease in noninterest income when compared to the same quarter of the previous year was primarily due to (1) a decrease in the debit card interchange fees in the 2023 second quarter of $119,000 compared to the second quarter of 2022, (2) a loss on marketable equity securities of $169,000, compared to the loss of $29,000 recorded in the second quarter of 2022, and (3) an aggregate decrease of $61,000 in loan servicing fees, insurance agency revenue, and other charges commissions and fees when compared to the same three month period in 2022.

For the six months ended June 30, 2023 noninterest income was $2.7 million, a decrease of $222,000, or 7.7%, compared to $2.9 million for the same six month period in 2022. The decrease in noninterest income, as compared to the six month period of the previous year, was primarily due to (1) a loss on marketable equity securities of $169,000, compared to the gain of $39,000 recorded in the same six month period of 2022, (2) a $195,000 decrease in other charges, commissions, and fees compared to the same six month period in 2022, and (3) an aggregate $73,000 decrease in loan servicing fees and debit card interchange fees when compared to the same six month period in 2022. These reductions were partially offset by increases in services charges on deposit accounts, earnings and gain on bank owned life insurance, insurance agency revenue, and net gains on the sale of securities, loans, and foreclosed real estate.

Noninterest Expense

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

Unaudited	For the three months ended				For the six months ended			
(In thousands)	June 30, 2023	June 30, 2022	Change		June 30, 2023	June 30, 2022	Change	
Salaries and employee benefits	$ 3,906	$ 3,785	$ 121	3.2 %	$ 8,089	$ 7,834	$ 255	3.3 %
Building and occupancy	979	830	149	18.0 %	1,831	1,656	175	10.6 %
Data processing	483	517	(34)	-6.6 %	1,036	1,067	(31)	-2.9 %
Professional and other services	503	452	51	11.3 %	1,039	845	194	23.0 %
Advertising	166	235	(69)	-29.4 %	372	422	(50)	-11.8 %
FDIC assessments	222	222	-	0.0 %	441	444	(3)	-0.7 %
Audits and exams	158	142	16	11.3 %	317	283	34	12.0 %
Insurance agency expense	283	254	29	11.4 %	544	458	86	18.8 %
Community service activities	66	73	(7)	-9.6 %	96	135	(39)	-28.9 %
Foreclosed real estate expenses	18	27	(9)	-33.3 %	32	40	(8)	-20.0 %
Other expenses	390	609	(219)	-36.0 %	901	1,214	(313)	-25.8 %
Total noninterest expenses	$ 7,174	$ 7,146	$ 28	0.4 %	$ 14,698	$ 14,398	$ 300	2.1 %

Total noninterest expense for the second quarter of 2023 was $7.2 million, an increase of $28,000, or 0.4%, compared to the same three month period in 2022. Noninterest expense for the second quarter of 2023, in comparison to the same quarter in the previous year, was driven by increases in salaries and benefits expense of $121,000, building and occupancy of $149,000, professional and other services of $51,000, audits and exams of $16,000, and insurance agency expense of $29,000. These increases were significantly offset by a decrease of $219,000, or 36%, in other expenses when compared to the same period in 2022. The decline in other expenses is primarily related to the reclassification of certain issuer fees related to brokered deposit funding from noninterest expense to interest expense during the second quarter of 2023. This reclassification had no effect on overall net income.

Total noninterest expense for the first six month period of 2023 was $14.7 million, an increase of $300,000, or 2.1%, compared with $14.4 million for the same six month period in 2022. The increase was primarily a result of higher salaries and employee benefits expense of $255,000, building and occupancy expense of $175,000, professional and other services of $194,000, audits and exams of $34,000, and insurance agency expense of $86,000. These increases were significantly offset by a decrease of $313,000, or 25.8%, in other expenses when compared to the same period in 2022. The decline in other expenses is primarily related to the reclassification of certain issuer fees related to brokered deposit funding from noninterest expense to interest expense during the second quarter of 2023. This reclassification had no effect on overall net income.

The $255,000 and $121,000 increase in salaries and benefits expense for the three and six months ended June 30, 2023, as compared to the same six month periods in 2022, was primarily due to increases in individual staff salaries and certain commissions paid related to insurance and investment services activities. Staffing increases in the Bank's branch system were made as a result of the opening of the Bank's eleventh branch in November 2022. During the first quarter of 2023, the Company increased its salary structure where it was deemed appropriate in order to effectively respond to inflationary and competitive pressures within our marketplace to recruit and retain talent. Further increases within the Company’s personnel expenses are anticipated throughout the remainder of 2023 as certain position vacancies are filled and further compensation adjustments, in a limited number of areas are realized. The Bank's decision to invest in its workforce demonstrates its dedication to building a strong, skilled, and satisfied team of professionals, which is viewed by management as vital for maintaining a competitive edge in the ever-evolving banking sector.

Building and occupancy expenses increased by $149,000, or 18.0%, from $830,000 fora the second quarter of 2022 to $979,000 during the second quarter of 2023. These expenses increased by $175,000, or 10.6%, from $1.7 million for the six months ended June 30, 2022 to $1.8 million during the six months ended June 30, 2023. This increase was mostly due to costs related to the opening of the Bank's eleventh full-service branch in November 2022.

Professional and other service fees increased during the three months ended June 30, 2023 by $51,000, or 11.3%, to $503,000 as compared to $452,000 during the same quarterly period in 2022. During the six months ended June 30, 2023, these expenses increased by $194,000, or 23.0%, to $1.0 million as compared to $845,000 during the six months ended June 30, 2022. These increases, when comparing both three and six month periods, can be attributed to an increase in costs for software programs during June 2023. The additional increase when comparing the six month periods was mostly due to nonrecurring incurred legal fees.

Income Tax Expense

Income tax expense decreased $250,000 to $530,000, with an effective tax rate of 21.2%, for the quarter ended June 30, 2023, as compared to $780,000 with an effective tax rate of 19.2% for the same three month period in 2022. The decrease in income tax expense for the quarter ended June 30, 2023, as compared to the same quarter in 2022, was primarily driven by a decrease of $1.6 million in income before taxes. The effective income tax rate increased 2.0% to 21.2% for the three months ended June 30, 2023 as compared to 19.2% for the same three month period in 2022. The increase in the tax rate in the second quarter of 2023, as compared to the same quarter in 2022, was primarily related to the reversal of a deferred tax asset valuation allowance in the quarter ended June 30, 2022, and a decrease in other permanent tax differences for the quarter ended June 30, 2023 as compared to the quarter ended June 30, 2022.

Income tax expense decreased $302,000 to $1.2 million, with an effective tax rate of 20.5%, for the six months ended June 30, 2022, as compared to $1.5 million with an effective tax rate of 19.3%, for the same six month period in 2022. The decrease in income tax expense for the six months ended June 30, 2023, as compared to the same six month period in 2022, was primarily driven by the year-over-year decrease in income before taxes. The effective income tax rate increased 1.2% to 20.5% for the six months ended June 30, 2023 as compared to 19.3% for the same six month period in 2022. The increase in the tax rate in the second quarter of 2023, as compared to the same quarter in 2022, was primarily related to the reversal of a deferred tax asset valuation allowance in the quarter ended June 30, 2022, and a decrease in other permanent tax differences for the quarter ended June 30, 2023 as compared to the quarter ended June 30, 2022.

The Company’s tax liability is a function of the 21% statutory federal tax rate, the level of pretax income, the varying effects of New York State income taxes, and is partially reduced 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. 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 Voting share were $0.32 per share for the second quarter of 2023, as compared to $0.54 per basic and diluted Voting share for the same quarter of 2022. Basic and diluted earnings per Series A Non-Voting share were $0.32 per share for the second quarter of 2023, as compared to $0.54 per basic and diluted Series A Non-Voting share for the same quarter of 2022.

Basic and diluted earnings per Voting and Series A Non-Voting share were $0.75 for the six month period ended June 30, 2023, as compared to $1.03 for the same prior year period. The decrease in earnings per share between these two periods was due to the decrease 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 decreased $7.6 million, or 0.5%, to $1.39 billion at June 30, 2023 as compared to $1.40 billion at December 31, 2022. This decrease was due primarily to decreases in loans and investment securities.

Loans totaled $891.1 million at June 30, 2023, a decrease of $6.6 million, or 0.7%, compared to $897.7 million at December 31, 2022, mostly due to decreases of $8.2 million in total consumer loans, and $4.1 million in total residential mortgage loans. Investment securities, including investment in FHLB-NY stock, decreased $3.8 million, or 1.0%, to $390.2 million at June 30, 2023, as compared to $394.0 million at December 31, 2022. This was due to a decrease of $5.9 million in available-for-sale securities, offset by increases in held-to-maturity securities, marketable equity securities, and FHLB-NY stock totaling $2.1 million.

Liabilities

Total liabilities decreased $10.4 million, or 0.8%, to $1.28 billion at June 30, 2023 as compared to $1.29 billion at December 31, 2022. This decrease was due primarily a decrease in total deposits of $24.3 million, or 2.2%, to $1.10 billion at June 30, 2023, compared to $1.13 billion at December 31, 2022, which consists of a $16.8 million decrease in noninterest-bearing deposits, and a $7.5 million decrease in interest-bearing deposits.

Borrowed funds balances from the FHLB-NY increased by $13.5 million, or 11.6%, to $129.5 million at June 30, 2023, from $116.0 million at December 31, 2022, which partially offset the decrease in total liabilities during this period.

Shareholders' Equity

Shareholders' equity increased by $2.8 million, or 2.5%, from $111.0 million at December 31, 2022, to $113.8 million on June 30, 2023. This increase was primarily due to the Company's recorded net income of $4.6 million, partially reduced by declared dividends to shareholders of $1.1 million. Additionally, on January 1, 2023, the Company adopted the CECL methodology for computing its ACL and related provision for credit losses. This adoption resulted in the recognition of a one-time transitional adjustment that reduced the Company's retained earnings by $2.1 million on that date. In total therefore, retained earnings increased by $1.3 million in the six months ended June 30, 2023. The increase in shareholders' equity was also due to a decrease in accumulated other comprehensive loss of $802,000, and an increase in all other components of shareholders' equity totaling $634,000.

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 June 30, 2023, 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 June 30, 2023, the Bank exceeded all regulatory required minimum capital ratios, including the capital buffer requirements.

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

(In thousands)	Actual Amount	Actual Ratio	Minimum For Capital Adequacy Purposes Amount	Minimum For Capital Adequacy Purposes Ratio	Minimum To Be "Well-Capitalized" Under Prompt Corrective Provisions Amount	Minimum To Be "Well-Capitalized" Under Prompt Corrective Provisions Ratio	Minimum For Capital Adequacy with Buffer Amount	Minimum For Capital Adequacy with Buffer Ratio
As of June 30, 2023:								
Total Core Capital (to Risk-Weighted Assets)	$ 149,533	15.42%	$ 77,601	8.00%	$ 97,001	10.00%	$ 101,851	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 137,314	14.16%	$ 58,200	6.00%	$ 77,601	8.00%	$ 82,451	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 137,314	14.16%	$ 43,650	4.50%	$ 63,050	6.50%	$ 67,900	7.00%
Tier 1 Capital (to Assets)	$ 137,314	9.94%	$ 55,282	4.00%	$ 69,103	5.00%	$ 69,103	5.00%
As of December 31, 2022								
Total Core Capital (to Risk-Weighted Assets)	$ 145,760	15.14%	$ 77,029	8.00%	$ 96,286	10.00%	$ 101,100	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 133,683	13.88%	$ 57,772	6.00%	$ 77,029	8.00%	$ 81,843	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 133,683	13.88%	$ 43,329	4.50%	$ 62,586	6.50%	$ 67,400	7.00%
Tier 1 Capital (to Assets)	$ 133,683	9.67%	$ 55,314	4.00%	$ 69,142	5.00%	$ 69,142	5.00%

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.

(In thousands)	June 30, 2023	December 31, 2022
Regulatory Capital Ratios (Bank only)		
Total capital (to risk-weighted assets)		
Total equity (GAAP)	$ 130,572	$ 126,148
Goodwill	(4,536)	(4,536)
Intangible assets	(92)	(101)
Addback: Accumulated other comprehensive income	11,370	12,172
Total Tier 1 Capital	$ 137,314	$ 133,683
Allowance for credit losses (subject to regulatory limits)	12,214	12,076
Total Tier 2 Capital	$ 12,214	$ 12,076
Total Tier 1 plus Tier 2 Capital (numerator)	$ 149,528	$ 145,759
Risk-weighted assets (denominator)	969,582	962,861
Total core capital to risk-weighted assets	15.42 %	15.14 %
Tier 1 capital (to risk-weighted assets)		
Total Tier 1 capital (numerator)	$ 137,314	$ 133,683
Risk-weighted assets (denominator)	969,582	962,861
Total capital to risk-weighted assets	14.16 %	13.88 %
Tier 1 capital (to adjusted assets)		
Total Tier 1 capital (numerator)	$ 137,314	$ 133,683
Total average assets	1,386,684	1,387,480
Goodwill	(4,536)	(4,536)
Intangible assets	(92)	(101)
Adjusted assets (denominator)	$ 1,382,056	$ 1,382,843
Total capital to adjusted assets	9.94 %	9.67 %
Tier 1 Common Equity (to risk-weighted assets)		
Total Tier 1 capital (numerator)	$ 137,314	$ 133,683
Risk-weighted assets (denominator)	969,582	962,861
Total Tier 1 Common Equity to risk-weighted assets	14.16 %	13.88 %

Loan and Asset Quality and Allowance for Credit Losses

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

(In thousands)	June 30, 2023	December 31, 2022	June 30, 2022
Nonaccrual loans:			
Commercial and commercial real estate loans	$ 16,391	$ 5,720	$ 8,496
Consumer	2,409	2,183	1,607
Residential mortgage loans	1,549	1,112	1,584
Total nonaccrual loans	20,349	9,015	11,687
Total nonperforming loans	20,349	9,015	11,687
Foreclosed real estate	277	221	221
Total nonperforming assets	$ 20,626	$ 9,236	$ 11,908
Nonperforming loans to total loans	2.28%	1.00%	1.40%
Nonperforming assets to total assets	1.48%	0.66%	0.87%

Nonperforming assets include nonaccrual loans, including nonaccrual loans classified as troubled debt restructurings (“TDRs”) prior to January 1, 2023, 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 at June 30, 2023, December 31, 2022 and June 30, 2022.

As indicated in the table above, nonperforming assets at June 30, 2023 were $20.6 million, and were $11.4 million higher than the $9.2 million reported at December 31, 2022 and $8.6 million higher than the reported $11.9 million at June 30, 2022. The increase in the nonperforming loan portfolio on June 30, 2023, as compared to December 31, 2022, was primarily the result of the placement of $13.1 million into nonaccrual status of certain loans with two large commercial real estate loan and commercial loan relationships. These relationships are under active resolution management at June 30, 2023.

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 credit 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 credit losses on loans 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 credit losses was $18.8 million and $15.3 million at June 30, 2023 and December 31, 2022, respectively. The ratio of the allowance for credit losses to total loans was 2.11% as of June 30, 2023, as compared to 1.71% at December 31, 2022 and 1.51% at June 30, 2022. Management performs a quarterly evaluation of the allowance for credit losses based on quantitative and qualitative factors and has determined that the current level of the allowance for credit losses is adequate to absorb the losses in the loan portfolio as of June 30, 2023.

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 June 30, 2023 and December 31, 2022, the Company had $23.8 million and $20.2 million in loans, respectively, which were deemed to be impaired, having established specific reserves of $6.4 million and $4.8 million, respectively, on these loans. The $3.6 million increase in impaired loans between these two dates was primarily the result of the placement into nonaccrual status of loans within two large commercial loan and commercial real estate borrower relationships.

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 $36.7 million at June 30, 2023, a decrease of $1.9 million, or 4.9%, as compared to $38.6 million at December 31, 2022. 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 sells residential mortgage loans and has infrequently sold participation interests in commercial loans. As is typical in the industry, the Bank makes certain representations and warranties to the buyers of these loans or loan participations. 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 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.

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 six months of 2023, as indicated in the consolidated statement of cash flows, the Company reported net cash flow from operating activities of $1.9 million and net cash flow of $11.2 million related to investing activities. The net cash flow from investing activities was generated principally by a $3.8 million decrease in net investment activity, an $8.0 million decrease in net loan activity offset by a decrease of $662,000 in all other investing activities in aggregate. The Company reported net cash outflows from financing activities of $11.6 million, primarily due to a $24.3 million decrease in deposits, a $13.8 million increase in net borrowings, and an aggregate decrease in net cash from all other financing sources, including dividends paid to common voting and non-voting shareholders and warrants of $1.1 million.

The Bank's management monitors liquidity on a continuous basis through a broad range of internal programs and considers effective liquidity management to be one of its primary objectives. At June 30, 2023 the Bank had deposits of $1.1 billion, of which $341.0 million were nominally uninsured, as they were above the insurance limits established by the Federal Deposit Insurance Corporation ("FDIC") on that date. Of the $341.0 million in nominally uninsured deposits at June 30, 2023, $80.0 million were insured through a long-standing reciprocal deposit program managed by a third-party entity. In addition, $90.5 million in municipal deposits are fully protected against principal loss by a collateral program whereby the Bank places high-quality securities with an independent custodian as collateral. Therefore, the Bank had $170.5 million in deposits, representing 17.05% of all deposits, that were considered to be uninsured at June 30, 2023.

The Company has a number of existing credit facilities available to it. At June 30, 2023, total credit available under the existing lines of credit was approximately $188.4 million at FHLBNY, the Federal Reserve Bank, and two other correspondent banks. At June 30, 2023, the Company had $126.5 million of the available lines of credit utilized on its existing lines of credit with the remainder of $61.9 million available.

In an effort to increase depositor confidence across the United States' banking system, the Federal Reserve Board, pursuant to section 13(3) of the Federal Reserve Act, authorized all 12 Reserve Banks to establish the Bank Term Funding Program ("BTFP") to make available additional funding to eligible depository institutions, such as the Bank, in order to help assure those institutions have the ability to meet the liquidity needs of all their depositors. The Bank is fully qualified for the BTFP at June 30, 2023 and the BTFP is an additional potential source of liquidity for the Bank until the date of the Program's termination. The BTFP may be accessed by the Bank if management determines that there is a potential or realized short-term liquidity requirement for which this facility should be used to support the Bank's operations. Management could also electively choose to use the facility in certain other circumstances to create other financial or operational benefits at the time that the BTFP line is accessed.

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 June 30, 2023, 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 June 30, 2023, the Company had $188.7 million in outstanding commitments to extend credit and standby letters of credit.

The Company's exposure to credit loss in the event of nonperformance related to off-balance sheet arrangements is proportional to the contractual amount of those instruments. Such financial instruments are recorded when they are funded. The Company records an allowance for credit losses on off-balance sheet credit exposures, unless such commitments are unconditionally cancelable, through the provision for credit losses expense. The allowance for credit losses on off-balance sheet credit exposures as of June 30, 2023 was $546,000 and is included in other liabilities on the Company's consolidated Statements of Condition.

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 June 30, 2023. 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 June 30, 2023, our CEO and CFO concluded that our disclosure controls and procedures were effective as of that date.

As disclosed elsewhere within this document, during the first quarter of 2023 the Company adopted ASU 2016-13 and consequently, the CECL model for accounting for credit losses related to financial assets. The adoption of the model and the ongoing calculations under CECL involve significant complexity and management has engaged expert independent third parties to complete significant portions of the transition to CECL and to manage the ongoing processes involved in CECL calculations, documentation and reporting. In many cases, our disclosure controls and procedures have been modified significantly to accommodate the requirements of the CECL model and those controls require increased reliance on the services and expertise provided by the engaged independent parties. Management believes that these new disclosure controls are currently effective, and will be effective in the future, with respect to the calculation of the Company's allowance for credit losses. Other than the adoption of the CECL model, there were no changes made in our internal controls during the quarter ended June 30, 2023 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 June 30, 2023, 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, and Issuer Purchases of Equity Securities

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
April 1, 2023 through April 30, 2023	-	$ -	-	74,292
May 1, 2023 through May 31, 2023	-	$ -	-	74,292
June 1, 2023 through June 30, 2023	-	$ -	-	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)

August 9, 2023	/s/ James A. Dowd James A. Dowd President and Chief Executive Officer
August 9, 2023	/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, James A. Dowd, 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.

August 9, 2023	/s/ James A. Dowd James A. Dowd President and Chief Executive Officer

EXHIBIT 31.2: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer

Certification of Chief Financial Officer

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

I, Walter F. Rusnak, 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.

August 9, 2023

/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 June 30, 2023 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.

August 9, 2023	/s/ James A. Dowd James A. Dowd President and Chief Executive Officer
August 9, 2023	/s/ Walter F. Rusnak Walter F. Rusnak Senior Vice President, Chief Financial Officer