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, 2020

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 12, 2020, there were 4,753,883 shares outstanding of the registrant’s 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, 2020		December 31, 2019
ASSETS:				
Cash and due from banks (including restricted balances of $1,600 and $0, respectively)	$	19,320	$	8,284
Interest-earning deposits (including restricted balances of $0 and $0, respectively)		25,803		11,876
Total cash and cash equivalents		45,123		20,160
Available-for-sale securities, at fair value		116,131		111,134
Held-to-maturity securities, at amortized cost (fair value of $143,140 and $124,148, respectively)		141,298		122,988
Marketable equity securities, at fair value		1,564		534
Federal Home Loan Bank stock, at cost		4,091		4,834
Loans		806,009		745,516
Loans held-for-sale (1)		-		35,935
Less: Allowance for loan losses		10,553		8,669
Loans receivable, net		795,456		772,782
Premises and equipment, net		22,311		22,699
Operating lease right-of-use assets		2,312		2,386
Accrued interest receivable		4,973		3,712
Foreclosed real estate		26		88
Intangible assets, net		141		149
Goodwill		4,536		4,536
Bank owned life insurance		17,625		17,403
Other assets		11,437		10,402
Total assets	$	1,167,024	$	1,093,807
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Deposits:				
Interest-bearing	$	810,455	$	774,392
Noninterest-bearing		160,138		107,501
Total deposits		970,593		881,893
Short-term borrowings		10,158		25,138
Long-term borrowings		65,239		67,987
Subordinated loans		15,145		15,128
Accrued interest payable		276		396
Operating lease liabilities		2,587		2,650
Other liabilities		10,419		9,946
Total liabilities		1,074,417		1,003,138
Shareholders' equity:				
Preferred stock, par value $0.01 per share; no liquidation preference; 10,000,000 and 10,000,000 shares authorized, respectively; 1,155,283 and 1,155,283 shares issued and outstanding, respectively		12		12
Common stock, par value $0.01; 25,000,000 authorized shares; 4,753,883 and 4,709,238 shares issued and outstanding, respectively		48		47
Additional paid in capital		49,747		49,362
Retained earnings		47,660		44,839
Accumulated other comprehensive loss		(4,387)		(2,971)
Unearned ESOP		(765)		(855)
Total Pathfinder Bancorp, Inc. shareholders' equity		92,315		90,434
Noncontrolling interest		292		235
Total equity		92,607		90,669
Total liabilities and shareholders' equity	$	1,167,024	$	1,093,807

(1) Based on ASC 948, Mortgage Banking, loans shall be classified as held-for-sale once a decision has been made to sell the loans and shall be transferred to the held-for-sale category at lower of cost or fair value. At December 31, 2019, the loans under contract to be sold had a principal balance of $35.8 million and net deferred fees of $146,000. These loans were transferred at their amortized cost of $35.9 million as of December 31, 2019, as the fair value of these loans was greater than the amortized cost.

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, 2020	For the three months ended, June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Interest and dividend income:				
Loans, including fees	$ 8,832	$ 8,222	$ 18,074	$ 15,797
Debt securities:				
Taxable	1,549	1,655	3,241	3,454
Tax-exempt	52	51	59	159
Dividends	64	74	134	151
Federal funds sold and interest earning deposits	17	106	49	216
Total interest and dividend income	10,514	10,108	21,557	19,777
Interest expense:				
Interest on deposits	2,204	2,740	4,760	5,085
Interest on short-term borrowings	39	58	96	225
Interest on long-term borrowings	439	387	884	780
Interest on subordinated loans	192	217	398	434
Total interest expense	2,874	3,402	6,138	6,524
Net interest income	7,640	6,706	15,419	13,253
Provision for loan losses	1,146	610	2,213	754
Net interest income after provision for loan losses	6,494	6,096	13,206	12,499
Noninterest income:				
Service charges on deposit accounts	303	348	659	630
Earnings and gain on bank owned life insurance	106	101	222	222
Loan servicing fees	79	60	128	87
Net gains on sales and redemptions of investment securities	1,023	32	1,049	111
(Losses) gains on marketable equity securities	(722)	16	(916)	57
Net gains on sales of loans and foreclosed real estate	97	13	769	5
Debit card interchange fees	205	187	368	331
Insurance agency revenue	185	218	522	461
Other charges, commissions & fees	255	244	478	408
Total noninterest income	1,531	1,219	3,279	2,312
Noninterest expense:				
Salaries and employee benefits	2,972	3,454	6,219	7,104
Building and occupancy	707	632	1,461	1,287
Data processing	552	587	1,152	1,162
Professional and other services	301	380	617	716
Advertising	261	242	437	481
FDIC assessments	150	130	339	241
Audits and exams	125	100	250	200
Insurance agency expense	212	229	404	428
Community service activities	12	144	119	282
Foreclosed real estate expenses	5	59	35	296
Other expenses	461	582	970	1,053
Total noninterest expense	5,758	6,539	12,003	13,250
Income before income taxes	2,267	776	4,482	1,561
Provision for income taxes	439	175	894	426
Net income attributable to noncontrolling interest and Pathfinder Bancorp, Inc.	1,828	601	3,588	1,135
Net (loss) income attributable to noncontrolling interest	(13)	(6)	57	14
Net income attributable to Pathfinder Bancorp Inc.	$ 1,841	$ 607	$ 3,531	$ 1,121
Convertible preferred stock dividends	69	69	138	69
Warrant dividends	7	8	15	8
Undistributed earnings allocated to participating securities	322	38	612	41
Net income available to common shareholders	$ 1,443	$ 492	$ 2,766	$ 1,003
Earnings per common share - basic	$ 0.31	$ 0.11	$ 0.60	$ 0.23
Earnings per common share - diluted	$ 0.31	$ 0.11	$ 0.60	$ 0.23
Dividends per common share	$ 0.06	$ 0.06	$ 0.12	$ 0.12

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

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

	For the three months ended		For the six months ended	
(In thousands)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net Income	$ 1,828	$ 601	$ 3,588	$ 1,135
Other Comprehensive Income (Loss)				
Retirement Plans:				
Retirement plan net losses recognized in plan expenses	59	84	117	168
Unrealized holding gains (losses) on available-for-sale securities:				
Unrealized holding (losses) gains arising during the period	4,393	1,759	760	3,748
Reclassification adjustment for net gains included in net income	(873)	(32)	(899)	(111)
Net unrealized gains (losses) on available-for-sale securities	3,520	1,727	(139)	3,637
Derivatives and hedging activities:				
Unrealized holding losses arising during the period	(184)	-	(1,528)	-
Net unrealized losses on derivatives and hedging activities	(184)	-	(1,528)	-
Accretion of net unrealized loss on securities transferred to held-to-maturity(1)	10	9	19	15
Other comprehensive income (loss), before tax	3,405	1,820	(1,531)	3,820
Tax effect	(715)	(382)	321	(802)
Other comprehensive income (loss) , net of tax	2,690	1,438	(1,210)	3,018
Comprehensive income	$ 4,518	$ 2,039	$ 2,378	$ 4,153
Comprehensive (loss) income, attributable to noncontrolling interest	$ (13)	$ (6)	$ 57	$ 14
Comprehensive income attributable to Pathfinder Bancorp, Inc.	$ 4,531	$ 2,045	$ 2,321	$ 4,139
Tax Effect Allocated to Each Component of Other Comprehensive Income (Loss)				
Retirement plan net losses recognized in plan expenses	$ (12)	$ (18)	$ (24)	$ (37)
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(923)	(369)	(160)	(785)
Reclassification adjustment for net gains included in net income	183	7	189	23
Unrealized losses on derivatives and hedging arising during the period	39	-	321	-
Accretion of net unrealized loss on securities transferred to held-to-maturity(1)	(2)	(2)	(5)	(3)
Income tax effect related to other comprehensive income (loss)	$ (715)	$ (382)	$ 321	$ (802)

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

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

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Pathfinder Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Three months ended June 30, 2020 and June 30, 2019
(Unaudited)

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP	Non-controlling Interest	Total
Balance, March 31, 2020	$ 12	$ 47	$ 49,659	$ 46,174	$ (7,077)	$ (809)	$ 305	$ 88,311
Net income	-	-	-	1,841	-	-	(13)	1,828
Other comprehensive income, net of tax	-	-	-	-	2,690	-	-	2,690
ESOP shares earned (6,110 shares)	-	-	15	-	-	44	-	59
Restricted stock units (13,437 shares)	-	-	-	-	-	-	-	-
Stock based compensation	-	-	73	-	-	-	-	73
Stock options exercised	-	1	-	-	-	-	-	1
Common stock dividends declared ($0.06 per share)	-	-	-	(279)	-	-	-	(279)
Preferred stock dividends declared ($0.06 per share)	-	-	-	(69)	-	-	-	(69)
Warrant dividends declared ($0.06 per share)	-	-	-	(7)	-	-	-	(7)
Balance, June 30, 2020	$ 12	$ 48	$ 49,747	$ 47,660	$ (4,387)	$ (765)	$ 292	$ 92,607
Balance, March 31, 2019	$ -	$ 44	$ 29,454	$ 42,133	$ (4,462)	$ (989)	$ 258	$ 66,438
Net income	-	-	-	607	-	-	(6)	601
Other comprehensive income, net of tax	-	-	-	-	1,438	-	-	1,438
Proceeds of common stock private placement, net of expenses (1)	-	3	3,823	-	-	-	-	3,826
Proceeds of preferred stock private placement, net of expenses (1)	12	-	15,358	-	-	-	-	15,370
Effect of warrant issued from private placement (1)	-	-	373	-	-	-		373
ESOP shares earned (6,110 shares)	-	-	44	-	-	45	-	89
Restricted stock units (13,436 shares)	-	-	-	-	-	-	-	-
Stock based compensation	-	-	73	-	-	-	-	73
Common stock dividends declared ($0.06 per share)	-	-	-	(274)	-	-	-	(274)
Preferred stock dividends declared ($0.06 per share)	-	-	-	(69)	-	-	-	(69)
Warrant dividends declared ($0.06 per share)	-	-	-	(8)	-	-	-	(8)
Distributions from affiliates	-	-	-	-	-	-	(13)	(13)
Balance, June 30, 2019	$ 12	$ 47	$ 49,125	$ 42,389	$ (3,024)	$ (944)	$ 239	$ 87,844

(1) On May 8, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor, in which it sold: (i) 37,700 shares of the Company's common stock, (ii) 1,155,283 shares of a new series of preferred stock, Series B convertible perpetual preferred stock; and (iii) a warrant to purchase 125,000 shares of common stock in a private placement transaction. The Company also entered into Subscription Agreements with certain directors and executive officers of the Company as well as other accredited investors. Pursuant to the Subscription Agreements, the investors purchased an aggregate of 269,277 shares of common stock.

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, 2020 and June 30, 2019
(Unaudited)

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Com-prehensive Loss	Unearned ESOP	Non-controlling Interest	Total
Balance, January 1, 2020	$ 12	$ 47	$ 49,362	$ 44,839	$ (2,971)	$ (855)	$ 235	$ 90,669
Net income	-	-	-	3,531	-	-	57	3,588
Reevaluation of deferred tax asset valuation allowance (1)	-	-	-	-	(206)	-	-	(206)
Other comprehensive loss, net of tax	-	-	-	-	(1,210)	-	-	(1,210)
ESOP shares earned (12,221 shares)	-	-	52	-	-	90	-	142
Restricted stock units (13,437 shares)	-	-	-	-	-	-	-	-
Stock based compensation	-	-	139	-	-	-	-	139
Stock options exercised	-	1	194	-	-	-	-	195
Common stock dividends declared ($0.12 per share)	-	-	-	(557)	-	-	-	(557)
Preferred stock dividends declared ($0.12 per share)	-	-	-	(138)	-	-	-	(138)
Warrant dividends declared ($0.12 per share)	-	-	-	(15)	-	-		(15)
Balance, June 30, 2020	$ 12	$ 48	$ 49,747	$ 47,660	$ (4,387)	$ (765)	$ 292	$ 92,607
Balance, January 1, 2019	$ -	$ 44	$ 29,139	$ 42,114	$ (6,042)	$ (1,034)	$ 238	$ 64,459
Net income	-	-	-	1,121	-	-	14	1,135
Other comprehensive income, net of tax	-	-	-	-	3,018	-	-	3,018
Proceeds of common stock private placement, net of expenses (2)	-	3	3,823	-	-	-	-	3,826
Proceeds of preferred stock private placement, net of expenses (2)	12	-	15,358	-	-	-	-	15,370
Effect of warrant issued from private placement (2)	-	-	373	-	-	-	-	373
ESOP shares earned (12,221 shares)	-	-	86	-	-	90	-	176
Restricted stock units (13,436 shares)	-	-	-	-	-	-	-	-
Stock based compensation	-	-	146	-	-	-	-	146
Stock options exercised	-	-	200	-	-	-	-	200
Cumulative effect of change in measurement of operating leases (3)	-	-	-	(239)	-	-	-	(239)
Common stock dividends declared ($0.12 per share)	-	-	-	(530)	-	-	-	(530)
Preferred stock dividends declared ($0.06 per share)		-	-	(69)	-	-	-	(69)
Warrant dividends declared ($0.06 per share)	-	-	-	(8)	-	-	-	(8)
Distributions from affiliates	-	-	-	-	-	-	(13)	(13)
Balance, June 30, 2019	$ 12	$ 47	$ 49,125	$ 42,389	$ (3,024)	$ (944)	$ 239	$ 87,844

(1) Management determined that the Company, under the current New York State ("NYS") tax code, was highly unlikely to incur a material NYS tax liability in the foreseeable future. As a result, certain net current and deferred tax assets, related to GAAP vs. tax timing differences under previous NYS tax law were no longer going to provide any future tax benefit. The substantial majority of these net deferred tax assets were offset by a related valuation allowance established in prior periods. Therefore, the Company eliminated its remaining NYS net deferred tax asset balances and the related valuation allowance on January 1, 2020. The effect of these eliminations required an adjustment to other comprehensive income balances and had no effect on 2020 reported earnings.

(2) On May 8, 2019, the Company entered into a Securities Purchase Agreement with an institutional investor, in which it sold: (i) 37,700 shares of the Company's common stock, (ii) 1,155,283 shares of a new series of preferred stock, Series B convertible perpetual preferred stock; and (iii) a warrant to purchase 125,000 shares of common stock in a private placement transaction. The Company also entered into Subscription Agreements with certain directors and executive officers of the Company as well as other accredited investors. Pursuant to the Subscription Agreements, the investors purchased an aggregate of 269,277 shares of common stock.

(3) Cumulative effect of the adoption of ASU 2016-02, Leases (Topic 842), based on the difference in the right-of-use asset and lease liability as of January 1, 2019.

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

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

	For the six months ended June 30,	
(In thousands)	2020	2019
OPERATING ACTIVITIES		
Net income attributable to Pathfinder Bancorp, Inc.	$ 3,531	$ 1,121
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan losses	2,213	754
Amortization of operating leases	11	15
Proceeds from sales of loans	40,498	48
Originations of loans held-for-sale	(3,790)	(47)
Realized losses (gains) on sales, redemptions and calls of:		
Real estate acquired through foreclosure	4	-
Loans	(773)	(5)
Available-for-sale investment securities	(1,014)	(111)
Held-to-maturity investment securities	(35)	-
Marketable equity securities	916	(57)
Depreciation	824	744
Amortization of mortgage servicing rights	(298)	2
Amortization of deferred loan costs	137	128
Amortization of deferred financing from subordinated debt	17	17
Earnings and gain on bank owned life insurance	(222)	(222)
Net amortization of premiums and discounts on investment securities	637	618
Amortization of intangible assets	8	8
Stock based compensation and ESOP expense	281	322
Net change in accrued interest receivable	(1,261)	(271)
Net change in other assets and liabilities	(1,363)	14
Net cash flows from operating activities	40,321	3,078
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(79,052)	(12,280)
Purchase of investment securities held-to-maturity	(39,552)	(46,970)
Purchase of Federal Home Loan Bank stock	(1,176)	(2,605)
Proceeds from redemption of Federal Home Loan Bank stock	1,919	4,099
Proceeds from maturities and principal reductions of investment securities available-for-sale	47,457	12,044
Proceeds from maturities and principal reductions of investment securities held-to-maturity	19,523	5,035
Proceeds from sales, redemptions and calls of:		
Available-for-sale investment securities	24,768	63,486
Held-to-maturity investment securities	1,589	548
Real estate acquired through foreclosure	116	1,085
Net change in loans	(61,017)	(73,419)
Purchase of premises and equipment	(436)	(2,368)
Net cash flows from investing activities	(85,861)	(51,345)

FINANCING ACTIVITIES				
Net change in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits		100,069		(14,292)
Net change in time deposits		(39,454)		61,781
Net change in brokered deposits		28,085		34,088
Net change in short-term borrowings		(14,980)		(10,000)
Payments on long-term borrowings		(18,060)		(19,100)
Proceeds from long-term borrowings		15,312		-
Proceeds from exercise of stock options		195		200
Cash dividends paid to common shareholders		(567)		(526)
Cash dividends paid to preferred shareholders		(139)		-
Cash dividends paid on warrants		(15)		-
Net proceeds from common stock private placement		-		4,199
Net proceeds from preferred stock private placement		-		15,370
Proceeds from finance lease transaction		-		572
Change in noncontrolling interest, net		57		1
Net cash flows from financing activities		70,503		72,293
Change in cash and cash equivalents		24,963		24,026
Cash and cash equivalents at beginning of period		20,160		26,316
Cash and cash equivalents at end of period	$	45,123	$	50,342
CASH PAID DURING THE PERIOD FOR:				
Interest	$	6,259	$	6,382
Income taxes		550		-
NON-CASH INVESTING ACTIVITY				
Real estate acquired in exchange for loans		58		503
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 2019 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, 2020 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2020 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, 2020

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Measurement of Credit Losses on Financial Instruments *(ASU 2016-13: Financial Instruments—Credit Losses [Topic 326]: Measurement of Credit Losses on Financial Instruments)*	The amended guidance replaces the current incurred loss model for determining the allowance for credit losses. The guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses will represent a valuation account that is deducted from the amortized cost basis of the financial assets to present their net carrying value at the amount expected to be collected. The income statement will reflect the measurement of credit losses for newly recognized financial assets as well as expected increases or decreases of expected credit losses that have taken place during the period. When determining the allowance, expected credit losses over the contractual term of the financial asset(s) (taking into account prepayments) will be estimated considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amended guidance also requires recording an allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The initial allowance for these assets will be added to the purchase price at acquisition rather than being reported as an expense. Subsequent changes in the allowance will be recorded through the income statement as an expense adjustment. In addition, the amended guidance requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. The calculation of credit losses for available-for-sale securities will be similar to how it is determined under existing guidance.	January 1, 2023 (early adoption permitted as of January 1, 2019)	The Company is assessing the new guidance to determine what modifications to existing credit estimation processes may be required. The new guidance is complex and management is still evaluating the preliminary output from models that have been developed during this evaluative phase. In addition, future levels of allowances will also reflect new requirements to include estimated credit losses on investment securities classified as held-to-maturity, if any. The Company has formed an Implementation Committee, whose membership includes representatives of senior management, to develop plans that will encompass: (1) internal methodology changes (2) data collection and management activities, (3) internal communication requirements, and (4) estimation of the projected impact of this guidance. It has been generally assumed that the conversion from the incurred loss model, required under current GAAP, to the current expected credit loss (CECL) methodology (as required upon implementation of this Update) will, more likely than not, result in increases to the allowances for credit losses at many financial institutions. However, the amount of any change in the allowance for credit losses resulting from the new guidance will ultimately be impacted by the provisions of this guidance as well as by the loan and debt security portfolios composition and asset quality at the adoption date, and economic conditions and forecasts at the time of adoption. The amendments in this Update should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in Update 2016-13. The cumulative impact of the economic effects of the COVID-19 pandemic on the changes to the allowance for loan losses, that will be required upon the implementation of the CECL methodology, can not be estimated at this time.

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

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Compensation *(ASU 2018-14: Compensation - Retirement Benefits - Defined Benefit Plans - General [Subtopic 715 – 20]: Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans)*	The FASB is issuing the amendments in this ASU as part of the disclosure framework project. The amendments in this ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The following disclosure requirements are removed from Subtopic 715-20: 1. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. 2. The amount and timing of plan assets expected to be returned to the employer. 3. Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan. 4. The effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements are added to Subtopic 715-20: 1. The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates. 2. An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments in this ASU also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: 1. The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets. 2. The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.	The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities.	The Company does not expect the new guidance will have a material impact to its consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Investments *(ASU 2020-01- Equity Securities [Topic 321], Investments—Equity Method and Joint Ventures [Topic 323], and Derivatives and Hedging [Topic 815]—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815)*	The amendments in this Update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments clarify that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options.	The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities.	The amendments in this Update should be applied prospectively. The Company does not expect the new guidance will have a material impact to its consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Income Taxes *(ASU 2019-12- Simplifying the Accounting for Income Taxes)*	The FASB Board is issuing this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The amendments in this Update simplify the accounting for income taxes by removing the following exceptions, among others not considered to be applicable to the Company: 1. Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income) 2. Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments in this Update also simplify the accounting for income taxes by doing the following: 1. Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax. 2. Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction. 3. Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority. 4. Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. 5. Making minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.	The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption of the amendments is permitted, including adoption in any interim period for (1) public business entities for periods for which financial statements have not yet been issued and (2) all other entities for periods for which financial statements have not yet been made available for issuance. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period.	The amendments in this Update related to separate financial statements of legal entities that are not subject to tax should be applied on a retrospective basis for all periods presented. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments should be applied on a prospective basis. The Company does not expect the new guidance will have a material impact to its consolidated statements of condition or income.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Financial Instruments—Credit Losses *(ASU 2019-11- Codification Improvements to Topic 326)*	On June 16, 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments, which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost basis. That model replaces the probable, incurred loss model for those assets. Through the amendments in that Update, the Board added Topic 326, *Financial Instruments—Credit Losses*, and made several consequential amendments to the Codification. The Board has an ongoing project on its agenda for improving the Codification or correcting its unintended application. The items addressed in that project generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are similar to those items. However, the Board decided to issue a separate Update for improvements to the amendments in Update 2016-13 to increase stakeholder awareness of those amendments and to expedite the improvement process. The amendments include items brought to the Board's attention by stakeholders. The amendments in this Update clarify or address stakeholders' specific issues about certain aspects of the amendments in Update 2016-13 as described below: 1. Expected Recoveries for Purchased Financial Assets with Credit Deterioration (PCDs): The amendments clarify that the allowance for credit losses for PCD assets should include in the allowance for credit losses expected recoveries of amounts previously written off and expected to be written off by the entity and should not exceed the aggregate of amounts of the amortized cost basis previously written off and expected to be written off by an entity. In addition, the amendments clarify that when a method other than a discounted cash flow method is used to estimate expected credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount. An entity may include increases in expected cash flows after acquisition. 2. Transition Relief for Troubled Debt Restructurings (TDRs): The amendments provide transition relief by permitting entities an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumptions in effect immediately before the restructuring. 3. Disclosures Related to Accrued Interest Receivables: The amendments extend the disclosure relief for accrued interest receivable balances to additional relevant disclosures involving amortized cost basis. 4. Financial Assets Secured by Collateral Maintenance Provisions: The amendments clarify that an entity should assess whether it reasonably expects the borrower will be able to continually replenish collateral securing the financial asset to apply the practical expedient. The amendments clarify that an entity applying the practical expedient should estimate expected credit losses for any difference between the amount of the amortized cost basis that is greater than the fair value of the collateral securing the financial asset (that is, the unsecured portion of the amortized cost basis). An entity may determine that the expectation of nonpayment for the amount of the amortized cost basis equal to the fair value of the collateral securing the financial asset is zero. 5. Conforming Amendment to Subtopic 805-20: The amendment to Subtopic 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*, clarifies the guidance by removing the cross-reference to Subtopic 310-30 in paragraph 805-20-50-1 and replacing it with a cross-reference to the guidance on PCD assets in Subtopic 326-20.	January 1, 2023 (early adoption permitted as of January 1, 2019). The effective dates and transition requirements for the amendments are the same as the effective dates and transition requirements in Update 2016-13.	The Company is assessing the new guidance to determine what modifications to existing credit estimation processes may be required. The new guidance is complex and management is still evaluating the preliminary output from models that have been developed during this evaluative phase. In addition, future levels of allowances will also reflect new requirements to include estimated credit losses on investment securities classified as held-to-maturity, if any. The Company has formed an Implementation Committee, whose membership includes representatives of senior management, to develop plans that will encompass: (1) internal methodology changes (2) data collection and management activities, (3) internal communication requirements, and (4) estimation of the projected impact of this guidance. It has been generally assumed that the conversion from the incurred loss model, required under current GAAP, to the CECL methodology will, more likely than not, result in increases to the allowances for credit losses at many financial institutions. However, the amount of any change in the allowance for credit losses resulting from the new guidance will ultimately be impacted by the provisions of this guidance as well as by the loan and debt security portfolios composition and asset quality at the adoption date, and economic conditions and forecasts at the time of adoption. The amendments in this Update should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in Update 2016-13.

Standard	Description	Required Date of Implementation	Effect on Consolidated Financial Statements
Reference Rate Reform *(ASU 2020-04- Facilitation of the Effects of Reference Rate Reform on Financial Reporting)*	The amendments provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments (1) apply to contract modifications that replace a reference rate affected by reference rate reform, (2) provide exceptions to existing guidance related to changes to the critical terms of a hedging relationship due to reference rate reform (3) provide optional expedients for fair value hedging relationships, cash flow hedging relationships, and net investment hedging relationships, and (4) provide a onetime election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020.	The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022.	The amendments for contract modifications can be elected to be applied as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020. The amendments for existing hedging relationships can be elected to be applied as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company does not expect that the guidance will have a material effect on its on its consolidated statements of condition or income.

Note 3: Earnings per Common Share

The Company entered into a securities purchase agreement with Castle Creek Capital Partners VII, L.P. on May 8, 2019, pursuant to which the Company sold: (i) 37,700 shares of the Company's common stock, par value $0.01 per share, at a purchase price of $14.25 per share; (ii) 1,155,283 shares of a new series of preferred stock, Series B convertible perpetual preferred stock, par value $0.01 per share, at a purchase price of $14.25 per share; and (iii) a warrant, with an approximate fair value of $373,000, to purchase 125,000 shares of common stock of the Company at an exercise price equal to $14.25 per share, in a private placement transaction (the "Private Placement") for gross proceeds of approximately $17.0 million. As a result of the securities purchase agreement, the Company has common stock, preferred stock and a warrant that are all eligible to participate in dividends equal to the common stock dividends on a per share basis. Securities that participate in dividends, such as the Company's preferred stock and warrant, are considered "participating securities." The Company calculates net income available to common shareholders using the two-class method required for capital structures that include participating securities.

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

Anti-dilutive shares are common stock equivalents with average exercise prices in excess of the weighted average market price for the period presented. Anti-dilutive stock options, not included in the computation below, were 256,145 for the three months ended June 30, 2020 and 128,073 for the six months ended June 30, 2020 and were -0- for the three and six months ended June 30, 2019.

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 per share data)	2020	2019	2020	2019
Net income attributable to Pathfinder Bancorp, Inc.	$ 1,841	$ 607	$ 3,531	$ 1,121
Convertible preferred stock dividends	69	69	138	69
Warrant dividends	7	8	15	8
Undistributed earnings allocated to participating securities	322	38	612	41
Net income available to common shareholders	$ 1,443	$ 492	$ 2,766	$ 1,003
Basic weighted average common shares outstanding	4,639	4,443	4,623	4,344
Effect of assumed exercise of stock options and unvested restricted stock units	-	-	-	-
Diluted weighted average common shares outstanding	4,639	4,443	4,623	4,344
Basic earnings per common share	$ 0.31	$ 0.11	$ 0.60	$ 0.23
Diluted earnings per common share	$ 0.31	$ 0.11	$ 0.60	$ 0.23

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Note 4: Investment Securities

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

	June 30, 2020			
(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	$ 21,584	$ 4	$ (26)	$ 21,562
State and political subdivisions	13,167	-	(26)	13,141
Corporate	11,124	131	(19)	11,236
Asset backed securities	13,079	1	(279)	12,801
Residential mortgage-backed - US agency	14,845	279	-	15,124
Collateralized mortgage obligations - US agency	25,243	166	(528)	24,881
Collateralized mortgage obligations - Private label	17,316	234	(370)	17,180
Total	116,358	815	(1,248)	115,925
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 116,564	$ 815	$ (1,248)	$ 116,131
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 1,000	$ 9	$ -	$ 1,009
State and political subdivisions	10,676	418	(19)	11,075
Corporate	24,776	817	(269)	25,324
Asset backed securities	22,804	9	(735)	22,078
Residential mortgage-backed - US agency	11,909	623	-	12,532
Collateralized mortgage obligations - US agency	23,713	893	(14)	24,592
Collateralized mortgage obligations - Private label	46,420	183	(73)	46,530
Total held-to-maturity	$ 141,298	$ 2,952	$ (1,110)	$ 143,140

(In thousands)	December 31, 2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 16,850	$ -	$ (30)	$ 16,820
State and political subdivisions	1,735	1	-	1,736
Corporate	12,347	230	(23)	12,554
Asset backed securities	13,190	61	(19)	13,232
Residential mortgage-backed - US agency	19,012	56	(88)	18,980
Collateralized mortgage obligations - US agency	31,320	35	(570)	30,785
Collateralized mortgage obligations - Private label	16,767	97	(43)	16,821
Total	111,221	480	(773)	110,928
Equity investment securities:				
Common stock - financial services industry	206	-	-	206
Total	206	-	-	206
Total available-for-sale	$ 111,427	$ 480	$ (773)	$ 111,134
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 1,998	$ 2	$ -	$ 2,000
State and political subdivisions	8,534	124	(4)	8,654
Corporate	25,779	584	(29)	26,334
Asset backed securities	23,099	101	(115)	23,085
Residential mortgage-backed - US agency	13,715	247	(3)	13,959
Collateralized mortgage obligations - US agency	19,607	300	(29)	19,878
Collateralized mortgage obligations - Private label	30,256	35	(53)	30,238
Total held-to-maturity	$ 122,988	$ 1,393	$ (233)	$ 124,148

The amortized cost and estimated fair value of debt investments at June 30, 2020 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	$ 15,701	$ 15,701	$ 1,976	$ 1,999
Due after one year through five years	8,462	8,535	17,572	17,804
Due after five years through ten years	15,309	15,257	20,392	20,801
Due after ten years	19,482	19,247	19,316	18,882
Sub-total	58,954	58,740	59,256	59,486
Residential mortgage-backed - US agency	14,845	15,124	11,909	12,532
Collateralized mortgage obligations - US agency	25,243	24,881	23,713	24,592
Collateralized mortgage obligations - Private label	17,316	17,180	46,420	46,530
Totals	$ 116,358	$ 115,925	$ 141,298	$ 143,140

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, 2020								
	Less than Twelve Months			Twelve Months or More			Total		
(Dollars in thousands)	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value
Available-for-Sale Portfolio									
US Treasury, agencies and GSE's	-	$ -	$ -	1	$ (26)	$ 4,951	1	$ (26)	$ 4,951
State and political subdivisions	4	(26)	11,480	-	-	-	4	(26)	11,480
Corporate	4	(19)	2,505	-	-	-	4	(19)	2,505
Asset backed securities	8	(273)	11,220	1	(6)	262	9	(279)	11,482
Residential mortgage-backed - US agency	-	-	-	-	-	-	-	-	-
Collateralized mortgage obligations - US agency	1	(30)	2,085	2	(498)	6,538	3	(528)	8,623
Collateralized mortgage obligations - Private label	4	(31)	2,565	4	(339)	2,908	8	(370)	5,473
Totals	21	$ (379)	$ 29,855	8	$ (869)	$ 14,659	29	$ (1,248)	$ 44,514
Held-to-Maturity Portfolio									
State and political subdivisions	3	$ (19)	$ 3,368	-	$ -	$ -	3	$ (19)	$ 3,368
Corporate	9	(269)	9,880	-	-	-	9	(269)	9,880
Asset backed securities	9	(528)	12,984	2	(207)	3,978	11	(735)	16,962
Residential mortgage-backed - US agency	-	-	-	-	-	-	-	-	-
Collateralized mortgage obligations - US agency	1	(6)	2,043	1	(8)	1,587	2	(14)	3,630
Collateralized mortgage obligations - Private label	4	(72)	5,706	1	(1)	309	5	(73)	6,015
Totals	26	$ (894)	$ 33,981	4	$ (216)	$ 5,874	30	$ (1,110)	$ 39,855

	December 31, 2019								
	Less than Twelve Months			Twelve Months or More			Total		
(Dollars in thousands)	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value	Number of Individual Securities	Unrealized Losses	Fair Value
Available-for-Sale Portfolio									
US Treasury, agencies and GSE's	4	$ (30)	$ 16,820	-	$ -	$ -	4	$ (30)	$ 16,820
Corporate	1	(23)	786	-	-	-	1	(23)	786
Asset backed securities	3	(7)	5,211	1	(12)	594	4	(19)	5,805
Residential mortgage-backed - US agency	10	(77)	10,709	4	(11)	2,543	14	(88)	13,252
Collateralized mortgage obligations - US agency	10	(67)	15,791	10	(503)	10,034	20	(570)	25,825
Collateralized mortgage obligations - Private label	2	(7)	3,818	5	(36)	3,959	7	(43)	7,777
Totals	30	$ (211)	$ 53,135	20	$ (562)	$ 17,130	50	$ (773)	$ 70,265
Held-to-Maturity Portfolio									
State and political subdivisions	1	$ (4)	$ 3,027	-	$ -	$ -	1	$ (4)	$ 3,027
Corporate	2	(29)	2,974	-	-	-	2	(29)	2,974
Asset backed securities	6	(115)	11,091	-	-	-	6	(115)	11,091
Residential mortgage-backed - US agency	-	-	-	1	(3)	198	1	(3)	198
Collateralized mortgage obligations - US agency	2	(29)	4,907	-	-	-	2	(29)	4,907
Collateralized mortgage obligations - Private label	6	(49)	9,396	2	(4)	1,132	8	(53)	10,528
Totals	17	$ (226)	$ 31,395	3	$ (7)	$ 1,330	20	$ (233)	$ 32,725

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

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

Management does not believe any individual unrealized loss in securities within the portfolio as of June 30, 2020 represents OTTI. At June 30, 2020, the Bank had the following securities, in a loss position for 12 months or more relative to their amortized historical cost, which were deemed to have no credit impairment, thus, the disclosed unrealized losses relate directly to changes in interest rates subsequent to the acquisition of the individual securities. The Company does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities prior to the recovery of the amortized cost.

Of the total of 12 securities in an unrealized loss position for 12 months or more at June 30, 2020, four securities, representing 62.9% of the unamortized cost of the total securities in an unrealized loss position for 12 months or more, are issued by United States agencies or GSE’s and consist of mortgage-backed securities, collateralized mortgage obligations and direct agency financings. These positions in US government agency and GSE’s are deemed to have no credit impairment, thus, the disclosed unrealized losses relate primarily to changes in prepayment assumptions related to significantly lower general interest rates resulting from the economic effects of the pandemic.

In addition to these securities, the Company held the following eight non-government-issued/backed securities that were in an unrealized loss position for 12 or more months at June 30, 2020:

- One privately-issued asset-backed security, categorized as available-for-sale, with an amortized historical cost of $268,000 and an aggregate market value of $262,000 (unrealized loss of $6,000 or -2.1%). This security maintains a credit rating established by one or more NRSRO above the minimum level required to be considered as investment grade and therefore, no credit-related OTTI is deemed to be present.

- Four privately-issued collateralized mortgage obligation securities, categorized as available-for-sale, with an aggregate amortized historical cost of $3.2 million and an aggregate market value of $2.9 million (unrealized aggregate loss of $339,000 or -11.6 %). These securities were not rated at the time of their issuances by any NRSRO but each security remains significantly collateralized through subordination and other credit enhancements. Therefore, no credit-related OTTI is deemed to be present.

- One privately-issued asset-backed securities, categorized as held-to-maturity and collateralized by privately-issued student loans, with an aggregate amortized historical cost of $2.1 million and an aggregate market value of $2.0 million (aggregate unrealized loss of $154,000 or -7.1%). This security was not rated at the time of its issuance by any NRSRO but remains significantly collateralized through subordination. Therefore, no credit-related OTTI is deemed to be present.

- One privately-issued asset-backed security, categorized as held-to-maturity and collateralized by federally-insured student loans, with an aggregate amortized historical cost of $2.0 million and an aggregate market value of $2.0 million (aggregate unrealized loss of $53,000 or -2.6%). This security maintains a current investment grade rating by one or more NRSROPs and remains significantly collateralized through subordination. Therefore, no credit-related OTTI is deemed to be present.

- One privately-issued collateralized mortgage obligation security, categorized as held-to-maturity, with an aggregate amortized historical cost of $310,000 and an aggregate market value of $309,000 (aggregate unrealized loss of $1,000 or -0.33%). This security was not rated at the time of its issuance by any NRSRO but remains significantly collateralized through subordination and other credit enhancements. Therefore, no credit-related OTTI is deemed to be present.

All other securities with market values less than their amortized historical costs for twelve or more months are issued by United States agencies or government sponsored enterprises and consist of mortgage-backed securities, collateralized mortgage obligations and direct agency financings. These positions in US government agency and government-sponsored enterprises are deemed to have no credit impairment, thus, the disclosed unrealized losses relate directly to changes in interest rates subsequent to the acquisition of the individual securities. The Company does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell these securities prior to the recovery of the amortized cost.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the length of time the equity security's fair value has been below the carrying amount. The Company had no equity investment securities that were impaired at June 30, 2020 or December 31, 2019.

Gross realized gains (losses) on sales 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)	2020	2019	2020	2019
Realized gains on investments	$ 917	$ 179	$ 950	$ 401
Realized losses on investments	(9)	(147)	(16)	(290)
	$ 908	$ 32	$ 934	$ 111

As of June 30, 2020 and December 31, 2019, securities with a fair value of $98.5 million and $92.4 million, respectively, were pledged to collateralize certain municipal deposit relationships. As of the same dates, securities with a fair value of $15.0 million and $21.3 million, respectively, were pledged against certain borrowing arrangements.

Management has reviewed its loan and mortgage-backed securities portfolios and determined that, to the best of its knowledge, only minimal exposure exists to sub-prime or other high-risk residential mortgages. With limited exceptions in the Company's investment portfolio involving the most senior tranches of securitized bonds, the Company is not in the practice of investing in, or originating, these types of investments or loans.

Note 5: Pension and Postretirement Benefits

The Company has a noncontributory defined benefit pension plan covering most employees. The plan provides defined benefits based on years of service and final average salary. On May 14, 2012, the Company informed its employees of its decision to freeze participation and benefit accruals under the plan, primarily to reduce some of the volatility in earnings that can accompany the maintenance of a defined benefit plan. The plan was frozen on June 30, 2012. Compensation earned by employees up to June 30, 2012 is used for purposes of calculating benefits under the plan but there are no future benefit accruals after this date. Participants as of June 30, 2012 will continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. In addition, the Company provides certain health and life insurance benefits for a limited number of eligible retired employees. The healthcare plan is contributory with participants' contributions adjusted annually; the life insurance plan is noncontributory. Employees with less than 14 years of service as of January 1, 1995, are not eligible for the health and life insurance retirement benefits.

The composition of net periodic pension plan and postretirement plan costs for the indicated periods is as follows:

	Pension Benefits		Postretirement Benefits		Pension Benefits		Postretirement Benefits	
	For the three months ended June 30,				For the six months ended June 30,			
(In thousands)	2020	2019	2020	2019	2020	2019	2020	2019
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest cost	117	123	3	5	233	247	8	11
Expected return on plan assets	(274)	(233)	-	-	(547)	(467)	-	-
Amortization of prior service credits	-	-	(1)	(1)	-	-	(2)	(2)
Amortization of net losses	57	82	3	3	114	164	5	6
Net periodic benefit plan (benefit) cost	$ (100)	$ (28)	$ 5	$ 7	$ (200)	$ (56)	$ 11	$ 15

The Company will evaluate the need for further contributions to the defined benefit pension plan during 2020. The prepaid pension asset is recorded in other assets on the statement of condition as of June 30, 2020 and December 31, 2019.

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Note 6: Loans

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

(In thousands)	June 30, 2020	December 31, 2019
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 212,741	$ 209,559
Construction	3,678	3,963
Loans held-for-sale (1)	-	35,790
Total residential mortgage loans	216,419	249,312
Commercial loans:		
Real estate	260,824	254,257
Lines of credit	53,509	58,617
Other commercial and industrial	83,167	82,092
Paycheck Protection Program loans	73,774	-
Tax exempt loans	7,644	8,067
Total commercial loans	478,918	403,033
Consumer loans:		
Home equity and junior liens	42,587	46,389
Other consumer	69,915	82,607
Total consumer loans	112,502	128,996
Total loans	807,839	781,341
Net deferred loan fees	(1,830)	110
Less allowance for loan losses	(10,553)	(8,669)
Loans receivable, net	$ 795,456	$ 772,782

(1) Based on ASC 948, Mortgage Banking, loans shall be classified as held-for-sale once a decision has been made to sell the loans and shall be transferred to the held-for-sale category at lower of cost or fair value. At December 31, 2019, the loans under contract to be sold had a principal balance of $35.8 million and net deferred fees of $146,000. These loans were transferred at their amortized cost of $35.9 million as of December 31, 2019, as the fair value of these loans was greater than the amortized cost.

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.

As part of the Company's overall balance sheet management strategies and the management's ongoing efforts to profitably deploy its increased capital position following the equity sales transactions completed in May 2019, the Bank acquired seven diverse pools of loans, originated by unrelated third parties, in six separate transactions during 2019. 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 entity, 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.

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The following table presents details regarding the purchased loan pools:

(In thousands, except number of loans)	June 30, 2020	December 31, 2019
Purchased residential real estate loans		
Original Balance	$ 2,100	$ 2,100
Current Balance	2,000	2,100
Unamortized Premium	131	135
Percent Owned	100%	100%
Number of Loans	25	25
Maturity range	22-24 years	22-24 years
Cumulative net charge-offs	-	-
Purchased other commercial and industrial loans		
Original Balance	6,800	6,800
Current Balance	6,100	6,600
Unamortized Premium	-	-
Percent Owned	100%	100%
Number of Loans	41	43
Maturity range	4-10 years	4-10 years
Cumulative net charge-offs	-	-
Purchased home equity lines of credit:		
Original Balance	21,900	21,900
Current Balance	17,300	20,100
Unamortized Premium	347	390
Percent Owned	100%	100%
Number of Loans	335	376
Maturity range	4-30 years	4-30 years
Cumulative net charge-offs	-	-
Purchased automobile loans:		
Original Balance	50,400	50,400
Current Balance	22,300	27,200
Unamortized Premium	768	930
Percent Owned	90%	90%
Number of Loans	1,484	1,657
Maturity range	2-6 years	2-6 years
Cumulative net charge-offs	212	196
Purchased unsecured consumer loan pool 1:		
Original Balance	5,400	5,400
Current Balance	4,300	5,000
Unamortized Premium	-	-
Percent Owned	100%	100%
Number of Loans	82	87
Maturity range	4-10 years	4-10 years
Cumulative net charge-offs	-	-
Purchased unsecured consumer loan pool 2:		
Original Balance	26,600	26,600
Current Balance	21,200	25,800
Unamortized Premium	86	114
Percent Owned	59%	59%
Number of Loans	2,535	2,768
Maturity range	3-5 years	3-5 years
Cumulative net charge-offs	219	-

Purchased unsecured consumer loan pool 3:		
Original Balance	10,300	10,300
Current Balance	7,600	10,300
Unamortized Premium	185	245
Percent Owned	100%	100%
Number of Loans	3,609	4,259
Maturity range	0-7 years	0-7 years
Cumulative net charge-offs	-	-

As of June 30, 2020 and December 31, 2019, residential mortgage loans with a carrying value of $107.7 million and $136.9 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 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 23, 2020 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 a sporadic basis. The purchase of participations in loans that are originated by third parties only occurs after the completion of thorough pre-acquisition due diligence. Loans in which the Company acquires a participating interest are determined to meet, in all material respects, the Company's internal underwriting policies, including credit and collateral suitability thresholds, prior to acquisition. In addition, the financial condition of the originating financial institutions, which are generally retained as the ongoing loan servicing provider for participations acquired by the Bank, are analyzed prior to the acquisition of the participating interests and monitored on a regular basis thereafter for the life of those interests.

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

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

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

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

	As of June 30, 2020				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 208,783	$ 1,295	$ 1,609	$ 1,054	$ 212,741
Construction	3,678	-	-	-	3,678
Loans held-for-sale	-	-	-	-	-
Total residential mortgage loans	212,461	1,295	1,609	1,054	216,419
Commercial loans:					
Real estate	243,749	9,150	7,218	707	260,824
Lines of credit	46,241	4,297	2,971	-	53,509
Other commercial and industrial	72,499	8,689	1,940	39	83,167
Paycheck Protection Program loans	73,774	-	-	-	73,774
Tax exempt loans	7,644	-	-	-	7,644
Total commercial loans	443,907	22,136	12,129	746	478,918
Consumer loans:					
Home equity and junior liens	41,725	221	367	274	42,587
Other consumer	69,619	101	195	-	69,915
Total consumer loans	111,344	322	562	274	112,502
Total loans	$ 767,712	$ 23,753	$ 14,300	$ 2,074	$ 807,839

	As of December 31, 2019				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 205,554	$ 1,093	$ 1,731	$ 1,181	$ 209,559
Construction	3,963	-	-	-	3,963
Loans held-for-sale	35,790	-	-	-	35,790
Total residential mortgage loans	245,307	1,093	1,731	1,181	249,312
Commercial loans:					
Real estate	238,288	12,473	3,194	302	254,257
Lines of credit	50,396	7,945	276	-	58,617
Other commercial and industrial	72,653	8,473	923	43	82,092
Tax exempt loans	8,067	-	-	-	8,067
Total commercial loans	369,404	28,891	4,393	345	403,033
Consumer loans:					
Home equity and junior liens	45,414	191	477	307	46,389
Other consumer	82,252	167	188	-	82,607
Total consumer loans	127,666	358	665	307	128,996
Total loans	$ 742,377	$ 30,342	$ 6,789	$ 1,833	$ 781,341

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.

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Nonaccrual and Past Due Loans

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

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

An age analysis of past due loans, not including net deferred loan costs, segregated by portfolio segment and class of loans, as of June 30, 2020 and December 31, 2019, are detailed in the following tables:

	As of June 30, 2020					
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$ 988	$ 130	$ 1,038	$ 2,156	$ 210,585	$ 212,741
Construction	-	-	-	-	3,678	3,678
Loans held-for-sale	-	-	-	-	-	-
Total residential mortgage loans	988	130	1,038	2,156	214,263	216,419
Commercial loans:						
Real estate	74	2,000	4,034	6,108	254,716	260,824
Lines of credit	1,299	1,844	430	3,573	49,936	53,509
Other commercial and industrial	6,645	4,076	1,992	12,713	70,454	83,167
Paycheck Protection Program loans	-	-	-	-	73,774	73,774
Tax exempt loans	-	-	-	-	7,644	7,644
Total commercial loans	8,018	7,920	6,456	22,394	456,524	478,918
Consumer loans:						
Home equity and junior liens	222	-	344	566	42,021	42,587
Other consumer	323	126	196	645	69,270	69,915
Total consumer loans	545	126	540	1,211	111,291	112,502
Total loans	$ 9,551	$ 8,176	$ 8,034	$ 25,761	$ 782,078	$ 807,839

	As of December 31, 2019					
(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	$ 947	$ 744	$ 1,613	$ 3,304	$ 206,255	$ 209,559
Construction	-	-	-	-	3,963	3,963
Loans held-for-sale	-	-	-	-	35,790	35,790
Total residential mortgage loans	947	744	1,613	3,304	246,008	249,312
Commercial loans:						
Real estate	953	100	2,271	3,324	250,933	254,257
Lines of credit	4,464	25	68	4,557	54,060	58,617
Other commercial and industrial	2,747	315	591	3,653	78,439	82,092
Tax exempt loans	-	-	-	-	8,067	8,067
Total commercial loans	8,164	440	2,930	11,534	391,499	403,033
Consumer loans:						
Home equity and junior liens	315	130	480	925	45,464	46,389
Other consumer	335	50	151	536	82,071	82,607
Total consumer loans	650	180	631	1,461	127,535	128,996
Total loans	$ 9,761	$ 1,364	$ 5,174	$ 16,299	$ 765,042	$ 781,341

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

(In thousands)	June 30, 2020	December 31, 2019
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 1,038	$ 1,613
	1,038	1,613
Commercial loans:		
Real estate	4,094	2,343
Lines of credit	430	68
Other commercial and industrial	2,283	591
	6,807	3,002
Consumer loans:		
Home equity and junior liens	344	480
Other consumer	196	151
	540	631
Total nonaccrual loans	$ 8,385	$ 5,246

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

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

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

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

The table below details one loan that was modified as a TDR for the three months ended June 30, 2019.

	For the three months ended June 30, 2019			
(In thousands)	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Additional provision for loan losses
Residential real estate loans	1	$ 205	$ 250	$ -

The TDR evaluated for impairment for the three months ended June 30, 2019 was classified as a TDR due to economic concessions granted, which consisted of additional funds advanced without associated increases in collateral and an extended maturity date that will result in a delay in payment from the original contractual maturity.

The table below details one loan that was modified as a TDR for the six months ended June 30, 2019.

	For the six months ended June 30, 2019			
(In thousands)	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Additional provision for loan losses
Residential real estate loans	1	$ 205	$ 250	$ -

The TDR evaluated for impairment for the six months ended June 30, 2019 was classified as a TDR due to economic concessions granted, which consisted of additional funds advanced without associated increases in collateral and an extended maturity date that will result in a delay in payment from the original contractual maturity.

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

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

The Company had no loans that were modified as TDRs during the twelve months prior to June 30, 2019, which had subsequently defaulted during the six months ended June 30, 2019.

The United States has been operating under a state of emergency related to the Coronavirus Disease 2019 (“COVID-19”) pandemic since March 13, 2020. The direct and indirect effects of the COVID-19 pandemic have resulted in a dramatic reduction in economic activity that has severely hampered the ability for businesses and consumers to meet their current repayment obligations. The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), signed into law on March 27, 2020, in addition to providing financial assistance to both businesses and consumers, creates a forbearance program for federally-backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the national emergency, and provides financial institutions the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. The banking regulatory agencies have likewise issued guidance encouraging financial institutions to work prudently with borrowers who are, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. That guidance, with concurrence of the Financial Accounting Standards Board, and provisions of the CARES Act allow modifications made on a good faith basis in response to COVID-19 to borrowers who were generally current with their payments prior to any relief, to not be treated as troubled debt restructurings. Modifications may include payment deferrals, fee waivers, extensions of repayment term, or other delays in payment. Through July 7, 2020, the Bank granted payment deferral requests primarily for 90 days, on 556 loans representing approximately $145.6 million of existing loan balances. To the extent that such modifications meet the criteria previously described, such modifications are not expected to be classified as troubled debt restructurings.

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

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Impaired Loans

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

	June 30, 2020			December 31, 2019		
(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	$ 680	$ 680	$ -	$ 1,027	$ 1,027	$ -
Commercial real estate	4,217	4,294	-	3,996	4,067	-
Commercial lines of credit	80	80	-	86	86	-
Other commercial and industrial	333	353	-	69	77	-
Home equity and junior liens	77	77	-	40	40	-
Other consumer	85	85	-	55	55	-
With an allowance recorded:						
1-4 family first-lien residential mortgages	918	918	153	584	584	97
Commercial real estate	444	444	64	450	450	78
Commercial lines of credit	98	98	98	98	98	98
Other commercial and industrial	729	729	563	866	866	406
Home equity and junior liens	142	142	142	180	180	150
Other consumer	-	-	-	36	36	1
Total:						
1-4 family first-lien residential mortgages	1,598	1,598	153	1,611	1,611	97
Commercial real estate	4,661	4,738	64	4,446	4,517	78
Commercial lines of credit	178	178	98	184	184	98
Other commercial and industrial	1,062	1,082	563	935	943	406
Home equity and junior liens	219	219	142	220	220	150
Other consumer	85	85	-	91	91	1
Totals	$ 7,803	$ 7,900	$ 1,020	$ 7,487	$ 7,566	$ 830

At June 30, 2020, the Company had outstanding balances of $12.1 million of commercial loans categorized as substandard under the Company's internal classification policies. Of the $12.1 million in commercial loans categorized as substandard, $6.2 million represent loans that were accruing interest and $5.9 million represent loans that were in nonaccrual status at June 30, 2020. At June 30, 2020, the Company had a total of $6.8 million in nonaccrual commercial loans of which $900,000 were rated special mention or better. Per the Company's policy, a commercial loan is measured for impairment if: (1) the loan is rated substandard or worse, (2) is on nonaccrual, and (3) above our TRC threshold balance of $100,000 or classified as a TDR. See the Application of Critical Accounting Policies in Item 2 for further details. Internal classifications were determined at June 30, 2020 based on the Company's evaluation of individual loans considering all factors in evidence as of the evaluation date. Due to the currently high degree of economic uncertainty, related primarily to the ongoing COVID-19 pandemic, loan classifications and estimates of future loan losses may be subject to significant changes in future periods.

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)	2020	2019	2020	2019
1-4 family first-lien residential mortgages	$ 1,601	$ 1,528	$ 1,604	$ 1,627
Commercial real estate	4,544	3,662	4,511	3,399
Commercial lines of credit	180	344	181	314
Other commercial and industrial	972	1,100	959	1,008
Home equity and junior liens	219	227	219	220
Other consumer	88	99	89	66
Total	$ 7,604	$ 6,960	$ 7,563	$ 6,634

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

(In thousands)	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
1-4 family first-lien residential mortgages	$ 15	$ 23	$ 27	$ 35
Commercial real estate	38	57	69	85
Commercial lines of credit	3	14	5	18
Other commercial and industrial	6	24	22	38
Home equity and junior liens	1	3	4	6
Other consumer	2	3	3	3
Total	$ 65	$ 124	$ 130	$ 185

Note 7: Allowance for Loan Losses

Management extensively reviews recent trends in historical losses, qualitative factors and specific reserve needs on loans individually evaluated for impairment in its determination of the adequacy of the allowance for loan losses. We recorded $1.1 million in provision for loan losses for the three month period ended June 30, 2020, as compared to $610,000 for the three month period ended June 30, 2019. The $536,000 increase in the provision for loan losses in the second quarter of 2020, as compared to the same quarter in 2019, resulted from year-over-year increases in: (1) the qualitative factors used in determining the adequacy of the allowance for loan losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The increase in the quantitative factors used in determining the provision for loan losses reflects the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic. Outstanding loan balances increased $113.2 million, or 16.3%, in the quarter ended June 30, 2020, as compared to the same quarter in the previous year, and therefore required a corresponding increase in the estimable and probable loan losses inherent in the loan portfolio. Finally, the provision for loan losses in the quarter ended June 30, 2020 was further increased, as compared to the same quarter in 2019, by the effects of an increase in the ratio of delinquent loans to total loans, which increased to 3.19% at June 30, 2020 as compared to 2.45% at June 30, 2019, coupled with an increase in nonaccrual loans that increased $4.6 million to $8.4 million at June 30, 2020 as compared to $3.8 million at June 30, 2019.

For the first six months of 2020, we recorded $2.2 million in provision for loan losses as compared to $754,000 in the same prior year six month period. This $1.5 million increase in the provision for loan losses resulted from year-over-year increases in: (1) the qualitative factors used in determining the adequacy of the allowance for loan losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The increase in the quantitative factors used in determining the provision for loan losses reflects the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.

Summarized in the tables below are changes in the allowance for loan losses for the indicated periods and information pertaining to the allocation of the allowance for loan losses, balances of the allowance for loan losses, loans receivable based in individual, and collective impairment evaluation by loan portfolio class. An allocation of a portion of the allowance to a given portfolio class does not limit the Company's ability to absorb losses in another portfolio class.

	For the three months ended June 30, 2020					
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
Allowance for loan losses:						
Beginning Balance	$ 731	$ -	$ 4,243	$ 1,218	$ 1,758	$ -
Charge-offs	(99)	-	-	(48)	(9)	-
Recoveries	-	-	-	-	-	-
Provisions	124	-	15	38	317	-
Ending balance	$ 756	$ -	$ 4,258	$ 1,208	$ 2,066	$ -
Ending balance: related to loans individually evaluated for impairment	$ 153	$ -	$ 64	$ 98	$ 563	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 603	$ -	$ 4,194	$ 1,110	$ 1,503	$ -
Loans receivables:						
Ending balance	$ 212,741	$ 3,678	$ 260,824	$ 53,509	$ 83,167	$ 73,774
Ending balance: individually evaluated for impairment	$ 1,598	$ -	$ 4,661	$ 178	$ 1,062	$ -
Ending balance: collectively evaluated for impairment	$ 211,143	$ 3,678	$ 256,163	$ 53,331	$ 82,105	$ 73,774

	Tax exempt	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 611	$ 846	$ 198	9,606
Charge-offs	-	-	(52)	-	(208)
Recoveries	-	-	9	-	9
Provisions	-	33	252	367	1,146
Ending balance	$ 1	$ 644	$ 1,055	$ 565	$ 10,553
Ending balance: related to loans individually evaluated for impairment	$ -	$ 142	$ -	$ -	$ 1,020
Ending balance: related to loans collectively evaluated for impairment	$ 1	$ 502	$ 1,055	$ 565	$ 9,533
Loans receivables:					
Ending balance	$ 7,644	$ 42,587	$ 69,915	$ -	$ 807,839
Ending balance: individually evaluated for impairment	$ -	$ 219	$ 85	$ -	$ 7,803
Ending balance: collectively evaluated for impairment	$ 7,644	$ 42,368	$ 69,830	$ -	$ 800,036

(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial	Paycheck Protection Program
	For the six months ended June 30, 2020					
Allowance for loan losses:						
Beginning Balance	$ 580	$ -	$ 4,010	$ 1,195	$ 1,645	$ -
Charge-offs	(125)	-	-	(48)	(9)	-
Recoveries	1	-	-	2	-	-
Provisions	300	-	248	59	430	-
Ending balance	$ 756	$ -	$ 4,258	$ 1,208	$ 2,066	$ -

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 553	$ 413	$ 272	$ 8,669
Charge-offs	-	(28)	(185)	-	(395)
Recoveries	-	29	34	-	66
Provisions	-	90	793	293	2,213
Ending balance	$ 1	$ 644	$ 1,055	$ 565	$ 10,553

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(In thousands)	For the three months ended June 30, 2019 1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Allowance for loan losses:					
Beginning Balance	$ 722	$ -	$ 3,370	$ 802	$ 1,560
Charge-offs	(11)	-	-	(24)	(1)
Recoveries	1	-	-	-	-
Provisions	12	-	82	367	143
Ending balance	$ 724	$ -	$ 3,452	$ 1,145	$ 1,702
Ending balance: related to loans individually evaluated for impairment	$ 104	$ -	$ 108	$ 204	$ 287
Ending balance: related to loans collectively evaluated for impairment	$ 620	$ -	$ 3,344	$ 941	$ 1,415
Loans receivables:					
Ending balance	$ 239,422	$ 3,966	$ 225,794	$ 56,569	$ 79,590
Ending balance: individually evaluated for impairment	$ 1,633	$ -	$ 4,461	$ 370	$ 1,146
Ending balance: collectively evaluated for impairment	$ 237,789	$ 3,966	$ 221,333	$ 56,199	$ 78,444

	Tax exempt	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 430	$ 399	$ -	$ 7,284
Charge-offs	-	-	(40)	-	(76)
Recoveries	-	-	6	-	7
Provisions (credits)	-	(44)	50	-	610
Ending balance	$ 1	$ 386	$ 415	$ -	$ 7,825
Ending balance: related to loans individually evaluated for impairment	$ -	$ 136	$ 6	$ -	$ 845
Ending balance: related to loans collectively evaluated for impairment	$ 1	$ 250	$ 409	$ -	$ 6,980
Loans receivables:					
Ending balance	$ 8,803	$ 26,214	$ 52,508	$ -	$ 692,866
Ending balance: individually evaluated for impairment	$ -	$ 247	$ 97	$ -	$ 7,954
Ending balance: collectively evaluated for impairment	$ 8,803	$ 25,967	$ 52,411	$ -	$ 684,912

	For the six months ended June 30, 2019				
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Allowance for loan losses:					
Beginning Balance	$ 766	$ -	$ 3,578	$ 730	$ 1,285
Charge-offs	(11)	-	-	(131)	(2)
Recoveries	1	-	-	-	-
Provisions (credits)	(32)	-	(126)	546	419
Ending balance	$ 724	$ -	$ 3,452	$ 1,145	$ 1,702

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 409	$ 385	$ 152	$ 7,306
Charge-offs	-	-	(107)	-	(251)
Recoveries	-	-	15	-	16
Provisions (credits)	-	(23)	122	(152)	754
Ending balance	$ 1	$ 386	$ 415	$ -	$ 7,825

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

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

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

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

	June 30, 2020				
(In thousands)	1-4 family first-lien residential mortgage	Residential construction mortgage	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Specifically reserved	$ 153	$ -	$ 64	$ 98	$ 563
Historical loss rate	71	-	99	152	61
Qualitative factors	532	-	4,095	958	1,442
Total	$ 756	$ -	$ 4,258	$ 1,208	$ 2,066

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 142	$ -	$ -	$ 1,020
Historical loss rate	-	211	805	-	1,399
Qualitative factors	1	291	250	-	7,569
Other	-	-	-	565	565
Total	$ 1	$ 644	$ 1,055	$ 565	$ 10,553

	June 30, 2019				
(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	$ 104	$ -	$ 108	$ 204	$ 287
Historical loss rate	64	-	89	35	28
Qualitative factors	556	-	3,255	906	1,387
Total	$ 724	$ -	$ 3,452	$ 1,145	$ 1,702

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 136	$ 6	$ -	$ 845
Historical loss rate	-	1	144	-	361
Qualitative factors	1	249	265	-	6,619
Total	$ 1	$ 386	$ 415	$ -	$ 7,825

Note 8: Foreclosed Real Estate

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

(Dollars in thousands)	Number of properties	June 30, 2020	Number of properties	December 31, 2019
Foreclosed residential real estate	1	$ 26	-	$ -

At June 30, 2020 and December 31, 2019, the Company reported $685,000 and $341,000, respectively, in residential real estate loans in the process of foreclosure.

Note 9: Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Generally, all letters of credit, when issued have expiration dates within one year. The credit risks involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. The Company had $2.3 million of standby letters of credit as of June 30, 2020. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The fair value of standby letters of credit was not significant to the Company's consolidated financial statements.

Note 10: Fair Value Measurements

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

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

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

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

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

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

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

Investment securities: The fair values of available-for-sale and marketable equity securities are obtained from an independent third party and are based on quoted prices on nationally recognized securities exchanges where available (Level 1). If quoted prices are not available, fair values are measured by utilizing matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). Management made no adjustment to the fair value quotes that were received from the independent third party pricing service. Level 3 securities are assets whose fair value cannot be determined by using observable measures, such as market prices or pricing models. Level 3 assets are typically very illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges. Management applies known factors, such as currently applicable discount rates, to the valuation of those investments in order to determine fair value at the reporting date.

The Company holds one corporate investment security with an amortized historical cost of $2.6 million and an aggregate fair market value of $2.7 million as of June 30, 2020. This security has a valuation that is determined using published net asset values (NAV) derived by an analysis of the security's underlying assets. This security is comprised primarily of broadly-diversified real estate and adjustable-rate senior secured business loans and are traded in secondary markets on an infrequent basis. While these securities are redeemable at least annually through tender offers made by their respective issuers, the liquidation value of the securities may be below their stated NAVs and also subject to restrictions as to the amount of securities that can be redeemed at any single scheduled redemption. The Company anticipates that these securities will be redeemed by their respective issuers on indeterminate future dates as a consequence of the ultimate liquidation strategies employed by the management of these investments.

The Company holds two equity security investments, with an aggregate value of $1.6 million at June 30, 2020, valued utilizing readily available market pricing (Level 1) observed from active trading on major national stock exchanges.

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

Impaired loans: Impaired loans are those loans in which the Company has measured impairment based on the fair value of the loan's collateral or the discounted value of expected future cash flows. Fair value is generally determined based upon market value evaluations by third parties of the properties and/or estimates by management of working capital collateral or discounted cash flows based upon expected proceeds. These appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property), and the cost approach. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as, changes in absorption rates or market conditions from the time of valuation and anticipated sales values considering management's plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

Foreclosed real estate: Fair values for foreclosed real estate are initially recorded based on market value evaluations by third parties, less costs to sell ("initial cost basis"). Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to foreclosed real estate are charged to the allowance for loan losses. Values are derived from appraisals, 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. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as, changes in absorption rates and market conditions from the time of valuation and anticipated sales values considering management's plans for disposition. Either change could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the fair value hierarchy.

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, 2020			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-Sale Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$ 21,562	$ -	$ 21,562
State and political subdivisions	-	13,141	-	13,141
Corporate	-	8,542	-	8,542
Asset backed securities	-	12,801	-	12,801
Residential mortgage-backed - US agency	-	15,124	-	15,124
Collateralized mortgage obligations - US agency	-	24,881	-	24,881
Collateralized mortgage obligations - Private label	-	17,180	-	17,180
Total		113,231		113,231
Corporate measured at NAV	-	-	-	2,694
Total available-for-sale securities	$ -	$ 113,231	$ -	$ 115,925
Marketable equity securities	$ 1,564	$ -	$ -	$ 1,564
Interest rate swap derivative fair value hedge	$ -	$ (149)	$ -	$ (149)
Interest rate swap derivative cash flow hedges	$ -	$ (1,528)	$ -	$ (1,528)

	December 31, 2019			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
State and political subdivisions	-	1,736	-	1,736
Corporate	-	7,631	-	7,631
Asset backed securities	-	13,232	-	13,232
Residential mortgage-backed - US agency	-	18,980	-	18,980
Collateralized mortgage obligations - US agency	-	30,785	-	30,785
Collateralized mortgage obligations - Private label	-	16,821	-	16,821
Total	-	106,005	-	106,005
Corporate measured at NAV	-	-	-	4,923
Total available-for-sale securities	$ -	$ 106,005	$ -	$ 110,928
Marketable equity securities	$ -	$ 534	$ -	$ 534
Interest rate swap derivative fair value hedge	$ -	$ (92)	$ -	$ (92)

Pathfinder Bank had the following assets measured at fair value on a nonrecurring basis as of June 30, 2020 and December 31, 2019:

	June 30, 2020			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 589	$ 589
Foreclosed real estate	$ -	$ -	$ 26	$ 26

	December 31, 2019			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ -	$ -	$ 3,105	$ 3,105

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, 2020			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 25% (10%)
	(Sales Approach)	Costs to Sell	7% - 13% (11%)
	Discounted Cash Flow		
Foreclosed real estate	Appraisal of collateral	Appraisal Adjustments	15% - 15% (15%)
	(Sales Approach)	Costs to Sell	6% - 9% (8%)

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At December 31, 2019			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 20% (9%)
	(Sales Approach)	Costs to Sell	7% - 13% (11%)
	Discounted Cash Flow		

The Company's two equity security investments, with fair values determined using Level 1 inputs at June 30, 2020 were restructured and consequently listed on major national stock exchanges in the second quarter of 2020. The fair value of one of the investments was $918,000 at June 30, 2020 and its fair values, determined using NAV methodologies, at March 31, 2020 and December 31, 2019 were $2.1 million and $2.1 million, respectively. The fair value of the other investment was $645,000 at June 30, 2020 and its fair values, determined using Level 2 inputs, at March 31, 2020 and December 31, 2019 were $340,000 and $534,000, respectively.

Required disclosures include fair value information of financial instruments, whether or not recognized in the consolidated statement of condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

FASB ASC Topic 820 for Fair Value Measurements and Disclosures, the financial assets and liabilities were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The Company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:

Cash and cash equivalents – The carrying amounts of these assets approximate their fair value and are classified as Level 1.

Federal Home Loan Bank stock – The carrying amount of these assets approximates their fair value and are classified as Level 2.

Net loans – For variable-rate loans that re-price frequently, fair value is based on carrying amounts. The fair value of other loans (for example, fixed-rate commercial real estate loans, mortgage loans, and commercial and industrial loans) is estimated using discounted cash flow analysis, based on interest rates currently being offered in the market for loans with similar terms to borrowers of similar credit quality. Loan value estimates include judgments based on expected prepayment rates. The measurement of the fair value of loans, including impaired loans, is classified within Level 3 of the fair value hierarchy.

Accrued interest receivable and payable – The carrying amount of these assets approximates their fair value and are classified as Level 1.

Deposits – The fair values disclosed for demand deposits (e.g., interest-bearing and noninterest-bearing checking, passbook savings and certain types of money management accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) and are classified within Level 1 of the fair value hierarchy. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates of deposits to a schedule of aggregated expected monthly maturities on time deposits. Measurements of the fair value of time deposits are classified within Level 2 of the fair value hierarchy.

Borrowings – Fixed/variable term "bullet" structures are valued using a replacement cost of funds approach. These borrowings are discounted to the FHLBNY advance curve. Option structured borrowings' fair values are determined by the FHLB for borrowings that include a call or conversion option. If market pricing is not available from this source, current market indications from the FHLBNY are obtained and the borrowings are discounted to the FHLBNY advance curve less an appropriate spread to adjust for the option. These measurements are classified as Level 2 within the fair value hierarchy.

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

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

		June 30, 2020		December 31, 2019	
(In thousands)	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	1	$ 45,123	$ 45,123	$ 20,160	$ 20,160
Investment securities - available-for-sale	2	113,231	113,231	106,005	106,005
Investment securities - available-for-sale	NAV	2,694	2,694	4,923	4,923
Investment securities - marketable equity	1	1,564	1,564	-	-
Investment securities - marketable equity	2	-	-	534	534
Investment securities - held-to-maturity	2	141,298	143,140	122,988	124,148
Federal Home Loan Bank stock	2	4,091	4,091	4,834	4,834
Net loans	3	795,456	798,815	772,782	767,654
Accrued interest receivable	1	4,973	4,973	3,712	3,712
Financial liabilities:					
Demand Deposits, Savings, NOW and MMDA	1	$ 560,273	$ 560,273	$ 460,293	$ 460,293
Time Deposits	2	410,320	413,167	421,600	422,409
Borrowings	2	75,397	78,088	93,125	93,643
Subordinated loans	2	15,145	14,379	15,128	14,921
Accrued interest payable	1	276	276	396	396
Interest rate swap derivative fair value hedge	2	149	149	92	92
Interest rate swap derivative cash flow hedges	2	1,528	1,528	-	-

Note 11: Interest Rate Derivatives

The Company is exposed to certain risks from both its business operations and changes in economic conditions. As part of managing interest rate risk, the Company enters into standardized interest rate derivative contracts (designated as hedging agreements) to modify the repricing characteristics of certain portions of the Company's portfolios of earning assets and interest-bearing liabilities. The Company designates interest rate hedging agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges. Interest rate hedging agreements are generally entered into with counterparties that meet established credit standards and the agreements contain master netting, collateral and/or settlement provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting, collateral or settlement provisions, the Company believes that the credit risk inherent in these contracts was not material at June 30, 2020. Interest rate hedging agreements are recorded at fair value as other assets or liabilities. The Company had no derivative contracts not designated as hedging agreements at June 30, 2020 or December 31, 2019.

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

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

The Company entered into a pay-fixed/receive variable interest rate swap with a notional amount of $9.2 million in April 2019, which was designated as a fair value hedge, associated with specific pools within the Company's fixed-rate consumer loan portfolio. The swap contract will be in force from April 2019 to April 2021 and the Company will be required to pay 2.39% to the swap counterparty, while receiving 3-month LIBOR indexed payments from the same counterparty, with both payments calculated on the notional amount.

As of June 30, 2020 and December 31, 2019, the following amounts were recorded on the balance sheet related to the cumulative basis adjustments for fair value hedges:

(In thousands)	Carrying Amount of the Hedged Assets at June 30, 2020	Cumulative Amount of Fair Value Hedging Adjustment Included in The Carrying Amount of the Hedged Assets at June 30, 2020	Carrying Amount of the Hedged Assets at December 31, 2019	Cumulative Amount of Fair Value Hedging Adjustment Included in The Carrying Amount of the Hedged Assets at December 31, 2019
Line item on the balance sheet in which the hedged item is included:				
Loans receivable (1)	$ 16,428	$ 149	$ 19,254	$ 75

(1) These amounts include the amortized cost basis of the hedged portfolio used to designate the hedging relationship in which the hedged item is the remaining amortized cost of the last layer expected to be remaining at the end of the hedging contract term. At June 30, 2020 and December 31, 2019, the amortized cost of the basis of the closed portfolio used in the hedging relationship was $16.4 million and $19.3 million, the cumulative basis adjustment associated with the hedging relationship was $149,000 and $75,000, and the amount of the designated hedged item was $9.2 million and $9.2 million, respectively.

At June 30, 2020 and December 31, 2019, the fair value of the fair value derivative resulted in a net liability position of $157,000 and $92,000 under the agreement, respectively, recorded by the Company in other liabilities. The Company's participation in the swap contract reduced total loan interest income, recognized in consolidated earnings, by $72,000 and $88,000 for three and six months ended June 30, 2020, respectively.

In February 2020, the Company entered into an interest rate cap contract in the notional amount of $40.0 million, intended to reduce the Company's exposure to potential rising interest rates. This contractual agreement has been designated as a cash flow hedge with changes in the fair value of the contract, net of changes in the fair value of the designated hedged liability (certain short-term certificates of deposit with rates of interest that are highly correlated to the 3-month LIBOR index) being accounted for through other comprehensive income. The term of the cap contract commenced on May 1, 2020 and expire on May 1, 2023. The Company paid $228,000 in a one-time premium for the cap contract and has no further contractual obligations to the counterparty over the three-year life of the contract. The premium will be amortized ratably over the contractual term of the cap contract with an annual average cost to the Company of approximately 19 basis points relative to the notional amount. The Company will potentially benefit during the term of this cap contract, in the manner described above, for the period of time that the 3-month LIBOR index exceeds 1.85% (the strike price). The cap contract had no effect on recorded interest expense in the three or six months ended June 30, 2020.

In March 2020, the Company entered into an interest rate swap contract in the notional amount of $40.0 million, intended to reduce the Company's exposure to potential rising interest rates. This contractual agreement has been designated as a cash flow hedge with changes in the fair value of the contract, net of changes in the fair value of the designated hedged liability (certain short-term certificates of deposit with rates of interest that are highly correlated to the 3-month LIBOR index) being accounted for through other comprehensive income. The term of the swap contract commenced on May 15, 2020 and expire on May 15, 2023. Under the terms of the swap contract, the Company will be obligated to pay the contractual counterparty an annual rate of 1.39% (the strike price) times the notional amount of the contract. Simultaneously, for the duration of the swap contract, the counterparty will be obligated to pay the Company the annual rate of the 3-month LIBOR index, as determined each calendar quarter, times the notional contractual amount. The swap contract had no effect on recorded interest expense in the three or six months ended June 30, 2020.

(In thousands)		June 30, 2020		December 31, 2019
Cash flow hedges:				
Total unamortized premium	$	224	$	-
Fair market value adjustment interest rate cap		(199)		-
Total unamortized cap		25		-
Fair market value adjustment interest rate swap		(1,329)		-
Total loss in comprehensive income	$	(1,528)	$	-

The amounts of hedge ineffectiveness, recognized during the quarter ended June 30, 2020, for cash flow hedges were not material to the Company's consolidated results of operations. The Company had no hedged positions at June 30, 2019. Some 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, but at this time, management expects the hedge to remain fully effective during the remaining term of the swap. The changes in the fair values of the interest rate hedging agreements and the hedged items primarily result from the effects of changing interest rates and spreads.

The Company manages its potential credit exposure on interest rate swap transactions by entering into a bilateral credit support agreements with each counterparty. These agreements require collateralization of credit exposures beyond specified minimum threshold amounts. The Company posted cash in escrow of $1.6 million under collateral arrangements
to satisfy collateral requirements associated with the interest rate swap contract at June 30, 2020.

	For the three months ended				For the six months ended			
(In thousands)	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
Balance as of December 31:	$	-	$	-	$	-	$	-
Amount of losses recognized in other comprehensive income		(184)		-		(1,528)		-
Losses in other comprehensive income:	$	(184)	$	-	$	(1,528)	$	-

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Note 12: Accumulated Other Comprehensive Income (Loss)

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

	For the three months ended June 30, 2020				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Losses on Derivatives and Hedging Activities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,859)	$ (3,121)	$ (1,062)	$ (35)	$ (7,077)
Other comprehensive income before reclassifications	-	3,470	(145)	8	3,333
Amounts reclassified from AOCI	47	(690)	-	-	(643)
Ending balance	$ (2,812)	$ (341)	$ (1,207)	$ (27)	$ (4,387)

	For the three months ended June 30, 2019			
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (3,087)	$ (1,322)	$ (53)	$ (4,462)
Other comprehensive income before reclassifications	-	1,390	7	1,397
Amounts reclassified from AOCI	66	(25)	-	41
Ending balance	$ (3,021)	$ 43	$ (46)	$ (3,024)

	For the six months ended June 30, 2020				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Losses on Derivatives and Hedging Activities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (2,717)	$ (216)	$ -	$ (38)	$ (2,971)
Reevaluation of deferred tax asset valuation allowance (1)	(188)	(15)	-	(3)	(206)
Other comprehensive income before reclassifications	-	600	(1,207)	14	(593)
Amounts reclassified from AOCI	93	(710)	-	-	(617)
Ending balance	$ (2,812)	$ (341)	$ (1,207)	$ (27)	$ (4,387)

(1) Management determined that the Company, under the current New York State ("NYS") tax code, was highly unlikely to incur a material NYS tax liability in the foreseeable future. As a result, certain net current and deferred tax assets, related to GAAP vs. tax timing differences under previous NYS tax law were no longer going to provide any future tax benefit. The substantial majority of these net deferred tax assets were offset by a related valuation allowance established in prior periods. Therefore, the Company eliminated its remaining NYS net deferred tax asset balances and the related valuation allowance on January 1, 2020. The effect of these eliminations required an adjustment to other comprehensive income balances and had no effect on 2020 reported earnings.

	For the six months ended June 30, 2019			
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (3,152)	$ (2,832)	$ (58)	$ (6,042)
Other comprehensive income before reclassifications	-	2,963	12	2,975
Amounts reclassified from AOCI	131	(88)	-	43
Ending balance	$ (3,021)	$ 43	$ (46)	$ (3,024)

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	June 30, 2020	June 30, 2019	Affected Line Item in the Statement of Income	June 30, 2020	June 30, 2019
Retirement plan items					
Retirement plan net losses recognized in plan expenses (2)	$ (59)	$ (84)	Salaries and employee benefits	$ (117)	$ (168)
Tax effect	12	18	Provision for income taxes	24	37
	$ (47)	$ (66)	Net Income	$ (93)	$ (131)
Available-for-sale securities					
Realized gain on sale of securities	$ 873	$ 32	Net gains on sales and redemptions of investment securities	$ 899	$ 111
Tax effect	(183)	(7)	Provision for income taxes	(189)	(23)
	$ 690	$ 25	Net Income	$ 710	$ 88

(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.

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Note 13: Noninterest Income

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

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2020	2019	2020	2019
Service fees				
Insufficient funds fees	$ 148	$ 272	$ 423	$ 480
Deposit related fees	117	53	172	105
ATM fees	38	23	64	45
Total service fees	303	348	659	630
Fee Income				
Insurance commissions	184	216	519	451
Investment services revenue	81	97	149	145
ATM fees surcharge	56	59	109	105
Banking house rents collected	71	33	142	68
Total fee income	392	405	919	769
Card income				
Debit card interchange fees	205	187	368	331
Merchant card fees	15	22	31	38
Total card income	220	209	399	369
Mortgage fee income and realized gain on sale of loans and foreclosed real estate				
Loan servicing fees	79	60	128	87
Net gain on sales of loans and foreclosed real estate	97	13	769	5
Total mortgage fee income and realized gain on sale of loans and foreclosed real estate	176	73	897	92
Total	1,091	1,035	2,874	1,860
Earnings and gain on bank owned life insurance	106	101	222	222
Net gains on sales and redemptions of investment securities	1,023	32	1,049	111
(Losses)/gains on marketable equity securities	(722)	16	(916)	57
Other miscellaneous income	33	35	50	62
Total noninterest income	$ 1,531	$ 1,219	$ 3,279	$ 2,312

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

- *Service fees* – Revenue is earned through insufficient funds fees, customer initiated activities or passage of time for deposit related fees, and ATM service fees. Transaction-based fees are recognized at the time the transaction is executed, which is the same time the Company's performance obligation is satisfied. Account maintenance fees are earned over the course of the month as the monthly maintenance performance obligation to the customer is satisfied.
- *Fee income* – Revenue is earned through commissions on insurance and securities sales, ATM surcharge fees, and banking house rents collected. The Company earns investment advisory fee income by providing investment management services to customers under investment management contracts. As the direction of investment management accounts is provided over time, the performance obligation to investment management customers is satisfied over time, and therefore, revenue is recognized over time.
- *Card income* – Card income consists of interchange fees from consumer debit card networks and other related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.
- *Mortgage fee income and realized gain on sale of loans and foreclosed real estate* – Revenue from mortgage fee income and realized gain on sale of loans and foreclosed real estate is earned through the origination of residential

and commercial mortgage loans, sales of one-to-four family residential mortgage loans, sales of government guarantees portions of SBA loans, and sales of foreclosed real estate, and is earned as the transaction occurs.

Note 14: Leases

The Company has operating and finance leases for certain banking offices and land under noncancelable agreements. Our leases have remaining lease terms that vary from less than one year up to 31 years, some of which include options to extend the leases for various renewal periods. All options to renew are included in the current lease term when we believe it is reasonably certain that the renewal options will be exercised.

The components of the lease expense are as follows:

	For the three months ended		For the six months ended	
(In thousands)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating lease cost	$ 60	$ 60	$ 121	$ 119
Finance lease cost	20	12	40	12

	For the three months ended		For the six months ended	
(In thousands)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash paid for amount included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 55	$ 56	$ 111	$ 104
Operating cash flows from finance leases	20	12	40	12
Financing cash flows from finance leases	17	11	35	11

Supplemental balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rate)	June 30, 2020	December 31, 2019
Operating Leases:		
Operating lease right-of-use assets	$ 2,312	$ 2,386
Operating lease liabilities	$ 2,587	$ 2,650
Finance Leases:		
Financial Liability	$ 583	$ 578
Weighted Average Remaining Lease Term:		
Operating Leases	19.33 years	19.58 years
Finance Leases	28.92 years	29.42 years
Weighted Average Discount Rate:		
Operating Leases	3.72%	3.71%
Finance Leases	13.75%	13.75%

Maturities of lease liabilities were as follows:

Twelve Months Ending June 30,	
(In thousands)	
2021	$ 110
2022	95
2023	105
2024	114
2025	122
Thereafter	2,624
Total minimum lease payments	$ 3,170

The Company owns certain properties that it leases to unaffiliated third parties at market rates. Lease rental income was $71,000 and $34,000 for the three months ended June 30, 2020 and 2019, respectively. Lease rental income was $142,000 and $68,000 for the six months ended June 30, 2020 and 2019, respectively. All lease agreements, in which the Company is the lessor, are accounted for as operating leases.

Note 15: COVID-19

In early January 2020, the World Health Organization issued an alert that a novel coronavirus outbreak was emanating from Wuhan, Hubei Province in China. Over the course of the next several weeks, the outbreak continued to spread to various regions of the world prompting the World Health Organization to declare COVID-19 a global pandemic on March 11, 2020. In the United States, by the end of March 2020, the rapid spread of the COVID-19 virus invoked various Federal and New York State authorities to make emergency declarations and issue executive orders to limit the spread of the disease. Measures included restrictions on international and domestic travel, limitations on public gatherings, implementation of social distancing and sanitization protocols, school closings, orders to shelter in place and mandates to close all non-essential businesses to the public. To widely varying degrees, largely dependent upon the level of local and regional outbreaks and the resultant levels of strain on locally-available medical resources, these very substantial curtailments of social and economic activity have been relaxed globally and in the United States. However, there is virtually no locality within the United States that has returned to substantively normal business and social activities at the time of this filing and the spread rate of the coronavirus remains extremely high in many regions of the country.

As a result of the initial and continuing outbreak, and governmental response thereto, the spread of the coronavirus has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. The Company has many employees working remotely and has significantly reduced physical customer contact with employees and other customers by limiting branch activities. Initially, branch activities were limited to drive-thru transactions whenever possible, teleconferencing and in-branch “appointments only” services. The Bank’s branches are now fully accessible to the public but remain in strict compliance with all applicable social distancing and sanitization guidelines. Since the start of the pandemic, transactional volume has also increased through the Bank’s telephone and internet banking channels. We will take further actions for safety as may be required by government authorities or that we determine to be in the best interests of our employees, customers and business partners.

Concerns about the spread of the disease and its anticipated negative impact on economic activity, severely disrupted both domestic and international financial markets prompting the world’s central banks to inject significant amounts of monetary stimulus into their respective economies. In the United States, the Federal Reserve System’s Federal Open Market Committee, swiftly cut the target Federal Funds rate to a range of 0% to 0.25%, including a 50 basis point reduction in the target federal funds rate on March 3, 2020 and an additional 100 basis point reduction on March 15, 2020. In addition, the Federal Reserve initiated various market support programs to ease the stress on financial markets. This significant reduction in short-term interest rates has reduced, and will continue to reduce, the Bank’s cost of funds and interest earning-asset yields. The long-term effects of the current interest rate environment, that has resulted from government and central bank responses to the pandemic, on the Bank’s net interest margins cannot be predicted with certainty at this time.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), signed into law on March 27, 2020, provides financial assistance in various forms to both businesses and consumers. In addition, the CARES Act also created many directives affecting the operations of financial services providers, such as the Company, including a forbearance program for federally-backed mortgage loans and protections for borrowers from negative credit reporting due to loan accommodations related to the national emergency. The banking regulatory agencies have likewise issued guidance encouraging financial institutions to work prudently with borrowers who are, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. The Company has worked to assist its business and individual customers affected by COVID-19. Through June 30, 2020, the Bank granted payment deferral requests primarily for 90 days, on 556 loans representing approximately $145.6 million of existing loan balances.

Borrowers that were delinquent in their payments to the Bank, prior to requesting a COVID-19 related financial hardship payment deferral were reviewed on a case by case basis for troubled debt restructure classification and non-performing loan status. In the instances where the Company granted a payment deferral to a delinquent borrower because of COVID-19, the borrower's delinquency status was frozen as of February 29, 2020, and their loans will continue to be reported as delinquent during the deferment period based on their delinquency status as of that date. The Company anticipates that the number and amount of COVID-19 financial hardship payment deferral requests will continue to remain elevated in the second half of 2020 and, possibly, significantly longer. The long-term collectability of deferred loan payments will depend on many factors, including the future progression of the pandemic, potential medical breakthroughs in therapeutic treatments and/or vaccines, further economic stimulus from government authorities, the rate at which governmental restrictions on business activities are relaxed and the adequacy and sustainability of other sources of repayment such as loan collateral. Consistent with industry regulatory guidance, borrowers that were granted COVID-19 related deferrals but were otherwise current on loan payments will continue to have their loans reported as current loans during the agreed upon deferral period, accrue interest and not be accounted for as troubled debt restructurings.

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

Loans to a single borrower, or to a related group of borrowers, are referred to as total related credits. Total related credits encompass all related or affiliated borrower loan balances, including available unused lines of credit, for both personal and business loans. At June 30, 2020, the Company had 26 total related credit relationships, comprised of 210 individual loans, with outstanding balances in excess of $5.0 million. These total related credits ranged from $5.0 million to $13.2 million at June 30, 2020 with aggregate balances of $207.2 million. Of the $207.2 million in total related credits, $189.8 million was secured by various collateral assets, primarily commercial real estate, $11.3 million was unsecured, and $6.1 million were PPP loans.

In addition, the future credit-related performance of a loan portfolio generally depends upon the types of loans within the portfolio, concentrations by type of loan and the quality of the collateral securing the loans. The following table details the Company's loan portfolio by collateral type within major categories as of June 30, 2020:

(Dollars in thousands)	**Balance**	**Number of Loans**	**Average Loan Balance**	**Minimum/ Maximum Loan Balance**	**Allowance for Loan Losses**	**Percent of Total Loans**
Residential Mortgage Loans	$ 216,419	2,101	$ 103	$ 1 - $ 1,566	$ 756	27%
Commercial Real Estate:						
Mixed Use	$ 41,179	50	$ 824	$ 26 - $ 7,433	$ 672	5%
Multi-Family Residential	39,952	57	701	27 - 6,009	652	5%
Hotels and Motels	33,258	10	3,326	226 - 11,500	543	4%
Office	32,035	58	552	12 - 4,902	523	4%
Retail	22,720	52	437	1 - 5,217	371	3%
1-4 Family Residential	18,433	146	126	10 - 1,250	301	2%
Automobile Dealership	16,497	10	1,650	173 - 6,629	269	2%
Recreation/Golf Course/Marina	10,812	14	772	32 - 3,150	177	1%
Warehouse	10,790	15	719	8 - 2,678	176	1%
Manufacturing/Industrial	6,625	15	442	3 - 1,438	108	1%
Restaurant	6,346	25	254	10 - 1,311	104	1%
Automobile Repair	4,829	10	483	61 - 2,342	79	1%
Not-For-Profit & Community Service Real Estate	3,378	3	1,126	109 - 1,679	55	0%
Land	3,418	5	684	76 - 2,000	56	0%
Skilled Nursing Facility	3,503	1	3,503	3,503 - 3,503	57	1%
All Other	7,049	36	196	17 - 745	115	1%
Total Commercial Real Estate Loans	$ 260,824	507	$ 514		$ 4,258	32%
Commercial and Industrial:						
Secured Term Loans	$ 63,672	360	$ 177	$ 0 - $ 6,035	$ 1,525	8%
Unsecured Term Loans	19,494	131	149	0 - 1,647	467	3%
Secured Lines of Credit	42,370	288	147	0 - 5,000	1,015	5%
Unsecured Lines of Credit	11,140	143	78	0 - 2,999	267	1%
Total Commercial and Industrial Loans	$ 136,676	922	$ 148		$ 3,274	17%
Tax Exempt Loans	$ 7,644	24	$ 319	$ 9 - $ 2,425	$ 1	1%
Paycheck Protection Loans	$ 73,774	641	$ 115	$ 1 - $ 3,000	$ -	9%
Consumer:						
Home Equity Lines of Credit	$ 42,587	1,077	$ 40	$ 0 - $ 417	$ 644	5%
Automobile	31,569	1,994	16	1 - 368	476	4%
Consumer Secured	4,302	82	52	23 - 146	65	1%
Consumer Unsecured	32,075	6,539	5	1 - 116	484	4%
All Others	1,969	1,002	2	0 - 60	30	0%
Total Consumer Loans	$ 112,502	10,694	$ 11		$ 1,699	14%
Net deferred loan fees	(1,830)	-	-	-	-	-
Unallocated allowance for loan losses	-	-	-	-	565	-
Total Loans	$ 806,009	14,889	$ 54		$ 10,553	100%

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

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

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

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

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 ("Agency"), the Company is required to consolidate 100% of FitzGibbons within the consolidated financial statements. The 49% of which the Company does not own is accounted for separately as noncontrolling interests within the consolidated financial statements. At June 30, 2020, the Company and subsidiaries had total consolidated assets of $1.2 billion, total consolidated liabilities of $1.1 billion and shareholders' equity of $92.0 million plus noncontrolling interest of $292,000, which represents the 49% of FitzGibbons not owned by the Company.

The following discussion reviews the Company's financial condition at June 30, 2020 and the results of operations for the three and six month periods ended June 30, 2020 and 2019. Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020 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 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 23, 2020 ("the consolidated annual financial statements") as of December 31, 2019 and 2018 and for the two years then ended. Therefore, only material changes in financial condition and results of operations are discussed in the remainder of Item 2.

Statement Regarding Forward-Looking Statements

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

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

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

In addition to the risk factors enumerated above, the economic impact of the COVID-19 outbreak could adversely affect our financial condition and results of operations. The COVID-19 pandemic has caused significant economic dislocation in the United States as many state and local governments have ordered non-essential businesses to close and residents to social distance. This has resulted in an unprecedented slow-down in economic activity and a related increase in unemployment.

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

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

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

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

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

COVID-19 Response

In early January 2020, the World Health Organization issued an alert that a novel coronavirus outbreak was emanating from Wuhan, Hubei Province in China. Over the course of the next several weeks, the outbreak continued to spread to various regions of the world prompting the World Health Organization to declare COVID-19 a global pandemic on March 11, 2020. In the United States, by the end of March 2020, the rapid spread of the COVID-19 virus invoked various Federal and New York State authorities to make emergency declarations and issue executive orders to limit the spread of the disease. Measures included restrictions on international and domestic travel, limitations on public gatherings, implementation of social distancing and sanitization protocols, school closings, orders to shelter in place and mandates to close all non-essential businesses to the public. To widely varying degrees, largely dependent upon the level of local and regional outbreaks and the resultant levels of strain on locally-available medical resources, these very substantial curtailments of social and economic activity have been relaxed globally and in the United States. However, there is virtually no locality within the United States that has returned to substantively normal business and social activities at the time of this filing and the spread rate of the coronavirus remains extremely high in many regions of the country.

As a result of the initial and continuing outbreak, and governmental response thereto, the spread of the coronavirus has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. The Company has many employees working remotely and has also reduced physical customer contact with employees and other customers significantly by limiting branch activities. Initially, branch activities were limited to drive-thru transactions whenever possible, teleconferencing and in-branch “appointments only” services. The Bank’s branches are now fully accessible to the public but remain in strict compliance with all applicable social distancing and sanitization guidelines. Since the start of the pandemic, transactional volume has also increased through the Bank’s telephone and internet banking channels. We will take further actions for safety as may be required by government authorities or that we determine to be in the best interests of our employees, customers and business partners.

Concerns about the spread of the disease and its anticipated negative impact on economic activity, severely disrupted both domestic and international financial markets prompting the world’s central banks to inject significant amounts of monetary stimulus into their respective economies. In the United States, the Federal Reserve System’s Federal Open Market Committee, swiftly cut the target Federal Funds rate to a range of 0% to 0.25%, including a 50 basis point reduction in the target federal funds rate on March 3, 2020 and an additional 100 basis point reduction on March 15, 2020. In addition, the Federal Reserve initiated various market support programs to ease the stress on financial markets. This significant reduction in short-term interest rates has reduced, and will continue to reduce, the Bank’s cost of funds and interest earning-asset yields. The long-term effects of the current interest rate environment, that has resulted from government and central bank responses to the pandemic, on the Bank’s net interest margins cannot be predicted with certainty at this time.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), signed into law on March 27, 2020, provides financial assistance in various forms to both businesses and consumers. In addition, the CARES Act also created many directives affecting the operations of financial services providers, such as the Company, including a forbearance program for federally-backed mortgage loans and protections for borrowers from negative credit reporting due to loan accommodations related to the national emergency. The banking regulatory agencies have likewise issued guidance encouraging financial institutions to work prudently with borrowers who are, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. The Company has worked to assist its business and individual customers affected by COVID-19. Through June 30, 2020, the Bank granted payment deferral requests primarily for 90 days, on 556 loans representing approximately $145.6 million of existing loan balances. For more information on the Bank’s loan concentrations, please see Note 15 to the Unaudited Consolidated Financial Statements above.

The Bank participated in the Paycheck Protection Program (“PPP”), a $650 billion specialized low-interest loan program funded by the U.S. Treasury Department and administered by the U.S. Small Business Administration (“SBA”) pursuant to the CARES Act and subsequent legislation. PPP loans have an interest rate of 1.0%, a two-year or five-year loan term to maturity, and principal and interest payments deferred until the lender receives the applicable forgiven amount or 10 months after the period the business has used such funds. The SBA guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower’s PPP loan, including any accrued interest, is eligible to be

reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses. Through June 30, 2020, the Bank has submitted to and received approval from the SBA for 680 loans totaling approximately $73.8 million through this program.
The COVID-19 crisis is expected to continue to impact the Company's financial results, as well as demand for its services and products during the remainder of 2020 and potentially beyond. The short- and long-term implications of the COVID-19 crisis on the Company's future revenues, earnings results, the allowance for loan losses, capital reserves, and liquidity are unknown at this time.

Application of Critical Accounting Policies

The Company's consolidated annual 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 annual 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 annual financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the allowance for loan losses, deferred income taxes, pension obligations, the evaluation of investment securities for other than temporary impairment, the estimation of fair values for accounting and disclosure purposes, and the evaluation of goodwill for impairment to be the accounting areas that require the most subjective and complex judgments. These areas could be the most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment on the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change.

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

Residential and Consumer Loans:

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

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

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

- All Troubled Debt Restructured Loans

Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses as compared to the loan carrying value. For all other loans and leases, the Company uses the general allocation methodology that establishes an allowance to estimate the probable incurred loss for each risk-rating category.

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

Effective in January 2018, the Company adopted a modification methodology, made available following changes to the New York State tax code, affecting how the Company's state income tax liability is computed. Under this adopted methodology it is unlikely that the Company will pay income taxes to New York in future periods and it is therefore probable that the Company's deferred tax assets related to New York State income taxes are unlikely to further reduce the Company's state income tax rate in the future. Accordingly, a valuation allowance against the value of those deferred tax assets was established to reduce the net deferred tax asset related to New York income taxes to $0. Therefore, as of January 1, 2019, the Company established, through a charge to earnings, a valuation allowance in the amount of $136,000 in order to reserve against deferred tax assets related to New York State income taxes.

In the quarter ended March 31, 2020, Management determined that the Company, under the current New York State ("NYS") tax code, was highly unlikely to incur a material NYS tax liability in the foreseeable future. As a result, certain net current and deferred tax assets, related to GAAP vs. tax timing differences under previous NYS tax law, were no longer going to provide any future tax benefit. The substantial majority of these net deferred tax assets were offset by a related valuation allowance established in prior periods. Upon analysis of all factors related to the expected future filings of NYS tax returns, the Company eliminated its remaining NYS net deferred tax asset balances and the related valuation allowance on January 1, 2020. The effect of these eliminations required an adjustment to other comprehensive income of $206,000 and had no effect on first half 2020 reported earnings. At June 30, 2019, the Company had a valuation allowance of $61,000 established against the future projected benefits of deferred tax assets related to New York State income tax obligations.

The Company's effective tax rate typically differs from the 21% federal statutory tax rate due primarily to 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, as well as a the effects of transitional adjustments related to state income taxes and certain taxes payable to states other than New York. The effective tax rate was 20.5% for the six month period ended June 30, 2020.

We maintain a noncontributory defined benefit pension plan covering most employees. The plan provides defined benefits based on years of service and final average salary. On May 14, 2012, we informed our employees of our decision to freeze participation and benefit accruals under the plan, primarily to reduce some of the volatility in earnings that can accompany the maintenance of a defined benefit plan. Pension and post-retirement benefit plan liabilities and expenses are based upon actuarial assumptions of future events; including fair value of plan assets, interest rates, and the length of time the Company will have to provide those benefits. The assumptions used by management are discussed in Note 14 to the consolidated annual financial statements.

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

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

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

Management performs an annual evaluation of our goodwill for possible impairment at each of our reporting units. Based on the results of the December 31, 2019 evaluation, management has determined that the carrying value of goodwill was not impaired as of that date. Management will continuously evaluate all relevant economic and operational factors potentially affecting the Bank or the fair value of its assets, including goodwill. Should the current pandemic, or the future economic consequences thereof, require a significant and sustained change in the operations of the Bank, re-evaluations of the Bank’s goodwill valuation will be conducted on a more frequent basis. The evaluation approach is described in Note 10 of the consolidated annual financial statements. Further information on the estimation of fair values can be found in Note 22 to the consolidated annual financial statements.

Recent Events

On June 30, 2020, the Company announced that the Board of Directors declared a quarterly cash dividend of $0.06 per common and preferred share and a cash dividend of $0.06 per notional share for the issued common stock warrant. The dividends are payable on August 14, 2020 to shareholders of record on July 17, 2020.

Overview and Results of Operations

The following represents the significant highlights of the Company’s operating results between the second quarter of 2020 and the second quarter of 2019.

- Net income increased $1.2 million, or 203.0%, to $1.8 million.
- Basic and diluted earnings per share were both $0.31 per share and increased $0.20 per share.
- Return on average assets increased 38 basis points to 0.63% as the increase in income outpaced the increase in average assets.

- Net interest income, after provision for loan losses, increased $398,000, or 6.5%, to $6.5 million. Excluding the provision, net interest income increased $934,000, or 13.9%, to $7.6 million. The increase in net interest income after provision for loan losses was primarily due to the increase in average balances of interest-earning assets, offset by a significant increase in the provision for loan losses, which is reflective of an increase in average loan balances. Additional provisioning for loan losses was also applied as a reflection of the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.
- Net interest margin decreased by 15 basis points to 2.75%, primarily as a result of a $50.0 million increase in the average balance of time deposits, coupled with a 77 basis point decrease in the average rate paid on time deposits.
- The effective income tax rate decreased 3.1% to 19.1% for the three months ended June 30, 2020 as compared to 22.2% for the same three month period in 2019. The decrease in the tax rate in the second quarter of 2020, as compared to the same quarter in 2019, was primarily related to immaterial nonrecurring adjustments made to income tax expense in the second quarter of 2019 related to New York State taxes.

The following represents significant highlights of the Company's operating results between the first six months of 2020 and the first six months of 2019.

- Net income increased $2.4 million, or 215.0%, to $3.5 million.
- Basic and diluted earnings per share were both $0.60 per share and increased $0.37 per share.
- Return on average assets increased 39 basis points to 0.62% as the increase in income outpaced the increase in average assets.
- Net interest income, after provision for loan losses, increased by $707,000, or 5.7%, to $13.2 million. This increase in net interest income after provision for loan losses was primarily due to the increase in average balances of interest-earning assets, offset by a significant increase in the provision for loan losses, which is reflective of an increase in average loan balances. Additional provisioning for loan losses was also applied as a reflection of the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.
- Net interest margin decreased by three basis points to 2.88%, primarily as a result of a $65.5 million increase in the average balance of time deposits, coupled with a 51 basis point decrease in the average rate paid on time deposits.
- The effective income tax rate decreased 7.3% to 20.5% for the six months ended June 30, 2020 as compared to 27.8% for the same six month period in 2019. This decrease was primarily related to the 2019 nonrecurring establishment, through a charge to earnings, of a $136,000 valuation allowance to reserve against deferred tax assets related to New York State income taxes.

The following reflects the significant changes in financial condition between December 31, 2019 and June 30, 2020. In addition, the following reflects significant changes in asset quality metrics between June 30, 2019 and June 30, 2020.

- Total assets increased $73.2 million, or 6.7% to $1.2 billion at June 30, 2020, as compared to December 31, 2019, primarily due to increases in loans, cash and cash equivalents, and investment securities. These increases were funded largely by increases in deposits, including brokered deposits, as well as the cash flow from the sale and maturity of investment securities.

- Asset quality metrics, as measured by net loan charge-offs, remained stable, in comparison to recent reporting periods. The annualized net loan charge-offs to average loans ratio was 0.08% for the second quarter of 2020, compared to 0.07% for the second quarter of 2019, and 0.09% for the fourth quarter of 2019. Nonperforming loans to total loans increased 50 basis points to 1.04% at June 30, 2020, compared to 0.54% at June 30, 2018. Nonperforming loans to total loans increased 37 basis points to 1.04% at June 30, 2020 compared to 0.67% at December 31, 2019. Correspondingly, the ratio of the allowance for loan losses to nonperforming loans for second quarter 2020 was 125.86%, as compared to 208.39% at June 30, 2019, and 165.25% at December 31, 2019.

The Company had net income of $1.8 million for the three months ended June 30, 20120 compared to net income of $607,000 for the three months ended June 30, 2019. The $1.2 million increase in net income was due primarily to a

$781,000 decrease in noninterest expense, a $528,000 decrease in interest expense, a $406,000 increase in interest and dividend income, and a $312,000 increase in noninterest income. These fluctuations were partially offset by a $536,000 increase in the provision for loan losses and a $264,000 increase in income tax expense.

Net interest income before the provision for loan losses increased $934,000, or 13.9%, to $7.6 million for the three months ended June 30, 2020 as compared to $6.7 million for the same three month period in 2019. The increase was primarily the result of the increase in average interest-earning asset balances due to increases among all interest earning asset categories. The positive effects of increased average interest-earning assets for the three months ended June 30, 2020, as compared to the same three month period in 2019, were partially offset by a decrease in the average yield of interest-earning assets of 58 basis points to 3.78% for the three months ended June 30, 2020 from 4.36% for the same three month period of the previous year. Further, this increase in net interest income was partially offset by an increase of $115.8 million in the average balance of interest bearing liabilities, which was partially offset by a 44 basis point decrease in the average cost of interest-bearing liabilities between the year-over-year second quarter periods.

The $312,000, or 25.6%, increase in noninterest income in the quarter ended June 30, 2020, as compared to the same quarterly period in 2019, was primarily the result of a $253,000 increase in income from the combined investment related activities of (1) net gains on sales and redemptions of investment securities and (2) net losses on equity securities. During the second quarter of 2020, net gains on sales and redemptions of investment securities increased $991,000, as compared to the previous year period, and this increase was partially offset by a $738,000 decline in gains on equity securities, compared to the second quarter of 2019. Further contributing to the increase in noninterest income was a net increase of $84,000 in net gains on sales of loans and foreclosed real estate for the current period. All other noninterest income categories decreased by $25,000, or 2.2%, in the three months ended June 30, 2020, as compared to the same prior year period. The overall increases in noninterest income were significantly muted in the second quarter of 2020 by reduced customer transactional activity levels and the Bank's increased levels of fee waivers and other forbearances in response to the local economic effects of the COVID-19 pandemic.

The increase in net gains on sales and redemptions of investment securities of $991,000 in the second quarter of 2020, as compared to the same quarter of 2019, was comprised of net gains on sale of $908,000 related to available-for-sale fixed-income securities and $115,000 related to the sale of a portion of the Company's previously-held equity investment in an otherwise unaffiliated financial institution. During the current quarter, the Company sold 18 fixed-income investment securities, with an aggregate amortized historical cost of $23.8 million, and recognized net gains of $908,000 on those sales. These securities were sold in order to improve the expected future total returns within the investment portfolio, particularly in light of potentially increased prepayment activity, related to the sharp decline in general interest rates, and/or potential credit downgrade concerns following the onset of the COVID-19 pandemic.

Since 2016, the Company held a passive equity investment, acquired for $534,000, in an otherwise unaffiliated financial institution. The issuer of that common stock was acquired in June 2020 by another financial institution. The acquisition resulted in the Company receiving total consideration of $911,000 for its equity investment, based on the closing stock price of the acquiring institution on June 30, 2020. The Company surrendered its original equity investment and received $265,000 in cash as well as shares in the acquiring institution valued at $646,000 at June 30, 2020. As a result, during the second quarter of 2020, the Company recorded a net gain on sales and redemptions of investment securities of $115,000 and a gain on equity securities of $438,000. The Company retained a position in the acquiring bank valued at $646,000 at June 30, 2020 and has the ability to hold the investment indefinitely.

Finally, the Company held a fixed-income, previously non-traded investment, categorized as available-for-sale, which was managed since its purchase in 2017 by an external party. The investment was previously reported at its stated net asset value, which was $2.1 million at March 31, 2020. The investment, was substantially restructured and subsequently listed on June 17, 2020 as a publically-traded common stock on the New York Stock Exchange. Due to what management believes were technical factors related to the listing itself, and the almost universal pricing pressure on publically-traded assets of this type in the current uncertain economic environment, the closing stock price at June 30, 2020 was significantly below the historical amortized cost of the investment on that date. Therefore, the restructuring and listing events caused the Company to recognize an unrealized loss in the second quarter of 2020 of $1.2 million, which was measured by the difference between its closing stock price at June 30, 2020 and its net asset value at March 31, 2020. As an equity security, the fair value of this investment is now required, under generally accepted accounting principles

(GAAP), to be recorded at its readily determinable market value with changes in market value recorded as an adjustment to current earnings in the period incurred. Accordingly, the Company recorded the reduction in the fair value of the investment as a charge to pretax net income in the quarter ended June 30, 2020 and the investment's fair value was $918,000 at that date. The Company's management believes that the investment is fundamentally sound, will sustainably generate significant dividend income in the future and that the Company has the ability to hold the security indefinitely.

The $781,000 decrease in noninterest expense in the quarter ended June 30, 2020, as compared to the same quarterly period in 2019, was due primarily to a decrease of $482,000, or 14.0%, in salaries and employee benefits expense. The decrease in salaries and employee benefit expense was primarily due to a $359,000 decrease in net salaries expense and a $170,000 decrease in employee benefits expense. The decrease in net salaries expense was partially the result of a significant absorption of these expenses into the unamortized cost of the originated PPP loans as required under GAAP. During the second quarter, the Bank originated $73.8 million in PPP loans and deferrals of employee-related expenses related to those originations resulted in an overall net decrease of $331,000 in employee-related expenses for the current quarter, as compared to the second quarter 2019. All other employee-related expenses declined an aggregate $299,000 in the second quarter of 2020, as compared to the same quarterly period in 2019. All other noninterest expenses unrelated to personnel expenses declined primarily due to reductions in expenditures for community service activities, training, and meals and entertainment of $132,000, $93,000 and $44,000, respectively. These expenses were substantially curtailed in the period as a result of the significant restrictions placed on many business activities as a result of the pandemic.

For the three months ended June 30, 2020, we recorded $1.1 million in provision for loan losses as compared to $610,000 in the same prior year three month period. This $536,000 increase in the provision for loan losses was primarily due to economic uncertainty and the resultant potential for increased credit losses in future periods, as a result of the COVID-19 pandemic. Additionally, the provision reflects an increase in outstanding loan balances of $113.2 million, or 16.3%, in the second quarter of 2020, compared to the same quarter in the previous year, as well as an increase in the non-performing loans to period end loans as a result of four commercial loan relationships.

In comparing the year-over-year second quarter periods, the return on average assets increased 38 basis points to 0.63% due to the combined effects of the increase in net income (the numerator in the ratio) and the increase in average assets (the denominator in the ratio). Average assets increased due to increases in average loans and average federal funds sold and interest earning deposits of $129.8 million and $54.0 million, respectively, in the second quarter of 2020 as compared to the same quarter of 2019. Average interest-bearing deposits increased $100.0 million in the second quarter of 2020, as compared with the same quarter in 2019. The increase in deposits was due to growth in retail and commercial relationship deposits as a result of the Bank's participation in the PPP lending program, along with brokered deposit inflows, as a result of the Bank's efforts to significantly increase cash and cash equivalent balances in response to the COVID-19 pandemic.

The Company had net income of $3.6 million for the six months ended June 30, 2020 compared to net income of $1.1 million for the six months ended June 30, 2019. The $2.5 million increase in net income was due primarily to a $2.2 million increase in net interest income, a $967,000 increase in noninterest income and $1.2 million decrease in noninterest expense. These fluctuations were partially offset by an increase of $1.5 million in the provision for loan losses and a $468,000 increase in income tax expense.

Net interest income before the provision for loan losses increased $2.2 million to $15.4 million for the six months ended June 30, 2020, as compared to $13.3 million for the same six month period in 2019. The increase was due principally to a $1.8 million, or 9.0%, increase in interest and dividend income that was a result of growth in average interest-earning assets of $157.4 million compared to the prior year six month period. Average loans for the first six months of 2020 increased by $128.5 million, or 19.8%, over the prior year period, primarily the result of growth in the commercial loan portfolios and in particular PPP loans, while the average interest rate earned on interest-earning assets decreased by 31 basis points. Average interest-bearing liabilities increased by $107.6 million, or 13.78%, for the six months ended June 30, 2020 as compared to the prior year period; however, the average interest rate paid on interest-bearing liabilities decreased by 29 basis points.

The $967,000, or 41.8%, increase in noninterest income for the six months ended June 30, 2020, when compared to the same six month period in 2019, was primarily the result of an increase of $938,000 in net gains on sales and redemptions of investment securities, and a $764,000 increase in net gains on the sales of loans and foreclosed real estate. The investment securities sales were part of the Company's portfolio optimization and liquidity management strategies. The increased gain on the sales of loans and foreclosed real estate was primarily the result of the sale of $35.9 million in seasoned, conforming residential mortgage loans that was completed in January 2020 and resulted in the recognition of a gain of $659,000. Also contributing to the increase in noninterest income was other charges, commissions and fees, insurance agency revenue, debit card interchange fees, loan servicing fees, and service charges on deposit accounts, which increased $70,000, $61,000, $37,000, $41,000, and $29,000, respectively. The net increase in these categories of noninterest income were in part due to the Company's increased strategic focus on improving recurring noninterest income. However, as noted above, overall increases in noninterest income were significantly muted in the second quarter of 2020 by reduced customer activity levels and the Bank's increased levels of fee waivers and forbearances in response to the local economic effects of the COVID-19 pandemic. These net increases in noninterest income were partially offset by a $973,000 increase in net losses on equity securities, as discussed above.

Total noninterest expense for the six month period of 2020 was $12.0 million, a decrease of $1.2 million, or 9.4%, compared with $13.2 million for the prior year period. The reduced noninterest expense for the six month period ended June 30, 2020, as compared to the same period in 2019, was principally driven by a decrease of $885,000 in personnel expenses, a $261,000 decrease in foreclosed real estate expenses, and a $163,000 reduction in community service activities expenses. The decrease in personnel expenses in the first six months of 2020, as compared to the same six month period in 2019, was primarily due to a $470,000 decrease in net salaries expense. This reduction in net salaries expense primarily resulted from the increased deferral of these expenses into the unamortized cost of the loans originated in the first six months of 2020. The increased volume of loans originated in the first six months of 2020, as compared to the same period in 2019, was due primarily to the PPP loan volume originated in the second quarter of 2020, as discussed above. In addition, personnel expenses declined in the six months ended June 30, 2020, as compared to the same period in 2019, due primarily to decreases of $319,000 in employee benefits. The decrease in other employee benefits for the six months ended June 30, 2020, as compared to the same six month period in 2019, was primarily due to decreases in pension, employee medical and other employee benefits expenses of $144,000, $76,000 and $49,000, respectively. Pension expense decreased $144,000 primarily due to the higher market value of pension assets held in trust at January 1, 2020 as compared to the same date in 2019. The higher market values for pension assets resulted from market value appreciation of those assets in 2019. Medical expenses declined primarily due to reduced employee utilization of elective medical services and increased cost sharing of certain medical costs with employees in 2020, as compared to the previous year. The decrease in other employee benefits expenses related to reduced levels of certain training, employee recognition and other employee-related activities due primarily to restrictions on such activities resulting from the pandemic.

For the first six months of 2020, we recorded $2.2 million in provision for loan losses as compared to $754,000 in the same prior year six month period. This $1.5 million increase in the provision for loan losses resulted from year-over-year increases in: (1) the qualitative factors used in determining the adequacy of the allowance for loan losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The increase in the quantitative factors used in determining the provision for loan losses reflected the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic. Outstanding loan balances increased $113.2 million, or 16.3%, in the quarter ended June 30, 2020, as compared to the same quarter in the previous year, and therefore required a corresponding increase in the estimable and probable loan losses inherent in the loan portfolio. Finally, the provision for loan losses in the six months ended June 30, 2020 was further increased, as compared to the same period in 2019, by the effects of an increase in the ratio of delinquent loans to total loans, which increased to 3.19% at June 30, 2020 as compared to 2.45% at June 30, 2019, coupled with an increase in nonaccrual loans that increased $4.6 million to $8.4 million at June 30, 2020 as compared to $3.8 million at June 30, 2019.

Return on average assets increased 39 basis points to 0.62% between the year-over-year six month periods as the change in net income in the six month period ended June 30, 2020 (the numerator of the ratio) increased by a higher percentage than the rate at which average assets (the denominator of the ratio) grew during the period.

Net Interest Income

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

The following tables set forth information concerning average interest-earning assets and interest-bearing liabilities and the average yields and rates thereon for the periods indicated. Interest income and resultant yield information in the tables has not been adjusted for tax equivalency. Averages are computed on the daily average balance for each month in the period divided by the number of days in the period. Yields and amounts earned include loan fees. Nonaccrual loans have been included in interest-earning assets for purposes of these calculations.

	For the three months ended June 30,					
	2020			2019		
(Dollars in thousands)	Average Balance	Interest	Average Yield / Cost	Average Balance	Interest	Average Yield / Cost
Interest-earning assets:						
Loans	$ 796,267	$ 8,832	4.44%	$ 666,428	$ 8,222	4.93%
Taxable investment securities	230,943	1,613	2.79%	228,506	1,729	3.03%
Tax-exempt investment securities	9,552	52	2.18%	9,383	51	2.17%
Fed funds sold and interest-earning deposits	76,203	17	0.09%	22,222	106	1.91%
Total interest-earning assets	1,112,965	10,514	3.78%	926,539	10,108	4.36%
Noninterest-earning assets:						
Other assets	73,721			67,935		
Allowance for loan losses	(10,076)			(7,372)		
Net unrealized losses on available-for-sale securities	(1,804)			(1,685)		
Total assets	$ 1,174,806			$ 985,417		
Interest-bearing liabilities:						
NOW accounts	$ 80,712	$ 35	0.17%	$ 67,380	$ 28	0.17%
Money management accounts	15,826	4	0.10%	13,415	5	0.15%
MMDA accounts	202,136	355	0.70%	177,284	395	0.89%
Savings and club accounts	94,684	22	0.09%	85,283	25	0.12%
Time deposits	418,722	1,788	1.71%	368,708	2,287	2.48%
Subordinated loans	15,139	192	5.07%	15,102	217	5.75%
Borrowings	87,415	478	2.19%	71,701	445	2.48%
Total interest-bearing liabilities	914,634	2,874	1.26%	798,873	3,402	1.70%
Noninterest-bearing liabilities:						
Demand deposits	156,001			101,675		
Other liabilities	12,828			10,395		
Total liabilities	1,083,463			910,943		
Shareholders' equity	91,343			74,474		
Total liabilities & shareholders' equity	$ 1,174,806			$ 985,417		
Net interest income		$ 7,640			$ 6,706	
Net interest rate spread			2.52%			2.66%
Net interest margin			2.75%			2.90%
Ratio of average interest-earning assets to average interest-bearing liabilities			121.68%			115.98%

(Dollars in thousands)	2020 Average Balance	2020 Interest	2020 Average Yield / Cost	2019 Average Balance	2019 Interest	2019 Average Yield / Cost
	For the six months ended June 30,					
Interest-earning assets:						
Loans	$ 778,709	$ 18,074	4.64%	$ 650,169	$ 15,797	4.86%
Taxable investment securities	239,297	3,375	2.82%	226,586	3,605	3.18%
Tax-exempt investment securities	5,458	59	2.16%	13,903	159	2.29%
Fed funds sold and interest-earning deposits	45,943	49	0.21%	21,390	216	2.02%
Total interest-earning assets	1,069,407	21,557	4.03%	912,048	19,777	4.34%
Noninterest-earning assets:						
Other assets	75,263			66,878		
Allowance for loan losses	(9,390)			(7,324)		
Net unrealized losses on available for sale securities	(843)			(2,468)		
Total assets	$ 1,134,437			$ 969,134		
Interest-bearing liabilities:						
NOW accounts	$ 78,247	$ 65	0.17%	$ 68,819	$ 56	0.16%
Money management accounts	15,005	9	0.12%	13,820	10	0.14%
MMDA accounts	198,298	756	0.76%	180,907	829	0.92%
Savings and club accounts	90,901	48	0.11%	84,792	50	0.12%
Time deposits	410,967	3,882	1.89%	345,486	4,140	2.40%
Subordinated loans	15,135	398	5.26%	15,097	434	5.75%
Borrowings	87,217	980	2.25%	79,200	1,005	2.54%
Total interest-bearing liabilities	895,770	6,138	1.37%	788,121	6,524	1.66%
Noninterest-bearing liabilities:						
Demand deposits	134,179			101,480		
Other liabilities	12,446			9,383		
Total liabilities	1,042,395			898,984		
Shareholders' equity	92,042			70,150		
Total liabilities & shareholders' equity	$ 1,134,437			$ 969,134		
Net interest income		$ 15,419			$ 13,253	
Net interest rate spread			2.66%			2.68%
Net interest margin			2.88%			2.91%
Ratio of average interest-earning assets to average interest-bearing liabilities			119.38%			115.72%

As indicated in the above tables, net interest income, before provision for loan losses, increased $934,000, or 13.9%, to $7.6 million for the three months ended June 30, 2020 as compared to $6.7 million for the same prior year period. This increase was due principally to the $186.4 million, or 20.1%, increase in the average balance of interest-earning assets, and a decrease of 58 basis points on the average yield earned on those assets. These positive factors on net interest income were partially offset by an increase in the average balance of interest-bearing liabilities of $115.8 million, or 14.5%, and a decrease of 44 basis points on the average interest rate paid on those liabilities. In total, net interest margin decreased 15 basis points to 2.75% due largely to the decrease in yields earned on average interest-earning assets, as noted above. The following analysis should also be viewed in conjunction with the table below which reports the changes in net interest income attributable to rate and volume.

Interest and dividend income increased $406,000, or 4.0%, to $10.5 million for the three months ended June 30, 2020 compared to $10.1 million for the same three month period in 2019. The increase in interest income was due principally to the increase in average interest-earning assets (primarily loans), which increased between the year-over-year second quarter periods by 20.1%. The increase in interest income on loans was due principally to the increase in the in the average balances of loans, which increased 19.5%, between the year-over-year second quarter periods. The average balance of loans increased by $129.8 million. The increase in the average balance of loans reflected the Company's continued success in its expansion within the greater Syracuse, New York market and the Company's participation in the PPP loan program.

Interest expense for the three months ended June 30, 2020 decreased $528,000 or 15.5%, to $2.9 million when compared to the same prior year period. Deposit interest expense decreased $536,000, or 19.6%, to $2.2 million due to a 45 basis point decrease in the annualized rate paid on deposits to 1.09% for the three months ended June 30, 2020, as compared to 1.54% for the three months ended June 30, 2019. This was partially offset by a $100.0 million increase in the average balance of interest-bearing deposits during the same time periods. This decrease in the average cost of deposits was primarily due to a 77 basis point decrease in the average rates paid on time deposits, during the three months ended June 30, 2020 as compared to the same three month period in 2019 due to the general decline in market interest rates during the second quarter of 2020. In 2019, the average rates paid on time deposits reflected the competitive environment for such deposits within the Company's marketplace.

For the six month period ended June 30, 2020, net interest income, before the provision for loan losses, increased $2.2 million, or 16.3%, to $15.4 million compared to $13.3 million for the six months ended June 30, 2019. Interest and dividend income increased $1.8 million, or 9.0%, to $21.6 million for the six months ended June 30, 2020 from $19.8 million for the same six month period in 2019. The increase in interest income was due principally to the increase in average balances of federal funds sold and interest-earning deposits and loans, which increased 114.8% and 19.8%, respectively, between the year-over-year six month periods. The increase in the average balance of federal funds sold and interest-earning deposits was a result of the COVID-19 pandemic. The Bank substantially increased the liquidity of its balance sheet to support the potential needs of the customers and communities it serves. The increase in the average balance of loans reflected the Company's continued success in its expansion within the greater Syracuse market and the Company's participation in the PPP loan program. Further contributing to the increase in net interest income was a $386,000 decrease in interest expense, primarily due to a $325,000 decrease in deposit expense.

Interest expense for the six months ended June 30, 2020 decreased $386,000, or 5.9%, to $6.1 million as compared to $6.5 million for the six months ended June 30, 2019. The decrease in interest expense was due principally to a 29 basis point decrease in the average rate paid on interest-bearing liabilities to 1.37%, partially offset by a $107.6 million increase in the average balance of these liabilities. The decrease in interest expense was due to a $325,000 decrease in deposit interest expense, a $36,000 decrease in subordinated loan expense, and a $25,000 decrease in borrowings expense. The average balance of interest-bearing deposits, which include brokered deposits, increased $113.4 million between the year-over-year six month periods. The average rate paid on interest- bearing deposits decreased 30 basis points to 1.20% for the six months ended June 30, 2020 as compared with the same six month period in 2019. This decrease was primarily due to a 51 basis point decrease in the average rate paid on time deposits, during the six months ended June 30, 2020 as compared to the same time period in 2019. The decrease in the average rates paid on those deposits reflected the general decline in market interest rates during the first half of 2020.

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.

	Three months ended June 30, 2020 vs. 2019 Increase/(Decrease) Due to			Six months ended June 30, 2020 vs. 2019 Increase/(Decrease) Due to		
(In thousands)	**Volume**	**Rate**	**Total Increase (Decrease)**	**Volume**	**Rate**	**Total Increase (Decrease)**
Interest Income:						
Loans	$ 4,776	$ (4,166)	$ 610	$ 4,161	$ (1,884)	$ 2,277
Taxable investment securities	115	(231)	(116)	465	(695)	(230)
Tax-exempt investment securities	1	-	1	(92)	(8)	(100)
Interest-earning deposits	517	(606)	(89)	340	(507)	(167)
Total interest income	5,409	(5,003)	406	4,874	(3,094)	1,780
Interest Expense:						
NOW accounts	6	1	7	8	1	9
Money management accounts	4	(5)	(1)	2	(3)	(1)
MMDA accounts	251	(291)	(40)	176	(249)	(73)
Savings and club accounts	13	(16)	(3)	8	(10)	(2)
Time deposits	1,578	(2,077)	(499)	1,534	(1,792)	(258)
Subordinated loans	4	(29)	(25)	3	(39)	(36)
Borrowings	296	(263)	33	204	(229)	(25)
Total interest expense	2,152	(2,680)	(528)	1,935	(2,321)	(386)
Net change in net interest income	$ 3,257	$ (2,323)	$ 934	$ 2,939	$ (773)	$ 2,166

Provision for Loan Losses

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

Management extensively reviews recent trends in historical losses, qualitative factors and specific reserve needs on loans individually evaluated for impairment in its determination of the adequacy of the allowance for loan losses. We recorded $1.1 million in provision for loan losses for the three month period ended June 30, 2020, as compared to $610,000 for the three month period ended June 30, 2019. The $536,000 increase in the provision for loan losses for the second quarter of 2020, as compared to the same quarter in 2019, resulted from year-over-year increases in: (1) the qualitative factors used in determining the adequacy of the allowance for loan losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The increase in the quantitative factors used in determining the provision for loan losses reflects the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic. Outstanding loan balances increased $113.2 million, or 16.3%, in the quarter ended June 30, 2020, as compared to the same quarter in the previous year, and therefore required a corresponding increase in the estimable and probable loan losses inherent in the loan portfolio. Finally, the provision for loan losses in the quarter ended June 30, 2020 was further increased, as compared to the same quarter in 2019, by the effects of an increase in the ratio of delinquent loans to total loans, which increased to 3.19% at June 30, 2020 as compared to 2.45% at June 30, 2019, coupled with an increase in nonaccrual loans that increased $4.6 million to $8.4 million at June 30, 2020 as compared to $3.8 million at June 30, 2019.

For the first six months of 2020, we recorded $2.2 million in provision for loan losses as compared to $754,000 in the same prior year six month period. This $1.5 million increase in the provision for loan losses resulted from year-over-year increases in: (1) the qualitative factors used in determining the adequacy of the allowance for loan losses, (2) the size of the loan portfolio, and (3) delinquent and nonaccrual loans. The increase in the quantitative factors used in determining the provision for loan losses reflects the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.

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 3.19% at June 30, 2020 as compared to 2.09% at December 31, 2019. Delinquent loans (numerator) increased $9.5 million while total loan balances (denominator) increased $26.5 million at June 30, 2020, as compared to December 31, 2019. The increase in past due loans was primarily driven by an increase of $6.8 million in loans delinquent 60-89 days, an increase of $2.9 million in loans delinquent more than 90 days, partially offset by a $210,000 decrease in loans delinquent 30-59 days. The increase in loans 60-89 days past due at June 30, 2020 as compared to December 31, 2019 was primarily due to the addition of nine commercial loans totaling $6.6 million. The increase in loans delinquent 90 days or more at June 30, 2020 as compared to December 31, 2019 was primarily due to the addition of six commercial loans totaling $3.2 million.

At June 30, 2020, there were $25.8 million in loans past due including $9.6 million in loans 30-59 days past due, $8.2 million in loans 60-89 days past due and $8.0 million in loans 90 or more days past due. At December 31, 2019, there were $16.3 million in loans past due including $9.7 million in loans 30-59 days past due, $1.4 million in loans 60-89 days past due and $5.2 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:

	Three months ended June 30,				Six months ended June 30,			
(Dollars in thousands)	2020	2019	Change		2020	2019	Change	
Service charges on deposit accounts	$ 303	$ 348	$ (45)	-12.9%	$ 659	$ 630	$ 29	4.6%
Earnings and gain on bank owned life insurance	106	101	5	5.0%	222	222	-	0.0%
Loan servicing fees	79	60	19	31.7%	128	87	41	47.1%
Debit card interchange fees	205	187	18	9.6%	368	331	37	11.2%
Insurance agency revenue	185	218	(33)	-15.1%	522	461	61	13.2%
Other charges, commissions and fees	255	244	11	4.5%	478	408	70	17.2%
Noninterest income before gains (losses)	1,133	1,158	(25)	-2.2%	2,377	2,139	238	11.1%
Net gains on sales and redemptions of investment securities	1,023	32	991	3096.9%	1,049	111	938	845.0%
(Losses) gains on marketable equity securities	(722)	16	(738)	-4612.5%	(916)	57	(973)	-1707.0%
Net gains on sales of loans and foreclosed real estate	97	13	84	-646.2%	769	5	764	15280.0%
Total noninterest income	$ 1,531	$ 1,219	$ 312	25.6%	$ 3,279	$ 2,312	$ 967	41.8%

The $312,000, or 25.6%, increase in noninterest income in the quarter ended June 30, 2020, as compared to the same quarterly period in 2019, was primarily the result of a $253,000 increase in income from the combined investment related activities of (1) net gains on sales and redemptions of investment securities and (2) net losses on equity securities. During the second quarter of 2020, net gains on sales and redemptions of investment securities increased $991,000, as compared to the previous year period, and this increase was partially offset by a $738,000 decline in gains on equity securities, compared to the second quarter of 2019. Further contributing to the increase in noninterest income was a net increase of $84,000 in net gains on sales of loans and foreclosed real estate for the current period.

Excluding the effects of the quarter over quarter fluctuations discussed above, all other noninterest income categories decreased by $25,000, or 2.2%, in the three months ended June 30, 2020, as compared to the same prior year period. The overall increases in noninterest income were significantly muted in the second quarter of 2020 by reduced customer transactional activity levels and the Bank's increased levels of fee waivers and other forbearances in response to the local economic effects of the COVID-19 pandemic.

The $967,000, or 41.8%, increase in noninterest income for the six months ended June 30, 2020, when compared to the same six month period in 2019, was primarily the result of an increase of $938,000 in net gains on sales and redemptions of investment securities, and a $764,000 increase in net gains on the sales of loans and foreclosed real estate. The investment securities sales were part of the Company's portfolio optimization and liquidity management strategies. The increased gain on the sales of loans and foreclosed real estate was primarily the result of the sale of $35.9 million in seasoned, conforming residential mortgage loans that was completed in January 2020 and resulted in the recognition of a gain of $659,000. These increases in noninterest income were partially offset by a $973,000 increase in net losses on equity securities, as discussed above.

Excluding the effects of the period over period fluctuations discussed above all other noninterest income categories increased in the aggregate by $238,000, or 11.1%, to $2.4 million in the six months ended June 30, 2020 as compared with $2.1 million in the same six month period of 2019. This $238,000 period over period increase in noninterest income was due primarily to increases in other charges, commissions and fees, insurance agency revenue, debit card interchange fees, loan servicing fees, and service charges on deposit accounts, which increased $70,000, $61,000, $37,000, $41,000, and $29,000, respectively. The net increase in these categories of noninterest income were in part due to the Company's increased strategic focus on improving recurring noninterest income. However, as noted above, overall increases in noninterest income were significantly muted in the second quarter of 2020 by reduced customer activity levels and the Bank's increased levels of fee waivers and forbearances in response to the local economic effects of the COVID-19 pandemic.

Noninterest Expense

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

	Three months ended June 30,				Six months ended June 30,			
(Dollars in thousands)	2020	2019	Change		2020	2019	Change	
Salaries and employee benefits	$ 2,972	$ 3,454	$ (482)	-14.0%	$ 6,219	$ 7,104	$ (885)	-12.5%
Building and occupancy	707	632	75	11.9%	1,461	1,287	174	13.5%
Data processing	552	587	(35)	-6.0%	1,152	1,162	(10)	-0.9%
Professional and other services	301	380	(79)	-20.8%	617	716	(99)	-13.8%
Advertising	261	242	19	7.9%	437	481	(44)	-9.1%
FDIC assessments	150	130	20	15.4%	339	241	98	40.7%
Audits and exams	125	100	25	25.0%	250	200	50	25.0%
Insurance agency expense	212	229	(17)	-7.4%	404	428	(24)	-5.6%
Community service activities	12	144	(132)	-91.7%	119	282	(163)	-57.8%
Foreclosed real estate expenses	5	59	(54)	-91.5%	35	296	(261)	-88.2%
Other expenses	461	582	(121)	-20.8%	970	1,053	(83)	-7.9%
Total noninterest expenses	$ 5,758	$ 6,539	$ (781)	-11.9%	$ 12,003	$ 13,250	$ (1,247)	-9.4%

The $781,000, or 11.9%, decrease in noninterest expense between the year-over-year second quarter periods was principally due to a decrease in salaries and employee benefits expense of $482,000, or 14.0%. All other noninterest expenses in aggregate increased $299,000, or 9.7%, for the three months ended June 30, 2020 as compared to the same three month period in 2019. The detail of the components of the overall decrease in noninterest expense is as follows:

- The $482,000 decrease in personnel expenses, was primarily due to a $359,000 decrease in net salaries expense, which was partially the result of a significant absorption of these expenses into the unamortized cost of the originated PPP loans as required under GAAP. During the quarter, the Bank originated $73.8 million in PPP loans and deferrals of employee-related expenses related to those originations resulted in an overall net decrease of $331,000 in employee-related expenses for the quarter, as compared to the second quarter 2019.

- The $132,000 decrease in community service activities was a result of significant restrictions placed on many business activities as a result of the pandemic and an associated decrease in community-sponsored events and activities.
- The $121,000 decrease in other expenses was primarily due to a decrease in travel and training expense and meals and entertainment expense, which decreased $93,000 and $44,000, respectively. These expenses were substantially curtailed in the period as a result of the significant restrictions placed on many business activities as a result of the pandemic.
- All other noninterest expenses decreased in aggregate in the year-over-year three month periods by a total of $46,000, or 2.0%, due to a broad range of individually immaterial variances.

The $1.2 million, or 9.4%, decrease in noninterest expenses between the six month period ended June 30, 2020 and the same six month period in the prior year was principally due to a decrease in salaries and employee benefits expense, foreclosed real estate expense, and community service activities. The detail of the components of the overall decrease in noninterest expense is as follows:

- The $885,000 decrease in salaries and employee benefits expense in the first six months of 2020, as compared to the same six month period in 2019, primarily resulted from the increased deferral of these expenses into the unamortized cost of the loans originated in the first six months of 2020. The increased volume of loans originated in the first six months of 2020, as compared to the same period in 2019, was due primarily to the PPP loan volume originated in the second quarter of 2020, as discussed above. In addition, personnel expenses declined in the six months ended June 30, 2020, as compared to the same period in 2019, due primarily to decreases of $319,000 in employee benefits. The decrease in other employee benefits for the six months ended June 30, 2020, as compared to the same six month period in 2019, was primarily due to decreases in pension, employee medical and other employee benefits expenses of $144,000, $76,000 and $49,000, respectively. Pension expense decreased $144,000 primarily due to the higher market value of pension assets held in trust at January 1, 2020 as compared to the same date in 2019. The higher market values for pension assets resulted from market value appreciation of those assets in 2019. Medical expenses declined primarily due to reduced employee utilization of elective medical services and increased cost sharing of certain medical costs with employees in 2020, as compared to the previous year. The decrease in other employee benefits expenses related to reduced levels of certain training, employee recognition and other employee-related activities due primarily to restrictions on such activities resulting from the pandemic.
- Foreclosed real estate expenses decreased $261,000 as a result of a foreclosed property that the Bank paid taxes on in 2019. This foreclosed property was sold in February 2019.
- The $163,000 decrease in community service activities was a result of significant restrictions placed on many business activities as a result of the pandemic and an associated decrease in community-sponsored events and activities.
- All other noninterest expenses increased in aggregate in the year-over-year six month periods by a total of $62,000, or 1.1%, due to a broad range of individually immaterial variances.

At June 30, 2020, the Bank serviced 476 residential mortgage loans in the aggregate amount of $48.8 million that have been sold on a non-recourse basis to FNMA. FNMA is the only unrelated third-party that has acquired loans originated by the Bank. On an infrequent basis, loans previously sold to FNMA that subsequently default may be found to have underwriting defects that place the loans out of compliance with the representations and warranties made by the Bank. This can occur at any time while the loan is outstanding. In such cases, the Bank is required to repurchase the defaulted loans from FNMA. Repurchase losses sustained by the Bank include all costs incurred by FNMA as part of the foreclosure process, including items such as delinquent property taxes and legal fees. Management continues to monitor the underwriting standards applied to all residential mortgage loan originations and subsequent sales through its quality control processes and considers these occurrences and their related expenses to be isolated instances.

Income Tax Expense

Income tax expense increased $264,000 to $439,000, with an effective tax rate of 19.2%, for the quarter ended June 30, 2020, as compared to $175,000, with an effective tax rate of 22.2%, for the same three month period in 2019. The increase in income tax expense in the current quarter, as compared to the same quarter in 2019, was primarily attributable to the year-over-year second quarter increase in pre-tax net income.

Income tax expense increased $468,000 to $894,000, with an effective tax rate of 20.5% for the six months ended June 30, 2020 as compared to $426,000, with an effective tax rate of 27.8%, for the same six month period in 2019. Effective in January 2018, the Company adopted a modification methodology affecting how the Company the Company's state income tax liability is computed. Under this adopted methodology it is unlikely that the Company will pay income taxes to New York in future periods. It was therefore determined to be probable that the Company's deferred tax assets related to New York State income taxes were unlikely to further reduce the Company's state income tax rate in the future. Accordingly, a valuation allowance against the value of those deferred tax assets was established to reduce the net deferred tax asset related to New York income taxes to $0. As a result, in the quarter ended March 31, 2019, the Company established, through a charge to earnings, a valuation allowance in the amount of $136,000. This charge to earnings increased the Company's effective tax rate by 18.3% in that period. In the quarter, ended March 31, 2020, management further evaluated all factors related to the expected filings of future New York State tax returns and elected to eliminate its remaining New York State net deferred tax asset balances and the related and offsetting valuation allowance on January 1, 2020. The effect of these eliminations required an adjustment to other comprehensive income balances and had no effect on the first six months of 2020 reported earnings. At June 30, 2020 and June 30, 2019, the Company's net deferred tax asset related to New York income taxes was $0.

The Company's effective tax rate differs from the statutory federal tax rate of 21% due primarily to 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 credits. In addition, the tax effects of certain incentive stock option activity may also reduce the Company's effective tax rate on a sporadic basis. During the six months ended June 30, 2020, these effects reduced the Company's effective tax rate by 0.2%. Excluding the nonrecurring charge related to the deferred tax asset valuation allowance, income tax expense in the first half of 2020 would have been $604,000 more than the same prior year period. The increase in income tax expense, as compared to the previous year's same period, was primarily attributable to the year-over-year first half increase in pre-tax net income.

Earnings per Share

Basic and diluted earnings per share were $0.31 per share for the second quarter of 2020, as compared to $0.11 per basic and diluted share for the same quarter of 2019.

Basic and diluted earnings per share were $0.60 for the six month period ended June 30, 2020, as compared to $0.23 for the same prior year period. The increase in earnings per share between these two periods was due to the increase in net income between these two time periods. Further information on earnings per share can be found in Note 3 of this Form 10-Q.

Changes in Financial Condition

Assets

Total assets increased $73.2 million, or 6.7%, to $1.2 billion at June 30, 2020 as compared to $1.1 billion at December 31, 2019. This increase was due primarily to increases in loans, cash and cash equivalents, and investment securities.

Total net loans receivable increased $22.7 million, or 2.9%, to $795.5 million at June 30, 2020 from $772.8 million at December 31, 2019. The increase was primarily the result of an increase of $75.9 million in commercial loans between these two dates, partially offset by decreases in residential mortgage loans and consumer loans of $32.9 million and $16.5 million, respectively. Commercial loans increased primarily due to increases of $73.8 million in PPP loans and $6.6 million in commercial real estate loans. This was reflective of high levels of participation in the government relief program, organic loan growth and the Company's continued success in its expansion within the greater Syracuse, New

York market. The decrease in the residential mortgage loans was primarily the result of the sale of $35.9 million in seasoned conforming residential mortgage loans in the first quarter of 2020, which generated a $680,000 gain. The decrease in consumer loans was primarily due to general amortization.

Cash and cash equivalents increased $25.0 million, or 123.8%, to $45.1 million at June 30, 2020, as compared to $20.2 million at December 31, 2019. The $25.0 million increase in cash and cash equivalents was primarily due to the ongoing COVID-19 pandemic; as a result, the Bank has substantially increased the liquidity of its balance sheet to support the potential needs of its customers and communities. Total restricted cash was $1.6 million and -$0- at June 30, 2020 and December 31, 2019, respectively.

Investment securities increased $24.3 million, or 10.4%, to $259.0 million at June 30, 2020, as compared to $234.7 million at December 31, 2019, due principally to purchases of securities during the first six months of 2020.

Liabilities

Total liabilities increased $71.3 million, or 7.1%, to $1.1 billion at June 30, 2020 compared to $1.0 billion at December 31, 2019. Deposits increased $88.7 million, or 10.1%, to $970.6 million at June 30, 2020, compared to $881.9 million at December 31, 2019. The increase in deposits was due to growth in retail and commercial relationship deposits along with brokered deposit inflows, as a result of the Bank's efforts to significantly increase cash and cash equivalent balances in response to the COVID-19 pandemic. Noninterest-bearing deposits were $160.1 million at quarter end, compared with $107.5 million on December 31, 2019. Second quarter noninterest-bearing deposits increased by $46.6 million from March 31, 2020, primarily as a result of the Bank's participation in the PPP lending program, as well as ongoing growth in business banking relationships. Borrowed funds balances from the FHLB-NY decreased $17.7 million, or 19.0%, to $75.4 million at June 30, 2020 from $93.1 million at December 31, 2019.

Shareholders' Equity

The Company's shareholders' equity, exclusive of the noncontrolling interest, increased $1.9 million, or 2.1%, to $92.3 million at June 30, 2020, from $90.4 million at December 31, 2019. This increase was principally due to a $2.8 million increase in retained earnings, a $385,000 increase in additional paid in capital and a $90,000 increase in ESOP shares earned, offset by a $1.4 million decrease in comprehensive income. Comprehensive income decreased primarily as the result of losses on derivatives and hedging activities during the six month period. The increase in retained earnings resulted from $3.6 million in net income recorded in the first six months of 2020. Partially offsetting this increase in retained earnings were $557,000 for cash dividends declared on our common stock, $138,000 for cash dividends declared on our preferred stock, and $15,000 for cash dividends declared on our issued warrant.

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, 2020, 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. The capital conservation buffer requirement is now fully implemented at 2.5% of risk-weighted assets. At June 30, 2020, the Bank exceeded all regulatory required minimum capital ratios, including the capital buffer requirements.

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

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

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be "Well-Capitalized" Under Prompt Corrective Provisions		Minimum For Capital Adequacy with Buffer	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2020:								
Total Core Capital (to Risk-Weighted Assets)	$ 105,603	12.64%	$ 66,848	8.00%	$ 83,561	10.00%	$ 87,739	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 95,157	11.39%	$ 50,136	6.00%	$ 66,848	8.00%	$ 71,026	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 95,157	11.39%	$ 37,602	4.50%	$ 54,314	6.50%	$ 58,492	7.00%
Tier 1 Capital (to Assets)	$ 95,157	8.17%	$ 46,607	4.00%	$ 58,259	5.00%	$ 58,259	5.00%
As of December 31, 2019:								
Total Core Capital (to Risk-Weighted Assets)	$ 95,093	12.28%	$ 61,934	8.00%	$ 77,418	10.00%	$ 81,289	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 86,424	11.16%	$ 46,451	6.00%	$ 61,934	8.00%	$ 65,805	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 86,424	11.16%	$ 34,838	4.50%	$ 50,322	6.50%	$ 54,192	7.00%
Tier 1 Capital (to Assets)	$ 86,424	8.20%	$ 42,175	4.00%	$ 52,719	5.00%	$ 52,719	5.00%

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Non-GAAP Financial Measures

Regulation G, a rule adopted by the Securities and Exchange Commission (SEC), applies to certain SEC filings, including earnings releases, made by registered companies that contain "non-GAAP financial measures." GAAP is generally accepted accounting principles in the United States of America. Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure (if a comparable GAAP measure exists) and a statement of the Company's reasons for utilizing the non-GAAP financial measure as part of its financial disclosures. The SEC has exempted from the definition of "non-GAAP financial measures" certain commonly used financial measures that are not based on GAAP. When these exempted measures are included in public disclosures, supplemental information is not required. Financial institutions like the Company and its subsidiary bank are subject to an array of bank regulatory capital measures that are financial in nature but are not based on GAAP. The Company follows industry practice in disclosing its financial condition under these various regulatory capital measures, including period-end regulatory capital ratios for its subsidiary bank, in its periodic reports filed with the SEC. The Company provides, below, an explanation of the calculations, as supplemental information, for non-GAAP measures included in the consolidated annual financial statements. In addition, the Company provides a reconciliation of its subsidiary bank's disclosed regulatory capital measures, below.

(Dollars in thousands)	June 30, 2020	December 31, 2019
Regulatory Capital Ratios (Bank Only)		
Total capital (to risk-weighted assets)		
Total equity (GAAP)	$ 95,447	$ 88,138
Goodwill	(4,536)	(4,536)
Intangible assets	(141)	(149)
Addback: Accumulated other comprehensive income	4,387	2,971
Total Tier 1 Capital	$ 95,157	$ 86,424
Allowance for loan and lease losses	10,446	8,669
Total Tier 2 Capital	$ 10,446	$ 8,669
Total Tier 1 plus Tier 2 Capital (numerator)	$ 105,603	$ 95,093
Risk-weighted assets (denominator)	835,605	774,177
Total core capital to risk-weighted assets	12.64 %	12.28 %
Tier 1 capital (to risk-weighted assets)		
Total Tier 1 capital (numerator)	$ 95,157	$ 86,424
Risk-weighted assets (denominator)	835,605	774,177
Total capital to risk-weighted assets	11.39 %	11.16 %
Tier 1 capital (to adjusted assets)		
Total Tier 1 capital (numerator)	$ 95,157	$ 86,424
Total average assets	1,169,861	1,059,060
Goodwill	(4,536)	(4,536)
Intangible assets	(141)	(149)
Adjusted assets (denominator)	$ 1,165,184	$ 1,054,375
Total capital to adjusted assets	8.17 %	8.20 %
Tier 1 Common Equity (to risk-weighted assets)		
Total Tier 1 capital (numerator)	$ 95,157	$ 86,424
Risk-weighted assets (denominator)	835,605	774,177
Total Tier 1 Common Equity to risk-weighted assets	11.39 %	11.16 %

Loan and Asset Quality and Allowance for Loan Losses

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

(Dollars In thousands)	June 30, 2020	December 31, 2019	June 30, 2019
Nonaccrual loans:			
Commercial and commercial real estate loans	$ 6,807	$ 3,002	$ 2,470
Consumer	540	631	367
Residential mortgage loans	1,038	1,613	918
Total nonaccrual loans	8,385	5,246	3,755
Total nonperforming loans	8,385	5,246	3,755
Foreclosed real estate	26	88	591
Total nonperforming assets	$ 8,411	$ 5,334	$ 4,346
Accruing troubled debt restructurings	$ 2,020	$ 2,008	$ 2,860
Nonperforming loans to total loans	1.04%	0.67%	0.54%
Nonperforming assets to total assets	0.72%	0.49%	0.43%

Nonperforming assets include nonaccrual loans, nonaccrual troubled debt restructurings ("TDR"), and foreclosed real estate (''FRE"). The Company generally places a loan on nonaccrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory and the loan is past due 90 days or more. There are no loans that are past due 90 days or more and still accruing interest. Loans are considered modified in a TDR when, due to a borrower's financial difficulties, the Company makes a concession(s) to the borrower that it would not otherwise consider. These modifications may include, among others, an extension of the term of the loan, and granting a period when interest-only payments can be made, with the principal payments made over the remaining term of the loan or at maturity. TDRs are included in the above table within the categories of nonaccrual loans or accruing TDRs. There was one nonaccruing TDR loan, with an aggregate carrying value of $74,000 included among the nonaccrual loans detailed in the table above at June 30, 2020.

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

As indicated in the table above, nonperforming assets at June 30, 2020 were $8.4 million and were $3.1 million higher than the $5.3 million reported at December 31, 2019, due primarily to an increase of $3.8 million in nonperforming commercial and commercial real estate loans. This increase was partially offset by a decrease of $575,000 in nonperforming residential mortgage loans, a $91,000 decrease in nonperforming consumer loans, and a $62,000 decrease in FRE

As indicated in the nonperforming asset table above, FRE balances decreased $62,000 to $26,000 at June 30, 2020 from $88,000 at December 31, 2019, following two sales from the portfolio and two additions to the portfolio during the six-month period ended June 30, 2020. More information regarding foreclosed real estate can be found in Note 8 of this Form 10-Q.

Fair values for commercial FRE are initially recorded based on market value evaluations by third parties, less costs to sell ("initial cost basis"). On a prospective basis, residential FRE assets will be initially recorded at the lower of the net amount of loan receivable or the real estate's fair value less costs to sell. Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to FRE are charged to the allowance for loan losses. Values are derived from appraisals, similar to impaired loans, of underlying collateral or discounted cash flow analysis. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the initial cost basis for the FRE property.

The allowance for loan losses represents management's estimate of the probable losses inherent in the loan portfolio as of the date of the statement of condition. The allowance for loan losses was $10.6 million and $8.7 million at June 30, 2020 and December 31, 2019, respectively. The ratio of the allowance for loan losses to total loans increased 20 basis points to 1.31% at June 30, 2020 from 1.11% at December 31, 2019. Management performs a quarterly evaluation of the allowance for loan losses based on quantitative and qualitative factors and has determined that the current level of the allowance for loan losses is adequate to absorb the losses in the loan portfolio as of June 30, 2020.

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, 2020 and December 31, 2019, the Company had $7.8 million and $7.5 million in loans, respectively, which were deemed to be impaired, having established specific reserves of $1.0 million and $830,000, respectively, on these loans. The increase in impaired loans between these two dates was primarily driven by increases of $215,000 and $127,000, in impaired commercial real estate loans and other commercial and industrial loans. The $190,000 increase in specific reserves for impaired loans at June 30, 2020 as compared to December 31, 2019 was primarily due to a $157,000 increase in specific reserves for other commercial and industrial loans and a $56,000 increase in specific reserves for residential real estate loans.

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 $32.3 million as of June 30, 2020, an increase of $847,000, or 2.7%, as compared to $31.5 million at December 31, 2019. These loans have been internally classified as special mention, substandard, or doubtful, yet are not currently considered impaired. Due to the adverse economic impacts of the COVID-19 pandemic on our market area and our customers, the Company expects that potential problem loans may increase during the course of fiscal 2020.

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

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

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 2020, as indicated in the consolidated statement of cash flows, the Company reported net cash flows from operating activities of $40.3 million and net cash outflows of $85.9 million related to investing activities. The net cash outflows from investing activities primarily was due to a net $61.0 million increase in loan balances, combined with a $24.8 million increase in all other investing activities in aggregate. The Company reported net cash flows from financing activities of $70.5 million generated principally by increased deposit balances of $60.6 million, and increased brokered deposits balances of $28.1 million, partially offset by an aggregate decrease in net cash of $17.6 million from all other financing sources, including dividends paid to common shareholders of $567,000.

The Company has a number of existing credit facilities available to it. At June 30, 2020, total credit available to the Company under the existing lines of credit was approximately $137.7 million at FHLBNY, the Federal Reserve Bank, and two other correspondent banks. As of June 30, 2020, the Company had $75.4 million of the available lines of credit utilized on its existing lines of credit with $62.3 million available.

The Asset Liability Management Committee of the Company is responsible for implementing the policies and guidelines for the maintenance of prudent levels of liquidity. As of June 30, 2020, 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, 2020, the Company had $159.3 million in outstanding commitments to extend credit and standby letters of credit.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

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

Item 4 – Controls and Procedures

Under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. There has been no change in the Company’s internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

At June 30, 2020, the Company is not currently a named party in a legal proceeding, the outcome of which would have a material and adverse effect on the financial condition or results of operations of the Company.

Item 1A – Risk Factors

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

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

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

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

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

None

Item 6 – Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
32	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer
101	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in Extensible Business Reporting Language (XBRL): (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.

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 13, 2020	/s/ Thomas W. Schneider Thomas W. Schneider President and Chief Executive Officer
August 13, 2020	/s/ Walter F. Rusnak Walter F. Rusnak Senior Vice President, Chief Financial Officer

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

Certification of Chief Executive Officer

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

I, Thomas W. Schneider, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting, to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2020

/s/ Thomas W. Schneider
Thomas W. Schneider
President and Chief Executive Officer

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

Certification of Chief Financial Officer

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

I, Walter F. Rusnak, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting, to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2020

/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, 2020 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 13, 2020

/s/ Thomas W. Schneider
Thomas W. Schneider
President and Chief Executive Officer

August 13, 2020

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