

## **Pathfinder Bancorp, Inc.**

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### Governance Guidelines

Pathfinder Bancorp and its subsidiaries are highly regulated entities. These guidelines are not designed to supplant the laws and regulations affecting the company. Moreover, the laws and regulations are in a state of change. In all cases, therefore, the laws and regulations, where applicable, shall provide the controlling provisions. These guidelines are designed simply to provide the Board with a framework to accomplish its mission. Where appropriate, the Board retains the right to deviate from the guidelines, so long as such deviation does not conflict with applicable law.

## **Pathfinder Bancorp Board of Director's Corporate Governance Guidelines**

### *The Mission of Pathfinder Bancorp's Board of Directors*

The Board of Directors represents all of the owners' interest in perpetuating a successful business, including maintaining the safety and soundness of the Corporation and its operating subsidiaries and optimizing long term financial returns. The Board is responsible for determining that the Corporation is managed in such a way to ensure this result. This is an active, not a passive, responsibility. The Board has the responsibility to ensure that in good times, as well as difficult ones, management is capably executing its responsibilities. The Board's responsibility is to regularly monitor the effectiveness of management policies and decisions including the execution of its strategies.

In addition to fulfilling its obligations for increased stockholder value, the Board has responsibility to its subsidiaries, customers, employees, depositors, suppliers and to the communities where it operates—all of whom are essential to a successful business. All of these responsibilities, however, are founded upon the successful perpetuation of the business.

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## **SELECTION AND COMPOSITION OF THE BOARD**

### *1) Board Membership Criteria*

The Governance/Nominating Committee is responsible for reviewing with the Board, on a bi-annual basis, the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment should include issues of judgment, diversity, age, skills such as understanding of banking, finance, accounting, management and the communities in which we operate – all in the context of an assessment of the perceived needs of the Board at that point in time.

New members of the Board of Pathfinder Bancorp, Inc. are expected to hold a minimum of 1,000 shares of Pathfinder Bancorp, Inc. stock within 180 days of their election or appointment and to hold a minimum of 5,000 shares of Pathfinder Bancorp, Inc. stock within 5 years of their election or appointment and to continuously hold that minimum thereafter.

### *2) Selection and Orientation of New Directors*

The Board itself should be responsible, in fact as well as procedure, for selecting its own members and in recommending them for election by the stockholders. The Board delegates the screening process involved to the Governance/Nominating Committee.

### *3) Extending the Invitation to a Potential Director to Join the Board*

The invitation to join the Board should be extended by the Board itself via the Chair of the Board and Chief Executive Officer of the Company.

## **BOARD LEADERSHIP**

4) *Selection of Chair and CEO*

The Board should be free to make this choice any way that seems best for the Company.

5) *Chair of the Governance/Nominating Committee*

The Chair of the Committee, together with the members of that Committee, with assistance from the Chief Executive, where requested, will develop the agendas for its regular sessions and periodically review the Board's governance procedures (guidelines). The Chair of the Governance/Nominating Committee, with that committee's assent, shall have the authority to retain professional legal and other consultants should the committee deem it necessary to carry out its responsibilities.

## **BOARD COMPOSITION AND PERFORMANCE**

6) *Size of the Board*

There are presently 10 (ten) Board Members. It is the sense of the Board that this size is about right. However, the Board would be willing to go to a somewhat larger size in order to accommodate the availability of an outstanding candidate(s), and if necessary would support a By Law amendment to that effect.

7) *Mix of Management and Independent Directors*

The majority of the Board shall be made up of independent directors as that term is defined by the listing requirements of NASDAQ. In addition, no more than three members of the Board shall be salaried employees of the corporation or its subsidiaries. Notwithstanding the preceding, managers are invited to attend Board meetings on a regular basis even though they are not members of the Board.

8) *Former Chair/Chief Executive Officer's Board Membership*

The Board believes this is a matter to be decided in each individual instance. It is assumed that when the Chair or Chief Executive Officer resigns from that position, he/she should submit an offer of his/her resignation from the Board at the same time. Whether the individual continues to serve on the Board is a

matter for discussion at that time with the new Chair or Chief Executive Officer and the Board.

9) *Directors Who Change Their Present Job Responsibility*

Individual Directors who change the responsibility they held when they were elected to the Board should submit an offer of resignation to the Board.

Notwithstanding the foregoing, it is not necessarily true that in every instance the Directors who retire or change from the position they held when they came on the Board should leave the Board. There should, however, be an opportunity for the Board, via the Governance/Nominating Committee, to review the continued appropriateness of Board membership under these circumstances. Directors are encouraged to limit the number of other boards on which they serve, taking into account potential board attendance, participation and effectiveness on these boards. Directors should also advise the Chair of the Board and the Chair of the Governance/Nominating Committee in advance of accepting an invitation to serve on another Board with compensation.

10) *Continuing Obligation to Serve*

In addition to the obligation to submit a letter of resignation described in section 9 above, Directors are requested to constantly re-evaluate their continuing obligation to serve. In light of their fiduciary duties to the Corporation, Directors should evaluate whether changes in their health, availability for meetings, other interests or responsibilities, or conflicts of interest interfere with their duties. If the Director concludes that such interference is present, they should offer their letter of resignation. Moreover, any Director who is involved in a situation that may be detrimental to the Corporation's reputation is expected to communicate with the Board and offer to resign if in the best interest of the Corporation.

11) *Executive Sessions of Independent Directors*

The Independent Directors of the Board, as that term is defined by the listing requirements of NASDAQ, will meet in Executive Session upon the request of any Independent Director. The Independent Directors have the power to request the attendance of any Officer at such Executive Session. A meeting of non-employee Directors may follow each regularly scheduled meeting of the entire Board, if any Board member so requests.

12) *Assessing the Board's Performance*

The Governance/Nominating Committee is responsible to report bi-annually to the Board an assessment of the Board's performance. The report will be

discussed with the full Board. This should be done following the end of the fiscal year and at the same time as the report on Board membership criteria. This assessment should be of the Board's contribution as a whole and specifically review areas in which the Board and/or the Management believe a better contribution could be made. The purpose of the report is to increase the effectiveness of the Board, not to target individual Board members.

13) *Board's Interaction with Institutional Investors, Press, Customer, Etc.*

The Board believes that Management speaks for Pathfinder Bancorp. Individual Board members may, from time to time at the request of the Management, meet or otherwise communicate with various constituencies that are involved with Pathfinder Bancorp. If comments from the Board are appropriate, they should, in most circumstances, come from the Chair.

14) *Board Education and Training*

The Governance/Nominating Committee will establish, with the assistance of management, an informal Board education program so that Board Members will have appropriate backgrounds to serve as Directors and to serve on particular committees.

The Governance/Nominating Committee, with the assistance of management, will provide Board Members with access to the following:

- a. the By-Laws, charter and other organizational documents of the corporation and its affiliates;
- b. all corporate resolutions and minutes of the corporation and its affiliates;
- c. all Board adopted policies;
- d. applicable banking laws and;
- e. the corporation's strategic plan;

## **BOARD RELATIONSHIP TO SENIOR MANAGEMENT**

15) *Regular Attendance of Non-Directors at Board Meetings*

The Board welcomes the regular attendance at each Board meeting non-Board members who are in the most senior management positions of the company. In particular, Chief Financial Officer, Chief Credit Officer, Chief Information Officer, General Counsel and Chief Operating Officer should attend all Board meetings.

Should the Chair or the Chief Executive Officer want to add additional people as attendees on a regular basis, it is expected that this suggestion would be made to the Board for its concurrence.

16) *Board Access to Senior Management*

Board members have access to Pathfinder Bancorp Management.

It is assumed that Board members will use judgment to be sure that this contact is not a distraction to the business operation of the Company and that such contact, if in writing, be copied to the Chair or Chief Executive Officer, as appropriate. Notwithstanding the foregoing, the Board's access to the Internal Auditor and the company's General Counsel shall be unfettered.

Furthermore, the Board encourages the Management to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

## **MEETING PROCEDURES**

17) *Selection of Agenda Items for Board Meetings*

The Chair of the Board and Chief Executive Officer will establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of item(s) on the agenda.

18) *Board Materials Distributed in Advance*

Information and data that is important to the Board's understanding of the business should be distributed to the Board before the Board meets. The Management will make every attempt to see that this material is as concise as possible while still providing the desired information.

19) *Board Presentations*

As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which the subject matter is too sensitive to put on paper, the presentation will be discussed at the meeting.

## COMMITTEE MATTERS

### 20) *Number, Structure and Independence of Committees*

From time to time, the Board may want to form a new committee or disband a current committee depending upon the circumstances. The current standing committees are Executive/Loan, Audit, Governance/Nominating, Compensation, and Asset Liability Committee (ALCO). The Audit/Compliance, Governance/Nominating and Compensation Committees will be made up entirely of Independent Directors as that term is defined by the listing requirements of NASDAQ

### 21) *Assignment and Rotation of Committee Members*

The Governance/Nominating Committee is responsible, after consultation with the Chair of the Board and with consideration of the desires of individual Board members, for recommending the assignment of Board members to various committees. The Chair of the Board shall designate the Chair of each committee.

It is the sense of the Board that consideration should be given to rotating Committee members periodically, but the Board does not feel that such a rotation should be mandated as a policy since there are reasons to develop Committee Member expertise.

### 22) *Frequency and Length of Committee Meetings*

The Committee Chair, in consultation with committee members and in compliance with all applicable law, will determine the frequency and length of the meetings of the Committee.

### 23) *Committee Agenda*

The Chair of the Committee, in consultation with the appropriate members of the Committee and management, will develop the Committee's agenda.

## LEADERSHIP DEVELOPMENT

### 24) *Formal Evaluation of the Chief Executive Officer*

The Compensation Committee should make this evaluation annually, and it should be communicated in writing to the Board by the Chair of the Compensation Committee. The evaluation should be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of management, etc. The evaluation will be



used by the Board in the course of its deliberations when considering the compensation of the Chief Executive Officer. The evaluation must also receive the approval of the Independent Directors of the Board, as that term is defined by the listing requirements of NASDAQ.

25) *Succession Planning*

There should be an annual report by the Chief Executive Officer to the Board on succession planning.

There should also be available, on a continuing basis, the Chief Executive Officer's recommendation as a successor should he/she be unexpectedly disabled.

26) *Management Development*

There should be an annual report to the Board by the Chief Executive Officer on the Company's program for management development. This report should be given to the Board at the same time as the succession planning report noted previously.