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

FORM 10-Q

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _______ to _______

(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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ☒ NO □

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

Large accelerated filer□ Accelerated filer□
Non-accelerated filer□
Smaller reporting company ☒
(Do not check if a smaller reporting company)

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

As of November 11, 2016, there were 4,229,744 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)	September 30, 2016	December 31, 2015
ASSETS:		
Cash and due from banks	$ 9,630	$ 9,624
Interest earning deposits	14,033	5,621
Total cash and cash equivalents	23,663	15,245
Available-for-sale securities, at fair value	137,717	98,942
Held-to-maturity securities, at amortized cost (fair value of $46,505 and $45,515, respectively)	44,757	44,297
Federal Home Loan Bank stock, at cost	4,290	2,424
Loans	473,423	430,438
Less: Allowance for loan losses	6,126	5,706
Loans receivable, net	467,297	424,732
Premises and equipment, net	15,020	14,834
Accrued interest receivable	2,316	2,053
Foreclosed real estate	655	517
Intangible assets, net	202	214
Goodwill	4,536	4,536
Bank owned life insurance	11,391	10,615
Other assets	5,286	4,845

Total assets	$ 717,130	$ 623,254
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
Interest-bearing	$ 480,969	$ 428,636
Noninterest-bearing	74,156	61,679
Total deposits	555,125	490,315
Short-term borrowings	65,100	24,800
Long-term borrowings	17,000	16,500
Subordinated loans	15,016	14,991
Accrued interest payable	76	199
Other liabilities	5,539	5,220
Total liabilities	657,856	552,025
Shareholders' equity:		
Preferred stock - SBLF, par value $0.01 per share; $1,000 liquidation preference;		
13,000 shares authorized; 0 shares and 13,000 shares issued and outstanding, respectively	-	13,000
Common stock, par value $0.01; 25,000,000 authorized shares;		
4,373,144 and 4,353,850 shares issued and 4,229,744 and 4,353,850 shares outstanding, respectively	43	44
Additional paid in capital	27,320	28,717
Retained earnings	34,862	33,183
Accumulated other comprehensive loss	(1,942)	(2,565)
Unearned ESOP	(1,439)	(1,574)
Total Pathfinder Bancorp, Inc. shareholders' equity	58,844	70,805
Noncontrolling interest	430	424
Total equity	59,274	71,229
Total liabilities and shareholders' equity	$ 717,130	$ 623,254

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

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

(In thousands, except per share data)	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Interest and dividend income:				
Loans, including fees	$ 5,396	$ 4,699	$15,367	$13,649
Debt securities:				
Taxable	590	519	1,727	1,494
Tax-exempt	211	186	602	573
Dividends	33	40	86	109
Federal funds sold and interest earning deposits	21	5	47	12
Total interest and dividend income	6,251	5,449	17,829	15,837
Interest expense:				
Interest on deposits	612	508	1,759	1,435
Interest on short-term borrowings	86	41	137	113
Interest on long-term borrowings	61	62	204	189
Interest on subordinated loans	193	41	597	121
Total interest expense	952	652	2,697	1,858
Net interest income	5,299	4,797	15,132	13,979
Provision for loan losses	322	220	682	1,004
Net interest income after provision for loan losses	4,977	4,577	14,450	12,975
Noninterest income:				
Service charges on deposit accounts	289	299	861	853
Earnings and gain on bank owned life insurance	94	250	240	400
Loan servicing fees	49	55	114	148

Net gains on sales and redemptions of investment securities	4	88	216	188
Net gains (losses) on sales of loans and foreclosed real estate	6	17	(4)	13
Debit card interchange fees	138	131	414	390
Other charges, commissions & fees	383	352	1,149	1,017
Total noninterest income	963	1,192	2,990	3,009
Noninterest expense:				
Salaries and employee benefits	2,688	2,478	8,026	7,216
Building occupancy	544	535	1,432	1,479
Data processing	474	462	1,315	1,204
Professional and other services	195	206	613	654
Advertising	150	116	479	352
FDIC assessments	108	105	324	302
Audits and exams	81	58	239	179
Other expenses	562	598	1,855	1,628
Total noninterest expenses	4,802	4,558	14,283	13,014
Income before income taxes	1,138	1,211	3,157	2,970
Provision for income taxes	322	316	820	829
Net income attributable to noncontrolling interest and Pathfinder Bancorp, Inc.	816	895	2,337	2,141
Net (loss) income attributable to noncontrolling interest	(4)	10	24	33
Net income attributable to Pathfinder Bancorp Inc.	820	885	2,313	2,108
Preferred stock dividends	-	33	16	97
Net income available to common shareholders	**$ 820**	**$ 852**	**$ 2,297**	**$ 2,011**
Earnings per common share - basic	**$ 0.20**	**$ 0.21**	**$ 0.56**	**$ 0.49**
Earnings per common share - diluted	**$ 0.20**	**$ 0.20**	**$ 0.55**	**$ 0.48**
Dividends per common share	**$ 0.05**	**$ 0.05**	**$ 0.15**	**$ 0.11**

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

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

	For the three months ended		For the nine months ended	
(In thousands)	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income	$ 816	$ 895	$ 2,337	$ 2,141
Other Comprehensive Income				
Retirement Plans:				
Retirement plan net losses recognized in plan expenses	54	45	163	135
Unrealized holding gains on financial derivative:				
Change in unrealized holding (losses) gains on financial derivative	-	(2)	2	(8)
Reclassification adjustment for interest expense included in net income	-	15	25	46
Net unrealized gain on financial derivative	-	13	27	38
Unrealized holding (losses) gains on available for sale securities				
Unrealized holding (losses) gains arising during the period	(62)	594	486	181

Reclassification adjustment for net gains (losses) included in net income	4	(88)	216	(188)
Net unrealized (losses) gain on available for sale securities	(58)	506	702	(7)
Accretion of net unrealized loss on securities transferred to held-to-maturity(1)	79	34	149	99
Other comprehensive income, before tax	75	598	1,041	265
Tax effect	(32)	(239)	(418)	(106)
Other comprehensive income, net of tax	43	359	623	159
Comprehensive income	$ 859	$ 1,254	$ 2,960	$ 2,300
Comprehensive (loss) income, attributable to noncontrolling interest	$ (4)	$ 10	$ 24	$ 33
Comprehensive income attributable to Pathfinder Bancorp, Inc.	$ 863	$ 1,244	$ 2,936	$ 2,267
Tax Effect Allocated to Each Component of Other Comprehensive Income				
Retirement plan net losses recognized in plan expenses	$ (22)	$ (18)	$ (65)	$ (54)
Change in unrealized holding gains (losses) on financial derivative	-	1	(1)	3
Reclassification adjustment for interest expense included in net income	-	(6)	(10)	(18)
Unrealized holding gains (losses) arising during the period	23	(238)	(196)	(72)
Reclassification adjustment for net (losses) gains included in net income	(1)	36	(86)	75
Accretion of net unrealized loss on securities transferred to held-to-maturity(1)	(32)	(14)	(60)	(40)
Income tax effect related to other comprehensive income	$ (32)	$ (239)	$ (418)	$ (106)

(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 Shareholder's Equity
Nine months ended September 30, 2016 and September 30, 2015
(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, 2016	$ 13,000	$ 44	$ 28,717	$ 33,183	$(2,565)	$ (1,574)	$ 424	$ 71,229
Net income	-	-	-	2,313	-	-	24	2,337
Other comprehensive income, net of tax	-	-	-	-	623	-	-	623

Preferred stock redemption (13,000 shares)	(13,000)	-	-	-	-	-	-	(13,000)
Preferred stock dividends - SBLF	-	-	-	(16)	-	-	-	(16)
ESOP shares earned (18,332 shares)	-	-	82	-	-	135	-	217
Stock based compensation	-	-	170	-	-	-	-	170
Stock options exercised	-	-	105	-	-	-	-	105
Purchase of common stock shares (143,400 shares)	-	(1)	(1,754)	-	-	-	-	(1,755)
Common stock dividends declared ($0.15 per share)	-	-	-	(618)	-	-	-	(618)
Distributions from affiliates	-	-	-	-	-	-	(18)	(18)
Balance, September 30, 2016	$ -	$ 43	$ 27,320	$ 34,862	$(1,942)	$ (1,439)	$ 430	$ 59,274
Balance, January 1, 2015	$ 13,000	$ 44	$ 28,534	$ 31,085	$(2,119)	$ (1,754)	$ 414	$ 69,204
Net income	-	-	-	2,108	-	-	33	2,141

Other comprehensive income, net of tax	-	-	-	-	159	-	-	159
Preferred stock dividends - SBLF	-	-	-	(97)	-	-	-	(97)
ESOP shares earned (18,332 shares)	-	-	62	-	-	135	-	197
Stock based compensation	-	-	63	-	-	-	-	63
Common stock dividends declared ($0.11 per share)	-	-	-	(454)	-	-	-	(454)
Distributions from affiliates	-	-	-	-	-	-	(33)	(33)
Balance, September 30, 2015	$ 13,000	$ 44	$ 28,659	$ 32,642	$(1,960)	$ (1,619)	$ 414	$ 71,180

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

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

For the nine months ended September 30,

(In thousands)	2016	2015
OPERATING ACTIVITIES		
Net income attributable to Pathfinder Bancorp, Inc.	$ 2,313	$ 2,108
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan losses	682	1,004
Proceeds from sale of loans	-	69
Originations of loans held-for-sale	-	(68)
Realized losses (gains) on sales, redemptions and calls of:		
Real estate acquired through foreclosure	9	(11)
Loans	(5)	(2)
Available-for-sale investment securities	(216)	(188)
Depreciation	763	760
Amortization of mortgage servicing rights	9	10
Amortization of deferred loan costs	161	125
Amortization of deferred financing from subordinated debt	25	-
Earnings and gain on bank owned life insurance	(240)	(265)
Net amortization of premiums and discounts on investment securities	866	673
Amortization of intangible assets	12	13
Stock based compensation and ESOP expense	387	260
Net change in accrued interest receivable	(263)	(233)
Net change in other assets and liabilities	(441)	15
Net cash flows from operating activities	4,062	4,270
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(124,566)	(49,220)
Purchase of investment securities held-to-maturity	(4,460)	(5,034)
Net (purchases of) proceeds from Federal Home Loan Bank stock	(1,866)	1,573
Proceeds from maturities and principal reductions of investment securities available-for-sale	57,995	20,088
Proceeds from maturities and principal reductions of investment securities held-to-maturity	1,024	2,378
Proceeds from sales, redemptions and calls of:		
Available-for-sale investment securities	27,973	18,802
Held-to-maturity investment securities	3,000	-
Real estate acquired through foreclosure	185	284
Acquisition of insurance agency	-	(225)

Proceeds from bank owned life insurance	-	(135)
Net change in loans	(43,706)	(28,522)
Purchase of premises and equipment	(949)	(1,651)
Net cash flows from investing activities	(85,370)	(41,662)

(Continued on next page)

FINANCING ACTIVITIES		
Net change in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits	60,889	61,382
Net change in time deposits and brokered deposits	3,921	19,392
Net change in short-term borrowings	40,300	(39,875)
Payments on long-term borrowings	(3,000)	(2,000)
Proceeds from long-term borrowings	3,500	5,000
Repayment of loan on cash surrender value of bank owned life insurance	(536)	-
Redemption of preferred stock - SBLF	(13,000)	-
Purchase of common stock	(1,755)	-
Proceeds from exercise of stock options	105	-
Cash dividends paid to preferred shareholder - SBLF	(49)	(97)
Cash dividends paid to common shareholders	(655)	(392)
Change in noncontrolling interest, net	6	-
Net cash flows from financing activities	89,726	43,410
Change in cash and cash equivalents	8,418	6,018
Cash and cash equivalents at beginning of period	15,245	11,356
Cash and cash equivalents at end of period	$23,663	$17,374
CASH PAID DURING THE PERIOD FOR:		
Interest	$ 2,820	$ 1,871

Income taxes	970	842
NON-CASH INVESTING ACTIVITY		
Real estate acquired in exchange for loans	298	519

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

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Notes to Consolidated Financial Statements (Unaudited)

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 2015 consolidated financial statements may have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income or comprehensive income as previously reported. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management.

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.

On February 16, 2016, the Company redeemed all 13,000 shares of the Series B Preferred Stock outstanding with the payment of $13.0 million to the Small Business Lending Facility ("SBLF"). This redemption was substantially financed by the issuance on October 15, 2015 of the $10.0 million Subordinated Loan with an effective annual interest rate of 6.44%. The issuance of the Subordinated Loan has increased interest expense by approximately $644,000 per year, but prospectively reduced the future amount payable to the SBLF in preferred stock dividends. Had the preferred stock not been retired, effective April 1, 2016, the annual dividend rate for the preferred stock would have been 9.0%. Therefore, the retirement of the $13.0 million of the SBLF Preferred Series B stock has resulted in an annual reduction of dividends payable to the preferred shareholder of $1.2 million. The Company paid preferred stock dividends totaling $16,000 in 2016 and $130,000 in 2015. These transactions had no effect on the regulatory capital position of the Bank.

On June 1, 2016, the Company announced that it had completed the process of its previously announced restructuring plan to combine the operations of its subsidiaries, Pathfinder Bank and Pathfinder Commercial Bank, into a single New York State chartered commercial bank. This transaction was completed on May

31, 2016. Simultaneously with the combination, Pathfinder Commercial Bank's charter was amended such that Pathfinder Commercial Bank became a full-service commercial bank, rather than a limited purpose commercial bank, which it was previously, and its name was changed to "Pathfinder Bank". The transaction is expected to have little impact on the investments or operations of the Bank, although the Bank expects some annual operating cost savings as a result of the combination.

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Note 2: New Accounting Pronouncements

On August 19, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments.* This ASU specifically addresses the disclosure requirements on prepared statements of cash flow for eight types of cash receipt or cash payment transactions engaged in by business entities. The FASB considers this Update to be an improvement on current standards as there is diversity at this time in practice in how these types of cash receipts and cash payments are presented and classified in the statement of cash flows. The new guidance is intended to reduce the current diversity in practice of how the following eight types of transactions are classified in the statement of cash flows:

- Debt prepayment or debt extinguishment costs;
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing;
- Contingent consideration payments made after a business combination;
- Proceeds from the settlement of insurance claims;
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies;
- Distributions received from equity method investees;
- Beneficial interests in securitization transactions;
- Separately identifiable cash flows and application of the Predominance Principle.

For public business entities, such as the Company, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company does not expect a material impact on its consolidated financial statements of condition, results of operations, or cash flows as a result of the adoption of this Update.

Note 3: Earnings per Common Share

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Net income available to common shareholders is net income to Pathfinder Bancorp, Inc. less the total of preferred dividends declared, if any. Diluted earnings per share include the potential dilutive effect that could occur upon the assumed exercise of issued stock options using the Treasury Stock method. Anti-dilutive stock options, not included in the computation below, were 280,396 for the three months ended September 30, 2016 and 192,421 for the nine months ended September 30, 2016 and were -0- for the three months ended September 30, 2015 and 5,491 for the nine months ended September 30, 2015. 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.

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Basic Earnings Per Common Share				
Net income available to common shareholders	$ 820	$ 852	$ 2,297	$ 2,011
Weighted average common shares outstanding	4,094	4,126	4,128	4,120
Basic earnings per common share	$ 0.20	$ 0.21	$ 0.56	$ 0.49
Diluted Earnings Per Common Share				

Net income available to common shareholders	$ 820	$ 852	$ 2,297	$ 2,011
Weighted average common shares outstanding	4,094	4,126	4,128	4,120
Effect of assumed exercise of stock options	86	71	83	65
Diluted weighted average common shares outstanding	4,180	4,197	4,211	4,185
Diluted earnings per common share	$ 0.20	$ 0.20	$ 0.55	$ 0.48

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Note 4: Investment Securities

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

	September 30, 2016			
(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	$19,272	$ 4	$ (6)	$19,270
State and political subdivisions	14,360	147	(33)	14,474
Corporate	15,647	130	(71)	15,706
Asset backed securities	4,318	2	-	4,320
Residential mortgage-backed - US agency	28,580	316	(16)	28,880
Collateralized mortgage obligations - US agency	46,185	209	(189)	46,205
Collateralized mortgage obligations - Private Label	6,973	-	(37)	6,936
Total	135,335	808	(352)	135,791

Equity investment securities:				
Mutual funds:				
Ultra short mortgage fund	643	-	(12)	631
Large cap equity fund	456	163	-	619
Common stock - Financial services industry	663	13	-	676
Total	1,762	176	(12)	1,926
Total available-for-sale	$ 137,097	$ 984	$ (364)	$ 137,717
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 4,924	$ 133	$ -	$ 5,057
State and political subdivisions	24,784	1,015	(18)	25,781
Corporate	5,358	97	-	5,455
Residential mortgage-backed - US agency	6,767	293	-	7,060
Collateralized mortgage obligations - US agency	2,924	228	-	3,152
Total held-to-maturity	$44,757	$ 1,766	$ (18)	$46,505

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	December 31, 2015			
(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	$21,380	$ 13	$ (85)	$21,308
State and political subdivisions	8,198	107	(5)	8,300

Corporate	18,173	51	(96)	18,128
Residential mortgage-backed - US agency	32,740	113	(280)	32,573
Collateralized mortgage obligations - US agency	16,880	95	(142)	16,833
Collateralized mortgage obligations - Private Label	-	-	-	-
Total	97,371	379	(608)	97,142
Equity investment securities:				
Mutual funds:				
Ultra short mortgage fund	643	-	(5)	638
Large cap equity fund	456	127	-	583
Common stock - Financial services industry	554	25	-	579
Total	1,653	152	(5)	1,800
Total available-for-sale	$99,024	$ 531	$ (613)	$98,942
Held-to-Maturity Portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ 7,860	$ 81	$ (29)	$ 7,912
State and political subdivisions	21,585	881	-	22,466
Corporate	4,175	53	(3)	4,225
Residential mortgage-backed - US agency	7,763	137	(5)	7,895
Collateralized mortgage obligations - US agency	2,914	103	-	3,017
Total held-to-maturity	$44,297	$ 1,255	$ (37)	$45,515

The amortized cost and estimated fair value of debt investments at September 30, 2016 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	$10,486	$10,506	$ 205	$ 205

Due after one year through five years	26,362	26,492	10,071	10,374
Due after five years through ten years	8,716	8,798	17,428	18,102
Due after ten years	8,033	7,974	7,362	7,612
Sub-total	53,597	53,770	35,066	36,293
Residential mortgage-backed - US agency	28,580	28,880	6,767	7,060
Collateralized mortgage obligations - US agency	46,185	46,205	2,924	3,152
Collateralized mortgage obligations - Private label	6,973	6,936	-	-
Totals	$ 135,335	$ 135,791	$44,757	$46,505

The Company's investment securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	September 30, 2016								
	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									
US Treasury, agencies and GSE's	3	$ (6)	$ 11,242	-	$ -	$ -	3	$ (6)	$ 11,242

State and political subdivisions	17	(33)	4,820	-	-	-	17	(33)	4,820
Corporate	3	(71)	4,823	-	-	-	3	(71)	4,823
Equity and other investments	1	(12)	631	-	-	-	1	(12)	631
Residential mortgage-backed - US agency	2	(16)	3,115	-	-	-	2	(16)	3,115
Collateralized mortgage obligations - US agency	14	(164)	22,723	4	(25)	2,740	18	(189)	25,463
Collateralized mortgage obligations - Private label	3	(37)	3,505	-	-	-	3	(37)	3,505
Totals	43	$(339)	$ 50,859	4	$ (25)	$ 2,740	47	$(364)	$ 53,599
Held-to-Maturity									
US Treasury, agencies and GSE's	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
State and political subdivisions	2	(18)	2,037				2	(18)	2,037
Corporate	-	-	-	-	-	-	-	-	-
Residential mortgage-backed - US agency	-	-	-	-	-	-	-	-	-
Totals	2	$ (18)	$ 2,037	-	$ -	$ -	2	$ (18)	$ 2,037

	December 31, 2015		
	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									
US Treasury, agencies and GSE's	9	$ (70)	$ 13,382	1	$ (15)	$ 984	10	$ (85)	$ 14,366
State and political subdivisions	13	(4)	1,894	3	(1)	339	16	(5)	2,233
Corporate	10	(57)	8,123	2	(39)	2,820	12	(96)	10,943
Equity and other investments	1	(5)	638	-	-	-	1	(5)	638
Residential mortgage-backed - US agency	14	(148)	20,204	5	(132)	4,812	19	(280)	25,016
Collateralized mortgage obligations - US agency	6	(80)	8,618	3	(62)	1,789	9	(142)	10,407
Collateralized mortgage obligations - Private label	-	-	-	-	-	-	-	-	-
Totals	53	$(364)	$ 52,859	14	$(249)	$ 10,744	67	$(613)	$ 63,603
Held-to-Maturity									
US Treasury, agencies and GSE's	2	$ (29)	$ 2,970	-	$ -	$ -	2	$ (29)	$ 2,970

Corporate	1	(3)	225	-	-	-	1	(3)	225
Residential mortgage-backed - US agency	1	(5)	795	-	-	-	1	(5)	795
Totals	4	$ (37)	$ 3,990	-	$ -	$ -	4	$ (37)	$ 3,990

The Company conducts a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment ("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 recognized 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.

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Management does not believe any individual unrealized loss in the securities portfolio as of September 30, 2016 represents OTTI. With the exception of certain individually small municipal bond issuances, all securities are rated above the lowest tier of investment grade by one or more nationally recognized statistical rating organizations (NRSRO) with the exception of three corporate securities that are rated at the lowest level of investment grade and three structured credit issuances, acquired in 2016, that are unrated.

Seventeen municipal securities, categorized as available-for-sale, have been in a loss position for seven months or less at September 30, 2016. Each of these has a relatively insignificant unrealized loss position. For the group, losses range from 0.01% to 1.79% of their current book values. None of these municipal securities are deemed to have any credit impairment at the reporting date.

Two municipal securities, categorized as held-to-maturity, have been in a loss position for two months or less at September 30, 2016. The securities are rated AA and AA+, respectively by Standard & Poors. Each of these two securities has a relatively insignificant unrealized loss position with losses of 0.80% and 1.03%, respectively. Neither of these municipal securities are deemed to have any credit impairment at the reporting date.

Three corporate securities, categorized as available-for-sale, have been in a loss position for two months or less, with the largest loss position being 2.18% of current book value. The three securities are rated BBB+, A, and A+ by Standard & Poors, respectively, and are not deemed to have any credit impairment at the reporting date.

The unrealized losses reported pertaining to securities issued by the U.S. Government and its sponsored entities, include three agency, two residential mortgage-backed and 14 collateralized mortgage obligations issued by GNMA, FNMA, FHLMC, FHLB and FFCB. These entities are currently rated Aaa by Moody's Investor Services and AA+ by Standard and Poors. GNMA securities carry explicit guarantees by the U.S. Government as to timely repayment of principal and securities issued by the other agencies listed above are implicitly guaranteed by the U.S. Government. The unrealized losses reflected are primarily attributable to changes in interest rates since the securities were acquired. 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 recovery of the amortized cost. As such, management does not believe any individual unrealized loss as of September 30, 2016 represents OTTI.

Three private-label mortgage-backed securities, acquired in 2016, have been in a loss position for five months or less at September 30, 2016. The largest loss position among the three securities is 1.42% of current book value. One of these securities is rated Aa1 by Moody's and the other two are not an NRSRO. Management monitors their performance regularly and the securities are not deemed to have any credit-related impairment at September 30, 2016.

Finally, one equity investment has a small unrealized loss of 1.92% of its book value at September 30, 2016. This investment is a mutual fund comprised primarily of short-duration adjustable-rate residential mortgage-backed securities. Management has reviewed the composition of the portfolio and determined that no credit-related impairment is present. 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. Management has determined that we have the intent and ability to retain the equity securities for a sufficient period of time to allow for recovery.

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

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Realized gains	$ 4	$ 88	$ 233	$ 198
Realized losses	-	-	(17)	(10)
	$ 4	$ 88	$ 216	$ 188

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As of September 30, 2016 and December 31, 2015, securities with a fair value of $103.2 million and $89.7 million, respectively, were pledged to collateralize certain municipal deposit relationships. As of the same dates, securities with a fair value of $15.9 million and $17.8 million were pledged against certain borrowing arrangements.

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

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

	Pension Benefits		Postretirement Benefits		Pension Benefits		Postretirement Benefits	
	For the three months ended September 30,				For the nine months ended September 30,			
(In thousands)	2016	2015	2016	2015	2016	2015	2016	2015
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest cost	116	117	2	4	348	351	6	13
Expected return on plan assets	(238)	(244)	-	-	(714)	(731)	-	-
Amortization of net losses	56	45	(2)	-	169	135	(6)	-
Net periodic benefit plan (benefit) cost	$ (66)	$ (82)	$ -	$ 4	$ (197)	$ (245)	$ -	$ 13

The Company will evaluate the need for further contributions to the defined benefit pension plan during 2016. The prepaid pension asset is recorded in other assets on the statement of condition as of September 30, 2016 and December 31, 2015.

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Note 6: Loans

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

(In thousands)	September 30, 2016	December 31, 2015
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 193,704	$ 181,792
Construction	5,936	7,924
Total residential mortgage loans	199,640	189,716
Commercial loans:		
Real estate	142,914	129,506
Lines of credit	20,953	19,035
Other commercial and industrial	67,414	54,899
Tax exempt loans	12,715	9,081
Total commercial loans	243,996	212,521
Consumer loans:		
Home equity and junior liens	24,186	23,463
Other consumer	5,816	4,886
Total consumer loans	30,002	28,349

Total loans	473,638	430,586
Net deferred loan fees	(215)	(148)
Less allowance for loan losses	(6,126)	(5,706)
Loans receivable, net	$ 467,297	$ 424,732

The Company originates residential mortgage, commercial, and consumer loans largely to customers throughout Oswego and Onondaga counties. Although the Company 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 of September 30, 2016 and December 31, 2015, residential mortgage loans with a carrying value of $136.7 million and $125.8 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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2016 and have not changed.

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.

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

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

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

	As of September 30, 2016				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 190,204	$ 796	$ 1,540	$ 1,164	$ 193,704
Construction	5,936	-	-	-	5,936
Total residential mortgage loans	196,140	796	1,540	1,164	199,640
Commercial loans:					
Real estate	135,670	2,158	5,086	-	142,914
Lines of credit	19,964	574	415	-	20,953
Other commercial and industrial	66,573	516	320	5	67,414
Tax exempt loans	12,715	-	-	-	12,715

Total commercial loans	234,922	3,248	5,821	5	243,996
Consumer loans:					
Home equity and junior liens	23,725	98	210	153	24,186
Other consumer	5,703	5	64	44	5,816
Total consumer loans	29,428	103	274	197	30,002
Total loans	$ 460,490	$ 4,147	$ 7,635	$ 1,366	$ 473,638

	As of December 31, 2015				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans:					
1-4 family first-lien residential mortgages	$ 177,244	$ 1,375	$ 2,425	$ 748	$ 181,792
Construction	7,924	-	-	-	7,924
Total residential mortgage loans	185,168	1,375	2,425	748	189,716
Commercial loans:					
Real estate	121,283	4,345	3,878	-	129,506
Lines of credit	17,358	1,469	208	-	19,035
Other commercial and industrial	53,540	848	504	7	54,899
Tax exempt loans	9,081	-	-	-	9,081
Total commercial loans	201,262	6,662	4,590	7	212,521
Consumer loans:					
Home equity and junior liens	22,780	182	287	214	23,463
Other consumer	4,840	31	15	-	4,886
Total consumer loans	27,620	213	302	214	28,349
Total loans	$ 414,050	$ 8,250	$ 7,317	$ 969	$ 430,586

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

Nonaccrual and Past Due Loans

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

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

An age analysis of past due loans, not including net deferred loan costs, segregated by portfolio segment and class of loans, as of September 30, 2016 and December 31, 2015, are detailed in the following tables:

	As of September 30, 2016					
(In thousands)	30-59 Days Past Due And Accruing	60-89 Days Past Due And Accruing	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$ 2,182	$ 711	$ 1,335	$ 4,228	$ 189,476	$ 193,704
Construction	-	-	-	-	5,936	5,936
Total residential mortgage loans	2,182	711	1,335	4,228	195,412	199,640
Commercial loans:						

Real estate	604	495	1,889	2,988	139,926	142,914
Lines of credit	-	-	-	-	20,953	20,953
Other commercial and industrial	445	-	264	709	66,705	67,414
Tax exempt loans	-	-	-	-	12,715	12,715
Total commercial loans	1,049	495	2,153	3,697	240,299	243,996
Consumer loans:						
Home equity and junior liens	76	-	345	421	23,765	24,186
Other consumer	25	11	56	92	5,724	5,816
Total consumer loans	101	11	401	513	29,489	30,002
Total loans	$ 3,332	$ 1,217	$ 3,889	$ 8,438	$ 465,200	$ 473,638

	As of December 31, 2015					
(In thousands)	30-59 Days Past Due And Accruing	60-89 Days Past Due And Accruing	90 Days and Over	Total Past Due	Current	Total Loans Receivable
Residential mortgage loans:						
1-4 family first-lien residential mortgages	$ 1,115	$ 808	$ 1,715	$ 3,638	$ 178,154	$ 181,792
Construction	-	-	-	-	7,924	7,924
Total residential mortgage loans	1,115	808	1,715	3,638	186,078	189,716
Commercial loans:						
Real estate	940	135	2,694	3,769	125,737	129,506
Lines of credit	20	-	174	194	18,841	19,035
Other commercial and industrial	159	216	370	745	54,154	54,899

Tax exempt loans	-	-	-	-	9,081	9,081
Total commercial loans	1,119	351	3,238	4,708	207,813	212,521
Consumer loans:						
Home equity and junior liens	132	-	360	492	22,971	23,463
Other consumer	14	15	5	34	4,852	4,886
Total consumer loans	146	15	365	526	27,823	28,349
Total loans	$ 2,380	$ 1,174	$ 5,318	$ 8,872	$ 421,714	$ 430,586

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

(In thousands)	September 30, 2016	December 31, 2015
Residential mortgage loans:		
1-4 family first-lien residential mortgages	$ 1,335	$ 1,715
	1,335	1,715
Commercial loans:		
Real estate	1,889	2,694
Lines of credit	-	174
Other commercial and industrial	264	370
	2,153	3,238
Consumer loans:		
Home equity and junior liens	345	360
Other consumer	56	5
	401	365
Total nonaccrual loans	$ 3,889	$ 5,318

The Company is required to disclose certain activities related to Troubled Debt

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

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

The Company has determined that there were no new TDRs for the three months ended September 30, 2016 and 2015.

The tables below detail loans that have been modified as TDRs for the nine months ended September 30, 2016 and 2015.

	For the nine months ended September 30, 2016			
(In thousands)	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Additional provision for loan losses
Collectively evaluated for impairment:				
Residential mortgage loans	2	$ 97	$ 100	$ -

The TDRs collectively evaluated for impairment were included in the general loan loss allocation and qualitative review and the impact on the allowance for loan losses was immaterial.

	For the nine months ended September 30, 2015			
(In thousands)	Number of loans	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Additional provision for loan losses
Individually evaluated for impairment:				
Commercial real estate loans	1	$ 678	$ 324	$ 354
Collectively evaluated for impairment:				
Residential mortgage loans	2	$ 69	$ 79	$ -

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The TDR individually evaluated for impairment has been classified as a TDR due to the economic concessions granted, which included extended payment terms without an associated increase in collateral. The Company was required to increase the specific reserve against this loan by an additional $354,000, which was a component of the provision for loan losses in the second quarter of 2015. The TDRs collectively evaluated for impairment were included in the general loan loss allocation and qualitative review and the impact on the allowance for loan losses was immaterial.

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

The Company had no loans that had been modified as TDRs during the twelve months prior to September 30, 2016, which had subsequently defaulted during the nine months ended September 30, 2016.

The Company had no loans that had been modified as TDRs during the twelve months prior to September 30, 2015, which had subsequently defaulted during the nine months ended September 30, 2015.

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 tables summarize impaired loan information by portfolio class at the indicated dates:

	September 30, 2016			December 31, 2015		
(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	$ 467	$ 467	$ -	$ 473	$ 473	$ -
Commercial real estate	1,648	1,738	-	2,580	2,709	-
Commercial lines of credit	409	409	-	574	597	-
Other commercial and industrial	371	371	-	536	569	-

Home equity and junior liens	272	272	-	187	187	-
Other consumer	1	2	-	5	6	-
With an allowance recorded:						
1-4 family first-lien residential mortgages	129	143	37	-	-	-
Commercial real estate	1,877	2,008	835	1,850	1,963	760
Commercial lines of credit	5	5	5	5	5	5
Other commercial and industrial	172	189	141	224	230	193
Home equity and junior liens	6	7	6	101	101	2
Other consumer	-	-	-	-	-	-
Total:						
1-4 family first-lien residential mortgages	596	610	37	473	473	-
Commercial real estate	3,525	3,746	835	4,430	4,672	760
Commercial lines of credit	414	414	5	579	602	5
Other commercial and industrial	543	560	141	760	799	193
Home equity and junior liens	278	279	6	288	288	2
Other consumer	1	2	-	5	6	-
Totals	$ 5,357	$ 5,611	$ 1,024	$ 6,535	$ 6,840	$ 960

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

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
1-4 family first-lien residential mortgages	$ 598	$ 477	$ 568	$ 720
Commercial real estate	3,884	4,669	4,138	4,820
Commercial lines of credit	414	635	499	505
Other commercial and industrial	552	941	649	813

Home equity and junior liens	282	292	285	310
Other consumer	2	7	3	9
Total	$ 5,732	$ 7,021	$ 6,142	$ 7,177

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

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
1-4 family first-lien residential mortgages	$ 7	$ 4	$ 19	$ 13
Commercial real estate	22	21	74	71
Commercial lines of credit	1	(3)	1	4
Other commercial and industrial	19	5	40	23
Home equity and junior liens	2	-	6	4
Other consumer	-	-	-	-
Total	$ 51	$ 27	$ 140	$ 115

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Note 7: Allowance for Loan Losses

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 on individual, and collective impairment evaluation by loan portfolio class. An allocation of a portion of the allowance to a given portfolio class does not limit the Company's ability to absorb losses in another portfolio class.

	For the three months ended September 30, 2016		
	1-4 family first-lien	Residential	Other

(In thousands)	residential mortgage	construction mortgage	Commercial real estate	Commercial lines of credit	commercial and industrial
Allowance for loan losses:					
Beginning Balance	$ 627	$ -	$ 3,071	$ 405	$ 1,241
Charge-offs	(114)	-	-	-	-
Recoveries	1	-	7	1	5
Provisions	119	-	203	(22)	67
Ending balance	$ 633	$ -	$ 3,281	$ 384	$ 1,313
Ending balance: related to loans individually evaluated for impairment	37	-	835	5	141
Ending balance: related to loans collectively evaluated for impairment	$ 596	$ -	$ 2,446	$ 379	$ 1,172
Loans receivables:					
Ending balance	$ 193,704	$ 5,936	$ 142,914	$20,953	$67,414
Ending balance: individually evaluated for impairment	596	-	3,525	414	543
Ending balance: collectively evaluated for impairment	$ 193,108	$ 5,936	$ 139,389	$20,539	$66,871

	Municipal	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 1	$ 350	$ 147	$ 88	$ 5,930
Charge-offs	-	(26)	(19)	-	(159)
Recoveries	-	6	13	-	33
Provisions	2	27	14	(88)	322
Ending balance	$ 3	$ 357	$ 155	$ -	$ 6,126

Ending balance: related to loans individually evaluated for impairment	-	6	-	-	1,024
Ending balance: related to loans collectively evaluated for impairment	$ 3	$ 351	$ 155	$ -	$ 5,102
Loans receivables:					
Ending balance	$12,715	$24,186	$ 5,816		$ 473,638
Ending balance: individually evaluated for impairment	-	278	1		5,357
Ending balance: collectively evaluated for impairment	$12,715	$23,908	$ 5,815		$ 468,281

	For the nine months ended September 30, 2016				
(In thousands)	1-4 family first-lien residential mortgage	Construction	Commercial real estate	Commercial lines of credit	Other commercial and industrial
Allowance for loan losses:					
Beginning Balance	$ 581	$ -	$ 2,983	$ 401	$ 1,270
Charge-offs	(144)	-	-	(43)	-
Recoveries	2	-	7	10	12
Provisions	194	-	291	16	31
Ending balance	$ 633	$ -	$ 3,281	$ 384	$ 1,313

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 3	$ 350	$ 118	$ -	$ 5,706
Charge-offs	-	(115)	(38)	-	(340)
Recoveries	-	9	38	-	78
Provisions	-	113	37	-	682
Ending balance	$ 3	$ 357	$ 155	$ -	$ 6,126

	For the three months ended September 30, 2015				
(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	$ 544	$ -	$ 3,288	$ 517	$ 1,110
Charge-offs	(21)	-	(195)	(150)	-
Recoveries	2	-	-	-	2
Provisions	(13)	-	(62)	3	(55)
Ending balance	$ 512	$ -	$ 3,031	$ 370	$ 1,057
Ending balance: related to loans individually evaluated for impairment	-	-	826	-	209
Ending balance: related to loans					

collectively evaluated for impairment	$ 512	$ -	$ 2,205	$ 370	$ 848
Loans receivables:					
Ending balance	$ 179,146	$ 6,804	$ 126,931	$ 18,327	$ 46,901
Ending balance: individually evaluated for impairment	476	-	4,522	657	929
Ending balance: collectively evaluated for impairment	$ 178,670	$ 6,804	$ 122,409	$ 17,670	$ 45,972

	Municipal	Home equity and junior liens	Other Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 5	$ 331	$ 105	$ -	$ 5,900
Charge-offs	-	(11)	(28)	-	(405)
Recoveries	-	1	12	-	17
Provisions	(1)	7	18	323	220
Ending balance	$ 4	$ 328	$ 107	$ 323	$ 5,732
Ending balance: related to loans individually evaluated for impairment	-	3	-	-	1,038
Ending balance: related to loans collectively evaluated for impairment	$ 4	$ 325	$ 107	$ 323	$ 4,694
Loans receivables:					
Ending balance	$ 9,195	$22,850	$ 4,807		$ 414,961
Ending balance: individually evaluated for impairment	-	290	7		6,881
Ending balance: collectively					

evaluated for impairment	$ 9,195	$22,560	$ 4,800		$ 408,080

	For the nine months ended September 30, 2015				
(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	$ 509	$ -	$ 2,801	$ 460	$ 1,034
Charge-offs	(186)	-	(224)	(160)	(108)
Recoveries	40	-	-	36	7
Provisions	149	-	454	34	124
Ending balance	$ 512	$ -	$ 3,031	$ 370	$ 1,057

	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Allowance for loan losses:					
Beginning Balance	$ 3	$ 388	$ 98	$ 56	$ 5,349
Charge-offs	-	(11)	(60)	-	(749)
Recoveries	-	8	37	-	128
Provisions	1	(57)	32	267	1,004
Ending balance	$ 4	$ 328	$ 107	$ 323	$ 5,732

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:

	September 30, 2016				
(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	$ 37	$ -	$ 835	$ 5	$ 141
Historical loss rate	79	-	84	40	52
Qualitative factors	517	-	2,362	339	1,120
Total	$ 633	$ -	$ 3,281	$ 384	$ 1,313

(In thousands)	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 6	$ -	$ -	$ 1,024
Historical loss rate	-	35	23	-	313
Qualitative factors	3	316	132	-	4,789
Total	$ 3	$ 357	$ 155	$ -	$ 6,126

	December 31, 2015				
(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	$ -	$ -	$ 760	$ 5	$ 193
Historical loss rate	70	-	97	49	54
Qualitative factors	511	-	2,126	347	1,023
Total	$ 581	$ -	$ 2,983	$ 401	$ 1,270

(In thousands)	Tax exempt	Home equity and junior liens	Other consumer	Unallocated	Total
Specifically reserved	$ -	$ 2	$ -	$ -	$ 960
Historical loss rate	-	26	25	-	321
Qualitative factors	3	322	93	-	4,425
Total	$ 3	$ 350	$ 118	$ -	$ 5,706

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	September 30, 2016	Number of properties	December 31, 2015
Foreclosed residential real estate	8	$ 320	2	$ 182

At September 30, 2016, the Company reported $665,000 in residential real estate loans in the process of foreclosure.

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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 risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. The Company had $1.9 million of standby letters of credit as of September 30, 2016. 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 securities available-for-sale are obtained from an independent third party and are based on quoted prices on nationally recognized securities exchanges where available (Level 1). If quoted prices are not available, fair values are measured by utilizing matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). Management made no adjustment to the fair value quotes that were received from the independent third party pricing service. During the third quarter of 2015, the Company purchased $313,000 of the common stock of a community-based financial institution that conducts its operations outside of the Company's primary market area. During the second quarter of 2016, the Company purchased an additional $130,000 of this common stock. The first purchase was in conjunction with a capital raise by the financial institution that attracted multiple investors and the second purchase was made in a private sale. The stock of this financial institution is not traded on any exchange and there are no quoted market prices available for this security (Level 3). Management has reviewed the results of the financial operations of the financial institution for the quarter ended September 30, 2016 and has concluded that this investment was appropriately valued at the acquisition cost of its most recent purchase, which was considered to be its fair value as of the measurement date.

Interest rate swap derivative: The fair value of the interest rate swap derivative is obtained from a third party pricing agent and is calculated based on a discounted cash flow model. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes for various swap maturity terms, and therefore is classified within Level 2 of the fair value hierarchy. The swap agreement presented in the accompanying financial statements expired in the second quarter of 2016 and was not renewed.

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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:

	September 30, 2016			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-sale portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$19,270	$ -	$19,270
State and political subdivisions	-	14,474	-	14,474
Corporate	-	15,706	-	15,706
Asset backed securities	-	4,320	-	4,320
Residential mortgage-backed - US agency	-	28,880	-	28,880
Collateralized mortgage obligations - US agency	-	46,205	-	46,205

Collateralized mortgage obligations - Private label	-	6,936	-	6,936
Equity investment securities:				
Mutual funds:				
Ultra short mortgage fund	631	-	-	631
Large cap equity fund	619	-	-	619
Common stock - Financial services industry	-	220	456	676
Total available-for-sale securities	$ 1,250	$ 136,011	$ 456	$ 137,717
Interest rate swap derivative	$ -	$ -	$ -	$ -

	December 31, 2015			
(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
Available-for-sale portfolio				
Debt investment securities:				
US Treasury, agencies and GSEs	$ -	$21,308	$ -	$21,308
State and political subdivisions	-	8,300	-	8,300
Corporate	-	18,128	-	18,128
Residential mortgage-backed - US agency	-	32,573	-	32,573
Collateralized mortgage obligations - US agency	-	16,833	-	16,833
Collateralized mortgage obligations - Private label	-	-	-	-
Equity investment securities:				
Mutual funds:				
Ultra short mortgage fund	638	-	-	638
Large cap equity fund	583	-	-	583
Common stock - Financial services industry	46	220	313	579

Total available-for-sale securities	$	1,267	$	97,362	$	313	$	98,942

Interest rate swap derivative	$	-	$	(27)	$	-	$	(27)

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the three months ended September 30, 2016 were as follows:

(In thousands)		Common Stock - Financial Services Industry
Balance - June 30, 2016	$	443
Total gains realized/unrealized:		
Included in earnings		-
Included in other comprehensive income		13
Settlements		-
Sales		-
Balance - September 30, 2016	$	456
Changes in unrealized gains included in earnings related to assets still held at September 30, 2016	$	-

The changes in Level 3 assets and liabilities measured at estimated fair value on a recurring basis during the nine months ended September 30, 2016 were as follows:

(In thousands)		Industry
Balance - December 31, 2015	$	313
Total gains realized/unrealized:		
Included in earnings		-
Included in other comprehensive income		13
Settlements		130
Sales		-
Balance - September 30, 2016	$	456
Changes in unrealized gains included in earnings related to assets still held at September 30, 2016	$	-

The following table summarizes the valuation techniques and significant unobservable inputs used for the Company's investments that are categorized within Level 3 of the fair value hierarchy at the indicated dates:

(In thousands)	At September 30, 2016				
Investment Type		Fair Value	Valuation Techniques	Unobservable Input	Weight
Common Stock - Financial Services Industry	$	456	Inputs to comparables	Weight ascribed to comparable companies	100%

(In thousands)	At December 31, 2015				
Investment Type		Fair Value	Valuation Techniques	Unobservable Input	Weight
Common Stock - Financial Services Industry	$	313	Inputs to comparables	Weight ascribed to comparable companies	100%

Pathfinder Bank had the following assets measured at fair value on a nonrecurring basis as of September 30, 2016 and December 31, 2015:

(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
	September 30, 2016			
Impaired loans	$ -	$ -	$ 444	$ 444
Foreclosed real estate	$ -	$ -	$ 320	$ 320

(In thousands)	Level 1	Level 2	Level 3	Total Fair Value
	December 31, 2015			
Impaired loans	$ -	$ -	$ 1,070	$ 1,070
Foreclosed real estate	$ -	$ -	$ 360	$ 360

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The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were used to determine fair value at the indicated dates.

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At September 30, 2016			
Impaired loans	Appraisal of collateral	Appraisal Adjustments	5% - 10% (5%)
	(Sales Approach)	Costs to Sell	7% - 13% (11%)

	Discounted Cash Flow		
Foreclosed real estate	Appraisal of collateral (Sales Approach)	Appraisal Adjustments	15% - 15% (15%)
		Costs to Sell	6% - 8% (7%)

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range (Weighted Avg.)
At December 31, 2015			
Impaired loans	Appraisal of collateral (Sales Approach)	Appraisal Adjustments	5% - 10% (8%)
		Costs to Sell	8% - 15% (14%)
	Discounted Cash Flow		
Foreclosed real estate	Appraisal of collateral (Sales Approach)	Appraisal Adjustments	15% - 15% (15%)
		Costs to Sell	6% - 8% (7%)

There have been no transfers of assets into or out of any fair value measurement level during the quarter ended September 30, 2016.

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.

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.

Investment securities – The fair values of securities available-for-sale and held-to-maturity are obtained from an independent third party and are based on quoted prices on nationally recognized exchange 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. During the third quarter of 2015, the Company purchased $313,000 of the common stock of a community-based financial institution that conducts its operations outside of the Company's primary market area. During the second quarter of 2016, the Company purchased an additional $130,000 of this common stock. The first purchase was in conjunction with a capital raise by the financial institution that attracted multiple investors and the second purchase was made in a private sale. The stock of this financial institution is not traded on any exchange and there are no quoted market prices available for this security (Level 3). Management has reviewed the results of the financial operations of the financial institution for the quarter ended September 30, 2016 and has concluded that this investment was appropriately valued at the acquisition cost of its most recent purchase, which was considered to be its fair value as of the measurement date.

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.

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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.

Interest rate swap derivative – The fair value of the interest rate swap derivative is obtained from a third party pricing agent and is calculated based on a discounted cash flow model. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes for various swap maturity terms, and therefore is classified within Level 2 of the fair value hierarchy. The swap agreement presented in the accompanying financial statements expired in the second quarter of 2016 and was not renewed.

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

(In thousands)	Fair Value Hierarchy	September 30, 2016 Carrying Amounts	September 30, 2016 Estimated Fair Values	December 31, 2015 Carrying Amounts	December 31, 2015 Estimated Fair Values
Financial assets:					
Cash and cash equivalents	1	$23,663	$23,663	$15,245	$15,245
Investment securities - available-for-sale	1	1,250	1,250	1,267	1,267
Investment securities - available-for-sale	2	136,011	136,011	97,362	97,362
Investment securities - available-for-sale	3	456	456	313	313
Investment securities - held-to-maturity	2	44,757	46,505	44,297	45,515
Federal Home Loan Bank stock	2	4,290	4,290	2,424	2,424
Net loans	3	467,297	473,613	424,732	428,410
Accrued interest receivable	1	2,316	2,316	2,053	2,053
Financial liabilities:					
Demand Deposits, Savings, NOW and MMDA	1	$ 405,694	$ 405,694	$ 343,853	$ 343,853
Time Deposits	2	149,431	150,283	146,462	146,158
Borrowings	2	82,100	82,243	41,300	41,282
Subordinated loans	2	15,016	13,991	14,991	14,027
Accrued interest payable	1	76	76	199	199
Interest rate swap derivative	2	-	-	27	27

Note 11: Interest Rate Derivatives

Derivative instruments are entered into by the Company primarily as a risk management tool. Financial derivatives are recorded at fair value as other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability are recognized currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings. See Note 10 for further discussion of the fair value of the interest rate derivative.

The Company has $5.0 million of floating rate trust preferred debt indexed to 3-month LIBOR. As a result, it is exposed to variability in cash flows related to changes in projected interest payments caused by changes in the benchmark interest rate. During the fourth quarter of fiscal 2009, the Company entered into an interest rate swap agreement, with a $2.0 million notional amount, to convert a portion of the floating rate trust preferred debt to a fixed rate for a term of approximately seven years at a rate of 4.96%. This swap agreement expired in the second quarter of 2016 and was not renewed. The derivative, while in effect, was designated as a cash flow hedge. The hedging strategy ensured that changes in cash flows from the derivative would have been highly effective at offsetting changes in interest expense from the hedged exposure.

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The following table summarizes the fair value of the outstanding derivative and its presentation on the statements of condition:

(In thousands)	September 30, 2016	December 31, 2015
Cash flow hedge:		
Other liabilities	$ -	$ 27

The change in accumulated other comprehensive loss on a pretax basis and the impact on earnings from the interest rate swap that qualifies as a cash flow hedge for the periods indicated below were as follows:

	Three months ended September 30,	
(In thousands)	2016	2015
Balance as of June 30:	$ -	$ (57)
Amount of (gains) recognized in other comprehensive income	-	(2)
Amount of loss reclassified from other comprehensive income and recognized as interest expense	-	15
Balance as of September 30:	$ -	$ (44)

	Nine months ended September 30,	
(In thousands)	2016	2015
Balance as of December 31:	$ (27)	$ (82)
Amount of losses (gains) recognized in other comprehensive income	2	(8)
Amount of loss reclassified from other comprehensive income and recognized as interest expense	25	46
Balance as of September 30:	$ -	$ (44)

No amount of ineffectiveness had been included in earnings for prior periods and the changes in fair value were recorded in other comprehensive (loss) income. Some, or all, of the amount included in accumulated other comprehensive (loss) income would have been reclassified into current earnings should a portion of, or the entire hedge no longer been considered effective.

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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 table below.

	For the three months ended September 30, 2016				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Financial Derivative	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (1,779)	$ -	$ 406	$ (612)	$(1,985)
Other comprehensive (loss) income before reclassifications	-	-	(39)	47	8
Amounts reclassified from AOCI	33	-	2	-	35
Ending balance	$ (1,746)	$ -	$ 369	$ (565)	$(1,942)

	For the nine months ended September 30, 2016				
(In thousands)	Retirement Plans	Unrealized Gains and Losses on Financial derivative	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (1,844)	$ (16)	$ (51)	$ (654)	$(2,565)
Other comprehensive income before reclassifications	-	1	290	89	380
Amounts reclassified from AOCI	98	15	130	-	243
Ending balance	$ (1,746)	$ -	$ 369	$ (565)	$(1,942)

(In thousands)	For the three months ended September 30, 2015				
	Retirement Plans	Unrealized Gains and Losses on Financial derivative	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Loss on Securities Transferred to Held-to-Maturity	Total
Beginning balance	$ (1,740)	$ (34)	$ 149	$ (694)	$(2,319)
Other comprehensive (loss) income before reclassifications	-	(1)	356	20	375
Amounts reclassified from AOCI	27	9	(52)	-	(16)
Ending balance	$ (1,713)	$ (26)	$ 453	$ (674)	$(1,960)

(In thousands)	For the nine months ended September 30, 2015				
	Retirement Plans	Unrealized Gains and Losses on Financial derivative	Unrealized Gains and Losses on Available-for-Sale Securities	Securities reclassified from AFS to HTM	Total
Beginning balance	$ (1,794)	$ (49)	$ 457	$ (733)	(2,119)
Other comprehensive (loss) income before reclassifications	-	(5)	109	59	163
Amounts reclassified from AOCI	81	28	(113)	-	(4)
Ending balance	$ (1,713)	$ (26)	$ 453	$ (674)	$(1,960)

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

(In thousands)	Amount Reclassified from AOCI[1] (Unaudited) For the three months ended			Amount Reclassified from AOCI[1] (Unaudited) For the nine months ended	
Details about AOCI[1] components	September 30, 2016	September 30, 2015	Affected Line Item in the Statement of Income	September 30, 2016	September 30, 2015
Unrealized holding gain on financial derivative:					
Reclassification adjustment for interest expense included in net income	$ -	$ (15)	Interest on long term borrowings	$ (25)	$ (46)
	-	6	Provision for income taxes	10	18
	$ -	$ (9)	Net Income	$ (15)	$ (28)
Retirement plan items					
Retirement plan net losses recognized in plan expenses[2]	$ (54)	$ (45)	Salaries and employee benefits	$ (163)	$ (135)
	22	18	Provision for income taxes	65	54
	$ (32)	$ (27)	Net Income	$ (98)	$ (81)

Available-for-sale securities									
Realized gain on sale of securities	$	(4)	$	88	Net gains on sales and redemptions of investment securities	$	(216)	$	188
		1		(36)	Provision for income taxes		86		(75)
	$	(3)	$	52	Net Income	$	(130)	$	113

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.

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 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 and the Company is 100% owned by public shareholders. The Bank has three wholly owned operating subsidiaries, Pathfinder Risk Management Company, Inc. ("PRMC"), Pathfinder REIT, Inc. and Whispering Oaks Development Corp. All significant inter-company accounts and activity have been eliminated in consolidation. Although the Company owns, through its subsidiary PRMC, 51% of the membership interest in FitzGibbons Agency, LLC ("FitzGibbons"), the Company is required to consolidate 100% of FitzGibbons within the consolidated financial statements. The 49% of which the Company does not own is accounted for separately as noncontrolling interests within the consolidated financial statements. At September 30, 2016, the Company and subsidiaries had total assets of $717.1 million, total liabilities of $657.9 million and shareholders' equity of $58.8 million plus noncontrolling interest of $430,000, which represents the 49% of FitzGibbons not owned by the Company.

The following discussion reviews the Company's financial condition at September 30, 2016 and the results of operations for the three and nine month periods ended September 30, 2016 and 2015. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 as of December 31, 2015 and 2014 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

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;
- 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.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. These factors include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets and changes in the quality or composition of the Company's loan or investment portfolios. 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.

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management.

The most significant accounting policies followed by the Company are presented in Note 1 to the annual audited consolidated financial statements included in the 2015 Annual Report filed with the Securities and Exchange Commission on Form 10-K on March 29, 2016, ("the consolidated financial statements"). These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the allowance for loan losses, deferred income taxes, pension obligations, the evaluation of investment securities for other than temporary impairment, the evaluation of goodwill for impairment, and the estimation of fair values for accounting and disclosure purposes to be the accounting areas that require the most subjective and complex judgments. These areas could be the most subject to revision as new information becomes available.

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.

- The Company establishes a specific allowance for all commercial loans in excess of the total related credit threshold of $100,000 and single borrower residential mortgage loans in excess of the total related credit threshold of $300,000 identified as being impaired which are on nonaccrual and have been risk rated under the Company's risk rating system as substandard, doubtful, or loss. In addition, an accruing substandard loan could be identified as being impaired. Impairment is measured by either the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral if the loan is collateral dependent. The majority of the Company's impaired loans and leases utilize the fair value of the underlying collateral.

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

The loan portfolio also represents the largest asset type on the consolidated statement of condition. Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses.

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 affect 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. Valuation allowances of $243,000 and $265,000 were maintained at September 30, 2016 and December 31, 2015, respectively, as management believes it may not generate sufficient capital gains to offset its capital loss carry forward. The Company's effective tax rate differs from the statutory rate due primarily to non-taxable income from specific types of investment securities and loans, and bank owned life insurance.

We maintain a noncontributory defined benefit pension plan covering substantially all employees. The plan provides defined benefits based on years of service and final average salary. On May 14, 2012, 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.

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, 2015 evaluation, management has determined that the carrying value of goodwill was not impaired as of that date. The evaluation approach is described in Note 10 of the consolidated financial statements. Further information on the estimation of fair values can be found in Note 22 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 security impairment losses and other-than-temporary impairment ("OTTI") of equity securities which are charged to earnings. The Company's ability to fully realize the value of its investments in various securities, including corporate debt securities, is dependent on the underlying creditworthiness of the issuing organization. In evaluating the debt security (both available-for-sale and held-to-maturity) portfolio for other-than-temporary impairment losses, management considers (1) if we intend to sell the security; (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 investment securities available-for-sale, the interest rate derivative, intangible assets, foreclosed real estate, and the value of loan collateral when valuing loans. These are all recorded at either fair value, or the lower of cost or fair value. Fair values are determined based on third party sources, when available. Furthermore, accounting principles generally accepted in the United States require disclosure of the fair value of financial instruments as a part of the notes to the annual audited consolidated financial statements. Fair values on our available-for-sale securities may be influenced by a number of factors; including market interest rates, prepayment speeds, discount rates, and the shape of yield curves.

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

Recent Events

On September 22, 2016, the Company announced that its Board of Directors declared a quarterly dividend of $0.05 per common share. The dividend is payable on November 4, 2016 to shareholders of record on October 14, 2016.

Overview and Results of Operations

The following represents the significant highlights of the Company's operating results between the third quarter of 2016 and the third quarter of 2015.

- Net income declined $65,000, or 7.3%, to $820,000.
- Net income available to common shareholders declined $32,000, or 3.8%, to $820,000.
- Basic earnings per share declined $0.01 per share due to the decline in net income.
- Diluted earnings per share remained constant at $0.20 per share as the decline in net income was substantially offset by a decline in the weighted number of shares outstanding.
- Return on average assets decreased 10 basis points to 0.49%.
- Net interest income, after provision for loan losses, increased 8.7% to $5.0 million.
- Net interest margin decreased by 11 basis points to 3.28%, but this reduction in earnings was more than offset by the increase in average balances of interest earning assets.

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The following represents significant highlights of the Company's operating results between the first nine months of 2016 and the first nine months of 2015.

- Net income improved by $205,000, or 9.7%, to $2.3 million.
- Net income available to common shareholders improved by $286,000, or 14.2%, to $2.3 million.
- Basic earnings per share improved by $0.07 to $0.56 per share.

- Diluted earnings per share increased $0.07 to $0.55 per share.
- Return on average assets decreased by one basis point to 0.46% as the increase in average assets outpaced the increase in net income.
- Net interest income, after provision for loan losses, increased 11.4% to $14.5 million. This increase in earnings was due to the increase in average balances of interest earning assets, which more than offset a decrease in net interest margin.
- Net interest margin decreased by 12 basis points to 3.21% as the result of a 14 basis points increase in average rates paid on interest bearing liabilities.

The following reflects the changes in financial condition between December 31, 2015 and September 30, 2016.

- Total assets increased 15.1% to $717.1 million primarily due to increases in loans, investment securities and cash and cash equivalents. These increases were funded largely by increases in business and municipal demand deposits.

- Asset quality metrics generally improved between December 31, 2015 and September 30, 2016. Total delinquent loans, as a percentage of total loans, decreased by 28 basis points to 1.78% at September 30, 2016 as compared to 2.06% at December 31, 2015. The ratio of annualized net loan charge-offs to average loans decreased by 17 basis points to 0.08%.

We had net income available to common shareholders of $820,000 for the three months ended September 30, 2016 compared to net income available to common shareholders of $852,000 for the three months ended September 30, 2015. The $32,000 decrease in net income available to common shareholders was due to a decline in net income of $65,000 in the third quarter of 2016 as compared to the same quarter in the previous year, partially offset by a decrease in dividends payable to preferred shareholders of $33,000.

The $65,000 decline in net income was due primarily to a $244,000 increase in noninterest expenses, a $229,000 decrease in noninterest income, and a $102,000 increase in the provision for loan losses, partially offset by a $502,000 increase in net interest income before the provision for loan losses. The $502,000 increase in net interest income before the provision for loan losses was a result of the increase in average interest-earning asset balances, partially offset by an increase in the average balance and average cost of interest-bearing liabilities between the year-over-year third quarter periods. The increase in the provision for loan losses was primarily due to an increase in outstanding loan balances in the third quarter of 2016 as compared to the same period in the previous year.

The $244,000 increase in noninterest expenses was due primarily to an increase of $210,000, or 8.5%, in salaries and employee benefits that reflects an increase in staffing levels primarily to meet increased loan demand and to better serve customers and potential customers as the Bank's operations continue to expand into Onondaga County. All other noninterest expenses were $34,000 greater in aggregate in the quarter ended September 30, 2016 than in the same three-month period of 2015. These aggregate increases were primarily the result of inflationary factors and represent an increase of 1.6% for the quarter when measured year-over year.

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The $229,000 decrease in noninterest income in the quarter ended September 30, 2016, as compared to the same period in 2015, was the result of a $156,000 decrease in income generated from earnings and gains from bank owned life insurance and an $84,000 reduction in net gains on sales and redemptions of investment securities. The decrease in earnings and gains from bank owned life insurance was due to the one-time collection of death benefit proceeds, related to a retired staff member, of $135,000 in the third quarter of 2015. The reduction in gains on redemptions and sales of investment securities relates to reduced investment securities sales activity in the third quarter of 2016 as compared with the same period in 2015. Management typically utilizes sales of securities as a means to improve overall investment securities portfolio performance when such sales are deemed to be economically advantageous. Such sales activities will vary significantly from quarter-to-quarter, depending on a number of factors including the level of general interest rates and management's assessments of the relative value of different types of fixed-income investment securities.

The $102,000 increase in the provision for loan losses in the quarter ended September 30, 2016, as compared with the same quarter of 2015, was due principally to the $54.8 million, or 13.4%, increase in average loan balances in the third quarter of 2016 as compared with the same quarter of 2015 and the corresponding increase in the estimable and probable loan losses inherent in the loan portfolio.

In comparing the year-over-year third quarter periods, the return on average assets decreased 10 basis points to 0.49% due to the combined effects of the decrease in net income (the numerator in the ratio) and the increase in average assets (the denominator in the ratio). Average assets increased due to the increase in average loans and taxable investment securities seen in the third quarter of 2016 as compared to the third quarter of 2015. Average deposits increased in the third quarter of 2016 due to continued growth in municipal depositor relationships, increased commercial deposits resulting in part from new loan account relationships, particularly in Onondaga County, and, to a lesser extent, growth in consumer deposits.

Net income available to common shareholders for the nine months ended September 30, 2016 was $2.3 million, an increase of $286,000, or 14.2%, over the comparable prior year period. Net income increased $205,000 and the dividend paid to preferred shareholders decreased $81,000 in the first nine months of 2016 as compared to the same nine-month period in 2015. The increase in net income was primarily due to the increase in net interest income, before provision for loan losses, of $1.2 million and a decrease in the provision for loan losses of $322,000. In combination, these two factors increased net interest income, after the provision for loan losses, of $1.5 million. The $1.5 million increase in net interest income, after provision for loan losses, in the nine-month period ended September 30, 2016, as compared to the same period in 2015, resulted from higher average balances of interest earning assets, partially offset by an increase in average rates paid on interest bearing liabilities and an increase in the average balances of those liabilities.

Partially offsetting the increase in net interest income, after the provision for loan losses, was an increase of $1.3 million, or 9.8%, in noninterest expenses between the nine month period ended September 30, 2016 and the same prior year period that was principally due to increases in salaries and employee benefits expense, data processing costs, and other expenses.

Return on average assets decreased 1 basis point to 0.46% between the year-over-year nine month periods due to reasons similar to those mentioned above for the year-over-year third quarter comparisons.

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.

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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. The prior year has been reclassified so as not to include adjustments for tax equivalency. Additionally, the prior year has been reclassified to include Fed funds sold to be categorized with interest-earning deposits.

	For the three months ended September 30,					
	2016			2015		
(Dollars in thousands)	**Average Balance**	**Interest**	**Average Yield / Cost**	**Average Balance**	**Interest**	**Average Yield / Cost**
Interest-earning assets:						
Loans	$ 463,968	$ 5,396	4.65%	$ 409,217	$ 4,699	4.59%

Taxable investment securities	134,613	623	1.85%	116,220	559	1.92%
Tax-exempt investment securities	31,850	211	2.65%	27,357	186	2.72%
Fed funds sold and interest-earning deposits	14,846	21	0.57%	13,514	5	0.15%
Total interest-earning assets	645,277	6,251	3.87%	566,308	5,449	3.85%
Noninterest-earning assets:						
Other assets	34,767			40,270		
Allowance for loan losses	(5,954)			(5,998)		
Net unrealized gains on available-for sale-securities	799			538		
Total assets	$ 674,889			$ 601,118		
Interest-bearing liabilities:						
NOW accounts	$57,796	$ 26	0.18%	$45,051	$ 24	0.21%
Money management accounts	14,457	10	0.28%	12,740	5	0.16%
MMDA accounts	153,492	173	0.45%	121,494	170	0.56%
Savings and club accounts	80,094	19	0.09%	73,343	15	0.08%
Time deposits	157,763	384	0.97%	156,374	294	0.75%
Subordinated loans	15,011	193	5.14%	5,155	41	3.18%
Borrowings	59,376	147	0.99%	50,003	103	0.83%
Total interest-bearing liabilities	537,989	952	0.71%	464,160	652	0.56%
Noninterest-bearing liabilities:						
Demand deposits	71,681			63,223		
Other liabilities	4,999			2,709		

Total liabilities	614,669			530,092		
Shareholders' equity	60,220			71,026		
Total liabilities & shareholders' equity	$ 674,889			$ 601,118		
Net interest income		$ 5,299			$ 4,797	
Net interest rate spread			3.16%			3.29%
Net interest margin			3.28%			3.39%
Ratio of average interest-earning assets to average interest-bearing liabilities			119.94%			122.01%

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	For the nine months ended September 30,					
	2016			2015		
(Dollars in thousands)	**Average Balance**	**Interest**	**Average Yield / Cost**	**Average Balance**	**Interest**	**Average Yield / Cost**
Interest-earning assets:						
Loans	$ 446,115	$15,367	4.59%	$ 398,223	$13,649	4.57%
Taxable investment securities	137,408	1,813	1.76%	119,627	1,603	1.79%
Tax-exempt investment securities	29,517	602	2.72%	28,027	573	2.73%

Fed funds sold and interest-earning deposits	16,412	47	0.38%	13,332	12	0.12%
Total interest-earning assets	629,452	17,829	3.78%	559,209	15,837	3.78%
Noninterest-earning assets:						
Other assets	39,396			40,017		
Allowance for loan losses	(5,884)			(5,661)		
Net unrealized gains on available for sale securities	570			829		
Total assets	$ 663,534			$ 594,394		
Interest-bearing liabilities:						
NOW accounts	$55,957	$ 66	0.16%	$46,160	$ 63	0.18%
Money management accounts	14,335	26	0.24%	12,956	15	0.15%
MMDA accounts	163,779	545	0.44%	117,379	440	0.50%
Savings and club accounts	79,155	55	0.09%	74,674	46	0.08%
Time deposits	156,520	1,067	0.91%	156,158	871	0.74%
Subordinated loans	15,002	597	5.31%	5,155	121	3.13%
Borrowings	43,858	341	1.04%	46,582	302	0.86%
Total interest-bearing liabilities	528,606	2,697	0.68%	459,064	1,858	0.54%
Noninterest-bearing liabilities:						
Demand deposits	68,822			61,790		
Other liabilities	4,498			3,067		
Total liabilities	601,926			523,921		
Shareholders' equity	61,608			70,473		

Total liabilities & shareholders' equity	$ 663,534			$ 594,394		
Net interest income		$15,132			$13,979	
Net interest rate spread			3.10%			3.24%
Net interest margin			3.21%			3.33%
Ratio of average interest-earning assets to average interest-bearing liabilities			119.08%			121.82%

As indicated in the above tables, net interest income, before provision for loan losses, increased $502,000, or 10.5%, to $5.3 million for the three months ended September 30, 2016 as compared to the same prior year period. This increase was due principally to the $79.0 million, or 13.9%, increase in average balances of interest earning assets and a two basis points increase in the average yield 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 $73.8 million, or 15.9%, and an increase of 15 basis points on the average interest rate paid on those liabilities. In total, net interest margin decreased 11 basis points to 3.28% due largely to the increase in rates paid on average interest bearing liabilities, 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 income increased $802,000, or 14.7%, to $6.3 million for the three months ended September 30, 2016 compared to the same three month period in 2015. The increase in interest income was due principally to the increase in average balances of loans and taxable investment securities which increased 13.4% and 15.8%, respectively, between the year-over-year third quarter periods. The increase in the average balances of loans reflects the Company's continued success in its expansion within the greater Syracuse market. These increases were also positively affected by the increase in the average yield on loan assets of six basis points. These increases helped offset the year-over-year quarterly decrease in the average yield on both taxable and nontaxable investment securities of seven basis points each. The increase in the average yield on loans was the result of new loan production being added to the loan portfolio at rates slightly higher than the average rates of the previously existing portfolio. The decrease in the average yield on both taxable and non-taxable investment securities was the result of maturing taxable investment securities with yields higher than new purchases at the then-current lower market rates. In some cases, the new investment securities purchases in the third quarter of 2016 also have durations that are significantly less than the original durations of the securities that they replaced. These shorter-duration securities were purchased with the expectation of matching cash flows from securities maturities with the seasonal fluctuations in the Bank's municipal deposit balances.

Interest expense for the three months ended September 30, 2016 increased $300,000, or 46.0%, to $952,000 when compared to the same prior year period. This increase was primarily due to an increase in Subordinated Loan interest payments of $152,000 due to the issuance of $10.0 million in Subordinated Loan debt on October 15, 2015. In addition, the average balances of deposits, which included brokered deposits, increased $63.1 million between the year-over-year third quarter periods. Deposit interest expense increased three basis points to 0.53% for the three months ended September 30, 2016, as compared with the same three month period in 2015. This increase was primarily due to a 22 basis points increase in the average rate paid on time deposits during the three months ended September 30, 2016 as compared to the same time period in 2015, reflecting the competitive environment for such deposits within the Company's marketplace.

For the nine month period ended September 30, 2016, net interest income, before the provision for loan losses, increased $1.2 million, or 8.2%, to $15.1 million compared to the nine months ended September 30, 2015. Interest income increased $2.0 million, or 12.6%, to $17.8 million for the nine months ended September 30, 2016 compared to the same nine month period in 2015. The increase in interest income was due principally to the increase in average balances of loans and taxable investment securities which increased 12.0% and 14.9%, respectively, between the year-over-year nine-month periods. The increase in the average balances of loans reflects the Company's continued success in its expansion within the greater Syracuse market. These increases were also positively affected by the increase in the average yield on loan assets of two basis points. These increases helped offset the year-over-year nine month decrease in the average yield on both taxable and nontaxable investment securities of three basis points and one basis point, respectively. The increase in the average yield on loans was the result of new loan production being added to the loan portfolio at rates slightly higher than the average rates of the previously existing portfolio.

The decrease in the average yield on both taxable and non-taxable investment securities was the result of maturing taxable investment securities with yields higher than new purchases at the then-current lower market rates.

Interest expense for the nine months ended September 30, 2016 increased $839,000, or 45.2%, to $2.7 million due principally to the increase in average interest-bearing liabilities of $69.5 million along with a 14 basis points increase in the average rate paid on these liabilities to 0.68%. The increase in average rates paid on interest-bearing liabilities was primarily due to an increase in Subordinated Loan interest payments of $476,000 due to the issuance of $10.0 million in Subordinated Loan debt on October 15, 2015. The average balances of deposits, which include brokered deposits, increased $69.5 million between the year-over-year nine month periods. Deposit interest expense increased three basis points to 0.50% for the nine months ended September 30, 2016 as compared with the same nine month period in 2015. This increase was due to a 17 basis points increase in the average rate paid on time deposits during the nine months ended September 30, 2016 as compared to the same time period in 2015, reflecting the competitive environment for such deposits within the Company's marketplace.

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.

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(In thousands)	Three months ended September 30, 2016 vs. 2015 Increase/(Decrease) Due to			Nine months ended September 30, 2016 vs. 2015 Increase/(Decrease) Due to		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest Income:						
Loans	$ 636	$ 61	$ 697	$ 1,649	$ 69	$ 1,718
Taxable investment securities	188	(124)	64	250	(40)	210
Tax-exempt investment securities	55	(30)	25	31	(2)	29
Interest-earning deposits	1	15	16	3	32	35
Total interest income	880	(78)	802	1,933	59	1,992
Interest Expense:						
NOW accounts	21	(19)	2	16	(13)	3
Money management accounts	1	4	5	2	9	11
MMDA accounts	154	(151)	3	184	(79)	105
Savings and club accounts	1	3	4	3	6	9
Time deposits	3	87	90	2	194	196
Subordinated loans	115	37	152	349	127	476
Borrowings	21	23	44	(28)	67	39
Total interest expense	316	(16)	300	528	311	839
Net change in net interest income	$ 564	$ (62)	$ 502	$ 1,405	$ (252)	$ 1,153

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.

We recorded $322,000 in provision for loan losses for the three month period ended September 30, 2016, as compared to $220,000 for the three month period ended September 30, 2015. The increase in the provision for loan losses was due principally to the $54.8 million, or 13.4%, increase in average loan balances in the third quarter of 2016 as compared with the same quarter of 2015 and the resultant increase in the estimable and probable loan losses inherent in the loan portfolio.

Management extensively reviews recent trends in historical losses, environmental factors and specific reserve needs on loans individually evaluated for impairment in its determination of the adequacy of the allowance for loan losses. For the first nine months of 2016, we recorded $682,000 in provision for loan losses as compared to $1.0 million in the same prior year period. This $322,000 decrease was due primarily to continued improvement in the Company's loan portfolio credit quality, partially offset by the $47.9 million, or 12.0%, increase in average loan balances in the nine months ended September 30, 2016 as compared to the same nine-month period in the previous year and the corresponding increase in the estimable and probable loan losses inherent in the loan portfolio.

We measure delinquency based on the amount of past due loans as a percentage of total loans. Delinquency trends improved to 1.78% at September 30, 2016 as compared to 2.06% at December 31, 2015, as delinquent loans increased at a rate that was less than the rate of increase in total loan balances. Commercial real estate and commercial & industrial loans with delinquent balances 60-89 days past due increased by $144,000, primarily as a result of one commercial real estate loan in the amount of $495,000 that was purchased in a delinquent state during 2016. Management believes that the loan's underlying collateral value is sufficient to ensure full collection of the outstanding balance. This increase was partially offset by net reductions of $351,000 for four loans that were 60-89 days delinquent at December 31, 2015 but were 30-59 days or less past due as of September 30, 2016. Loans delinquent 90 days and over represented 0.82% of the total loan portfolio at September 30, 2016, as compared to 1.24% of the total loan portfolio at December 31, 2015.

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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 September 30,				Nine months ended September 30,			
(Dollars in thousands)	2016	2015	Change		2016	2015	Change	
Service charges on deposit accounts	$ 289	$ 299	$ (10)	-3.3%	$ 861	$ 853	$ 8	0.9%
Earnings and gain on bank owned life insurance	94	250	(156)	-62.4%	240	400	(160)	-40.0%
Loan servicing fees	49	55	(6)	-10.9%	114	148	(34)	-23.0%
Debit card interchange fees	138	131	7	5.3%	414	390	24	6.2%
Other charges, commissions and fees	383	352	31	8.8%	1,149	1,017	132	13.0%
Noninterest income before gains	953	1,087	(134)	-12.3%	2,778	2,808	(30)	-1.1%
Net gains on sales and redemptions of investment securities	4	88	(84)	-95.5%	216	188	28	14.9%

Net gains (losses) on sales of loans and foreclosed real estate	6	17	(11)	-64.7%	(4)	13	(17)	-130.8%
Total noninterest income	$ 963	$ 1,192	$(229)	-19.2%	$ 2,990	$ 3,009	$ (19)	-0.6%

The $229,000 decrease in total noninterest income between year-over-year third quarter periods was due largely to a decrease in earnings and gains recorded on bank owned life insurance of $156,000 and decreased gains on redemptions and sales of investment securities, which decreased by $84,000. All other categories of noninterest income increased by $11,000 in aggregate during the third quarter of 2016 as compared with the same quarterly period in 2015. The reduction in earnings and gains on bank owned life insurance was due to a one-time collection of a death benefit of $135,000, related to a retired officer, recorded in the third quarter of 2015.

The $19,000 decrease in total noninterest income for the nine months ended September 30, 2016, as compared to the same prior year period, was largely due to a decrease in earnings and gains recorded on bank owned life insurance of $160,000, partially offset by a $132,000 increase in other charges, commissions and fees, principally the result of increased activity in the Company's insurance and investment services business units. The reduction in earnings and gains on bank owned life insurance was due to a one-time collection of a death benefit of $135,000, related to a retired officer, recorded in the third quarter of 2015. All other categories of noninterest income were $9,000 greater in aggregate for the nine month period ended September 30, 2016 as compared to the same nine-month period in 2015.

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Noninterest Expense

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

	Three months ended September 30,				Nine months ended September 30,			

(Dollars in thousands)	2016	2015	Change		2016	2015	Change	
Salaries and employee benefits	$2,688	$2,478	$ 210	8.5%	$8,026	$ 7,216	$ 810	11.2%
Building occupancy	544	535	9	1.7%	1,432	1,479	(47)	-3.2%
Data processing	474	462	12	2.6%	1,315	1,204	111	9.2%
Professional and other services	195	206	(11)	-5.3%	613	654	(41)	-6.3%
Advertising	150	116	34	29.3%	479	352	127	36.1%
FDIC assessments	108	105	3	2.9%	324	302	22	7.3%
Audits and exams	81	58	23	39.7%	239	179	60	33.5%
Other expenses	562	598	(36)	-6.0%	1,855	1,628	227	13.9%
Total noninterest expenses	$4,802	$4,558	$ 244	5.4%	$ 14,283	$ 13,014	$ 1,269	9.8%

The $244,000, or 5.4%, increase in noninterest expenses between year-over-year third quarter periods was due principally to salaries and employee benefits and other expenses. The detail of these components follows:

- The $210,000 increase in salaries and employee benefits in the third quarter of 2016, as compared to the same three month period in 2015, was due to $82,000 in salary expense increases, increased stock-based compensation of $76,000, employee benefits expense increases totaling $42,000, and increases totaling $10,000 in all other salaries and employee benefits expense combined. Salaries expense increased primarily as the result of additional staff members supporting current and planned asset growth. Stock-based compensation expense increased as the result of new incentive programs that were initiated in May 2016 and the year-over-year increase in employee benefits expense resulting from normal salary increases.

- Advertising expense increased $34,000 primarily as the result of increased brand awareness advertising focused on the Onondaga County market and product promotional campaigns within the entirety of the Bank's geographic market area.

- Audit and exam expenses increased $23,000 primarily as the result of increased utilization of third-party internal audit services in lieu of increased internal staffing levels.

- Finally, other noninterest expenses decreased in the year-over-year three month periods by $36,000 primarily due to a wide range of individually immaterial items.

The $1.3 million, or 9.8%, increase in noninterest expenses between the nine month period ended September 30, 2016 and the same prior year period was principally due to an increase in salaries and employee benefits expense, data processing costs, and other expenses. The detail of these components follows:

- The $810,000 increase in salaries and employee benefits in the nine month period in 2016, as compared to the same nine month period in 2015, was the result of $390,000 increases in salary expenses primarily due to additional staff members supporting current and planned asset growth, employee benefits expense increases totaling $142,000, due primarily to normal salary increases, increased stock-based compensation of $133,000, resulting from the initiation of new incentive programs in May 2016, increased commission compensation expense of $102,000, reflecting improved sales activities in the Company's insurance and investment services business units, and increases totaling $43,000 in all other salaries and employee benefits expense combined.

- Data processing expenses increased $111,000, due principally to maintenance, supplies and usage-based internet banking service fees, which increased $37,000, $38,000 and $33,000 in the year-over-year nine month periods, respectively. These increases were accompanied by aggregate cost increases of $3,000 related to all other areas of data processing expense.

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- Advertising expense increased $127,000 primarily as the result of increased brand awareness advertising focused on the Onondaga County market and product promotional campaigns within the entirety of the Bank's geographic market area.

- Audit and exams expense increased $60,000 primarily as the result of increased utilization of third-party internal audit services in lieu of increased internal staffing levels.

- Finally, other noninterest expenses increased in year-over-year nine month periods by $227,000 primarily due to a $97,000 increase in non-recurring residential loan repurchase expenses related to a loan sold to FNMA in prior years, and a $74,000 year-over-year increase in community service support. The remaining $56,000 in year-over-year increases was due to a wide range of individually immaterial items.

At September 30, 2016, the Bank serviced 281 residential mortgage loans in the aggregate amount of $18.0 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 $6,000 to $322,000 for the quarter ended September 30, 2016 as compared to $316,000 for the same period in 2015 primarily due to an increase in the effective tax rate partially offset by a decrease in pretax net income in the quarter ended September 30, 2016, as compared with the prior year period. The effective tax rate for the third quarter of 2016 was 28.1%, exclusive of the net income attributable to our controlling interest in the Insurance Agency. For the three-month period ended September 30, 2015, the effective tax rate was 26.5%. The increase in the effective tax rate between the year-over-year third quarter periods reflected a larger proportion of taxable income as a proportion of our total income in the third quarter of 2016, as compared with the prior year, primarily due to the relatively high level of loan asset growth in the third quarter of 2016.

Income tax expense decreased by $9,000 for the nine month period ended September 30, 2016, as compared to the same prior year period, due principally to a decrease in the effective tax rate, partially offset by the increase in pretax income between these two periods. The effective tax rate was 26.4% for the first nine months of 2016 as compared to 28.6% for the same prior year period, exclusive of the net income attributable to our controlling interest in the Insurance Agency. The decrease in the effective tax rate between the year-over-year nine-month periods reflected a larger proportion of nontaxable income as a proportion of our total income in the nine months ended September 30, 2016, as compared with the same nine-month period in the prior year.

Earnings per Share

Basic and diluted earnings per share were each $0.20 for the third quarter of 2016, as compared to $0.21 and $0.20, respectively, for the third quarter of 2015. This $0.01 decrease in basic earnings per share was driven principally by the decrease in net income between these two periods.

Basic and diluted earnings per share were $0.56 and $0.55, respectively, for the nine month period ended September 30, 2016 as compared to $0.49 and $0.48, respectively, 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, augmented by an $81,000 decrease in preferred stock dividends paid in 2016. In February 2016, the Company fully redeemed its preferred stock thereby reducing the dividend that was required to be paid in 2016 as compared with the previous year. Further information on earnings per share can be found in Note 3 of this Form 10-Q.

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Changes in Financial Condition

Assets

Total assets increased $93.9 million, or 15.1%, to $717.1 million at September 30, 2016 as compared to $623.3 million at December 31, 2015. This increase was due primarily to increases in loans, investment securities, and total cash and cash equivalents.

Total loans receivable increased $43.0 million, or 10.0%, to $473.4 million at September 30, 2016 from $430.4 million at December 31, 2015. All loan portfolio segments recorded increases between these two dates led by increases of $13.4 million, $12.5 million, $11.9 million in commercial real estate, commercial and industrial loans, and 1-4 family first-lien residential mortgage loans, respectively.

Investment securities increased $39.2 million, or 27.4%, to $182.5 million at September 30, 2016, as compared to $143.2 million at December 31, 2015, due principally to the need to collateralize increases in municipal deposits between these two dates. Of the total increase in investment securities, $38.8 million was classified within the available-for-sale portfolio and $460,000 of the increase was classified as held-to-maturity. When new investment securities are acquired, management reviews certain security characteristics and determines the Company's intent and ability to hold the security to maturity. Based on the security characteristics and management's intentions, the security is classified as either available-for-sale or held-to-maturity.

Cash and cash equivalents increased $8.4 million, or 55.2%, to $23.7 million at September 30, 2016, as compared to $15.2 million at December 31, 2015. The increase was due principally to the timing of investment securities redemptions immediately prior to the September 30, 2016 quarter end that generated liquidity used to reduce short-term borrowings in early October 2016.

Liabilities

Total liabilities increased $105.8 million to $657.9 million at September 30, 2016 compared to $552.0 million at December 31, 2015. Deposits increased $64.8 million, or 13.2%, to $555.1 million at September 30, 2016, compared to $490.3 million at December 31, 2015. This increase was the result of an increase in deposits obtained directly from customers within the Bank's marketplace of $86.0 million, partially offset by a $19.6 million decrease in brokered deposits. The net increase in customer deposits, during the nine months ended September 30, 2016, was due primarily to growth in all major deposit product categories as consumer, business and municipal deposits increased $18.8 million, $13.7 million and $52.4 million, respectively. The $52.4 million net increase in deposits obtained from municipal market customers during the first nine months of 2016 was indicative of management's focus on, and increasing demand for, the Bank's offerings to that customer segment. The Bank utilizes the Certificates of Deposit Account Registry Service ("CDARS") provided by Promontory Interfinancial Network as a form of brokered deposits. At September 30, 2016, deposits obtained through the use of this service declined $19.6 million to $3.9 million from $23.5 million at December 31, 2015.

Borrowed funds balances at September 30, 2016 increased $40.8 million, or 98.8%, to $82.1 million from $41.3 million at December 31, 2015. Borrowed funds increased over the nine-month period ended September 30, 2016 as a result of the Company's strategy to build its inventory of relatively short-term investment securities. The strategic increase in the level of these securities, and the corresponding level of borrowed funds used to fund these short-term securities purchases, was executed in anticipation of the need for increased collateral availability to support a seasonal influx of municipal deposits expected in the fourth quarter of 2016.

Shareholders' Equity

The Company's shareholders' equity, exclusive of the noncontrolling interest, decreased $12.0 million to $58.8 million at September 30, 2016 from $70.8 million at December 31, 2015. This decrease was principally due to the $13.0 million redemption of the SBLF preferred stock on February 16, 2016 and a $1.8 million reduction in equity reflecting the acquisition cost of 143,400 previously-outstanding shares of common stock that were retired in the third quarter of 2016, partially offset by a $1.7 million increase in retained earnings, a $623,000 reduction in accumulated comprehensive loss, and a $357,000 increase in additional paid-in capital resulting from the exercise of employees' stock options, an increase in ESOP shares earned and the effects of the Company's stock-based compensation programs. The increase in retained earnings resulted from $2.3 million in net income recorded in the first nine months of 2016, partially offset by $618,000 in dividends declared on our common stock. In addition, retained earnings were reduced by the $16,000 in dividends declared on our SBLF preferred stock, which was redeemed in full on February 16, 2016. The reduction in accumulated comprehensive loss was primarily the result of the improvement in the fair market value of our available for sale investment securities.

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Capital

Capital adequacy is evaluated primarily by the use of ratios which measure capital against total assets, as well as against total assets that are weighted based on defined risk characteristics. The Company's goal is to maintain a strong capital position, consistent with the risk profile of its banking operations. This strong capital position serves to support growth and expansion activities while at the same time exceeding regulatory standards. At September 30, 2016, the Bank met the regulatory definition of a "well-capitalized" institution, i.e. a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 8%, Tier 1 common equity exceeding 6.5%, and a total risk-based capital ratio exceeding 10%.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The buffer is separate from the capital ratios required under the Prompt Corrective Action ("PCA") standards. In order to avoid these restrictions, the capital conservation buffer effectively increases the minimum the following capital to risk-weighted assets ratios: (1) Core Capital, (2) Total Capital and (3) Common Equity. The capital conservation buffer requirement is being phased in beginning

January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019. At September 30, 2016, the Bank exceeded all current and projected regulatory required minimum capital ratios, including the maximum capital buffer level that will be required on January 1, 2019.

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		Well-Capitalized With Buffer, Fully Phased In For 2019	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2016								
Total Core Capital (to Risk-Weighted Assets)	$ 70,810	15.11%	$ 37,478	8.00%	$ 46,848	10.00%	$ 49,191	10.50%
Tier 1 Capital (to Risk-Weighted Assets)	$ 64,881	13.85%	$ 28,109	6.00%	$ 37,478	8.00%	$ 39,821	8.50%
Tier 1 Common Equity (to Risk-Weighted Assets)	$ 64,881	13.85%	$ 21,082	4.50%	$ 30,451	6.50%	$ 32,794	7.00%
Tier 1 Capital (to Assets)	$ 64,881	9.69%	$ 26,778	4.00%	$ 33,472	5.00%	$ 33,472	5.00%
As of December 31, 2015:								
Total Core Capital (to Risk-Weighted Assets)	$ 67,286	16.22%	$ 33,187	8.00%	$ 41,484	10.00%		
Tier 1 Capital (to Risk-Weighted Assets)	$ 62,038	14.95%	$ 24,891	6.00%	$ 33,187	8.00%		

Tier 1 Common Equity (to Risk-Weighted Assets)	$ 62,038	14.95%	$ 18,668	4.50%	$ 26,965	6.50%
Tier 1 Capital (to Assets)	$ 62,038	10.00%	$ 24,816	4.00%	$ 31,020	5.00%

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Loan and Asset Quality and Allowance for Loan Losses

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

(Dollars In thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Nonaccrual loans:			
Commercial and commercial real estate loans	$ 2,153	$ 3,238	$ 3,832
Consumer	401	365	333
Residential mortgage loans	1,335	1,715	1,083
Total nonaccrual loans	3,889	5,318	5,248
Total nonperforming loans	3,889	5,318	5,248
Foreclosed real estate	655	517	472
Total nonperforming assets	$ 4,544	$ 5,835	$ 5,720
Accruing troubled debt restructurings not included above	$ 1,843	$ 1,916	$ 1,939
Nonperforming loans to total loans	0.82%	1.24%	1.27%
Nonperforming assets to total assets	0.63%	0.94%	0.94%

Nonperforming assets include nonaccrual loans, nonaccrual troubled debt restructurings ("TDR"), and foreclosed real estate. 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 following categories of nonaccrual loans or TDRs not included above (the latter also known as accruing TDRs). There were three nonaccruing TDR loans, with aggregate carrying values of $1.3 million included among the nonaccrual loans detailed in the table above at September 30, 2016.

As indicated in the table above, nonperforming assets at September 30, 2016 were $4.5 million and were $1.3 million lower than the $5.8 million reported at December 31, 2015, due primarily to a decrease of $1.1 million in nonperforming commercial loans and a decrease of $380,000 in the nonperforming residential mortgage loan category.

As indicated in the nonperforming asset table above, foreclosed real estate ("FRE") balances increased $138,000 at September 30, 2016 from December 31, 2015, following two sales from the portfolio and eight smaller balance additions to the portfolio during the 2016 nine-month period. 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 $6.1 million and $5.7 million at September 30, 2016 and December 31, 2015, respectively. The Company reported a small decrease in the ratio of the allowance for loan losses to gross loans to 1.29% at September 30, 2016 as compared to 1.33% at December 31, 2015. Management performs a quarterly evaluation of the allowance for loan losses based on quantitative and qualitative factors and has determined that the current level of the allowance for loan losses is adequate to absorb the losses in the loan portfolio as of September 30, 2016.

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 Pathfinder 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 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 quicker to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

At September 30, 2016 and December 31, 2015, the Company had $5.4 million and $6.5 million in loans, respectively, which were deemed to be impaired, having established specific reserves of $1.0 million and $960,000, respectively, on these loans. The decrease in impaired loans between these two dates was driven by the decrease in impaired loans within the commercial real estate, lines of credit and other commercial and industrial loan classes aggregating $1.3 million, partially offset by an increase of $123,000 in 1-4 family first lien residential mortgages. The $64,000 increase in the specific reserves between these two dates was due to individually immaterial transactions across all loan categories, primarily related to the receipt of updated collateral value information.

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 it being included in future impaired loan reporting. Management has identified potential problem loans totaling $7.8 million as of September 30, 2016, a decrease of 22.1% as compared to $10.0 million at December 31, 2015. These loans have been internally classified as special mention, substandard, or doubtful, yet are not currently considered impaired. Total potential problem loans declined between these two dates, as the Company reported decreases of $4.1 million in loans rated special mention, partially offset by increases of $318,000 and $397,000 in loans rated substandard and doubtful, respectively. The increase in loans classified as doubtful was due to eight residential mortgage loans and one consumer loan which were newly categorized as such during the first nine months of 2016. The residential loans were rated as either special mention or substandard and the consumer loan was rated as pass as of December 31, 2015. Based on current information available at September 30, 2016, these loans were re-evaluated for their range of potential losses and reclassified accordingly.

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 nine months of 2016, as indicated in the Consolidated Statement of Cash Flows, the Company reported net cash flows from financing activities of $89.7 million generated principally by increased balances of demand, savings and money market deposit accounts. This increase was the result of organic growth and new customer relationships within our existing marketplace concentrated in the business and municipal customer segments coupled with targeted promotions for our MMDA product. This was invested in purchases of investment securities of $40.9 million, net of proceeds from maturities, sales and redemptions. In addition, $43.7 million was invested in new loan generation. Net cash flows from operating activities provided an additional $4.1 million through the first nine months of 2016 resulting in an increase in cash and equivalents of $8.4 million through this time period. As a recurring source of liquidity, the Company's investment securities provided $59.0 million in proceeds from maturities and principal reductions through the first nine months of 2016.

In June 2016, the Company entered into a $26.0 million Irrevocable Stand-By Letter of Credit ("LOC") with the FHLBNY as another means of collateralizing public funds deposits. These LOCs are conditional commitments issued by the FHLBNY to guarantee the performance of the Bank with respect to large public funds deposits. These deposits are placed with the Bank by entities, such as municipalities and other political subdivisions within the Bank's market area, and typically exceed the statutory FDIC deposit insurance limits for individual accounts. As a matter of statute, these depositors require that collateral be directly deposited by the Bank with an independent safekeeping agent, or in certain cases, that LOCs be issued by a third party that is acceptable to the depositor. The Bank finds that, with certain depositor relationships, this method of collateralization for the benefit of the municipal depositors is more economically efficient than posting specific securities with a safekeeping agent. The Bank committed a portion of its mortgage loan portfolio as pledged collateral to the FHLBNY for the LOC. Loans encumbered as collateral for letters of credit reduce the Bank's available liquidity position in that available borrowing capacity with the FHLBNY is decreased substantially on a dollar-for-dollar basis.

The Company has a number of existing credit facilities available to it. At September 30, 2016, total credit available to the Company under the existing lines of credit was approximately $165.6 million at FHLBNY, the Federal Reserve Bank, and three other correspondent banks. As of September 30, 2016, the Company had $108.1 million of the available lines of credit utilized, including encumbrances supporting outstanding letters of credit, on its existing lines of credit with $57.5 million available.

The Asset Liability Management Committee of the Company is responsible for implementing the policies and guidelines for the maintenance of prudent levels of liquidity. As of September 30, 2016, management reported to the Board of Directors that the Company is in compliance with its liquidity policy guidelines.

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

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

(a) Not applicable.
(b) Not applicable
(c) Stock Repurchases. The following table sets forth information in connection with purchases of our shares of common stock during the three months ended September 30, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2016 through July 31, 2016	-	$ -	-	217,692
August 1, 2016 through August 31, 2016	143,400	12.24	143,400	74,292
September 1, 2016 through September 30, 2016	-	-	-	74,292
	143,400	$ 12.24	143,400	

(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

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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	The following materials from Pathfinder Bancorp, Inc. Form 10-Q for the quarter ended September 30, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Financial Condition (iii) Consolidated Statements of Cash flows, and (iv) related notes

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SIGNATURES

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

PATHFINDER BANCORP, INC.
(registrant)

November 14, 2016 /s/ Thomas W. Schneider
Thomas W. Schneider
President and Chief Executive Officer

Novemer 14, 2016 /s/ James A. Dowd
James A. Dowd
Executive Vice President and Chief Financial Officer