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Pathfinder Bancorp, Inc. Second Quarter 2017 Net Income Improves 10.6% to $920,000

Year-To-Date Net Income of $1.7 Million Up 16.5% Compared With 2016

Strong Loan Growth and Consistent Asset Quality Metrics Continue to Drive Improved Performance

Oswego, N.Y. — July 28, 2017 — Pathfinder Bancorp, Inc. ("Company") (NASDAQ: PBHC), the holding company for Pathfinder Bank ("Bank"), announced second quarter 2017 net income available to common shareholders of $920,000, compared to $832,000 for the second quarter of 2016. Earnings per diluted share of $0.22 for the second quarter of 2017 increased by 10.0% compared to $0.20 per diluted share for second quarter 2016. Second quarter 2017 revenue (net interest income and total noninterest income) of $6.6 million increased $625,000, or 10.4%, compared to $6.0 million for second quarter 2016. Six-month net income available to common shareholders was $1.7 million, up 16.5% from $1.5 million for 2016. Diluted earnings per share for the first six months of 2017 was $0.41, an increase of $0.06, or 17.1%, compared to $0.35 per diluted share in 2016.

<u>2017 Second Quarter and Six Month Performance Highlights</u>

- Total loans of $548.8 million at June 30, 2017 were up $98.2 million, or 21.8%, from June 30, 2016
- Total deposits of $643.8 million at June 30, 2017 were up $117.8 million, or 22.4%, compared to June 30, 2016
- Second quarter 2017 net interest income improved to $5.6 million, up 11.8% from the prior year quarter, and year-to-date net interest income is up 12.7% over the prior year period
- Total revenue for the first six months of 2017 was $13.1 million, an increase of $1.2 million or 10.5%, compared to 2016
- Total interest-earning assets at June 30, 2017 were $765.9 million, an increase of $140.0 million, or 22.4%, over the prior year second quarter end
- Asset quality metrics remained strong with the annualized ratio of net loan charge-offs to average loans of 0.31% for the quarter, and the ratio of nonperforming loans to total loans of 0.80% at June 30, 2017, compared to 0.98% at December 31, 2016, and 1.14% on June 30, 2016.

"With a very productive team effort in the second quarter, we extended our recent trend of achieving bottom-line improvement fueled by solid loan growth, improved asset quality metrics, loan and deposit portfolio diversification and a strong balance sheet," said Thomas W. Schneider, President and Chief Executive Officer. "The second quarter of 2017 marked our twelfth consecutive reporting period with quarter-over-quarter revenue growth with improvement averaging 10% in comparison to the prior year period. For the second quarter and first six months of 2017, our revenue growth outpaced the rate of increase in noninterest expense providing the operating leverage necessary to drive our continued earnings growth. Our asset quality metrics continue to reflect the stability of our Upstate New York markets, as well as our sound underwriting practices. The continuing diversification of our loan portfolio, with expanded commercial credits, is a reflection of our effectiveness at becoming the "go to" bank for small- and medium-size businesses in Central New York. We are pleased with the Bank's solid results through the first six months of 2017, and we believe that we remain positioned to extend our current performance through the remaining months of 2017. Our confidence in our near-term prospects is reflected in our Board's decision to raise our quarterly cash dividend by 5% as announced in our June 29, 2017 dividend declaration."

Income Statement

Second quarter 2017 net interest income increased $588,000, or 11.8%, to $5.6 million compared to $5.0 million for the second quarter of 2016. The improvement was due to the $1.2 million, or 20.8%, increase in interest income. This improvement principally resulted from an increase of $98.5 million, or 22.4%, in average loans compared to the prior year quarter, as well as a $39.2 million increase in average investment securities combined with a 50 basis point improvement in the yield on the securities portfolio. The increase in interest income was partially offset by higher interest expense which increased $630,000 to $1.5 million, primarily because of an increase in both the average balances of, and the interest rates paid on, borrowings, time deposits and transaction accounts.

Net interest income for the first six months 2017 increased $1.2 million, or 12.7%, to $11.1 million compared to $9.8 million for the comparable period of 2016. Interest and dividend income for the six months ended June 30, 2017 was $14.0 million, an increase of $2.4 million, or 20.5%, compared to $11.6 million for the same period in 2016. The increase was primarily a result of average loan growth of $85.8 million, or 19.6%, compared to the prior year period. Interest expense of $2.9 million for 2017 increased by $1.1 million, or 64.8%, from the prior year period, primarily because of a $27.0 million increase in the average balance of, and a 155 basis point increase in the rate paid on borrowings, as well as a $25.0 million increase in time deposits coupled with a 22 basis point increase in the interest rate paid.

The net interest margin for the three months and six months ended June 30, 2017, was 2.93% and 2.95%, respectively, compared to 3.16% for both comparable periods of 2016. The lower net interest margin for second quarter 2017 was primarily due to an increase in the average balance of, and interest rate paid on, borrowings and time deposits. Average interest-earning assets for the second quarter 2017 increased by $131.1 million compared to the prior year quarter, driven primarily by a $98.5 million increase in loans and a $39.2 million increase in taxable investment securities. Average interest-bearing liabilities increased by $121.2 million, primarily due to a $65.2 million increase in average money market account balances, and an increase of $23.7 million in average time deposits. The decline in the net interest margin for the first six months of 2017 was primarily a result of a 22 basis point increase in funding cost, related to a 155 basis point increase in, the rate paid on, and a $27.0 million increase in, the average balance of borrowings, along with a 22 basis point increase in the rate paid on, and $25.0 million increase in, the average balance of time deposits.

The provision for loan losses for second quarter 2017 was $423,000, an increase of $273,000 from $150,000 for the prior year quarter. The provision level for the three month period is reflective of continued significant growth in the Bank's commercial lending portfolio, as well as stable and improved asset quality metrics for the reporting periods. The provision for the first six months of 2017 was $812,000 compared with a provision of $360,000 for 2016, and is reflective of the same conditions described above.

Second quarter 2017 noninterest income of $1.1 million increased $37,000 compared to $1.0 million for the prior year second quarter. The increase in current year noninterest income was due primarily to a $40,000 increase in other charges, commissions and fees, and an increase of $19,000 in debit card interchange fees. Noninterest income was $2.0 million for both the six months ended June 30, 2017, and for the prior year period.

Total noninterest expense for second quarter 2017 was $5.0 million, an increase of $246,000, or 5.1%, in comparison to $4.8 million for the prior year quarter. The higher noninterest expense was principally driven by an increase of $166,000 in salary and employee benefit expenditures, as well as an increase in building occupancy cost of $106,000 compared to the prior year quarter.

Noninterest expense for the six month period of 2017 was $10.0 million compared with $9.5 million for the prior year period. The increase was due largely to increased salary and benefit expenses which increased by $331,000, and an increase in building occupancy cost of $182,000, which was partially offset by a $79,000 decrease in FDIC assessments.

Balance Sheet at June 30, 2017

Total assets at June 30, 2017 were $811.2 million, an increase of $140.2 million, or 20.9%, from June 30, 2016. This increase was primarily driven by higher loans and available-for-sale securities. Total loans grew $98.2 million from the prior year second quarter, primarily reflecting activity in the commercial real estate portfolio. The $48.0 million increase in the securities portfolio primarily reflects the acquisition of relatively short-term, investment-grade collateral matching the strong inflow of municipal deposits which typically occurs in the first and third quarters of each calendar year.

Total deposits at June 30, 2017 were $643.8 million, an increase of $117.8 million, or 22.4%, from June 30, 2016. The increase was driven by municipal inflows related to seasonal tax collections, increased inflows from commercial banking relationships and continued growth in core demand deposits. Second quarter average core (non-time) deposits increased $91.4 million, or 23.3%, compared to the prior year quarter. Noninterest-bearing deposits were $82.1 million at quarter end, an increase of $13.4 million, or 19.6% from June 30, 2016.

Shareholders' equity was $61.1 million on June 30, 2017, compared with $57.9 million on June 30, 2016, reflecting an increase in retained earnings and a reduction in accumulated other comprehensive loss in the Bank's securities portfolios and retirement plans.

Asset Quality

The Bank's asset quality metrics continued to strengthen in comparison to recent reporting periods and continue to compare positively to broad industry and peer group averages. The annualized net loan charge-offs to average loans ratio, of 0.31% for second quarter 2017, was up 25 basis points from 0.06% for second quarter 2016, and down 22 basis points from 0.53% in first quarter 2017. Nonperforming loans to total loans were 0.80% at June 30, 2017, down 34 basis points compared to 1.14% at the end of second quarter 2016. The loan loss allowance to non-performing loans for second quarter 2017 improved to 142.45%, up from 115.17% on June 30, 2016. The bank's solid asset quality metrics are reflective of its economically stable service area, along with the Bank's robust loan servicing and collection capabilities, and consistent underwriting procedures.

Cash Dividend Declared

The Company announced, on June 29, 2017, that its Board of Directors had declared a cash dividend of $0.0525 per common share, payable to shareholders of record as of July 14, 2017 on August 4, 2017. The implied dividend yield is 1.3%, based on the closing price of the Pathfinder's common stock of $15.75 on July 21, 2017. The quarterly cash dividend of $0.0525, equates to a dividend payout ratio of 23.9%.

About Pathfinder Bancorp, Inc.

Pathfinder Bank is a New York State chartered commercial bank headquartered in Oswego, whose deposits are insured by the Federal Deposit Insurance Corporation. The Bank is a wholly owned subsidiary of Pathfinder Bancorp, Inc, (NASDAQ SmallCap Market; symbol: PBHC). The Bank has nine full service offices located in its market areas consisting of Oswego and Onondaga County. Through its subsidiary, Pathfinder Risk Management Company, Inc., the Bank owns a 51% interest in the FitzGibbons Agency, LLC. At June 30, 2017, there were 4,263,700 shares of common stock issued and outstanding. The Company's common stock trades on the NASDAQ market under the symbol "PBHC." At June 30, 2017, the Company and subsidiaries had total consolidated assets of $811.2 million, total deposits of $643.8 million and shareholders' equity of $61.1 million.

Forward-Looking Statement

This release may contain certain forward-looking statements, which are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact the Company's earnings in future periods. Factors that could cause future results to vary materially from current management expectations include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products, and services.