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Pathfinder Bancorp, Inc. Announces First Quarter Earnings

OSWEGO, New York (April 27, 2011) - Pathfinder Bancorp, Inc., the mid-tier holding company of Pathfinder Bank, (NASDAQ SmallCap Market; symbol: PBHC, listing: PathBcp) announced reported net income of $426,000, or $0.12 per basic and diluted share, for the three months ended March 31, 2011, compared to $600,000, or $0.20 per basic and diluted share, for the same period in 2010. The return on average assets and return on average shareholders' equity were 0.41% and 5.48%, respectively, for the three months ended March 31, 2011, compared with 0.62% and 8.05%, respectively, for the three months ended March 31, 2010.

"Net income for the first quarter was lower than the prior quarter and the same period as last year, however, this reduction was anticipated due to higher expenses associated with the operation of a new branch location," according to Thomas W. Schneider, President and CEO. "On February 2nd we opened our 8th branch and first office located in Onondaga County. First quarter expenses included certain front loaded expenses associated with the new location, particularly marketing, promotions, and supplies. Our early success, however, is confirmation of the effective utilization of those resources," Schneider continued. "The Bank continues to demonstrate strong organic deposit growth trends with a $14.3 million, or 4.4% first quarter growth rate, much of this attributable to our new Cicero New York location. We have been lending into the greater Syracuse New York market for a number of years and have, thereby, created demand for the additional services we can provide through a full service office."

Net interest income for the quarter ended March 31, 2011, increased $213,000, or 6.5%, when compared to the same period during 2010. The increase in net interest income was the result of an increase in interest income of $126,000, or 2.8%, combined with a decrease in interest expense of $87,000, or 7.3%. Net interest rate spread increased to 3.59% for the quarter ended March 31, 2011, from 3.57% for the same period in 2010. Average interest-earning assets increased 6.8%, to $380.9 million, for the quarter ended

March 31, 2011, as compared to $356.5 million for the quarter ended March 31, 2010. The increase in average interest earning assets is attributable to a $22.2 million increase in the average balance of the loan portfolio and a $13.7 million increase in the average balance of security investments, offset by a $11.5 million decrease in average interest earning deposits. The yield on average interest earning assets decreased 18 basis points to 4.87%, compared to 5.05% for the same period in 2010. Average interest-bearing liabilities increased $23.1 million, while the cost of funds decreased 20 basis points to 1.28% from 1.48% for the same period in 2010. The increase in the average balance of interest-bearing liabilities resulted from a $21.0 million, or 7.4%, increase in average deposits and an increase of $2.1 million in average borrowed funds. The increase in deposits is being driven by increases of $14.8 million, $10.9 million, and $329,000 in business deposits, retail deposits, and municipal deposits respectively, when compared to the same period during 2010.

The provision for loan losses for the quarter ended March 31, 2011, remained constant at $263,000 when compared to the same period in 2010. Allowance for loan losses to period end loans increased to 1.31% at March 31, 2011, as compared to 1.25% at March 31, 2010. Nonperforming loans to period end loans increased to 2.08% at March 31, 2011, from 1.52% at March 31, 2010. This increase was driven by a $2.0 million increase in nonperforming loans, while total loans increased $24.4 million during the same time frame. The negative trend in nonperforming loans has been primarily driven by increased delinquencies in owner occupied commercial real estate. The Company has been aggressively provisioning for loan losses over the past three years in anticipation of a regional slow down, which has lagged behind the national economic down turn. Management continues to closely monitor these relationships and feels strongly that the underlying collateral and associated guarantees, combined with the existing allowance for loan losses, are adequate to recover the carrying amount of loans or provide for any potential losses.

Non-interest income, exclusive of net gains and losses from the sale of securities, loans and foreclosed real estate, decreased to $619,000 for the quarter ended March 31, 2011, compared to $718,000 for the same period in the prior year. The decrease in non-interest income is primarily attributable to a $94,000 decrease in service charges on deposit accounts, a $21,000 decrease in income from bank owned life insurance, and a $15,000 decrease in loan servicing fees, offset by an increase of $19,000 in other charges, commissions and fees, and a $12,000 increase in debit card interchange fees. The decrease in service charges on deposit accounts is associated with a decrease in customer use of the Company’s extended overdraft program. The customer’s usage of the program was negatively impacted by the ruling that financial institutions were prohibited from charging consumers fees for paying overdrafts on automated teller machine (ATM) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

Net gains and losses from the sales of securities, loans and foreclosed real estate increased to a net gain of $53,000 for the quarter ended March 31, 2011, as compared to a net loss of $8,000 when compared to the same quarter of 2010. The increase was due to a gain recognized on the sale of foreclosed real estate during the first quarter of 2011, combined with gains recognized from cash redemptions from the SHAY Assets large cap equity fund and ultra short mortgage fund, as compared to the loss recognized on the sale of foreclosed real estate, partially offset by gains that were generated from the sale of investment securities during the first quarter of 2010.

Non-interest expenses increased $421,000, or 14.7%, for the quarter ended March 31, 2011. The increase in non-interest expense is due to an increase of $146,000 in salaries and employee benefits, $94,000 increase in other expense, a $73,000 increase in professional and other services, a $49,000 increase in building occupancy, a $34,000 increase in FDIC assessments, and a $25,000 increase in data processing. The increase in salaries and employee benefits was due to the addition of 10 full-time equivalent positions and to annual merit based wage adjustments. The increase in other expenses is a combination of an increased expense in community services donations, office supplies, mortgage recording tax, travel and training, and ORE expense. The increase in professional and other services is due to an increase in advertising. The general increase in non-interest expense levels are primarily driven by the opening of a new full service branch located in Cicero, New York on February 2, 2011.

About Pathfinder Bancorp, Inc

Pathfinder Bancorp, Inc. is the mid-tier holding company of Pathfinder Bank, a New York chartered savings bank headquartered in Oswego, New York. The Bank has eight full service offices located in its market area consisting of Oswego County and northern Onondaga County. Financial highlights for Pathfinder Bancorp, Inc. are attached. Presently, the only business conducted by Pathfinder Bancorp, Inc. is the 100% ownership of Pathfinder Bank and Pathfinder Statutory Trust II.

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.