



2015 ANNUAL REPORT

LOCAL.
COMMUNITY.
TRUST.



Pathfinder Bank is an independent community bank. Our mission is to foster relationships with individuals and businesses within our communities to be the financial provider of choice. Our goal is to continually enhance the value of the bank for the benefit of our shareholders, customers, employees and communities.

	2015	2014	2013	2012	2011
YEAR END (IN THOUSANDS)					
Total assets	\$623,254	\$561,024	\$503,793	\$477,796	\$442,980
Investment securities (AFS)	98,942	88,073	80,959	108,339	100,395
Investment securities (HTM)	44,297	40,875	34,412	-	-
Loans receivable, net	424,732	382,189	336,592	329,247	300,770
Deposits	490,315	415,568	410,140	391,805	366,129
Borrowings and subordinated debt	41,300	66,100	40,853	34,964	26,074
Shareholders' equity	71,229	69,204	43,070	40,747	37,841
FOR THE YEAR (IN THOUSANDS)					
Net interest income	\$18,767	\$17,085	\$15,619	\$14,857	\$14,263
Core noninterest income (a)	3,716	3,415	2,581	2,627	2,451
Net gains on sales, redemptions and impairment of investment securities	422	310	365	375	791
Net gains (losses) on sales of loans and foreclosed real estate	34	34	470	61	(50)
Noninterest expense (b)	17,179	15,287	14,336	13,207	12,758
Regulatory assessments	408	398	415	311	390
Interest income	21,424	19,699	18,883	18,765	18,604
Interest expense	2,657	2,614	3,264	3,908	4,341
Provision for loan losses	1,349	1,205	1,032	825	940
Net income attributable to the Company	2,889	2,745	2,406	2,648	2,323
PER SHARE					
Net income (basic) (c)	\$0.67	\$0.64	\$0.58	\$0.53	\$0.32
Net income (diluted) (c)	0.66	0.63	0.58	0.53	0.32
Book value per common share	13.28	12.82	11.33	10.60	9.49
Tangible book value per common share (d)	12.19	11.78	10.16	9.13	8.02
Cash dividends declared	0.16	0.12	0.12	0.12	0.12
PERFORMANCE RATIOS					
Return on average assets	0.48%	0.51%	0.48%	0.57%	0.55%
Return on average equity	4.08	5.50	5.86	6.68	6.75
Return on average tangible equity (d)	4.46	6.11	6.47	7.40	7.59
Return on average common equity	5.00	7.45	8.58	8.26	5.09
Average equity to average assets	11.76	9.27	8.24	8.48	8.21
Equity to total assets at end of period	11.36	12.26	8.55	8.53	8.54
Dividend payout ratio (e)	25.22	13.89	12.47	11.37	12.87
Net interest rate spread	3.21	3.31	3.23	3.28	3.52
Net interest margin	3.31	3.40	3.34	3.41	3.66
Average interest-earning assets to average interest-bearing liabilities	121.73	117.88	115.85	113.89	112.22
Noninterest income to average assets	0.69	0.70	0.69	0.66	0.76
Noninterest expense to average assets	2.92	2.92	2.96	2.89	3.14
Efficiency ratio (f)	78.22	76.51	79.14	75.53	77.56
ASSET QUALITY RATIOS					
Nonperforming loans as a percent of total loans	1.24%	1.61%	1.57%	1.66%	1.55%
Nonperforming assets as a percent of total assets	0.94	1.16	1.18	1.25	1.19
Allowance for loan losses to loans receivable	1.33	1.38	1.48	1.35	1.31
Allowance for loan losses as a percent of nonperforming loans	107.30	85.50	94.22	81.13	84.18
REGULATORY CAPITAL RATIOS (BANK ONLY)					
Total Core Capital (to Risk-Weighted Assets)	16.22%	16.60%	14.13%	14.20%	14.94%
Tier 1 Capital (to Risk-Weighted Assets)	14.95	15.31	12.82	12.90	13.66
Tier 1 Common Equity (to Risk-Weighted Assets)	14.95	15.31	12.82	12.90	13.66
Tier 1 Capital (to Assets)	10.00	10.55	8.72	8.80	9.37
NUMBER OF:					
Banking offices	9	9	8	8	8
Full-time equivalent employees	124	122	112	110	110

(a) Exclusive of net gains (losses) on sales and impairment of investment securities and net gains (losses) on sales of loans and foreclosed real estate.

(b) Exclusive of regulatory assessments.

(c) Adjusted to reflect the 1.6472 exchange ratio used in the conversion.

(d) Tangible equity excludes intangible assets.

(e) The dividend payout ratio is calculated using dividends declared and not waived by the Mutual Holding Company, divided by net income.

(f) The efficiency ratio is calculated as noninterest expense, including regulatory assessments, divided by the sum of taxable-equivalent net interest income and noninterest income excluding net gains on sales, redemptions and impairment of investment securities and net gains (losses) on sales of loans and foreclosed real estate.



Chris R. Burritt
Chairman of the Board



Thomas W. Schneider,
President and CEO



WE ARE PLEASED TO PRESENT OUR 20TH ANNUAL REPORT TO SHAREHOLDERS.

In 1995, Pathfinder Bank (formerly named Oswego City Savings Bank) completed its initial offering of common stock to depositors and the public. In the following 20 years, the Bank has:

- Transformed its balance sheet from a traditional savings bank to a full service community bank.
- Extended our market reach throughout Central New York.
- Expanded our services to include insurance and investments.
- Enhanced our systems, delivery channels and risk management processes commensurate to the evolving competitive and regulatory landscape.
- Provided a strong return to our shareholders.

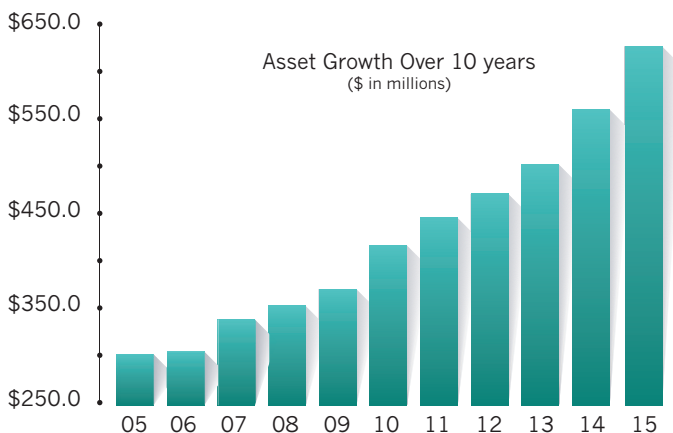
This transformation has been measured, consistent and progressive through 3 economic cycles, and in accordance with our risk management philosophies.

Throughout this period, we have remained consistent with our vision and our value systems and the understanding of the competitive advantages of being a local, community focused bank, trusted by our customers.

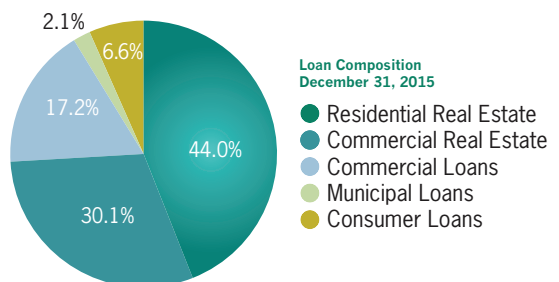
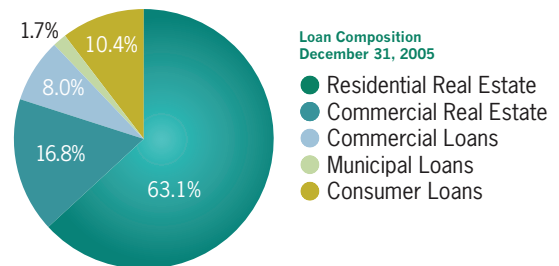
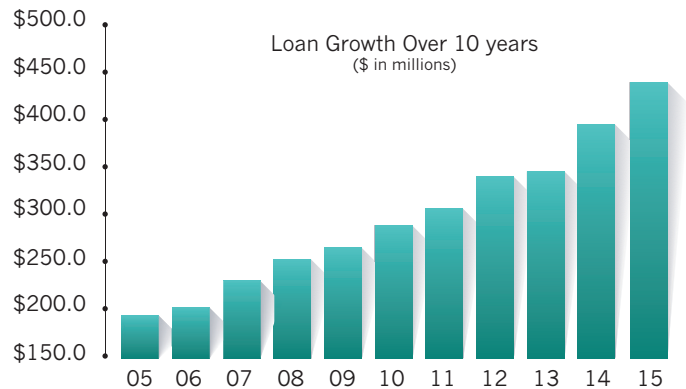
2015 was a year in which we again achieved record levels of total assets, loans, deposits, revenue and net income.

As we have done in past reports, we provide charts to demonstrate the consistent and stable growth of our balance sheet, as well as the diversification of our loan and deposit portfolios in conformance to our Strategic Plan execution.

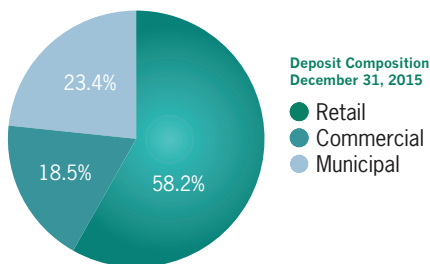
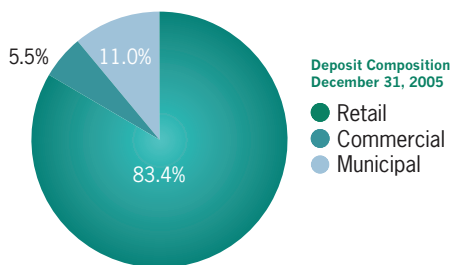
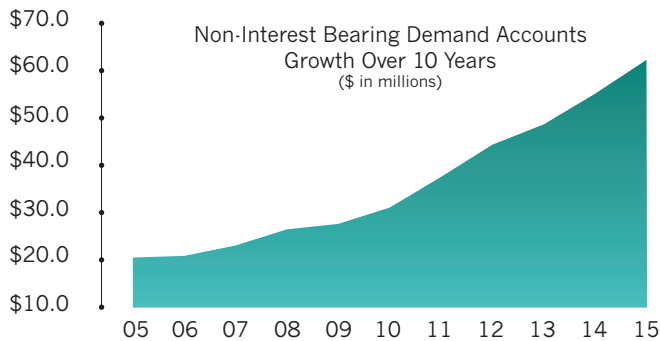
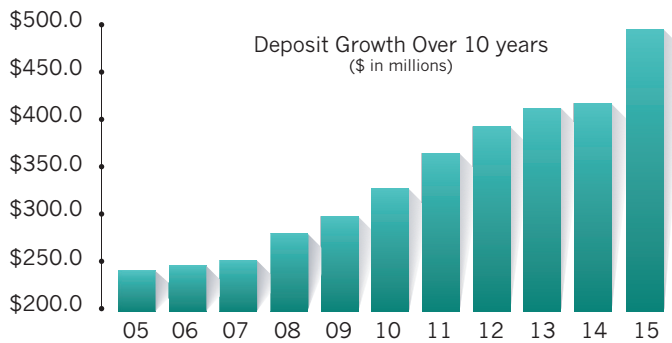
ASSET GROWTH



LOAN PORTFOLIO



DEPOSIT PORTFOLIO



CONVERSION TO A NEW YORK STATE CHARTERED COMMERCIAL BANK

Consistent with our balance sheet diversification strategy, the Board of Directors approved a Plan of Conversion to merge Pathfinder Bank with its limited purpose subsidiary, Pathfinder Commercial Bank, with the resultant entity being Pathfinder Bank, a New York State chartered commercial bank.

Pathfinder Bank was originally chartered as a savings bank in 1859. Under New York State Municipal Law, public funds held by government entities and municipalities can only be deposited in a commercial bank. Our limited purpose subsidiary was formed for this reason in 2002.

We have received approval for the merger and Plan of Conversion from the Federal Deposit Insurance Corporation (FDIC) and the New York State Department of Financial Services (NYDFS).

We anticipate completing this process in the second quarter of 2016. The conversion will streamline operations, reduce customer confusion, and allow us to operate with additional powers under a charter more consistent with our business model and balance sheet composition.

EARNINGS

While net income achieved historic levels, there are two trends which have created challenging headwinds for more robust returns:

1. Capacity Building
2. Flattening Yield Curve

We feel it is essential to continue to build our capacity and capabilities and position the bank to operate in the future as a billion dollar bank. Towards this end we have been investing in:

- Quality people on both the production and risk management sides.
- Systems and delivery channels.
- Facilities and market reach.

The expansion of digital channels has, thus far, not replaced existing delivery channels but merely expanded them to the convenience of customers. We believe we currently have the capabilities to deliver across all channels as well as any bank in the marketplace.

In 2015, we performed next generation upgrades to our internet banking platforms, not only enhancing functionality and navigability, but allowing the introduction of mobile deposit and electronic statements. With these enhanced delivery channels, combined with our remote deposit capture services, we feel we can not only meet all of our consumer electronic needs but also offer robust Treasury Management Services to our business customers.

The challenges inherent in the flattening of the yield curve as longer term rates fall will impact the revenue growth opportunities of our robust growing balance sheet. Cost control will be increasingly important the longer this cycle lasts and will be focused on and accomplished while maintaining our growth trends and strong risk culture.

CAPITAL MANAGEMENT

In February 2016, we redeemed the \$13.0 million in preferred stock issued by the U.S. Treasury through the Small Business Lending Fund (SBLF) that had been created as part of the Small Business Jobs Act of 2010. The SBLF was an excellent source of capital to enable our growth over the last four years and an excellent example of good execution by the Federal Government to temporarily stimulate small business lending and to ultimately be replaced, as in the case of Pathfinder, with capital from the private sector.

The dividend rate on the SBLF preferred stock was 5.0% at issuance, could decline to 1.0% based upon a community bank's ability to generate qualified small business loans (QSBL) and was set to increase to 9.0% four and a half years after the issuance.

We issued the \$13.0 million in preferred stock to the Treasury in 2011. During the term in which we held SBLF, we grew our qualified small business loan portfolio by \$84.3 million, or 118.8%. This level of lending activity allowed us to reduce our annual preferred dividend rate to 1.0%, which was the lowest possible rate obtainable under the SBLF program during that time.

At the time we participated in SBLF we began planning for its eventual repayment. In October 2014, we raised \$25.0 million in net proceeds through an oversubscribed common stock offering. In October 2015, we issued \$10.0 million in subordinated debt to provide liquidity and Tier 2 capital at the holding company. The market timing and acceptance for both transactions was favorable.

MARKET CONSOLIDATION

Mergers and acquisitions will continue to have a significant impact on the industry, our regional market, banking customers and market share. Over the past 5 years, there have been 3 significant acquisitions in our marketplace. The disruptions to customers, as local decision making and community involvement is limited, has been an important and positive impact on our market place growth and brand recognition.

Our commitment to being a locally governed and managed bank, integrally involved in our communities, has led to a growing trust among consumers, businesses and municipalities seeking a banking partner.

The pending Key Bank/First Niagara acquisition will significantly alter the competitive landscape in our marketplace, and we stand ready to take advantage of the inevitable customer disruption and disenfranchisement.

REVENUE DIVERSIFICATION

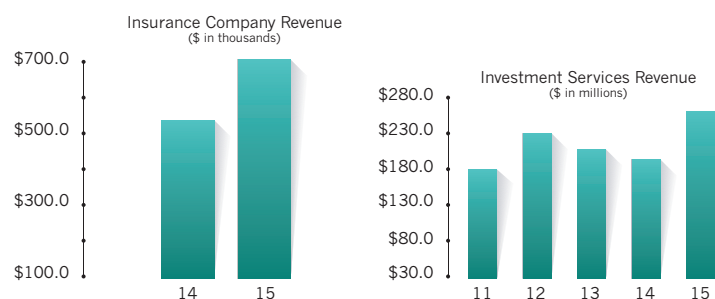
Given the challenges to net interest income inherent in a flat yield curve, it is important to note progress in revenue diversification and in other value added services.

INSURANCE SERVICES

In January 2015, the FitzGibbons Agency completed its acquisition of Baldwinsville, New York based Huntington Agency. The FitzGibbons Agency has demonstrated consistent revenue growth since our affiliation in December 2013, and combined with the Huntington Agency purchase, is poised to deliver their local services in the same manner as the Bank across the same geographic footprint.

INVESTMENT SERVICES

Investment Services are also a value added offering to our communities and has demonstrated positive trends in revue growth.



GOVERNANCE

We are pleased that Melanie Littlejohn, Regional Executive for National Grid, and a significant leader in Central New York's economic development and community enhancement organizations, has agreed to join the Board of Pathfinder and stand for election to the Company board at this year's Annual Meeting.



Melanie Littlejohn
Regional Executive, National Grid

We are proud of the trends we have demonstrated and believe firmly in our market, our business model, and our employees to build value for our franchise, our customers, our communities and our shareholders.

We appreciate the support of our shareholders and we are confident in our future.

	AT JUNE 30TH	
DEPOSIT MARKET RANK <i>OSWEGO AND ONONDAGA COUNTY COMBINED</i>	2015 TOTAL DEPOSITS	2015 % TOTAL MARKET
1. M & T Bank Corp. (NY)	2,813,353	26.05%
2. Bank of America Corp. (NC)	1,687,223	15.63%
2. KeyCorp (OH)	1,312,769	12.16%
4. JP Morgan Chase & Co. (NY)	875,259	8.11%
5. First Niagara Finl Group (NY)	763,827	7.07%
6. Solvay Bank Corp. (NY)	697,320	6.46%
7. NBT Bancorp Inc. (NY)	520,044	4.82%
8. Pathfinder Bancorp Inc. (NY)	470,914	4.36%
9. Geddes FS&LA (NY)	416,893	3.86%
10. Community Bank System Inc. (NY)	308,649	2.86%
11. Berkshire Hills Bancorp Inc. (MA)	284,758	2.64%
13. Citizens Bank, NA	262,055	2.43%
12. Fulton Savings Bank (NY)	241,148	2.23%
15. Seneca FS&LA (NY)	103,612	0.96%
16. Lyons Bancorp Inc (NY)	31,546	0.29%
17. Adirondack Bank	8,119	0.08%
17. Woodforest Financial Group (TX)	450	0.00%
TOTAL INSTITUTION SHARE	10,797,939	

Chris R. Burritt
Chairman of the Board

Thomas W. Schneider,
President and CEO

CORPORATE INFORMATION

PATHFINDER BANCORP, INC. BOARD OF DIRECTORS (1)

Chris R. Burritt, Chairman
David A. Ayoub
William A. Barclay
John P. Funciello
Adam Gagas
George P. Joyce
Thomas W. Schneider
John F. Sharkey, III
Lloyd "Buddy" Stemple

PATHFINDER EXECUTIVE OFFICERS

Thomas W. Schneider
President, Chief Executive Officer

James A. Dowd, CPA
Senior Vice President,
Chief Financial Officer

Edward A. Mervine, Esq.
Senior Vice President, General Counsel,
Corporate Secretary

Melissa A. Miller
Senior Vice President, Chief Operating Officer

Daniel R. Phillips
Senior Vice President,
Chief Information Officer

Ronald Tascarella
Senior Vice President, Chief Credit Officer

PATHFINDER OFFICERS

Calvin Corriders
First Vice President, Sales Manager

Will O'Brien
First Vice President,
Credit Administration

Beth K. Alfieri
Vice President, Business Sales Officer

Heather Bush
Vice President, Human Resources

Robert Butkowski
Vice President, Branch Administration

Roberta J. Davis
Vice President, Financial Analyst

Rhonda Hutchins
Vice President, Compliance

Lisa A. Kimball
Vice President, Controller

Michael Quenville
Vice President, Sales Officer

Walter F. Rusnak
Vice President, Finance

Michele C. Torbitt
Vice President,
Electronic Commerce Manager

John Andrews
Assistant Vice President, Branch Manager

Randall Barnard
Assistant Vice President, Branch Manager

Susan Cahill
Assistant Vice President, Branch Manager

Jodi DeAugustine
Assistant Vice President, Market Manager

Jeremy Fadden
Assistant Vice President,
Business Account Manager

Jessica DeGrenier
Assistant Vice President,
Commercial Loan Mitigation

Theresa L. Dullen
Assistant Vice President, Internal Audit

Amy E. Favata
Assistant Vice President,
Financial Reporting Specialist

Shari Gordon
Assistant Vice President,
Information Security Officer

Lorna Hall
Bank Secrecy and Security Officer

April Jordal
Assistant Vice President,
Sales Support Manager

Laurie L. Lockwood
Assistant Vice President, Assistant Controller

Denise Lyga
Assistant Vice President, Branch Manager

Joseph P. McManus
Assistant Vice President,
Computer Operations Manager

Deana Michaels
Assistant Vice President, Branch Manager

Craig Nessel
Assistant Vice President, Branch Manager

Reyne Pierce
Assistant Vice President,
Retail Lending Manager

Crystal Raffte
Assistant Vice President, Operations Manager

Robert Rickert
Assistant Vice President, Retail Loss Mitigation

Amy Shaw
Assistant Vice President, Branch Manager

Jennifer Wright, Assistant Vice President
Municipal and Business Deposit Sales Manager

CORPORATE HEADQUARTERS

214 West First Street
Oswego, NY 13126
(315) 343-0057

ANNUAL MEETING

Wednesday, May 4, 2016, 10:00 AM
Alexandria's, at the Lake Ontario
Conference and Events Center
26 East First Street, Oswego, NY 13126

STOCK LISTING

The NASDAQ Capital Market
Symbol: PBHC

SPECIAL COUNSEL

Luse, Gorman, Pomerenk & Schick
5335 Wisconsin Avenue N.W.
Suite 400
Washington, D.C. 20015

INDEPENDENT AUDITORS

Bonadio & Co., LLP
432 North Franklin Street, Suite 60
Syracuse, NY 13204

TRANSFER AGENT

Computershare
480 Washington Blvd, 29th Floor
Jersey City, NJ 07310

INVESTOR RELATIONS

Thomas W. Schneider
President, Chief Executive Officer

James A. Dowd, CPA
Senior Vice President, Chief Financial Officer

214 West First Street
Oswego, NY 13126
(315) 343-0057

GENERAL INQUIRIES AND REPORTS

A copy of the Bank's 2015 Annual Report to the Securities and Exchange Commission, Form 10-K, may be obtained without charge by written request of shareholders to:

Edward A. Mervine, Esq.
Senior Vice President, General Counsel
Corporate Secretary
Pathfinder Bank
214 West First Street
Oswego, NY 13126

A copy of this Annual Report on Form 10K and our 2016 Annual Proxy Statement is also available free of charge on our website at: www.pathfinderbank.com/annualmeeting

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's filings are also available electronically free of charge at the SEC website: <http://www.sec.gov> and at the Company's website: <http://www.pathfinderbank.com>

FDIC DISCLAIMER

This Annual Report has not been reviewed or confirmed for accuracy or relevance by the FDIC.

(1) Information concerning the principal occupation of the Directors is available in the Company's Proxy Statement



MAIN OFFICE

214 West First Street, Oswego
343-0057

PLAZA OFFICE

State Route 104 East, Oswego
343-4483

DOWNTOWN DRIVE-THRU

34 East Bridge Street, Oswego
343-2577

MEXICO OFFICE

Norman & Main Streets, Mexico
963-7248

FULTON OFFICE

5 West First Street South, Fulton
592-9545

LACONA OFFICE

1897 Harwood Drive, Lacona
387-3437

CENTRAL SQUARE OFFICE

3025 East Avenue, Central Square
676-2265

CICERO OFFICE

6194 State Route 31, Cicero
752-0033

PIKE BLOCK BUSINESS OFFICE

109 West Fayette, Syracuse
207-8020