



SENECA-CAYUGA BANCORP, INC.

quarterly report Q1 2019



20 E Bayard Street // Seneca Falls, NY 13148-0111

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To our shareholders,

Now that we have the Medina Savings and Loan (MSL) merger and the formation of Generations Commercial Bank completed, our focus has shifted to taking advantage of the new markets created by both efforts. We also need to get the MSL customer database converted over and integrated into the Generations database.

With respect to new markets, one key area for us is residential mortgages. We offer several mortgage products, including no-closing cost mortgages and low down payment MyGen mortgages for low-to-moderate income families. This diversity of products was not previously available to MSL customers. In addition as noted in our Annual Report, we obtained approval to directly offer FHA mortgages late last year. Having the FHA underwriting authority should prove to be beneficial as our market research indicates FHA mortgages represent about 30% of all mortgages made. We are also making inroads into the cyber-based market with our online mortgage application.

Generations Commercial Bank is just fully operational; it took over a year to obtain our routing number! We are picking up momentum and have approximately \$2.9 million in public deposits as of March 31, 2019. We offer all types of deposit products created for these entities, and it is surprising to find that the services and rates provided by the competition have not kept pace with the market. We certainly have increased the competition for these customers!

The MSL data conversion was delayed due to difficulties we encountered in getting data lines between Medina and Seneca Falls. We were finally able to secure lines that transmitted data securely and quickly this past month. The next step is to get on our database provider's calendar which is like going to the DMV. So far, we don't have a solid date, but we should have the data converted by the end of the second quarter.

Technology continues to be a major influence on our business. To that end, we have introduced Apple Pay, Samsung Pay and Android Pay to our electronic convenience services. Customers can link their Generations bank account to these services and use their phones to make payments at merchants anywhere in the world. No cash, no card, not even a wallet!

You may have also noticed our new website. The new site was designed to improve the customer experience (including ADA accommodations), help users find our services quickly, and easily get in touch with us. In addition to the customer experience, the new site is built to be more visible and more relevant to search engines such as Google and Bing, putting Generations in front of more potential customers as they evaluate their banking options. Visit the site often as we will continue to roll-out new features including 'live chat'.

The closure of the Washington Street Office in Waterloo has been completed without issue. The North Road Waterloo location has absorbed the customers and accounts from Washington Street. We continue to evaluate the value provided through our brick and mortar office network in light of the changes in transactions initiated at offices. Presently, we do not foresee offices being eliminated; rather, we have noted that our customers want the in person interaction, especially when considering services such as insurance, financial advice and when obtaining a mortgage. As such, we have updated our employee training to ensure that they continue to meet customer service expectations.

Net income for the three months ended March 31, 2019 was \$86,000 or \$0.04 per common share as compared to \$90,000 for the three months ended March 31, 2018. Increases in net interest income and noninterest income during the comparable period, were offset by increased provision for loan losses and noninterest expense.

The increased net interest income was as a result of stable loan yields with modest loan growth, which includes the incorporation of the MSL loans, and lower funding costs with more checking, money market and savings accounts and fewer higher costing broker deposits and borrowed funds.

Noninterest income for the first quarter 2019 includes \$176,000 in unrealized and realized gains on equity securities held or sold during the first quarter. We sold a significant amount of our equity securities due to the change in accounting that requires unrealized gains and losses on equity securities be recorded through the income statement. Previously, these unrealized gains and losses were recorded on the balance sheet. While these assets yielded more than typically obtained from loans, the sale was completed as the price volatility risk was too high.

We increased the provision for loan loss during the first quarter 2019 as compared to the first quarter of 2018 to maintain an adequate allowance for loan loss after taking into account delinquency statistics, loan volume and mix, the local and national economy, status of nonperforming loans and other factors. We believe the allowance for loan loss at March 31, 2019 is adequate.

Noninterest expense increased \$274,000, or 9.3%, to \$3.2 million for the three months ended March 31, 2019 from \$2.9 million for the comparable period in 2018. The increase is primarily in compensation and benefits and vendor service charges. We made significant changes to our staffing over the past eighteen months, including the addition of MSL employees, which has increased our cost accordingly. With the migration of customers to online access points, we also improved our technology platform, which resulted in higher vendor service charges, in addition to the higher costs absorbed from the MSL merger. We believe both of these actions were necessary to successfully compete in the market and to take advantage of new markets opened with the MSL merger and formation of Generations Commercial Bank.

The Bank's core capital was 8.90% at March 31, 2019, which exceeds the minimum required to remain "well capitalized" by regulatory standards. Capital is an important element in our strategic planning, as it provides the ability for the Company to increase market and take advantage of opportunities.

The staff, the products and the programs are all in place for improving market share and financial performance. Thank you for your continued investment.



Menzo D. Case
President & CEO

SELECTED INCOME STATEMENT DATA

(Dollars in thousands except per share data, unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Interest income	\$ 3,162	\$ 2,876
Interest expense	740	594
Net interest income	2,422	2,282
Provision for loan losses	90	35
Net interest income after provision for loan losses	2,332	2,247
Noninterest income	968	783
Noninterest expense	3,214	2,940
Income before income taxes	86	90
Income taxes	-	-
Net income	\$ 86	\$ 90
Income per common share	\$ 0.04	\$ 0.04

SELECTED BALANCE SHEET DATA

(Dollars in thousands, unaudited)

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Total assets	\$ 316,104	\$ 318,086	\$ 335,604	\$ 280,545	\$ 284,024
Gross loans	247,942	244,790	242,948	216,301	218,251
Total deposits	259,376	259,609	263,050	213,461	224,306
Total equity	27,346	27,292	28,612	25,557	25,601

SELECTED ASSET QUALITY DATA

(Dollars in thousands, unaudited)

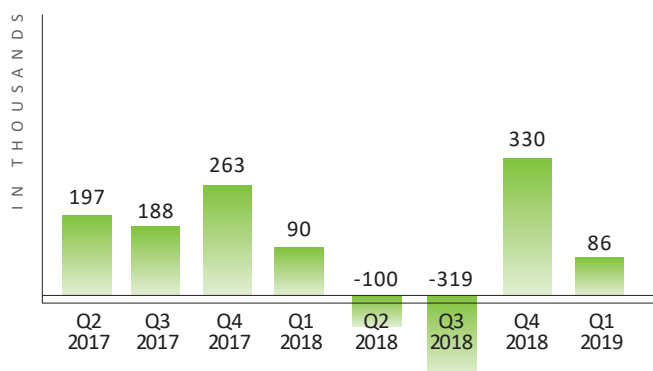
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Nonperforming loans	\$ 2,447	\$ 2,697	\$ 2,380	\$ 1,816	\$ 1,770
REO and repossessed assets	65	50	50	50	169
Residential mortgage-backed securities	38	45	50	58	64
Total nonperforming assets	\$ 2,550	\$ 2,792	\$ 2,480	\$ 1,924	\$ 2,003
Allowance for loan losses	\$ 1,662	\$ 1,548	\$ 1,783	\$ 1,907	\$ 2,085
Allowance for loan losses to total loans	0.67%	0.63%	0.73%	0.88%	0.96%
Nonperforming loans to total loans	0.99%	1.10%	0.98%	0.84%	0.81%
Nonperforming assets to total assets	0.81%	0.88%	0.74%	0.69%	0.71%

OTHER DATA

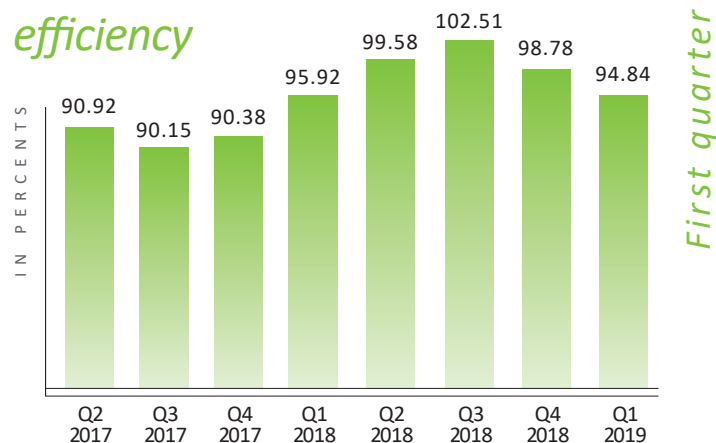
(Unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Return on Average Assets	0.11%	0.13%
Return on Average Equity	1.24%	1.37%
Core Capital (Bank only)	8.90%	9.53%
Net Interest Margin	3.44%	3.66%
Efficiency	94.84%	95.92%

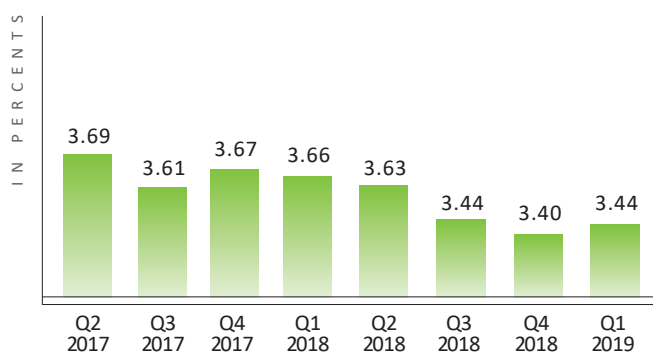
net income



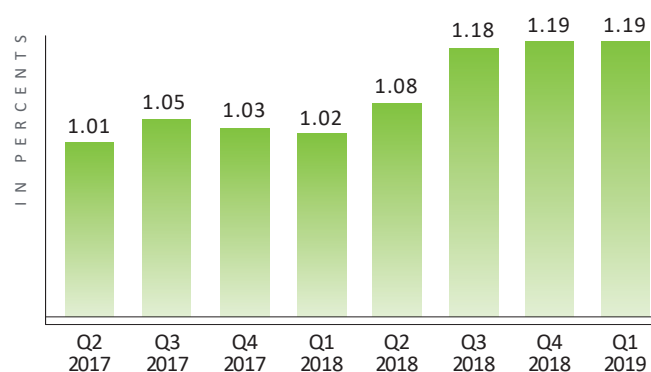
efficiency



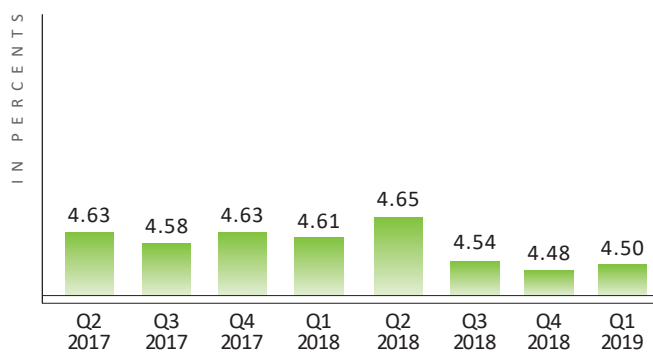
net interest margin



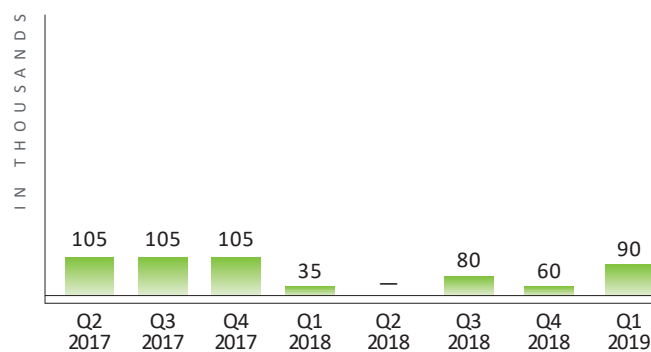
cost of funds



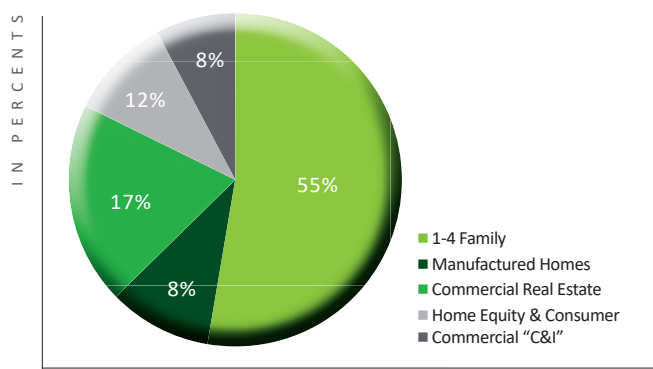
yield on assets



provision for loan losses



loan composition



deposit composition

