SENECA-CAYUGA BANCORP, INC.

quarterly report

Q2 2019

generations bank

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

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To our shareholders,

The net loss for the period ended June 30, 2019 was $88,000 or $0.04 per common share. As compared to the prior year six month period ended June 30, 2018, increases in net interest income and noninterest income were offset by increases in the provision for loan loss and noninterest expense.

Net interest income increased $270,000, or 6.0%, to $4.8 million for the six months ended June 30, 2019 from $4.5 million for the period ended June 30, 2018. The increase is primarily the result of asset growth due to the merger of Medina Savings into Generations. The merger, as noted in previous releases, was finalized September 29, 2018. Gains in noninterest income are primarily due to unrealized market gains from securities held of $252,000 recognized under new accounting rules implemented this year, which were previously recorded through equity in prior years. In addition, noninterest income was also positively affected by the Medina Savings merger.

Our provision for loan loss for the six months ended June 30, 2019 increased $145,000 to $180,000 from $35,000 for the six months ended June 30, 2018. The provision was increased to reflect higher nonperforming loans. The increase in nonperforming loans is primarily due to a deterioration in one $2.3 million commercial relationship. An allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Noninterest expense increased $485,000, or 8.2%, to $6.4 million for the six months ended June 30, 2019 from $5.9 million for the six months ended June 30, 2018. The increase is primarily due to the merger of Medina Savings and the absorption of related operating costs. We anticipated significant cost savings with the elimination of the former Medina Savings data system, but our data system provider has delayed the conversion from the March 31, 2019 to September 27, 2019. The conversion planning process and pre-analysis is underway, and it appears conversion will take place on time.

The next six months require that we focus on asset growth to compensate for increased operating costs. Our primary focus to achieve the desired results is to increase loan production. We have revised and improved our residential mortgage product line to include among others government guaranteed products, no-closing cost mortgages and mortgages specifically designed to benefit low-to-moderate income families. We are also actively engaged in a search for loan originators, which has proven to be a significant challenge because local unemployment is at historic lows and there are significant increases in compensation expectations. We are also planning to build on our success in the home equity loan market by introducing a new consumer loan product in the third quarter. Further, we are increasing the level of auto and manufactured home loan purchases, which have historically been well performing portfolios.

Funding for anticipated loan growth is obtained through a mix of core, time, municipal and brokered deposits as well as borrowings. It is surprising that we continue to see new financial institutions enter established markets, which only increases the competition and generally results in an overall increase in the cost of funds for all concerned. For example, we now have seven banks and two tax-subsidized credit unions in the Seneca Falls/Waterloo market which has a population of about 15,000 people. Our diversification into surrounding markets, continued emphasis on improving our online service capabilities and maintenance of a competitive product mix help us to maintain our market. We are also experiencing positive results from the operations of our limited-purpose commercial bank, which began operations in January 2019. Funds gathered from municipal depositors grew to $7.1 million at June 30, 2019. We continue to get a positive reception in this market for our competitive rates and committed customer focus. Many of the smaller public entities in our area have experienced low returns and little customer service from some of our larger regional and national competitors whose primary interests lie elsewhere.

Our Customer Contact Center (CCC) is growing both in size and capability due to the increase in the volume of calls and emails processed by them. Through this centralized team, we provide quick and consistent responses to customer inquiries. We have prioritized growth in the CCC as part of our commitment to giving our customers the service they want, where and when they want it.

On August 20, we will unveil more than 30 markers commemorating veterans that earned the Purple Heart during conflicts ranging from World War One to Iraq and Afghanistan. This is the first in what is hoped to be a series of similar memorials throughout Seneca Falls honoring those wounded or killed in battle to defend our country and the rights of others. We are hopeful that Seneca Falls will be designated a Purple Heart Town by our Town Council, which formalizes our community's commitment to honoring our veterans.

Preparations are underway for our 150th anniversary in 2020. Coincidentally, 2020 is also the 100th anniversary of the 19th amendment to the Constitution, which recognizes the right of women to vote. As we've mentioned before, Seneca Falls was the location for the first convention held in 1848 with the goal of obtaining universal suffrage. I hope you can find time to visit us and visit the newly renovated home of the National Women's Hall of Fame and the Women's Rights National Historic Park and see, hear and read about the history of great women that not only fought for the right to vote but also contributed so much to the fabric of our country.

Thank you for your continued support.

Menzo D. Case
President & CEO

SELECTED INCOME STATEMENT DATA

(Dollars in thousands except per share data, unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
Interest income	$ 6,267	$ 5,696	$ 3,105	$ 2,819
Interest expense	1,509	1,208	768	616
Net interest income	4,758	4,488	2,337	2,203
Provision for loan losses	180	35	90	-
Net interest income after provision for loan losses	4,578	4,453	2,247	2,203
Noninterest income	1,736	1,454	772	671
Noninterest expense	6,402	5,917	3,179	2,974
Income before income taxes	(88)	(10)	(160)	(100)
Income taxes	-	-	-	-
Net income	$ (88)	$ (10)	$ (160)	$ (100)
Income per common share	$ (0.04)	$ -	$ (0.07)	$ (0.04)

SELECTED BALANCE SHEET DATA

(Dollars in thousands, unaudited)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Total assets	$ 314,484	$ 316,104	$ 318,238	$ 335,604	$ 280,545
Gross loans	247,236	247,942	244,790	242,948	216,301
Total deposits	256,285	259,376	259,609	263,050	213,461
Total equity	27,293	27,346	27,444	28,612	25,557

SELECTED ASSET QUALITY DATA

(Dollars in thousands, unaudited)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Nonperforming loans	$ 4,477	$ 2,447	$ 2,697	$ 2,380	$ 1,816
REO and repossessed assets	45	65	50	50	50
Residential mortgage-backed securities	-	38	45	50	58
Total nonperforming assets	$ 4,522	$ 2,550	$ 2,792	$ 2,480	$ 1,924
Allowance for loan losses	$ 1,658	$ 1,662	$ 1,548	$ 1,783	$ 1,907
Fair value credit adjustment on purchased loans	459	476	482	482	-
Allowance for loan losses and credit adjustment to total loans	0.86%	0.86%	0.83%	0.93%	0.88%
Nonperforming loans to total loans	1.81%	0.99%	1.10%	0.98%	0.84%
Nonperforming assets to total assets	1.44%	0.81%	0.88%	0.74%	0.69%

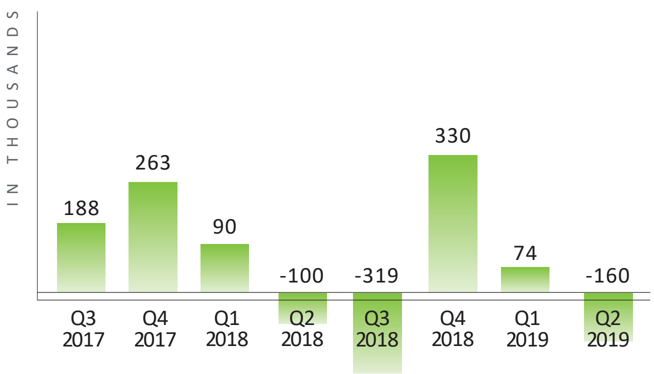
OTHER DATA

(Unaudited)

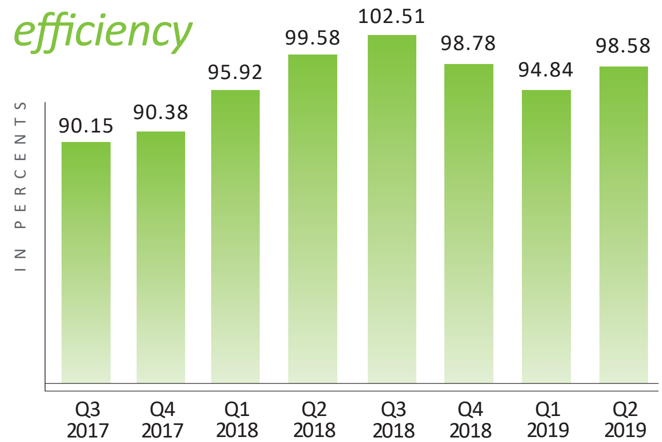
	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Return on Average Assets	-0.06%	-0.01%
Return on Average Equity	-0.65%	-0.08%
Core Capital (Bank only)	8.87%	9.65%
Net Interest Margin	3.31%	3.63%
Efficiency	98.58%	99.58%

Second quarter

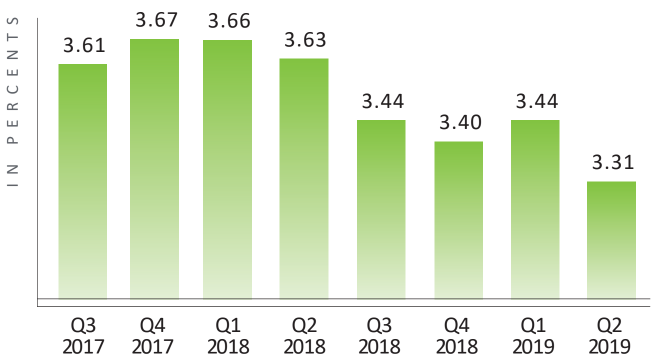
net income



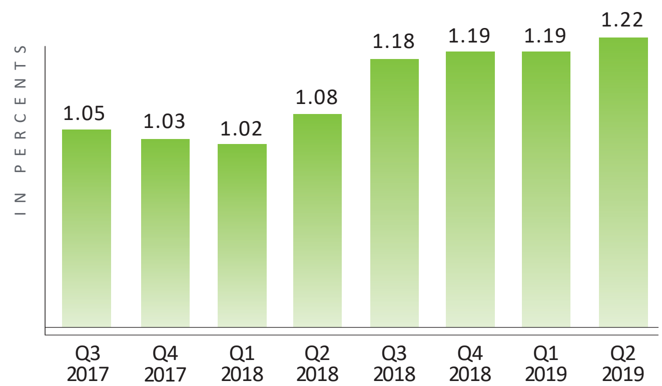
efficiency



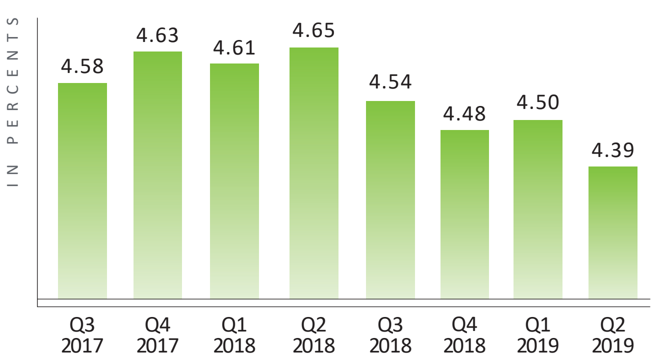
net interest margin



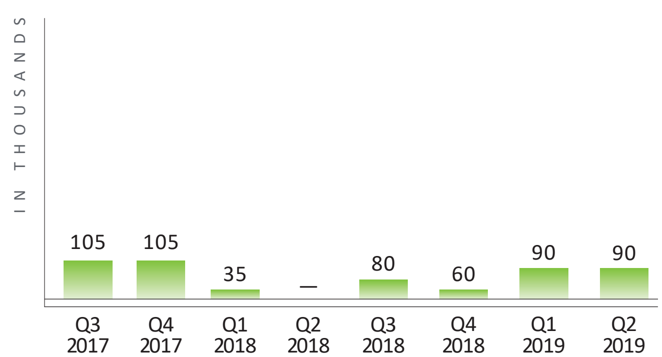
cost of funds



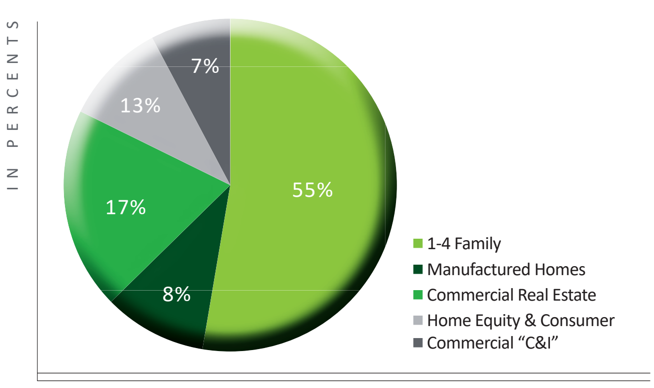
yield on assets



provision for loan losses



loan composition



deposit composition