SENECA-CAYUGA BANCORP, INC.

quarterly report

Q3 2019

generations bank

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

PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE
PAID
COMMUNICATION SERVICES

To our shareholders,

Net income through the nine months ended September 30, 2019 was $89,000 or $0.04 earnings per common share. Year-to-date earnings include unrealized gains on securities and realized gains on securities through September 30, 2019 of $537,000 which is not recurring. In addition, the MSL data processing system cost approximately $300,000 for the same period and is eliminated with the data conversion. The ongoing operating loss on a monthly basis has been reduced significantly since year end primarily by reducing duplicative costs associated with the MSL merger. On a comparative basis, the Company's net margin, provision for loan loss and noninterest income are in line with peers. Operating expenses, particularly personnel and occupancy, are higher than peers. Average personnel costs per employee, which includes compensation and benefits, are well below peers. The reason for the disparity in personnel and occupancy costs is that we have ten retail offices fully staffed and a support team built up to serve a much larger institution. We have implemented a few changes recently which are described below to improve our performance.

We have had to rethink our organizational structure and seek new opportunities to leverage our experience, markets and infrastructure. Our reorganization began following the elimination of a significant auto lending program in 2016. Our past experience and research shows that the single focus entities provide a more efficient means of deploying our resources in the markets we serve. As such we may be able to do more with fewer employees. One of the most difficult challenges we wrestle with on a regular basis is finding qualified applicants for the open positions within our Company. There are several positions vacant now and have been for over six months. It doesn't appear that these positions will be filled any time soon. The unemployed pool truly has shrunk to problematic levels especially in the rural markets we serve.

An example of success we have had in pursuing the alliances is the growth of our manufactured home loan portfolio since 2006. We developed a relationship with an entity specializing in manufactured home loan financing in 2006. The loan portfolio generated from that relationship is $21.0 million at September 30, 2019, and no losses have been realized by the Bank from that portfolio since inception. In July 2019, we began obtaining loans from another entity with similar experience in the manufactured home market. This portfolio is $2.1 million at September 30, 2019, and we have another $3.2 million in loans we are anticipating to purchase before year end. Both relationships are expected to continue into 2020. We also initiated similar relationships to increase our student loan and automobile portfolios. Our student loan portfolio, which is offered through a third party's online system, has grown to $2.2 million at September 30, 2019 since we began offering them in 2014. A segment of our automobile portfolio, obtained via an alliance with another entity beginning in September of 2016, is $15.7 million at September 30, 2019. Both of these portfolios have performed well with losses within industry norms.

There are other entities that are of interest to us that could provide conduits for reaching a wider base of consumers with which we are discussing specific opportunities. Specifically, several single focus entities in our markets have the means to more effectively offer lending products across a wide spectrum of customers online or through established networks among other entities. Forging these alliances will also address the lack of eligible employment applicants.

We are working on a few fronts to provide services in a more efficient manner. Of note are changes we made to our Customer Contact Center (CCC), which continues to handle 95% of all incoming calls and all ITM transactions. We expanded their role to serve as a training hub for new employees as well as our existing retail team. As more customers choose to interact with us via online channels, we fully expect to expand the CCC. By providing the in-house training now, we can help our employees to transition well as the need arises. This training also builds a stronger service culture among our employees regardless of whether they serve in the CCC or in one of our retail offices.

We collectively held our breath at the end of this past quarter as the Medina Savings and Loan (MSL) data conversion took place the last weekend of September. Months of planning, data scrubbing and training came to an end on September 29. The last day of the quarter was the first day that the former MSL customers went live on the Generations platform. We can now breathe a sigh of relief as the data converted over and all systems are operational. Granted, the first week had its challenges but the Generations Team came through well. The conversion eliminates duplicate systems making it much easier to serve our Orleans County customers. Plus, the conversion saves our Company no less than $30,000 per month in service charges.

Generations Commercial Bank (GCB) began operations in January 2019. Since then we actively engaged various entities that hold public funds throughout our markets to determine whether we could provide services to them. Deposits held at GCB were just over $9.0 million at September 30, 2019 which is slightly ahead of our budget expectations. We have significant commitments from several organizations to move deposits to GCB by December 31, 2020.

We look forward to our 150th anniversary in 2020. We are kicking off the celebration at the It's a Wonderful Life Festival in Seneca Falls on December 14 at 2:00 PM. Our Board of Directors, employees and friends will meet then at the "Wonderful Life Bridge" to hang bells in memory of individuals that made an impact on our lives. I hope to see you there!

Thank you for your continued investment in our Company.

Menzo D. Case
President & CEO

SELECTED INCOME STATEMENT DATA

(Dollars in thousands except per share data, unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2019	2018	2019	2018
Interest income	$ 9,400	$ 8,458	$ 3,133	$ 2,768
Interest expense	2,281	1,879	772	672
Net interest income	7,119	6,579	2,361	2,096
Provision for loan losses	270	115	90	80
Net interest income after provision for loan losses	6,849	6,464	2,271	2,016
Noninterest income	2,771	2,142	1,035	690
Noninterest expense	9,531	8,940	3,129	3,025
Income before income taxes	89	(334)	177	(319)
Income taxes	-	-	-	-
Net income	$ 89	$ (334)	$ 177	$ (319)
Income per common share	$ 0.04	$ (0.14)	$ 0.07	$ (0.13)

SELECTED BALANCE SHEET DATA

(Dollars in thousands, unaudited)	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Total assets	$ 322,522	$ 314,484	$ 316,104	$ 317,780	$ 335,604
Gross loans	253,475	247,236	247,942	245,648	242,948
Total deposits	254,121	256,285	259,376	259,609	263,050
Total equity	27,682	27,293	27,346	26,986	28,612

SELECTED ASSET QUALITY DATA

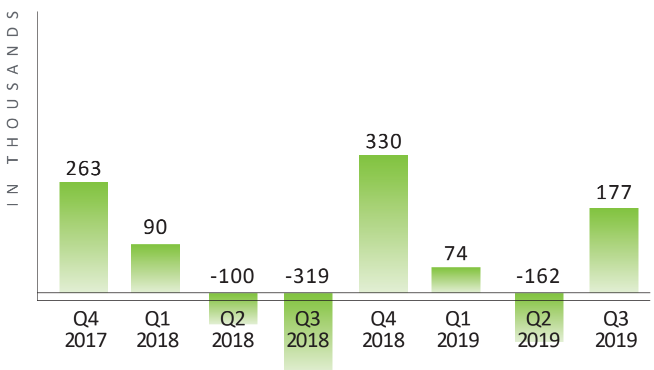
(Dollars in thousands, unaudited)	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Nonperforming loans	$ 4,793	$ 4,477	$ 2,447	$ 2,697	$ 2,380
REO and repossessed assets	30	45	65	50	50
Residential mortgage-backed securities	-	-	38	45	50
Total nonperforming assets	$ 4,823	$ 4,522	$ 2,550	$ 2,792	$ 2,480
Allowance for loan losses	$ 1,721	$ 1,658	$ 1,662	$ 1,548	$ 1,783
Fair value credit adjustment on purchased loans	442	459	476	482	482
Allowance for loan losses and credit adjustment to total loans	0.85%	0.86%	0.86%	0.82%	0.93%
Nonperforming loans to total loans	1.89%	1.81%	0.99%	1.09%	0.97%
Nonperforming assets to total assets	1.50%	1.44%	0.81%	0.88%	0.78%

OTHER DATA

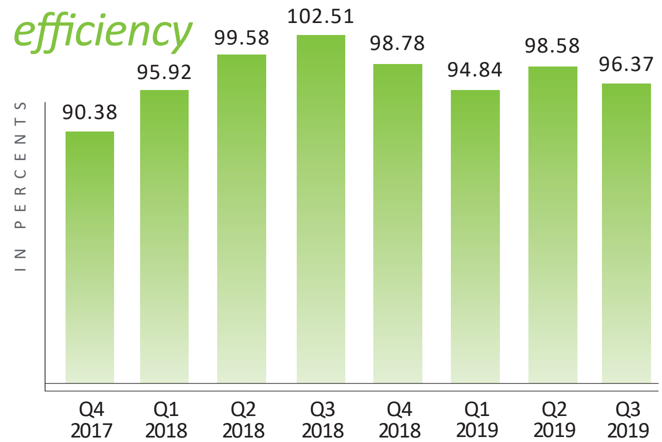
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Return on Average Assets	0.04%	-0.16%
Return on Average Equity	0.44%	-1.86%
Core Capital (Bank only)	8.87%	8.86%
Net Interest Margin	3.31%	3.44%
Efficiency	96.37%	102.51%

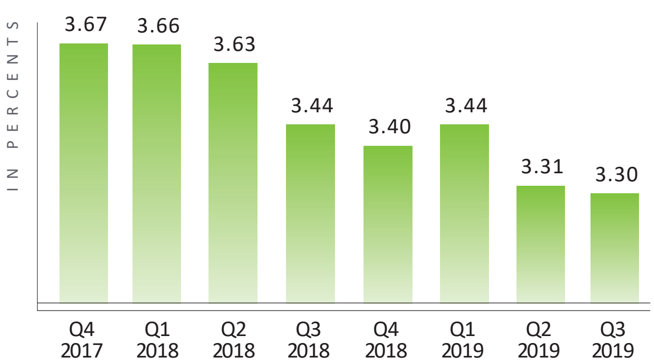
net income



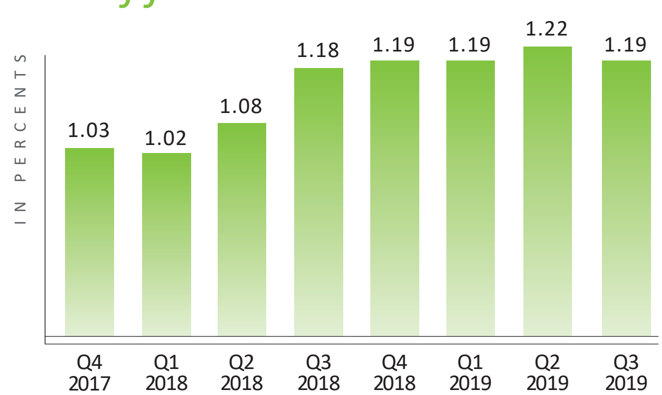
efficiency



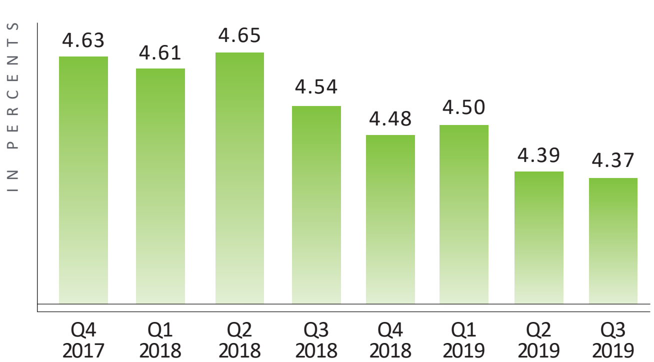
net interest margin



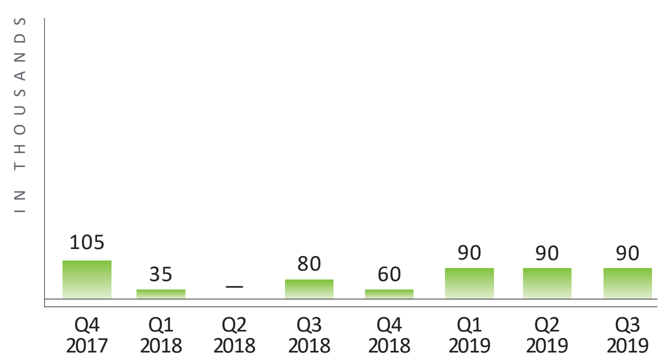
cost of funds



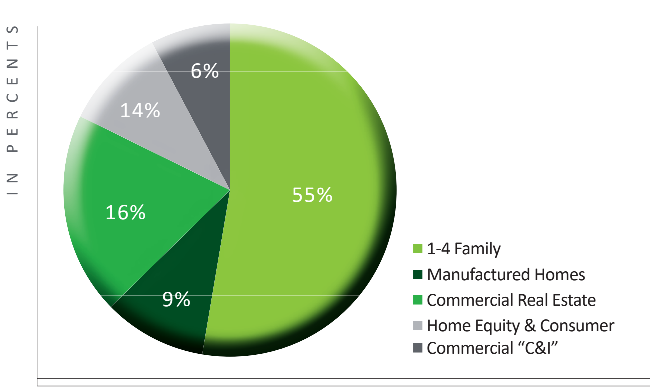
yield on assets



provision for loan losses



loan composition



deposit composition