Conversations matter

SENECA-CAYUGA BANCORP, INC.
QUARTERLY REPORT // Q2 2015

To our shareholders,

Finally! Bright, sunny days! It was a long winter that closed out with a terrific challenge for us at our new Generations Headquarters. This winter was especially cold in Upstate New York, and on a Sunday in February one of the pipes burst and sent 2 inches of water through our entire building – except for one large area we built for future growth.

The water damage was extreme and all consuming. The water was everywhere. Unlike anything I have witnessed before, the employees of the company unified to address the damage and minimize the effect. Customers did not notice the challenge – our support services team had the lending support teams moved to our expansion area and functioning by 9:00 AM; the accounting team relocated to our Cayuga Street office by 9:30 AM – and the water damage was only discovered at 6:30 AM that morning. Over the course of the next three months, employees worked from various offices in our footprint, shared space, and proved that they are flexible and adaptive and quick to respond. We changed carpet and drywall, moved furniture and computer equipment countless times. This effort and the three months it took to get everyone back to their work places was an example of business continuity at its finest. Our employees are smart, caring problem solvers.

Summer time around the country is home buying and selling time – and for us, we are busy with our newest product – MyGenMortgage, a mortgage that doesn't require a down payment or mortgage insurance. The interest is growing, and we are busy helping individuals and families make home ownership their reality. We also introduced our Remote Deposit Anywhere – the ability to make a deposit from your smartphone or tablet through our Mobile Banking Solution.

Earnings per share for the quarter ended June 30, 2015 were $0.41 as compared to $0.46 for the comparable period last year. We anticipated a decline in earnings as we increased our overhead costs as a result of building and opening a new office in Farmington, implementing advanced technology for our interactive teller machines and completing our headquarters. It will take us some time to increase our asset base to fully absorb these costs.

We've watched the Greek crisis over the past few years as an economy that was vibrant has slowly disintegrated. From my read, the problem is that the Greek government consistently approved deficit spending while the Greek economy slowed significantly. At this point, the Greek public debt is approximately 125% of its GDP. With a total GDP of $300 billion or less, I'm surprised by the far-reaching effects the crisis has had on the world's markets. More importantly to me is the surprisingly strong correlation between the US public debt and that of Greece's. Our government continues to approve deficit spending while our economy has slowed significantly. Presently, our national debt exceeds $14 trillion or about 100% of our GDP. With the Fed rattling its sabre and threatening an increase in short-term rates in September, one has to wonder what effect that will have on our debt costs. For our Company, we continue to take actions to reduce our exposure to rising rates. There is a price paid – generally lower rate spreads. If the Fed does begin to raise rates, we may see some serious corrections in the market place and enter into unchartered territories as we attempt to "normalize" the economy.

Visibility in our markets has improved lately, and I would be remiss if I did not share with you that Generations Bank was honored at the end of May as one of the 2015 Best Places to Work in Central New York. This is especially exciting as the honor was based on direct input provided anonymously by our employees via a survey conducted by an independent party.

As a community bank in a market with many other financial institutions we were especially pleased to be recognized at the recent 2015 Financial & Business Executive Awards where Shelley Tafel was honored in the Growth Manager category. We appreciate the recognition for Generations.

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)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014
Interest income	$ 5,840	$ 5,864	$ 2,915	$ 2,851
Interest expense	1,244	1,145	621	571
Net interest income	4,596	4,719	2,294	2,280
Provision for loan losses	150	210	75	75
Net interest income after provision for loan losses	4,446	4,509	2,219	2,205
Noninterest income	1,976	1,418	632	665
Noninterest expense	5,044	4,465	2,478	2,212
Income before income taxes	1,378	1,462	373	658
Income taxes	396	393	118	131
Net income	$ 982	$ 1,069	$ 255	$ 527
Income per common share	$ 0.41	$ 0.46	$ 0.10	$ 0.23

SELECTED BALANCE SHEET DATA

(Dollars in thousands, unaudited)	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Total assets	$ 282,477	$ 282,302	$ 281,022	$ 279,558	$ 274,572
Gross loans	199,873	202,127	208,100	207,774	203,511
Total deposits	202,035	203,100	198,941	198,882	202,823
Total equity	30,223	30,750	30,010	30,549	29,830

SELECTED ASSET QUALITY DATA

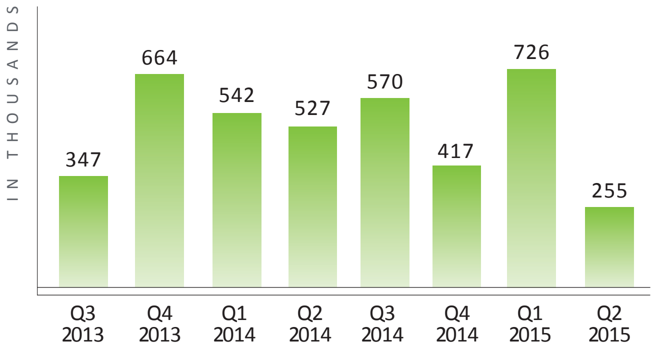
(Dollars in thousands, unaudited)	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Nonperforming loans	$ 1,908	$ 1,701	$ 1,797	$ 1,561	$ 1,327
REO and repossessed assets	362	289	201	204	19
Residential mortgage-backed securities	254	258	263	299	313
Total nonperforming assets	$ 2,524	$ 2,248	$ 2,261	$ 2,064	$ 1,659
Allowance for loan losses	$ 2,185	$ 2,443	$ 2,507	$ 2,534	$ 2,347
Allowance for loan losses to total loans	1.09%	1.21%	1.20%	1.22%	1.15%
Nonperforming loans to total loans	0.95%	0.84%	0.86%	0.75%	0.65%
Nonperforming assets to total assets	0.89%	0.80%	0.80%	0.74%	0.60%

OTHER DATA

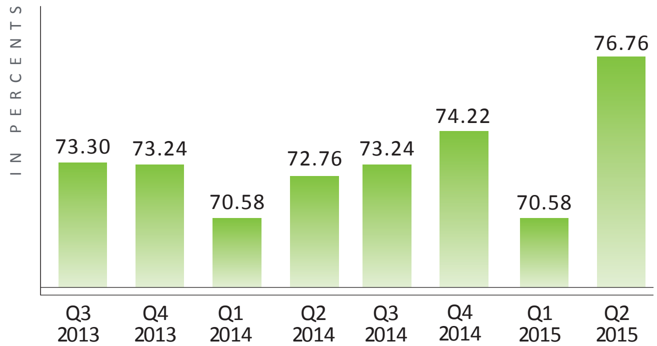
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Return on Average Assets	0.69%	0.78%
Return on Average Equity	6.40%	7.25%
Core Capital (Bank only)	9.78%	10.16%
Net Interest Margin	3.70%	3.80%
Efficiency	76.76%	72.76%

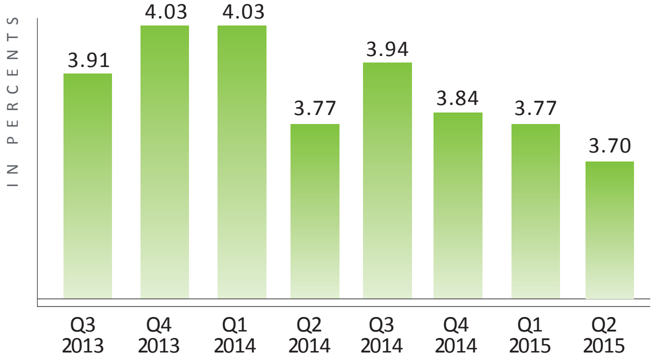
net income



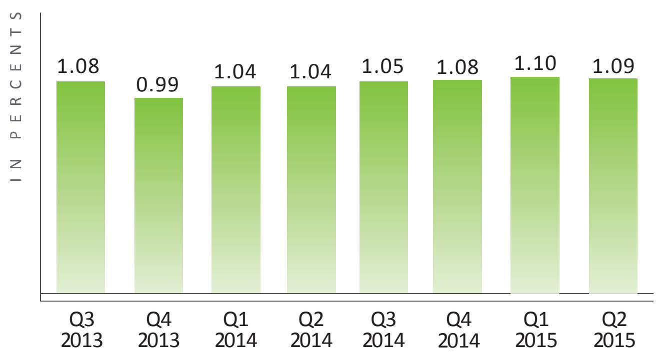
efficiency



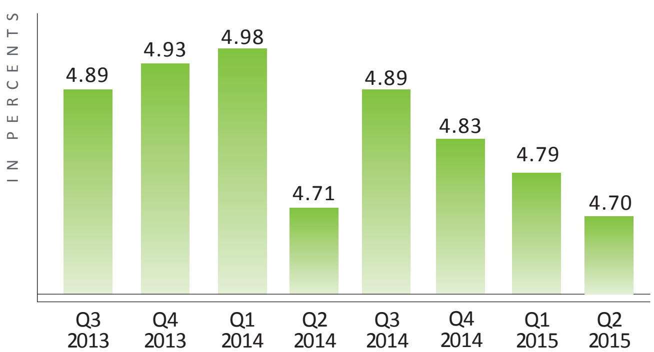
net interest margin



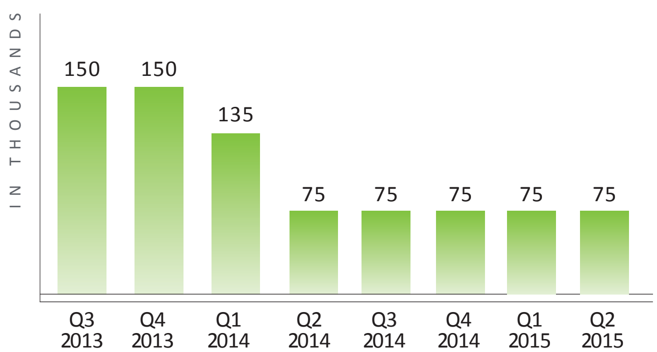
cost of funds



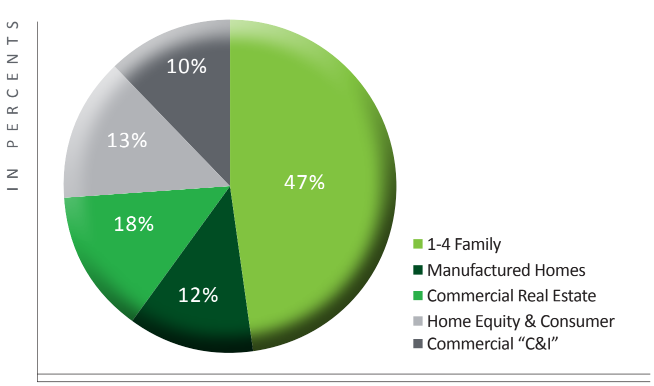
yield on assets



provision for loan losses



loan composition



deposit composition