SENECA-CAYUGA BANCORP, INC.

Q1 2018 Quarterly Report

generations bank

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

To our shareholders,

We kicked off the year with the news of our planned merger with Medina Savings and Loan Association ("MSL"), a $55 million thrift headquartered in Medina, New York. The press release announcing the deal can be found on our website, https://mygenbank.com/about-us/press-releases/. The merger opens a whole new market to us in an area that has many characteristics similar to our Seneca County market. We are actively engaged in preparing the necessary regulatory filings and developing a market plan to make the most of the opportunity.

Net income for the three months ended March 31, 2018 was $90,000, or $0.04 per common share, as compared to $68,000, or $0.03 per common share, for the three months ended March 31, 2017. Included in our 2018 results are approximately $80,000 in consulting and legal fees associated with the planned merger with MSL.

We reduced our provision for loan loss $70,000 to $35,000 for the three months ended March 31, 2018 as compared to $105,000 for the three months ended March 31, 2017. The reduction is based on our evaluation of the allowance for loan loss adequacy and takes into account, among other things, the reduction in nonperforming loans and a change in the loans portfolio composition with a significant decrease in auto loans. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate at March 31, 2018.

Noninterest income was $783,000 and $675,000 for the three months ended March 31, 2018 and 2017, respectively. The increase is primarily attributable to increased revenue from Generations Investment Services and Generations Insurance Agency. Investment Services has had some recent success leveraging our retail network, and the Agency continues to benefit from the integration of the market opened with Sweeney Agency acquisition in December 2016.

Noninterest expenses increased $256,000, or 9.5%, to $2.9 million for the three months ended March 31, 2018 from $2.7 million for the comparable period in 2017. The increase is primarily from increased compensation associated with adding employees as we prepare for the MSL merger and expansion in Monroe County, increased service charges from debit and credit card network providers and network security and processing vendors and increased costs from consultants and attorneys working on the MSL merger. Some of the increased costs were offset from savings in building and equipment expense.

Our income tax expense is zero through the three months ended March 31, 2018. The corporate income tax rates were modified in December 2017, from 35% to 21%. The rate reduction along with the benefit of tax-exempt investments and the generation of net operating loss carryforward deductions that will persist for the foreseeable future, have reduced our effective tax rate to 0%.

At March 31, 2018, the Company's total assets were $284.0 million as compared to $290.5 million at December 31, 2017, a decrease of $6.5 million or 2.2%. We sold $5.1 million in securities during the first quarter 2018, and the proceeds were used to reduce our borrowings, which accounts for most of the decrease in total assets.

Gross loans at March 31, 2018 decreased $3.5 million, or 1.6%, to $218.3 million from $221.7 million at December 31, 2017. The decrease is primarily due to one $1.2 million commercial mortgage repaying in full, a $1.6 million nonperforming loan relationship being settled and $819,000 in net auto loan repayments. We anticipate loan growth beginning in the second quarter as both residential and nonresidential mortgage volume generally increases beginning with spring.

Nonperforming loans, primarily comprised of loans secured by real estate and commercial loans, decreased $721,000, or 28.9%, to $1.8 million at March 31, 2018 from $2.5 million at December 31, 2017. The improvement is primarily due to one commercial relationship settling during the first quarter.

Deposits decreased $1.4 million, or 0.6%, to $224.3 million at March 31, 2018 from $225.7 million at December 31, 2017. Checking and savings increased by $2.1 million, or 1.6%, offset primarily by a decrease of $3.9 million in time deposits. The local competition has aggressively priced time deposits which we determined not to match as alternative sources were available.

We introduced MyGenPerks in April which is a suite of services offered in conjunction with our checking and savings accounts. The services incorporate those most often requested in our markets and include:

- Discounts offered by local shops and restaurants as well as online discounts from national retailers;
- 24/7 Tri-Bureau credit monitoring;
- Identity theft aid;
- Cell phone protection; and
- Roadside assistance.

Another very attractive service is our EZ Saver Account. With EZ Saver, all debit and credit card transactions processed against a checking account are rounded up to the nearest dollar with the difference deposited in the customer's EZ Saver Savings Account. Or, if the customer chooses, the difference can be directly deposited with the customer's favorite charity's Generations account.

We are also offering every new account an opportunity to obtain a Generations Overdraft Line of Credit ("GO Account"), which may help to reduce unexpected fees and problems when an account is inadvertently overdrawn. The GO Account cost will be limited to a modest advance fee and interest, which is far less expensive than most of the overdraft privilege accounts offered by other financial institutions in our market. Additionally, we will not encourage customers to remain in an overdraft status.

We have begun the process of obtaining our certification to offer FHA loans in-house. According to 2016 mortgage data for our markets, FHA loans represent nearly 30% of the overall market. We presently offer FHA mortgages through a correspondent service, but look forward to serving our customers ourselves. Having the ability to offer them directly will also give us the option of either holding the mortgages in our portfolio or to sell them in the secondary market.

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)

	Three Months Ended March 31,	
	2018	2017
Interest income	$ 2,876	$ 2,771
Interest expense	594	580
Net interest income	2,282	2,191
Provision for loan losses	35	105
Net interest income after provision for loan losses	2,247	2,086
Noninterest income	783	675
Noninterest expense	2,940	2,684
Income before income taxes	90	77
Income taxes	-	9
Net income	$90	$68
Income per common share	$ 0.04	$ 0.03

SELECTED BALANCE SHEET DATA

(Dollars in thousands, unaudited)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total assets	$ 284,024	$ 290,512	$ 296,273	$ 284,784	$ 284,648
Gross loans	218,251	221,721	219,849	215,460	210,897
Total deposits	224,306	225,680	227,468	204,390	203,995
Total equity	25,601	25,772	25,828	25,511	25,131

SELECTED ASSET QUALITY DATA

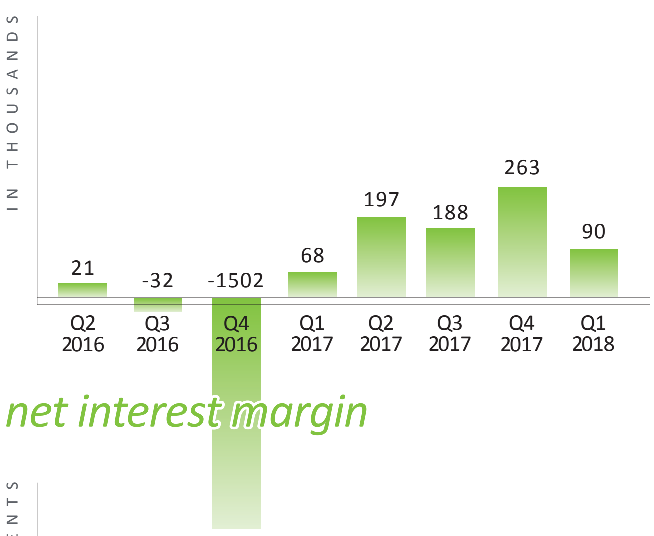
(Dollars in thousands, unaudited)	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Nonperforming loans	$ 1,770	$ 2,491	$ 2,262	$ 1,978	$ 1,948
REO and repossessed assets	169	138	174	71	77
Residential mortgage-backed securities	64	77	90	110	117
Total nonperforming assets	$ 2,003	$ 2,706	$ 2,526	$ 2,159	$ 2,142
Allowance for loan losses	$ 2,085	$ 2,483	$ 2,597	$ 2,761	$ 2,859
Allowance for loan losses to total loans	0.96%	1.12%	1.18%	1.28%	1.36%
Nonperforming loans to total loans	0.81%	1.12%	1.03%	0.92%	0.92%
Nonperforming assets to total assets	0.71%	0.93%	0.85%	0.76%	0.75%

OTHER DATA

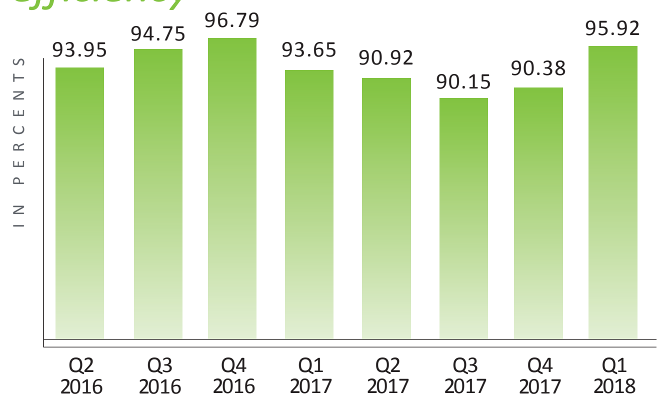
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Return on Average Assets	0.13%	0.10%
Return on Average Equity	1.37%	1.08%
Core Capital (Bank only)	9.53%	9.07%
Net Interest Margin	3.66%	3.68%
Efficiency	95.92%	93.65%

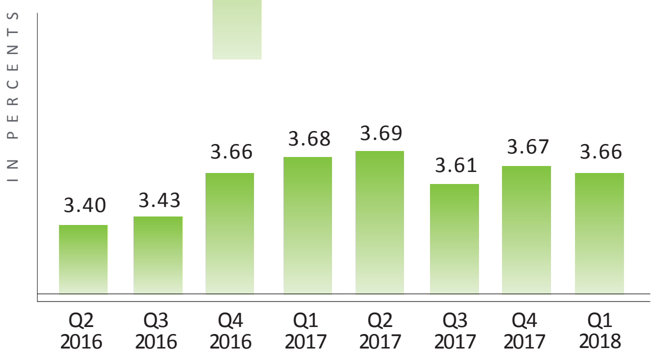
net income



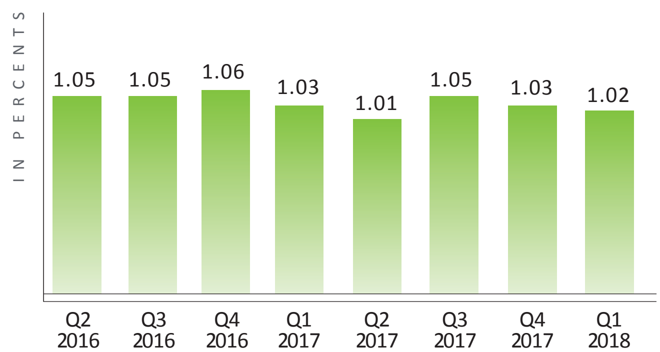
efficiency



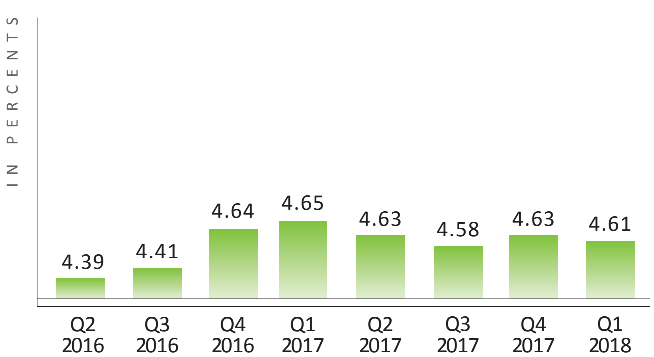
net interest margin



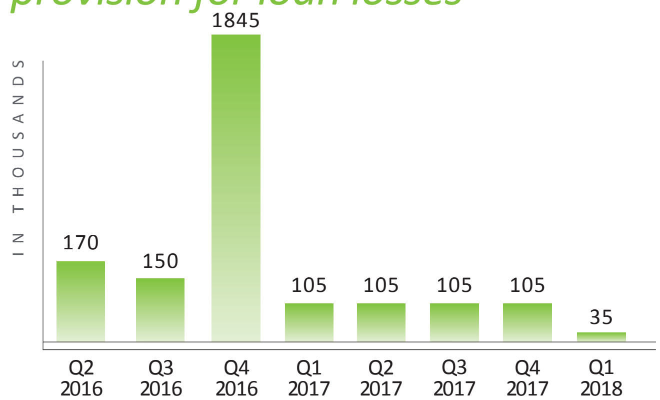
cost of funds



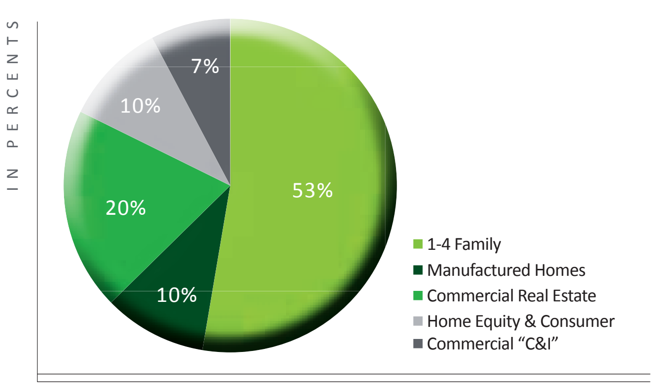
yield on assets



provision for loan losses



loan composition



deposit composition