Section 1: 10-Q (FORM 10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

SENECA FINANCIAL CORP.

(Exact Name of Company as Specified in its Charter)

Federal	000-55853	82-3128044
(State of Other Jurisdiction of Incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

35 Oswego Street, Baldwinsville, NY 13027
(Address of Principal Executive Office) (Zip Code)

(315) 638-0233
(Issuer's Telephone Number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Not Applicable	Not Applicable	Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of August 13, 2019, there were 1,912,959 shares issued and outstanding of the registrant’s common stock.

SENECA FINANCIAL CORP.
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PART I - FINANCIAL INFORMATION
Item 1 – Consolidated Financial Statements

SENECA FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except per share data)

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 3,732	$ 3,470
Securities, available-for-sale	25,792	26,174
Loans, net of allowance for loan losses of $1,155 and $1,234	163,868	154,650
Federal Home Loan Bank of New York stock, at cost	2,905	2,622
Accrued interest receivable	763	771
Premises and equipment, net	4,352	3,445
Other real estate owned	220	-
Bank owned life insurance	2,465	2,438
Pension assets	1,747	1,250
Other assets	494	487
Total assets	$ 206,338	$ 195,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 16,961	$ 13,201
Interest bearing	130,987	130,774
Total Deposits	147,948	143,975
Federal Home Loan Bank advances	33,850	28,350
Advances from borrowers for taxes and insurance	2,768	2,127
Other liabilities	1,647	1,444
Total liabilities	186,213	175,896
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 1,000,000 shares authorized and unissued		
Common stock, $0.01 par value, 19,000,000 shares authorized, 1,978,923 shares issued and 1,934,414 shares outstanding at June 30, 2019 and 1,978,923 shares issued and outstanding at December 31, 2018	9	9
Additional paid-in capital	7,846	7,846
Treasury stock, at cost (44,509 shares at June 30, 2019)	(381)	-
Retained earnings	16,032	15,487
Unearned ESOP shares, at cost	(734)	(747)
Accumulated other comprehensive loss	(2,647)	(3,184)
Total stockholders' equity	20,125	19,411
Total liabilities and stockholders' equity	$ 206,338	$ 195,307

The accompanying notes are an integral part of these consolidated financial statements.

SENECA FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
INTEREST INCOME				
Loans, including fees	$ 1,974	$ 1,724	$ 3,860	$ 3,325
Securities	219	188	447	353
Other	4	7	11	19
Total interest income	2,197	1,919	4,318	3,697
INTEREST EXPENSE				
Deposits	445	303	871	579
Advances and borrowings	216	144	415	282
Total interest expense	661	447	1,286	861
Net interest income	1,536	1,472	3,032	2,836
PROVISION FOR LOAN LOSSES	55	-	90	10
Net interest income after provision for loan losses	1,481	1,472	2,942	2,826
NON-INTEREST INCOME				
Service fees	34	31	67	69
Income from financial services	99	38	149	90
Fee income	68	49	124	84
Earnings on bank-owned life insurance	13	14	27	28
Net gains on sale of residential mortgage loans	14	6	35	7
Total non-interest income	228	138	402	278
NON-INTEREST EXPENSE				
Compensation and employee benefits	767	756	1,487	1,472
Core processing	136	199	334	390
Premises and equipment	129	123	251	235
Professional fees	128	73	214	145
Postage & office supplies	25	27	53	59
FDIC premiums	16	10	29	12
Advertising	45	67	93	99
Mortgage recording tax	(76)	17	(75)	26
Other	151	112	289	238
Total non-interest expense	1,321	1,384	2,675	2,676
Income before provision for income taxes	388	226	669	428
PROVISION FOR INCOME TAXES	73	33	124	68
Net income	$ 315	$ 193	$ 545	$ 360
Net income per common shares - basic	$ 0.17	$ 0.10	$ 0.29	$ 0.19
Weighted average number of common shares outstanding - basic	1,895,824	1,902,261	1,861,301	1,902,585

The accompanying notes are an integral part of these consolidated statements.

SENECA FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
NET INCOME	$ 315	$ 193	$ 545	$ 360
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX				
Available-for-sale securities:				
Unrealized holding gains (losses) arising during period	360	(18)	681	(318)
Less reclassification adjustment for net gains included in net income	-	-	-	-
Net unrealized (losses) gains on available-for-sale securities	360	(18)	681	(318)
Defined benefit pension plan:				
Net gains (losses) arising during the period	-	-	-	-
Less reclassification of amortization of net losses recognized in net pension expense	-	-	-	-
Net changes in defined benefit pension plan	-	-	-	-
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX	360	(18)	681	(318)
Tax effect	77	(4)	144	(67)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	283	(14)	537	(251)
TOTAL COMPREHENSIVE INCOME	$ 598	$ 179	$ 1,082	$ 109

The accompanying notes are an integral part of these consolidated statements.

SENECA FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Equity
BALANCE, JANUARY 1, 2019	$ 9	$ 7,846	$ -	$ 15,487	$ (747)	$ (3,184)	$ 19,411
Net income	-	-	-	545	-	-	545
Other comprehensive income	-	-	-	-	-	537	537
ESOP shares committed to be released (1,293 shares)	-	-	-	-	13	-	13
Purchase of treasury shares at cost (44,509 shares)	-	-	(381)	-	-	-	(381)
BALANCE, JUNE 30, 2019	$ 9	$ 7,846	$ (381)	$ 16,032	$ (734)	$ (2,647)	$ 20,125
BALANCE, JANUARY 1, 2018	$ 9	$ 7,846	$ -	$ 14,637	$ (770)	$ (3,320)	$ 18,402
Net income	-	-	-	360	-	-	360
Other comprehensive loss	-	-	-	-	-	(251)	(251)
ESOP shares committed to be released (1,293 shares)	-	-	-	-	13	-	13
BALANCE, JUNE 30, 2018	$ 9	$ 7,846		$ 14,997	$ (757)	$ (3,571)	$ 18,524

The accompanying notes are an integral part of these consolidated financial statements.

SENECA FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 545	$ 360
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	107	100
Provision for loan losses	90	10
Net amortization of premiums and discounts on securities	105	135
Gain on sale of residential mortgage loans	(35)	(7)
Proceeds from sale of residential mortgage loans	1,441	1,780
Loans originated and sold	(1,406)	(1,780)
Amortization of deferred loan fees	13	13
ESOP compensation expense	13	13
Earnings on investment in bank owned life insurance	(27)	(28)
Decrease in accrued interest receivable	8	12
Increase in pension assets	(497)	-
Increase in other assets	(7)	(698)
Decrease in deferred income tax benefit	0	67
Increases (decrease) in other liabilities	60	(151)
Net cash flow provided by operating activities	410	(174)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available-for-sale		
Proceeds from calls and maturities	280	-
Proceeds from sales	1,795	-
Principal repayments	874	1,236
Purchases	(1,991)	(6,538)
Purchase of Federal Home Loan Bank of New York stock	(830)	(762)
Redemption of Federal Home Loan Bank of New York stock	547	470
Loan originations and principal collections, net	(9,542)	(4,272)
Purchases or premises and equipment	(1,014)	(14)
Net cash flow used in investing activities	(9,881)	(9,880)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	3,973	3,209
Increase in advances from borrowers for taxes and insurance	641	650
Purchase of treasury stock	(381)	-
Repayments on long-term FHLB advances	(4,000)	(1,000)
Proceeds from long-term FHLB advances	10,500	2,350
(Decrease) increase in short-term FHLB advances	(1,000)	3,900
Net cash flow provided by financing activities	9,733	9,109
Net change in cash and cash equivalents	262	(945)
CASH AND CASH EQUIVALENTS - beginning of year	3,470	4,375
CASH AND CASH EQUIVALENTS - end of year	$ 3,732	$ 3,430
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest on deposits and borrowed funds	$ 1,223	$ 870
Income taxes	$ 125	$ 38
Transfer of loans to other real estate owned	$ 220	$ -

The accompanying notes are an integral part of these consolidated statements.

1. BASIS OF PRESENTATION

Seneca Financial Corp. (the "Company"), a federal corporation that was organized in 2017, is a savings and loan holding company of Seneca Savings (the "Bank"). The Bank maintains its executive offices and main office in Baldwinsville, New York, with branches in Liverpool and North Syracuse, New York. The Bank is a community-oriented savings bank whose business primarily consists of accepting deposits from customers within its market area and investing those funds primarily in commercial and residential mortgage loans. The Bank has one wholly-owned subsidiary: Seneca Savings Insurance Agency, Inc. dba Financial Quest ("Quest"). Quest offers financial planning and investment advisory services and sells various insurance and investment products through broker networks. The consolidated financial statements of the Company include the accounts of Quest and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the consolidated financial position of the Company as of June 30, 2019 and the results of its operations and its cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Form 10-K of the Company.

The results of operations at and for the three and six months ended June 30, 2019 and 2018 are not necessarily indicative of the results to be expected for the full year or any other period.

Use of Estimates – The preparation of consolidated financial statements in conformity with U. S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the estimation of fair values, pension plan and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Summary of Significant Accounting Policies – The accounting and reporting policies of the Company conform to U.S. GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in the Company's consolidated financial statements for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on April 1, 2019.

2. RECENT ACCOUNTING PRONOUNCEMENTS

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our consolidated financial statements may not be comparable to companies that comply with such new or revised accounting standards.

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* The amended guidance shortens the amortization period for the premium paid on some classes of callable debt to the earliest call date instead of the bond's maturity.

The amendment more closely aligns the interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Public companies will have to begin applying the revisions to FASB ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and the related amendments in their first fiscal years that start after December 15, 2018. The changes will have to be used for the quarterly reports for those years. The FASB issued the amendment in response to the concerns that were brought to it about the requirements in ASC 310-20 that sometimes-forced bondholders to record a loss once a bond was called by its issuer. The amended guidance largely affects municipal bonds but also could affect the accounting treatment of some callable corporate debt.

For Public Business Entities ("PBEs") that are U.S. Securities and Exchange Commission (SEC) filers, such as the Company, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The provisions of this new accounting standard are complex and will require substantial analysis prior to the ASU's implementation. The Company's management is currently in the process of evaluating the impact that this standard will have on its consolidated financial statements, however, management does not expect the adoption of this ASU to have a material impact on its consolidated financial statements and results of operations.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"). ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss ("CECL") model). Under the CECL model entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exits) from the date of initial recognition of that instrument. Further, ASU 2016-13 made certain targeted amendments to the existing impairment model for available for sale ("AFS") debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. ASU 2016-13 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2019 for all public business entities that are SEC filers. Early application is permitted as of the annual reporting periods beginning after December 15, 2018, including interim periods within those periods. An entity will apply the amendments in this ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company's management is evaluating the potential impact on our consolidated financial statements; however, due to the significant differences in the revised guidance from existing U.S. GAAP, the implementation of this guidance may result in material changes in our accounting for credit losses on financial instruments. We are also reviewing the impact of additional disclosures required under ASU 2016-13 on our ongoing financial reporting.

In July 2019, the FASB decided to add a project to its technical agenda to propose staggered effective dates for certain accounting standards, including ASU 2016-13. The FASB has proposed an approach that ASU 2016-13 will be effective for Public Business Entities that are SEC filers, excluding smaller reporting companies such as the Company, for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. For all other entities, including smaller reporting companies like the Company, ASU 2016-13 will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all entities, early adoption will continue to be permitted; that is, early adoption is allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (that is, effective January 1, 2019, for calendar-year-end companies). The FASB is currently in the process of drafting a proposed ASU for this project to be voted upon by FASB members after a 30 day comment period. The Company is currently a smaller reporting company, and if this proposal is approved and becomes effective, the Company's expected adoption date for ASU 2016-13 would change from fiscal years beginning after December 15, 2019 to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

2. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements.

Under the new guidance a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or an operating lease (i.e., the classification criteria for distinguishing between finance leases and operating leases are substantially like the classification criteria for distinguishing between capital leases and operating leases under the previous guidance). However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the consolidated statement of financial condition, ASU No. 2016-02 will require both operating and finance leases to be recognized on the consolidated statement of financial condition. Additionally, the ASU will require disclosures to help investors and other consolidated financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. Lessor accounting will remain largely unchanged from current U.S. GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

The amendments in ASU No. 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for (1) public business entities, (2) not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and (3) employee benefit plans that file financial statements with the SEC. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities. The Company is currently evaluating the effects of the ASU 2016-02 on its consolidated financial statements and disclosures, if any.

In July 2019, the FASB decided to add a project to its technical agenda to propose staggered effective dates for certain accounting standards, including ASU 2016-13. The FASB has proposed an approach that ASU 2016-13 will be effective for Public Business Entities that are SEC filers, excluding smaller reporting companies such as the Company, for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. For all other entities, including smaller reporting companies like the Company, ASU 2016-13 will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all entities, early adoption will continue to be permitted; that is, early adoption is allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (that is, effective January 1, 2019, for calendar-year-end companies). The FASB is currently in the process of drafting a proposed ASU for this project to be voted upon by FASB members after a 30 day comment period. The Company is currently a smaller reporting company, and if this proposal is approved and becomes effective, the Company’s expected adoption date for ASU 2016-13 would change from fiscal years beginning after December 15, 2019 to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

2. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods with those fiscal years. The adoption had no impact on the consolidated financial statements and only impacted fair value measurement disclosures.

2. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which amends FASB Accounting Standards Codification (ASC) Topic 842, *Leases*, to (1) add an optional transition method that would permit entities to apply the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption, and (2) provide a practical expedient for lessors regarding the separation of the lease and non-lease components of a contract. This guidance did not change the Company's assessment of the impact of ASU No. 2016-02 on the consolidated financial statements as described above.

In August 2018, the FASB has issued Accounting Standards Update (ASU) No. 2018-15, *Intangibles—Goodwill and Other—Internal Use Software* (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, a consensus of the FASB Emerging Issues Task Force, which amends the FASB Accounting Standards Codification (ASC) to provide guidance on accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. In April 2015, the FASB issued ASU No. 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provided guidance to customers concerning whether a cloud computing arrangement (e.g., software, platform, or infrastructure offered as a service) includes a software license. Pursuant to that guidance, (1) if a cloud computing arrangement includes a software license, the software license element of the arrangement should be accounted for in a manner consistent with the acquisition of other software licenses, or (2) if the arrangement does not include a software license, then the arrangement should be accounted for as a service contract, with the fees associated with the hosting element (service) of the arrangement expensed as they are incurred.

Following the issuance of ASU No. 2015-05, constituents requested that the FASB provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. Accordingly, because United States generally accepted accounting principles (U.S. GAAP) do not contain explicit guidance on accounting for such costs, and to address the resulting diversity in practice, the FASB has issued ASU No. 2018-15 to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Note that the guidance on accounting for the *service element* of a hosting arrangement that is a service contract is not affected by the amendments in ASU No. 2018-15.

For Public Business Entities, the amended guidance is effective for fiscal years beginning after December 15, 2019 (i.e., calendar-year 2020), and for interim periods within those fiscal years. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

3. SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(Dollars in Thousands)		
Available-for-sale securities:				
June 30, 2019 (Unaudited):				
Municipal securities	$ 10,035	$ 120	$ (21)	$ 10,134
Mortgage-backed securities and collateralized mortgage obligations	9,309	75	(65)	9,319
Corporate securities	6,318	37	(16)	6,339
	$ 25,662	$ 232	$ (102)	$ 25,792
December 31, 2018:				
Municipal securities	$ 9,850	$ 10	$ (181)	$ 9,679
Mortgage-backed securities and collateralized mortgage obligations	11,022	-	(243)	10,779
Corporate securities	5,853	-	(137)	5,716
	$ 26,725	$ 10	$ (561)	$ 26,174

Mortgage backed securities and collateralized mortgage obligations consist of securities that are issued by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), Ginnie Mae ("GNMA"), and are collateralized by residential mortgages. U.S. Government and agency obligations include notes and bonds with both fixed and variable rates. Municipal securities consist of government obligation and revenue bonds. Corporate securities consist of variable rate bonds with large financial institutions.

Investment securities with carrying amounts of $8.7 million and $9.8 million were pledged to secure advances and for other purposes required or permitted by law at June 30, 2019 and December 31, 2018, respectively.

3. SECURITIES (Continued)

The amortized cost and fair value of debt securities based on the contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	June 30, 2019 (Unaudited)		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due in one year or less	$ 500	$ 501	$ 500	$ 501
Due after one year through five years	6,228	6,258	3,372	3,313
Due after five years through ten years	5,833	5,894	7,481	7,357
Due after ten years	3,792	3,820	4,350	4,225
Mortgage-backed securities and collateralized mortgage obligations	9,309	9,319	11,022	10,778
	$ 25,662	$ 25,792	$ 26,725	$ 26,174

During the three months ended June 30, 2019 the Company sold $1.8 million of available-for-sale securities with a cross realized gain of $6,364 and a gross realized loss of $5,568. During the three months ended June 30, 2018 the Company did not sell available-for-sale securities. During the six months ended June 30, 2019 the Company sold $1.8 million of available-for-sale securities with gross realized gain of $6,364 and gross realized loss of $5,568. During the six months ended June 30, 2018, the Company did not sell available-for-sale securities.

Management has reviewed its loan, mortgage backed securities and collateralized mortgage obligations portfolios and determined that, to the best of its knowledge, little or no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of investing in, or originating, these types of investments or loans.

3. SECURITIES (Continued)

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position follows:

	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
June 30, 2019 (Unaudited):				
Municipal securities	$ (1)	$ 314	$ (20)	$ 1,432
Mortgage-backed securities and collateralized mortgage obligations	-	-	(65)	4,988
Corporate Securities	(3)	1,001	(13)	2,525
	$ (4)	$ 1,315	$ (98)	$ 8,945
December 31, 2018:				
Municipal securities	$ (7)	$ 1,786	$ (173)	$ 6,636
Mortgage-backed securities and collateralized mortgage obligations	(19)	3,249	(225)	7,530
Corporate Securities	(137)	5,716	-	-
	$ (163)	$ 10,751	$ (397)	$ 14,166

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For the six months ended June 30, 2019 and 2018, the Company did not record an other-than-temporary impairment charge.

At June 30, 2019, three municipal securities, eight mortgage-backed securities and collateralized mortgage obligations and five corporate securities were in a continuous loss position for more than twelve months. At June 30, 2019, one municipal and two corporate securities were in a continuous loss position for less than twelve months.

At December 31, 2018, eleven collateralized mortgage obligations, three mortgage backed securities, and eighteen municipal securities were in a continuous loss position for more than twelve months. At December 31, 2018, five municipal obligations, two collateralized mortgage obligations, three mortgage backed securities, and ten corporate securities were in a continuous loss position for less than twelve months.

The mortgage-backed securities and collateralized mortgage obligations were issued by U.S. Government sponsored agencies. The municipal securities and corporate securities are rated investment grade by Standard and Poor's BBB- or higher. All are paying in accordance with their terms with no deferrals of interest or defaults. Because the decline in fair value is attributable to changes in interest rates, not credit quality, and because management does not intend to sell and will not be required to sell these securities prior to recovery or maturity, no declines are deemed to be other-than-temporary.

4. LOANS

Net loans at June 30, 2019 and December 31, 2018 are as follows:

	June 30, 2019 (Unaudited)	December 31, 2018
	(Dollars in Thousands)	
Mortgage loans on real estate:		
One-to-four family first lien residential	$ 99,458	$ 102,617
Residential construction	6,649	3,500
Home equity loans and lines of credit	9,538	9,212
Commercial	31,059	23,409
Total mortgage loans on real estate	$ 146,704	$ 138,738
Commercial and industrial	15,654	14,134
Consumer loans	2,185	2,519
Total loans	164,543	155,391
Allowance for credit losses	(1,155)	(1,234)
Net deferred loan origination costs	480	493
Net loans	$ 163,868	$ 154,650

Loan Origination / Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by frequently providing management with reports related to loan production, loan quality, loan delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

4. LOANS (Continued)

Risk Characteristics of Portfolio Segments

The risk characteristics within the loan portfolio vary depending on the loan segment. Consumer loans generally are repaid from personal sources of income. Risks associated with consumer loans primarily include general economic risks such as declines in the local economy creating higher rates of unemployment. Those conditions may also lead to a decline in collateral values should the Company be required to repossess the collateral securing consumer loans. These economic risks also impact the commercial loan segment, however commercial loans are considered to have greater risk than consumer loans as the primary source of repayment is from the cash flow of the business customer. Real estate loans, including residential mortgages, commercial, and home equity loans, comprise approximately 89% of the portfolio at June 30, 2019 and 90% of the portfolio at December 31, 2018. Loans secured by real estate provide collateral protection and thus significantly reduce the inherent risk in the portfolio.

Management has reviewed its loan portfolio and determined that, to the best of its knowledge, little or no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of originating these types of loans.

Description of Credit Quality Indicators

Real estate, commercial and consumer loans are assigned a "Pass" rating unless a loan has demonstrated signs of weakness as indicated by the ratings below:

- Special Mention: The relationship is protected but is potentially weak. These assets may constitute an undue and unwarranted credit risk but not to the point of justifying a substandard rating. All loans 60 days past due are classified Special Mention. The loan is not upgraded until it has been current for six consecutive months.

- Substandard: The relationship is inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledge, if any. Assets so classified have a well-defined weakness or a weakness that jeopardized the liquidation of the debt. All loans 90 days past due are classified Substandard. The loan is not upgraded until it has been current for six consecutive months.

- Doubtful: The relationship has all the weaknesses inherent in substandard with the added characteristic that the weaknesses make collection based on currently existing facts, conditions, and value, highly questionable or improbable. The possibility of some loss is extremely high.

- Loss: Loans are considered uncollectible and of such little value that continuance as bankable assets are not warranted. It is not practicable or desirable to defer writing off this basically worthless asset even though partial recovery may be possible in the future.

The risk ratings are evaluated at least annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, real estate or consumer loans.

4. LOANS (Continued)

The following tables present the classes of the loan portfolio, not including net deferred loan costs, summarized by the aggregate pass rating and the classified ratings within the Company's internal risk rating system as of June 30, 2019 and December 31, 2018. There were no doubtful accounts at June 30, 2019 or December 31, 2018.

	June 30,2019 (Unaudited) (Dollars in Thousands)				
	Pass	Special Mention	Substandard	Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 99,458	$ -	$ -	$ -	$ 99,458
Residential construction	6,649	-	-	-	6,649
Home equity loans and lines of credit	9,538	-	-	-	9,538
Commercial	28,662	59	2,338	-	31,059
Total mortgage loans on real estate	144,307	59	2,338	-	146,704
Commercial and industrial	15,162	482	10		15,654
Consumer loans	2,185	-	-	-	2,185
Total loans	$ 161,654	$ 541	$ 2,348	$ -	$ 164,543

	December 31, 2018 (Dollars in Thousands)				
	Pass	Special Mention	Substandard	Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 102,617	$ -	$ -	$ -	$ 102,617
Residential construction	3,500	-	-	-	3,500
Home equity loans and lines of credit	9,212	-	-	-	9,212
Commercial	21,260	-	2,149	-	23,409
Total mortgage loans on real estate	136,589	-	2,149	-	138,738
Commercial and industrial	13,887	-	247		14,134
Consumer loans	2,519	-	-	-	2,519
Total loans	$ 152,995	$ -	$ 2,396	$ -	$ 155,391

4. LOANS (Continued)

Loans are considered past due if the required principal and interest payments have not been received within thirty days of the payment due date. An age analysis of past due loans, segregated by class of loans, are as follows:

	June 30,2019 (Unaudited) (Dollars in Thousands)					
	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
One-to four-family first lien residential	$ 1,074	$ 56	$ 636	$ 1,766	$ 97,692	$ 99,458
Residential construction	-	-	-	-	6,649	6,649
Home equity loans and lines of credit	-	-	-	-	9,538	9,538
Commercial	-	-	-	-	31,059	31,059
Total mortgage loans on real estate	1,074	56	636	1,766	144,938	146,704
Commercial and industrial	-	-	-	-	15,654	15,654
Consumer loans	33	-	-	33	2,152	2,185
Total loans	$ 1,107	$ 56	$ 636	$ 1,799	$ 162,744	$ 164,543

	December 31, 2018 (Dollars in Thousands)					
	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
One-to four-family first lien residential	$ 1,331	$ 628	$ 670	$ 2,629	$ 99,988	$ 102,617
Residential construction	-	-	462	462	3,038	3,500
Home equity loans and lines of credit	-	-	-	-	9,212	9,212
Commercial	-	364	-	364	23,045	23,409
Total mortgage loans on real estate	1,331	992	1,132	3,455	135,283	138,738
Commercial and industrial	-	-	-	-	14,134	14,134
Consumer loans	3	-	13	16	2,503	2,519
Total loans	$ 1,334	$ 992	$ 1,145	$ 3,471	$ 151,920	$ 155,391

4. LOANS (Continued)

Nonaccrual loans, segregated by class of loan as of June 30, 2019 and December 31, 2018 are as follows:

	June 30, 2019 (Unaudited)	December 31, 2018
	(Dollars in Thousands)	
Mortgage loans on real estate	$ 706	$ 1,201
Commercial and industrial loans	-	-
Consumer loans	-	13
Total nonaccrual loans	$ 706	$ 1,214

The decrease in nonaccrual loans was mostly attributed to the sale of a one-to four-family residence under construction and the foreclosure of a one-to four-family residence reported as other real estate owned at June 30, 2019.

The following tables summarize impaired loan information by portfolio class:

	June 30, 2019 (Unaudited)		
	(Dollars in Thousands)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate	$ 313	$ 313	$ 24
Commercial and industrial loans	-	-	-
	313	313	24
With no allowance recorded:			
Mortgage loans on real estate	1,344	1,344	-
Commercial and industrial loans	-	-	-
	1,344	1,344	-
Total	$ 1,657	$ 1,657	$ 24

	December 31, 2018		
	(Dollars in Thousands)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate	$ 780	$ 780	$ 38
Commercial and industrial loans	-	-	-
	780	780	38
With no allowance recorded:			
Mortgage loans on real estate	1,313	1,313	-
Commercial and industrial loans	-	-	-
	1,313	1,313	-
Total	$ 2,093	$ 2,093	$ 38

4. LOANS (Continued)

The following table presents the average recorded investment in impaired loans:

	June 30, 2019 (Unaudited)	December 31, 2018
	(Dollars in Thousands)	
Mortgage loans on real estate	$ 1,657	$ 2,026
Commercial and industrial loans	-	-
Total	$ 1,657	$ 2,026

Troubled debt restructurings ("TDRs") occur when we grant borrowers concessions that we would not otherwise grant but for economic or legal reasons pertaining to the borrower's financial difficulties. A concession is made when the terms of the loan modification are more favorable than the terms the borrower would have received in the current market under similar financial difficulties. These concessions may include, interest by the borrower to satisfy all or part of the debt, or the addition of borrower(s). The Company identifies loans for potential TDRs primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. Generally, we will not return a TDR to accrual status until the borrower has demonstrated the ability to make principal and interest payments under the restructured terms for at least six consecutive months. The Company's TDRs are impaired loans, which may result in specific allocations and subsequent charge-offs if appropriate.

As of March 31, 2018, the Company modified two commercial mortgage loans valued together at $1.0 million that are considered accruing TDRs. We modified the terms to interest only for a two-year period. At the three and six month periods ending June 30, 2019 and 2018 we had two commercial mortgage loans totaling $1.0 million that are considered TDRs. These TDRs are paying according to their modified terms and are classified as substandard and impaired at June 30, 2019.

The following table presents interest income recognized on impaired loans for the three months ended June 30, 2019 and 2018:

	June 30,	
	2019	2018
	(Unaudited) *(Dollars in Thousands)*	
Mortgage loans on real estate - commercial	$ 8	$ 8
Commercial and industrial loans	-	-
Total	$ 8	$ 8

The following table presents interest income recognized on impaired loans for the six months ended June 30, 2019 and 2018:

	June 30,	
	2019	2018
	(Unaudited) *(Dollars in Thousands)*	
Mortgage loans on real estate - commercial	$ 19	$ 18
Commercial and industrial loans	-	-
Total	$ 19	$ 18

4. LOANS (Continued)

The following tables summarize the activity in the allowance for loan losses for the three and six months ended June 30, 2019 and 2018.

	For the three months ended June 30, 2019 (Unaudited) (In thousands)				
	Mortgage loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 879	$ 103	$ 8	$ 110	$ 1,100
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	15	10	13	17	55
Ending balance	$ 894	$ 113	$ 21	$ 127	$ 1,155

	For the three months ended June 30, 2018 (Unaudited) (In thousands)				
	Mortgage loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 881	$ 129	$ 3	$ 238	$ 1,251
Charge-offs	-	-	(9)	-	(9)
Recoveries	-	-	-	-	-
Provision	(14)	(2)	11	5	-
Ending balance	$ 867	$ 127	$ 5	$ 243	$ 1,242

	For the six months ended June 30, 2019 (Unaudited) (In thousands)				
	Mortgage loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 933	$ 132	$ 17	$ 152	$ 1,234
Charge-offs	(169)	-	-	-	(169)
Recoveries	-	-	-	-	-
Provision	130	(19)	4	(25)	90
Ending balance	$ 894	$ 113	$ 21	$ 127	$ 1,155

	For the six months ended June 30, 2018 (Unaudited) (In thousands)				
	Mortgage loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 870	$ 116	$ 5	$ 250	$ 1,241
Charge-offs	-	-	(9)	-	(9)
Recoveries	-	-	-	-	-
Provision	(3)	11	9	(7)	10
Ending balance	$ 867	$ 127	$ 5	$ 243	$ 1,242

The charge-offs of $169,000, for the six months ended June 30, 2019 consisted of a $16,000 charge-off of a one-to-four family construction loan, charge-off of three consumer loans totaling $7,000, and a charge-off of a one-to four-family residence for $146,000. The one-to four-family residence of $220,000 is reported as other real estate owned at June 30, 2019.

5. COMPREHENSIVE INCOME (LOSS)

The balances and changes in the components of accumulated other comprehensive loss, net of tax, are as follows:

	For the three months ended June 30, 2019 (Unaudited)		
	Unrealized Gains (Losses) on Available for Sale Securities	Net Gain Losses on Pension Plan	Accumulated Other Comprehensive Income (Loss)
	(Dollars in Thousands)		
Beginning balance	$ (182)	$ (2,748)	$ (2,930)
Other comprehensive (loss) income	283	-	283
Ending balance	$ 101	$ (2,748)	$ (2,647)

	For the three months ended June 30, 2018 (Unaudited)		
	Unrealized Gains (Losses) on Available for Sale Securities	Net (Losses) on Pension Plan	Accumulated Other Comprehensive Income (Loss)
	(Dollars in Thousands)		
Beginning balance	$ (443)	$ (3,114)	$ (3,557)
Other comprehensive income (loss)	(14)	-	(14)
Ending balance	$ (457)	$ (3,114)	$ (3,571)

	For the six months ended June 30, 2019 (Unaudited)		
	Unrealized Gains (Losses) on Available for Sale Securities	Net Loss on Pension Plan	Accumulated Other Comprehensive Income (Loss)
	(Dollars in Thousands)		
Beginning balance	$ (436)	$ (2,748)	$ (3,184)
Other comprehensive (loss) income	537	-	537
Ending balance	$ 101	$ (2,748)	$ (2,647)

	For the six months ended June 30, 2018 (Unaudited)		
	Unrealized Loss on Available for Sale Securities	Net (Losses) on Pension Plan	Accumulated Other Comprehensive Income (Loss)
	(Dollars in Thousands)		
Beginning balance	$ (206)	$ (3,114)	$ (3,320)
Other comprehensive income (loss)	(251)	-	(251)
Ending balance	$ (457)	$ (3,114)	$ (3,571)

6. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company's assets and liabilities; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all assets and liabilities, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of assets and liabilities subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

6. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

	Total	Level 1	Level 2	Level 3
		(In Thousands of Dollars)		
Available-for-sale Securities:				
June 30, 2019:				
Municipal securities	$ 10,134	$ -	$ 10,134	$ -
Mortgage-backed securities and collateralized mortgage obligations	9,319	-	9,319	-
Corporate securities	6,339	-	6,339	-
	$ 25,792	$ -	$ 25,792	$ -
December 31, 2018:				
Municipal securities	$ 9,679	$ -	$ 9,679	$ -
Mortgage-backed securities and collateralized mortgage obligations	10,779	-	10,779	-
Corporate securities	5,716	-	5,716	-
	$ 26,174	$ -	$ 26,174	$ -

There were no securities transferred out of level 2 securities available-for-sale during the three and six months ended June 30, 2019 or the year ended December 31, 2018.

Required disclosures include fair value information about financial instruments, whether or not recognized in the consolidated statement of financial condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate, and estimates of future cash flows. In that regard, the fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. FASB ASU Topic 820 fair value measurements and disclosures, the financial assets and liabilities were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of certain of the Company's assets and liabilities at June 30, 2019 and December 31, 2018.

6. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Cash and due from banks

The carrying amounts of these assets approximate their fair value and is a Level 1 measurement.

Investment Securities

The fair value of securities available-for-sale (carried at fair value) are determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted prices and is a Level 2 measurement.

Investment in FHLBNY Stock

The carrying value of FHLBNY stock approximates its fair value based on the redemption provisions of the FHLBNY stock, resulting in a Level 2 classification.

Loans

The fair values of loans held in portfolio are estimated using discounted cash flow analyses, using market rates at the consolidated statement of financial position date that reflect the credit and interest rate-risk inherent in the loans, resulting in a Level 3 classification. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments, and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Accrued Interest Receivable and Payable and Advances from Borrowers for Taxes and Insurance

The carrying amount approximates fair value and is a Level 1 measurement.

Deposits

The fair values disclosed for demand deposits (e.g., NOW accounts, non-interest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts), resulting in a Level 1 classification. The carrying amounts for variable-rate certificates of deposit approximate their fair values at the reporting date, resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

Advances and borrowings from FHLBNY

The fair values of FHLBNY long-term borrowings are estimated using discounted cash flow analyses, based on the quoted rates for new FHLBNY advances with similar credit risk characteristics, terms and remaining maturity, resulting in a Level 2 classification.

Other Real Estate Owned

Assets taken in foreclosure of defaulted loans generally measured at the lower cost or fair value less costs to sell. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3.

6. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2019 and December 31, 2018 are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
	(In Thousands of Dollars)		
June 30, 2019:			
Financial assets:			
Cash and due from banks	Level 1	$ 3,732	$ 3,732
Securities available-for-sale	Level 2	25,792	25,792
Investment in FHLB stock	Level 2	2,905	2,905
Loans, net	Level 3	163,868	159,206
Accrued interest receivable	Level 1	763	763
Other Real Estate Owned	Level 2	220	220
Financial liabilities:			
Deposits	Level 1/2	147,948	146,687
Advances and borrowings from FHLB	Level 2	33,850	33,850
Accrued interest payable	Level 1	62	62
Advances from borrowers for taxes and insurance	Level 1	2,768	2,768
December 31, 2018:			
Financial assets:			
Cash and due from banks	Level 1	$ 3,470	$ 3,470
Securities available-for-sale	Level 2	26,174	26,174
Investment in FHLB stock	Level 2	2,622	2,622
Loans, net	Level 3	154,650	150,337
Accrued interest receivable	Level 1	771	771
Financial liabilities:			
Deposits	Level 1/2	143,975	139,742
Advances and borrowings from FHLB	Level 2	28,350	28,350
Accrued interest payable	Level 1	62	62
Advances from borrowers for taxes and insurance	Level 1	2,127	2,127

6. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets Measured at Fair Value on a Nonrecurring Basis

In addition to disclosure of the fair value of assets on a recurring basis, ASC Topic 820 requires disclosures for assets and liabilities measured at fair value on a nonrecurring basis, such as impaired assets and foreclosed real estate. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of these loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated as required by ASC Topic 310, *"Receivables- Loan Impairment"* when establishing the allowance for loan losses. Impaired loans are those in which the Company has measured impairment generally based on the fair value of the loan's collateral less estimated selling costs. Fair value of real estate collateral is generally determined based upon independent third-party appraisals of the properties, which consider sales prices of similar properties in the proximate vicinity or by discounting expected cash flows from the properties by an appropriate risk adjusted discount rate. Management may adjust the appraised values as deemed appropriate. Fair values of collateral other than real estate is based on an estimate of the liquidation proceeds. Impaired loans and foreclosed real estate are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the asset balances net of a valuation allowance.

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2019 and December 31, 2018 were as follows:

	Total	Level 1	Level 2	Level 3
		(In Thousands of Dollars)		
June 30, 2019:				
Impaired loans	$ 289	$ -	$ -	$ 289
Other real estate owned	$ 220	-	-	$ 220
	$ 509	-	-	$ 509
December 31, 2018:				
Impaired loans	$ 742	$ -	$ -	$ 742

6. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were used to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Adjustment
Impaired loans	Lower of appraisal of collateral or asking price less selling costs	Appraisal adjustments	10%
		Discounted cash flow analysis	
		Costs to sell	10%
Other real estate owned	Market valuation of property	Costs to sell	10%

At June 30, 2019, the fair value consists of impaired loan balances of $313,000, net of valuation allowance of $24,000 and at December 31, 2018, the fair value consists of loan balances of $780,000, net of a valuation allowance $38,000.

At June 30, 2019 we had other real estate owned of $220,000 and at December 31, 2018, there was no foreclosed real estate.

At June 30, 2019 we had impaired loans of $1.7 million and at December 31, 2018 we had impaired loans of $1.3 million.

Once a loan is foreclosed, the fair value of the real estate continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. At June 30, 2019 and December 31, 2018, there was no foreclosed real estate whose carrying value was written down utilizing Level 3 inputs.

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction was $162,000 and $444,000 at June 30, 2019 and December 31, 2018, respectively.

7. OFF-BALANCE SHEET CREDIT RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit, market, and interest rate risk more than the amounts recognized in the consolidated statements of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

As of the dates indicated, the following financial instruments were outstanding whose contract amounts represent credit risk:

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

	June 30, 2019	December 31, 2018
	(Unaudited)	
	(In Thousands of Dollars)	
Commitments to Grant Loans	$ 2,264	$ 2,698
Unfunded Commitments Under Lines of Credit	$ 5,445	$ 5,349

8. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators, which if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all the requirements being phased in over a multi-year schedule, and fully phased in on January 1, 2019.

The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios set forth in the table below of total, Tier 1, and Tier 1 common equity capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of June 30, 2019, that the Bank met all capital adequacy requirements to which it is subject.

The Basel III rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier I capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is 2.5% of risk-weighted assets.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. The federal banking agencies have proposed the Community Bank Leverage Ratio be set at 9%. A financial institution can elect to be subject to this new definition. However, until the federal banking agencies finalize the proposed rule, the Basel III rules remain in effect.

As of June 30, 2019, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 common equity risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of June 30, 2019 and December 31, 2018 are as follows:

8. REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

	Actual		Capital Adequacy Purposes		To be Well Capitalized Under Prompt and Corrective Action Provisions		Minimum Capital Adequacy with Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(In Thousands of Dollars)							
As of June 30, 2019 (Unaudited):								
Total core capital to risk weighted assets	$ 21,686	16.32%	$ 10,628	8.00%	$ 13,285	10.00%	$ 13,949	10.50%
Tier 1 capital to risk weighted assets	20,531	15.45%	7,971	6.00%	10,628	8.00%	11,292	8.50%
Tier 1 common equity to risk weighted assets	20,531	15.45%	5,978	4.50%	8,635	6.50%	9,299	7.00%
Tier 1 capital to assets	20,531	10.08%	8,151	4.00%	10,189	5.00%	10,189	5.00%
As of December 31, 2018:								
Total core capital to risk weighted assets	$ 21,128	17.51%	$ 9,655	8.00%	$ 12,069	10.00%	$ 12,673	10.50%
Tier 1 capital to risk weighted assets	19,894	16.48%	7,242	6.00%	9,655	8.00%	10,259	8.50%
Tier 1 common equity to risk weighted assets	19,894	16.48%	5,431	4.50%	7,845	6.50%	8,448	7.00%
Tier 1 capital to assets	19,894	10.27%	7,745	4.00%	9,681	5.00%	9,681	5.00%

9. EMPLOYEE BENEFIT PLANS

Supplemental Executive Retirement Plan (SERP)

Beginning in 2016, the Bank established a SERP for its executive officers. All benefits provided under the SERP are unfunded and, as the executive officers retire, the Company will make a payment to the participant. At June 30, 2019 and December 31, 2018, the Company recorded $101,000 and $83,000, respectively for the SERP in other liabilities. For the three months ended June 30, 2019 and 2018, the expense included in employee benefits for the SERP totaled $9,000 for both periods. For the six months ended June 30, 2019 and 2018, the expense included in employee benefits for the SERP totaled $18,000 for both periods.

Defined Benefit Plan

The Company provides pension benefits for eligible employees through a noncontributory defined benefit pension plan. Substantially all employees participate in the retirement plan on a noncontributing basis and are fully vested after five years of service.

The following table presents the components of the net periodic pension plan cost for the Company's Defined Benefit Pension Plan (the "Pension Plan") for the periods indicated:

	For the three months ended June 30,	
	2019	2018
	(In thousands)	
Service cost	$ 71	$ 84
Interest cost	119	103
Expected return on assets	(214)	(197)
Amortization of unrecognized loss	26	54
Net periodic pension cost	$ 2	$ 44

	For the six months ended June 30,	
	2019	2018
	(In thousands)	
Service cost	$ 142	$ 168
Interest cost	238	206
Expected return on assets	(428)	(394)
Amortization of unrecognized loss	52	108
Net periodic pension cost	$ 4	$ 88

The benefit obligation activity for the Pension Plan was calculated using an actuarial measurement date of January 1. Plan assets and the benefit obligations were calculated using an actuarial measurement date of December 31.

The Company will assess the need for future annual contributions to the Pension Plan based upon its funded status and an evaluation of the future benefits to be provided thereunder. A contribution of $500,000 was made to the pension plan during the six months ended June 30, 2019.

Employee stock ownership plan ("ESOP")

Effective upon the completion of the Company's initial public stock offering in October 2017, the Bank established an Employee Stock Ownership Plan ("ESOP") for all eligible employees. The ESOP used $775,740 in proceeds from a term loan obtained from the Company to purchase 77,574 shares of common stock in the initial public offering at a price of $10.00 per share. The ESOP loan will be repaid principally from the Bank's contribution to the ESOP in annual payments through 2047 based on the prime rate of interest on the first business day each year. Shares are released to participants on a straight-line basis over the loan term and allocated based on participant compensation. The Bank recognizes compensation benefit expense as shares are committed for release at their current market price. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares would be recorded as a reduction of retained earnings and dividends on unallocated shares would be recorded as a reduction of debt. The Company recognized $7,500 and $15,000 for the three and six months ended June 30, 2019 and 2018 respectively. At December 31, 2018, there were 74,407 shares not yet released having an aggregate market value of approximately $592,000. Participant vesting provisions for the ESOP are 20% per year and will be fully vested upon completion of six years of credited service. Eligible employees who were employed with the Bank shall receive credit for vesting purposes for each year of continuous employment prior to adoption of the ESOP.

10. EARNINGS PER SHARE COMMON

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Net income available to common stockholders is net income to the Company. The Company has not granted any restricted stock awards or stock options and, during the six months ended June 30, 2019 and 2018, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

The following tables set forth the calculation of basic earnings per share.

	Three months ended June 30, (Unaudited)	
(Dollars in Thousands Except per Share Data)	**2019**	**2018**
Basic earnings per common share:		
Net income available to common stockholders	$ 337	$ 193
Weighted average common shares outstanding	1,895,824	1,902,261
	$ 0.18	$ 0.10

	Six months ended June 30, (Unaudited)	
(Dollars in Thousands Except per Share Data)	**2019**	**2018**
Basic earnings per common share:		
Net income available to common stockholders	$ 545	$ 360
Weighted average common shares outstanding	1,861,301	1,902,585
	$ 0.29	$ 0.19

11. NON-INTEREST INCOME

The Company has included the following tables regarding the Company's non-interest income for the periods presented.

	(Unaudited) For the three months ended June 30,	
	2019	2018
	(Dollars in Thousands)	
Service fees		
Deposit related fees	$ 10	$ 10
Loan servicing income	24	21
Total service fees	34	31
Income from financial services		
Securities commission income	97	34
Insurance commission income	2	4
Total insurance and securities commission income	99	38
Card income		
Debit card interchange fee income	24	22
ATM fees	4	2
Insufficient fund fees	32	19
Total card and insufficient funds income	60	43
Realized gain on sale of residential mortgage loans		
Realized gain on sales of residential mortgage loans	14	6
Bank owned life insurance	13	14
Other miscellaneous income	8	6
Total non-interest income	$ 228	$ 138

	(Unaudited) For the six months ended June 30,	
	2019	2018
	(Dollars in Thousands)	
Service fees		
Deposit related fees	$ 20	$ 28
Loan servicing income	47	41
Total service fees	67	69
Income from financial services		
Securities commission income	143	82
Insurance commission income	6	8
Total insurance and securities commission income	149	90
Card income		
Debit card interchange fee income	45	39
ATM fees	9	4
Insufficient fund fees	57	28
Total card and insufficient funds income	111	71
Realized gain on sale of residential mortgage loans		
Realized gain on sales of residential mortgage loans	35	7
Bank owned life insurance	27	28
Other miscellaneous income	13	13
Total non-interest income	$ 402	$ 278

The Company recognizes revenue as it is earned. The following is a discussion of key revenues within the scope of the new revenue guidance:

- Service fees – Revenue from fees on deposit accounts is earned at the time that the charge is assessed to the customer's account. Fee waivers are discretionary and usually reversed within the same reporting period as assessed.

- Fee income – Fee income is earned through commissions and is satisfied over the time which the fee has been assessed.

- Card income and insufficient funds fees – Card income consists of interchange fees from consumer debit card networks and other card related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur. Insufficient funds fees are satisfied at the time the charge is assessed to the customer's account.

- Realized gains on sale of residential mortgage loans and available-for-sale securities are realized at the time the transaction occurs.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Statement Regarding Forward-Looking Statements

Certain statements contained herein are “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to:

- Credit quality and the effect of credit quality on the adequacy of our allowance for loan losses;
- Deterioration in financial markets that may result in impairment charges relating to our securities portfolio;
- Competition in our primary market areas;
- Changes in interest rates and national or regional economic conditions;
- Costs of expanding our branch network;
- Changes in monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- Significant government regulations, legislation, and potential changes thereto;
- A reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- Increased cost of operations due to greater regulatory oversight, supervision, and examination of banks and bank holding companies, and higher deposit insurance premiums;
- Limitations on our ability to expand consumer product and service offerings due to potential stricter consumer protection laws and regulations; and
- Other risks described herein and in the other reports and statements we file with the SEC.

The Company disclaims any obligation to revise or update any forward-looking statements contained in this Quarterly Report on Form 10-Q to reflect future events or developments.

Overview

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets (primarily cash and due from banks), and the interest we pay on our interest-bearing liabilities, consisting primarily of demand accounts, NOW accounts, savings accounts, money market accounts, certificate of deposit accounts and borrowings. Our results of operations also are affected by non-interest income, our provision for loan losses and non-interest expense. Non-interest income consists primarily of fee income and service charges, income from our financial services division, earnings on bank owned life insurance and realized gains on sales of loans. Non-interest expenses consist primarily of compensation and employee benefits, core processing, premises and equipment, professional fees, postage and office supplies, FDIC premiums, advertising, and other expenses. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, government policies and actions of regulatory authorities. For the three months ended June 30, 2019, we had net income of $315,000 compared to net income of $193,000 for the same period in 2018. The period over period $122,000 increase in net income was primarily due to an increase in net interest income, an increase in non-interest income and a decrease in non-interest expense, partially offset by an increase in the provision for loan losses. For the six months ended June 30, 2019, we had net income of $545,000 compared to $360,000 for the same period in 2018. The increase in net income of $185,000 was primarily due to an increase in net interest income and an increase in non-interest income, partially offset by an increase in the provision for loan losses.

At June 30, 2019, we had $206.3 million in consolidated assets, an increase of $11.0 million, or 5.6%, from $195.3 million at December 31, 2018. During the first six months of 2019, we continued to focus on loan production, particularly with respect to commercial and industrial loans as well as commercial real estate loans.

The Bank has been approved by the New York Banking Development District program to open a new branch office location in Bridgeport, New York. The Bank expects to open the branch in the fall of 2019.

Summary of Significant Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with U.S. GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be significant accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our consolidated financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our significant accounting policies:

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the date of the statement of condition and it is recorded as a reduction of loans. The allowance is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan and the entire allowance is available to absorb all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on our past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan are lower than the carrying value of that loan.

The general component covers pools of loans, by loan class, including commercial loans not considered impaired, as well as smaller balance homogenous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based on historical loss rates for each of these categories of loans, which are adjusted for qualitative factors. The qualitative factors include:

- Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices;
- National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans;
- Nature and volume of the portfolio and terms of the loans;
- Experience, ability and depth of the lending management and staff;
- Volume and severity of past due, classified, and non-accrual loans, as well as other loan modifications; and
- Quality of our loan review system and the degree of oversight by our board of directors.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss analysis and calculation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

In addition, various regulatory agencies periodically review the allowance for loan losses. As a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses as the process is the responsibility of Seneca Savings and any increase or decrease in the allowance is the responsibility of management.

Income Taxes. Income taxes are provided for the tax effects of certain transactions reported in the consolidated financial statements. Income taxes consist of taxes currently due plus deferred taxes related primarily to temporary differences between the financial reporting and income tax basis of the allowance for loan losses, premises and equipment, certain state tax credits, and deferred loan origination costs. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Estimation of Fair Values. Fair values for securities available-for-sale are obtained from an independent third-party pricing service. Where available, fair values are based on quoted prices on a nationally recognized securities exchange. If quoted prices are not available, fair values are measured using quoted market prices for similar benchmark securities. Management generally makes no adjustments to the fair value quotes provided by the pricing source. The fair values of foreclosed real estate and the underlying collateral value of impaired loans are typically determined based on evaluations by third parties, less estimated costs to sell. When necessary, appraisals are updated to reflect changes in market conditions.

Pension Plans. Seneca Savings sponsors a qualified defined benefit pension plan. The qualified defined benefit pension plan is funded with trust assets invested in a diversified portfolio of debt and equity securities. Accounting for pensions involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, we make extensive use of assumptions about inflation, investment returns, mortality, turnover, and discount rates. We have established a process by which management reviews and selects these assumptions annually. Among other factors, changes in interest rates, investment returns and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future contribution requirements. A significant decrease in investment returns or the market value of plan assets or a significant decrease in interest rates could increase our net periodic pension costs and adversely affect our results of operations. A significant increase in our contribution requirements with respect to our qualified defined benefit pension plan could have an adverse impact on our cash flow. Changes in the key actuarial plan assumptions would impact net periodic benefit expense and the projected benefit obligation for our defined benefit pension plan.

Change in Accounting Estimate. Due to a change in New York State tax law, mortgage recording tax expenses is a refundable tax credit, at the election of the tax payer. Under New York law, a bank that paid special additional mortgage recording tax ("SAMRT") on residential mortgages in most New York counties any year beginning on or before January 1, 2015, may elect to treat the unused portion of the SAMRT credit on those mortgages as overpayment of tax to be carried forward or refunded. Previously, any unused credit was only eligible to be carried forward to future years. The Bank made this election on July 1, 2018 and its impact is immaterial.

Average balances and yields. The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	For the Three Months Ended June 30, (Unaudited)					
	2019			2018		
	Average Outstanding Balance	Interest	Yield/ Rate [(4)]	Average Outstanding Balance	Interest	Yield/ Rate [(4)]
Interest-earning assets:						
Loans	$ 162,977	$ 1,974	4.84%	$ 146,047	$ 1,724	4.72%
Available-for-sale securities	26,469	175	2.64%	27,129	152	2.24%
FHLB Stock	2,873	44	6.13%	2,459	36	5.86%
Other interest-earning assets	1,383	4	1.16%	1,774	7	1.58%
Total interest-earning assets	$ 193,702	2,197	4.54%	177,409	1,919	4.33%
Noninterest-earning assets	9,759			6,435		
Total assets	$ 203,461			$ 183,844		
Interest-bearing liabilities:						
NOW accounts	$ 14,574	$ 5	0.14%	$ 13,644	$ 6	0.18%
Regular savings and demand club accounts	22,443	5	0.09%	21,409	3	0.06%
Money market accounts	16,071	39	0.97%	14,392	21	0.58%
Certificates of deposit and retirement accounts	78,094	396	2.03%	72,517	273	1.51%
Total interest-bearing deposits	131,182	445	1.36%	121,962	303	0.99%
FHLB Borrowings	33,135	216	2.61%	26,673	144	2.16%
Total interest-bearing liabilities	164,317	661	1.61%	148,635	447	1.20%
Noninterest-bearing deposits	15,651			13,249		
Other non-interest bearing liabilities	4,270			3,779		
Total liabilities and stockholders' equity	184,238			165,662		
Equity	19,223			18,182		
Total liabilities stockholders' and equity	$ 203,461			$ 183,844		
Net interest income		$ 1,536			$ 1,472	
Net interest rate spread [(1)]			2.93%			3.12%
Net interest-earning assets [(2)]	$ 29,385			$ 28,774		
Net interest margin [(3)]			3.17%			3.32%
Average interest-earning assets to average interest-bearing liabilities	118%			119%		

(1) Interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.
(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by total interest-earning assets.
(4) Annualized.

	For the Six Months Ended June 30, (Unaudited)					
	2019			2018		
	Average Outstanding Balance	Interest	Yield/ Rate [4]	Average Outstanding Balance	Interest	Yield/ Rate [4]
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 161,530	$ 3,860	4.78%	$ 144,253	$ 3,325	4.61%
Available-for-sale securities	26,742	351	2.63%	25,622	277	2.16%
FHLB Stock	2,871	96	6.69%	2,441	76	6.23%
Other interest-earning assets	1,347	11	1.78%	2,303	19	1.65%
Total interest-earning assets	192,490	4,318	4.49%	174,619	3,697	4.23%
Noninterest-earning assets	9,257			6,928		
Total assets	$ 201,747			$ 181,547		
Interest-bearing liabilities:						
NOW accounts	$ 14,537	$ 11	0.15%	$ 12,359	$ 11	0.18%
Regular savings and demand club accounts	22,278	10	0.09%	21,338	6	0.06%
Money market accounts	15,562	70	0.90%	13,875	39	0.56%
Certificates of deposit and retirement accounts	78,440	780	1.99%	72,322	523	1.45%
Total interest-bearing deposits	130,817	871	1.33%	119,894	579	0.97%
FHLB Borrowings	33,316	415	2.49%	27,435	282	2.06%
Total interest-bearing liabilities	164,133	1,286	1.57%	147,329	861	1.17%
Noninterest-bearing deposits	15,406			13,036		
Other non-interest bearing liabilities	3,026			2,982		
Total liabilities and stockholders' equity	182,565			163,347		
Stockholders' equity	19,182			18,200		
Total liabilities and equity	$ 201,747			$ 181,547		
Net interest income		$ 3,032			$ 2,836	
Net interest rate spread [1]			2.92%			3.07%
Net interest-earning assets [2]	$ 28,357			$ 27,290		
Net interest margin [3]			3.15%			3.25%
Average interest-earning assets to average interest-bearing liabilities	117%			119%		

(1) Interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.
(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by total interest-earning assets.
(4) Annualized.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Three Months Ended June 30, 2019 vs. 2018 (Unaudited)			Six Months Ended June 30, 2019 vs. 2018 (Unaudited)		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Loans	$ 200	$ 50	$ 250	$ 398	$ 136	$ 534
Available-for-sale securities	(4)	27	23	12	62	74
FHLB Stock	6	2	8	13	7	20
Other interest-earning assets	(2)	(1)	(3)	(8)	1	(7)
Total interest-earning assets	$ 200	$ 78	$ 278	$ 415	$ 206	$ 621
Interest-bearing liabilities:						
NOW accounts	$ -	$ (1)	$ (1)	$ 2	$ (2)	$ -
Regular savings and demand club accounts	-	2	2	-	4	4
Money market accounts	2	16	18	5	26	31
Certificates of deposit and retirement accounts	21	102	123	44	213	257
Total deposits	23	119	142	51	241	292
FHLB Borrowings	35	37	72	60	73	133
Total interest-bearing liabilities	58	156	214	111	314	425
Change in net interest income	$ 142	$ (78)	$ 64	$ 304	$ (108)	$ 196

Comparison of Financial Condition at June 30, 2019 and December 31, 2018

Total assets increased $11.0 million, or 5.6%, to $206.3 million at June 30, 2019 from $195.3 million at December 31, 2018. The increase was primarily due to increases in loans.

Loans increased $9.2 million, or 6.0%, to $163.9 million at June 30, 2019 from $154.7 million at December 31, 2018, reflecting increases in residential construction loans, commercial real estate loans and commercial and industrial loans and a decrease in one-to four-family residential loans. Residential construction loans increased $3.1 million, or 90.0%, to $6.6 million at June 30, 2019, from $3.5 million at December 31, 2018. Commercial real-estate loans increased $7.7 million, or 32.7%, to $31.1 million at June 30, 2019, from $23.4 million at December 31, 2018. Commercial and industrial loans increased $1.5 million, or 10.8%, to $15.7 million at June 30, 2019, from $14.1 million at December 31, 2018. One-to four-family residential loans decreased $3.2 million, or 3.1%, to $99.5 million at June 30, 2019 from $102.6 million at December 31, 2018. In the first six months of 2019, we increased our portfolio of residential construction loans, commercial real estate loans and commercial and industrial loans to increase earnings by adding lenders. The decrease in residential mortgages was a result of our continued focus on originating commercial loans, the sale of one-to four-family loans, with no recourse and retaining the servicing rights.

Securities available-for-sale decreased by $382,000, or 1.5%, to $25.8 million at June 30, 2019 from $26.2 million at December 31, 2018. The decrease was primarily due to sales of $1.8 million and principal payments of $874,000, partially offset by purchases of $2.0 million in new securities. The new purchases included three municipal obligations and a corporate bond.

Premises and equipment increased by $907,000, or 26.3%, to $4.4 million at June 30, 2019, from $3.4 million at December 31, 2018, primarily due to the remodeling of our main office and the purchase of land for our new location in Bridgeport, New York.

Cash and cash equivalents increased $262,000, or 7.6%, to $3.7 million at June 30, 2019 from $3.5 million at December 31, 2018 due to an increase in our deposit accounts.

Total deposits increased $3.9 million, or 2.8%, to $147.9 million at June 30, 2019 from $144.0 million at December 31, 2018. The increase was primarily due to increases in demand deposit accounts and money market accounts. Demand deposit accounts increased $3.8 million, or 28.5%, to $17.0 million at June 30, 2019 from $13.2 million at December 31, 2018. Money market accounts increased $1.7 million or 11.2% to $16.8 million at June 30, 2019, from $15.1 million at December 31, 2018. The increase in demand deposit accounts and money market accounts was primarily due to special advertising promotions during the first six months of 2019.

Total borrowings from the FHLBNY increased $5.5 million, or 19.4%, to $33.9 million at June 30, 2019 from $28.4 million at December 31, 2018 as we increased borrowings to fund loan growth.

Total stockholders' equity increased $714,000, or 3.7%, to $20.1 million at June 30, 2019 from $19.4 million at December 31, 2018. The increase was primarily due to net income of $545,000, a decrease of unearned ESOP shares of $13,000 and a decrease in accumulated other comprehensive loss of $537,000, partially offset by the purchase of $381,000 of treasury stock during the six months ended June 30, 2019.

Comparison of Operating Results for the Three Months Ended June 30, 2019 and 2018

General. Net income increased $122,000, or 63.2%, to $315,000 for the three months ended June 30, 2019, from $193,000 for the three months ended June 30, 2018. The increase was due to increases in net interest income and non-interest income and a decrease in non-interest expense, partially offset by an increase in the provision for loan losses.

Interest Income. Interest income increased $278,000, or 14.4%, to $2.2 million for the three months ended June 30, 2019, from $1.9 million for the three months ended June 30, 2018. Our average balance of interest-earning assets increased $16.3 million, or 9.2%, to $193.7 million for the three months ended June 30, 2019 from $177.4 million for the three months ended June 30, 2018 due primarily to an increase in the average balance of loans. The average yield on interest-earning assets increased 21 basis points to 4.54% for the three months ended June 30, 2019 from 4.33% for the three months ended June 30, 2018 as our interest-earning assets repriced with the rising interest rate environment.

Interest income on loans increased $250,000, or 14.5%, to $2.0 million for the three months ended June 30, 2019 from $1.7 million for the three months ended June 30, 2018, due to the increase in the average balance of loans and the increase in the average yield on loans. Our average balance of loans increased $16.9 million, or 11.6%, to $163.0 million for the three months ended June 30, 2019 from $146.0 million for the three months ended June 30, 2018. The increase in the average balance of loans resulted from our continued emphasis on growing our commercial loan portfolio. Our average yield on loans increased 12 basis points to 4.84% for the three months ended June 30, 2019 from 4.72% for the three months ended June 30, 2018, as our adjustable rate loans repriced with the rising interest rate environment and we originated new higher yielding commercial loans.

Interest income on available-for-sale securities increased $23,000, or 15.1%, to $175,000 for the three months ended June 30, 2019 from $152,000 for the three months ended June 30, 2018, due primarily to an increase in the average yield of available-for-sale securities, partially offset by the decrease in the average balance of available-for-sale securities. The average yield we earned on available-for-sale securities increased 40 basis points to 2.64% for the three months ended June 30, 2019, from 2.24% for the three months ended June 30, 2018, primarily as a result of lower premium amortization resulting from slower prepayment speeds on mortgage-backed securities and the repricing of floating rate securities to the three-month LIBOR in a rising rate environment. The average balance of available-for-sale securities decreased $660,000, or 2.4%, to $26.5 million for the three months ended June 30, 2019, from $27.1 million for the three months ended June 30, 2018. The decrease in the average balance of available-for-sale securities was due in part to the principal payments of amortizing debt securities.

Interest Expense. Interest expense increased $214,000, or 47.9%, to $661,000 for the three months ended June 30, 2019 from $447,000 for the three months ended June 30, 2018, due to increases in interest expense on deposits and borrowings. Our average balance of interest-bearing liabilities increased $15.7 million, or 10.6%, to $164.3 million for the three months ended June 30, 2019 from $148.6 million for the three months ended June 30, 2018 due primarily to increases in the average balance of deposits and FHLBNY borrowings. Our average rate on interest-bearing liabilities increased 41 basis points to 1.61% for the three months ended June 30, 2019 from 1.20% for the three months ended June 30, 2018 primarily as a result of increases in the average rate on FHLBNY borrowings and certificates of deposit.

Interest expense on deposits increased $142,000, or 46.9%, to $445,000 for the three months ended June 30, 2019 from $303,000 for the three months ended June 30, 2018 due to increases in the average rate paid on deposits and the average balance of deposits. The average rate paid on deposits increased to 1.36% for the three months ended June 30, 2019 from 0.99% for the three months ended June 30, 2018, primarily reflecting higher rates paid on promotional certificates of deposit and CDARS certificates of deposit. The average rate of certificates of deposit increased by 52 basis points to 2.03% for the three months ended June 30, 2019 from 1.51% for the three months ended June 30, 2018. The average balance of certificates of deposit increased by $5.6 million to $78.1 million for the three months ended June 30, 2019 from $72.5 million for the three months ended June 30, 2018.

Interest expense on borrowings increased $72,000, or 50.0%, to $216,000 for the three months ended June 30, 2019 from $144,000 for the three months ended June 30, 2018. The increase in interest expense on borrowings reflected the increase in the average rate of FHLBNY borrowings which increased by 45 basis points to 2.61% for the three months ended June 30, 2019 from 2.16% for the three months ended June 30, 2018. The average balance of borrowings with the FHLBNY increased in the second quarter of 2019 as compared to the second quarter of 2018 by $6.4 million from $26.7 million to $33.1 million in order to fund our asset growth. The average rate on borrowings increased due to the increase in short-term interest rates.

Net Interest Income. Net interest income increased $64,000, or 4.3%, to $1,536,000 for the three months ended June 30, 2019 from $1,472,000 for the three months ended June 30, 2018, primarily as a result of the growth in net interest-earning assets which increased $611,000, or 2.1%, from $28.8 million for the three months ended June 30, 2018 to $29.4 million for the three months ended June 30, 2019. Our net interest rate spread decreased by 19 basis points to 2.93% for the three months ended June 30, 2019 from 3.12% for the three months ended June 30, 2018, and our net interest margin decreased by 15 basis points to 3.17% for the three months ended June 30, 2019 from 3.32% for the three months ended June 30, 2018, primarily due to an increase in the average rate of interest-bearing liabilities which outpaced the increase in the average yield of interest-earning assets.

Provision for Loan Losses. We establish a provision for loan losses which is charged to operations to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably estimated at the date of the consolidated statement of financial condition. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses to maintain the allowance.

Based on our evaluation of the above factors, we recorded a provision for loan losses for the three months ended June 30, 2019 of $55,000. We had no provision for loan losses for the three months ended June 30, 2018. The increase in the provision for the three months ended June 30, 2019 was the result of growth in our loan portfolio. We did not experience net charge-offs in the second quarter of 2019. There was a $9,000 consumer loan charged-off in the second quarter of 2018. The allowance for loan losses was $1.2 million, or 0.70% of net loans outstanding at June 30, 2019. The allowance for loan losses was $1.2 million or 0.79% of net loans outstanding at December 31, 2018.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate for the three months ended June 30, 2019 and June 30, 2018. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

Non-Interest Income. Non-interest income increased $90,000, or 65.2%, to $228,000 for the three months ended June 30, 2019 from $138,000 for the three months ended June 30, 2018. The increase was primarily due to an increase in income from financial services and fee income. Fee income increased $19,000, or 38.8%, to $68,000 for the three months ended June 30, 2019 from $49,000 for the three months ended June 30, 2018. Financial services income increased $61,000, or 160.5%, to $99,000 for the three months ended June 30, 2019 from $38,000 for the three months ended June 30, 2018. Fee income increased because of our promotions targeting transaction accounts in the second quarter of 2019. Financial services income increased as a result of an increase in assets held under management by expanding the relationships of existing clients and adding new clients.

Non-Interest Expense. Non-interest expense decreased by $63,000, or 4.6%, to $1.3 million for the three months ended June 30, 2019 from $1.4 million for the three months ended June 30, 2018. The decrease was primarily due to a tax refund from New York State related to mortgage recording tax. Core processing decreased $63,000 for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018 due to the negotiated credit for our out-sourced call center. Premises and equipment expense increased by $6,000, or 4.9%, to $129,000 for the three months ended June 30, 2019, from $123,000 for the three months ended June 30, 2018. The increase was primarily due to the remodeling of our main office. Professional fees increased $55,000, or 75.3%, to $128,000 for the three months ended June 30, 2019 from $73,000 for the three months ended June 30, 2018. Professional fees increased due to audit, accounting and legal fees in the second quarter of 2019 as a result of operating as a public company. FDIC insurance premiums increased $6,000, or 60.0%, to $16,000 for the three months ended June 30, 2019 from $10,000 for the three months ended June 30, 2018 due to an increase in total assets of the Bank.

Income Tax Expense. We incurred income tax expense of $73,000 and $33,000 for the three months ended June 30, 2019 and 2018, respectively, resulting in effective tax rates of 18.8% and 14.6%, respectively. The increase in income tax expense for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018 was due to an increase of the effective tax rate. The tax provision is calculated quarterly projecting annual net income before tax including permanent and temporary differences.

Comparison of Operating Results for the Six Months Ended June 30, 2019 and 2018

General. Net income increased $185,000, or 51.4%, to $545,000 for the six months ended June 30, 2019, from $360,000 for the six months ended June 30, 2018. The increase was due to an increase in net interest income and an increase in non-interest income, partially offset by an increase in the provision for loan losses.

Interest Income. Interest income increased $621,000, or 16.8%, to $4.3 million for the six months ended June 30, 2019, from $3.7 million for the six months ended June 30, 2018. Our average balance of interest-earning assets increased $17.9 million, or 10.2%, to $192.5 million for the six months ended June 30, 2019 from $174.6 million for the six months ended June 30, 2018 due primarily to an increase in the average balance of loans. The average yield on interest-earning assets increased 26 basis points to 4.49% for the six months ended June 30, 2019 from 4.23% for the six months ended June 30, 2018 as our interest-earning assets repriced with the rising interest rate environment and we originated new higher yielding commercial loans.

Interest income on loans increased $534,000, or 16.1%, to $3.9 million for the six months ended June 30, 2019 from $3.3 million for the six months ended June 30, 2018 due to the increase in the average balance of loans and the increase in the average yield on loans. Our average balance of loans increased $17.3 million, or 12.0%, to $161.5 million for the six months ended June 30, 2019 from $144.3 million for the six months ended June 30, 2018. The increase in the average balance of loans resulted from our continued emphasis on commercial lending. Our average yield on loans increased 17 basis points to 4.78% for the six months ended June 30, 2019 from 4.61% for the six months ended June 30, 2018, as our adjustable rate loans repriced with the rising interest rate environment and we originated new higher yielding commercial loans.

Interest income on available-for-sale securities increased $74,000 or 26.7%, to $351,000 for the six months ended June 30, 2019 from $277,000 for the six months ended June 30, 2018 due primarily to increases in the average yield of available-for-sale securities and the average balance of available-for-sale securities. The average yield we earned on available-for-sale securities increased forty- seven basis points to 2.63% for the six months ended June 30, 2019 from 2.16% for the six months ended June 30, 2018 primarily as a result of lower premium amortization resulting from slower prepayment speeds on mortgage-backed securities and the repricing of floating rate securities to the three month LIBOR in a rising rate environment. The average balance of available-for-sale securities increased $1.1 million, or 4.4%, to $26.7 million for the six months ended June 30, 2019 from $25.6 million for the six months ended June 30, 2018.

Interest Expense. Interest expense increased $425,000, or 49.4%, to $1.3 million for the six months ended June 30, 2019 from $861,000 for the six months ended June 30, 2018, due to increases in interest expense on certificates of deposit and borrowings. Our average balance of interest-bearing liabilities increased $16.8 million, or 11.4%, to $164.1 million for the six months ended June 30, 2019 from $147.3 million for the six months ended June 30, 2018 due primarily to increases in the average balance of certificates of deposit and FHLBNY advances. Our average rate on interest-bearing liabilities increased 40 basis points to 1.57% for the six months ended June 30, 2019 from 1.17% for the six months ended June 30, 2018 primarily as a result of increases in the average rate on FHLBNY borrowings and certificates of deposit.

Interest expense on deposits increased $292,000, or 50.4%, to $871,000 for the six months ended June 30, 2019 from $579,000 for the six months ended June 30, 2018 due to increases in the average rate paid on deposits and the average balance of deposits. The average rate paid on deposits increased to 1.33% for the six months ended June 30, 2019 from 0.97% for the six months ended June 30, 2018, primarily reflecting higher rates paid on promotional certificates of deposit and CDARS certificates of deposit. The average rate of certificates of deposit increased by 54 basis points to 1.99% for the six months ended June 30, 2019 from 1.45% for the six months ended June 30, 2018. In addition, the average balance of certificates of deposit increased by $6.1 million to $78.4 million for the six months ended June 30, 2019 from $72.3 million for the six months ended June 30, 2018, which reflected the majority of the growth in the average balance of deposits.

Interest expense on borrowings increased $133,000, or 47.2%, to $415,000 for the six months ended June 30, 2019 from $282,000 for the six months ended June 30, 2018. The increase in interest expense on borrowings reflected the increase in the average rate of FHLBNY borrowings which increased by 43 basis points to 2.49% for the six months ended June 30, 2019 from 2.06% for the six months ended June 30, 2018. The average balance of borrowings with the FHLBNY increased in the first half of 2019 as compared to the first half of 2018 by $5.9 million from $27.4 million to $33.3 million in order to fund our asset growth. The average rate on borrowings increased due to the increase in short-term interest rates.

Net Interest Income. Net interest income increased $196,000, or 6.9%, to $3.0 million for the six months ended June 30, 2019 from $2.8 million for the six months ended June 30, 2018, primarily as a result of the growth in net interest-earning assets which increased $1.1 million, or 3.9%, from $27.3 million for the six months ended June 30, 2018 to $28.4 million for the six months ended June 30, 2019. Our net interest rate spread decreased by 15 basis points to 2.92% for the six months ended June 30, 2019 from 3.07% for the six months ended June 30, 2018, and our net interest margin decreased by 10 basis points to 3.15% for the six months ended June 30, 2019 from 3.25% for the six months ended June 30, 2018, primarily due to an increase in the average rate of interest-bearing liabilities which outpaced the increase in the average yield of interest-earning assets.

Provision for Loan Losses. We establish a provision for loan losses which is charged to operations to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably estimated at the date of the consolidated statement of financial condition. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses to maintain the allowance.

Based on our evaluation of the above factors, we recorded a provision for loan losses for the six months ended June 30, 2019 of $90,000 as compared to $10,000 for the six months ended June 30, 2018. The increase in the provision for the six months ended June 30, 2019 was the result of an increase in net-charge-offs and growth in our loan portfolio. We had net-charge-offs of $169,000 for the six months ended June 30, 2019 as compared to a $9,000 charge-off for the six months ended June 30, 2018. The allowance for loan losses was $1.2 million, or 0.70% of net loans outstanding at June 30, 2019. The allowance for loan losses was $1.2 million or 0.88% of net loans outstanding at December 31, 2018.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate for the six months ended June 30, 2019 and June 30, 2018. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management by expanding the relationship of existing clients and adding new clients.

Non-Interest Income. Non-interest income increased $124,000, or 44.6%, to $402,000 for the six months ended June 30, 2019 from $278,000 for the six months ended June 30, 2018. The increase was primarily due to an increase in income from financial services and fee income. Fee income increased $40,000, or 47.6%, to $124,000 for the six months ended June 30, 2019 from $84,000 for the six months ended June 30, 2018. Financial services income increased $59,000, or 65.6%, to $149,000 for the six months ended June 30, 2019 from $90,000 for the six months ended June 30, 2018. Fee income increased because of our promotions targeting transaction accounts in the first half of 2019. Financial services income increased as a result of more assets held under management.

Non-Interest Expense. Non-interest expense decreased by $1,000 to $2.7 million for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. The decrease was primarily due to a decrease in core processing expense and a decrease in New York mortgage recording tax, nearly offset by an increase in compensation and employee benefits as well as professional fees. Core processing expenses decreased $46,000, or 11.8% from $390,000 for the six months ended June 30, 2018 to $344,000 for the six months ended June 30, 2019. The decrease in core processing expenses was due to the negotiated credit for our out-sourced call center. The decrease in New York mortgage recording tax was primarily due to a tax refund from New York State. Compensation and employee benefits increased $15,000, or 1.0%, to $1,487,000 for the six months ended June 30, 2019 from $1,472,000 for the six months ended June 30, 2018 because of additional personnel. Professional fees increased $69,000 or 47.6%, to $214,000 for the six months ended June 30, 2019 from $145,000 for the six months ended June 30, 2018. Professional fees increased due to the additional legal fees to operate as a public company such as adding the stock incentive program as an employee benefit. No awards have been granted to date. FDIC insurance premiums increased $17,000 to $29,000 for the six months ended June 30, 2019, from $12,000 for the six months ended June 30, 2018 due to an increase in average assets of $20.2 million or 11.1%, year over year.

Income Tax Expense. We incurred income tax expense of $124,000 and $68,000 for the six months ended June 30, 2019 and 2018, respectively, resulting in effective tax rates of 18.5% and 15.9%, respectively. The increase in income tax expense for the six months ended June 30, 2019 as compared to the same period in 2018 was primarily due to an increase in the effective tax rate. The tax provision is calculated quarterly projecting annual net income before tax including permanent and temporary differences.

Non-Performing Assets

We define non-performing loans as loans that are either non-accruing or accruing whose payments are 90 days or more past due and non-accruing troubled debt restructurings. Non-performing assets, including non-performing loans, totaled $926,000, or 0.45% of total assets, at June 30, 2019 and $1.2 million, or 0.62% of total assets, at December 31, 2018. The decrease in non-performing assets was due to increased credit quality and collection efforts. The following table sets forth the amounts and categories of our non-performing assets at the dates indicated. We had no non-accruing troubled debt restructurings at the dates indicated.

	At June 30, 2019	**At December 31, 2018**
	(Unaudited)	
	(Dollars in thousands)	
Non-accrual loans:		
Residential:		
One- to four-family	$ 706	$ 1,201
Home equity loans and lines of credit	-	-
Construction	-	-
Commercial real estate	-	-
Commercial and industrial	-	-
Consumer and other	-	-
Total non-accrual loans	$ 706	$ 1,201
Accruing loans 90 days or more past due:		
Residential:		
One- to four-family	-	-
Home equity loans and lines of credit	-	-
Construction	-	-
Commercial real estate	-	-
Commercial and industrial	-	-
Consumer and other	-	13
Total accruing loans 90 days or more past due	$ -	$ 13
Total non-performing loans	706	1,214
Real estate owned	220	-
Total non-performing assets	$ 926	$ 1,214
Other non-performing loans to total loans	0.43%	0.78%
Total non-performing loans to total assets	0.34%	0.62%
Total non-performing assets to total assets	0.45%	0.62%

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or for the Six Months Ended June 30,	
	2019	2018
	(Unaudited) (Dollars in thousands)	
Balance at beginning of period	$ 1,234	$ 1,241
Charge-offs:		
Residential:		
One- to four-family	146	-
Home equity loans and lines of credit	-	-
Construction	16	-
Commercial real estate	-	-
Commercial and industrial	-	-
Consumer and other	7	9
Total charge-offs	169	9
Recoveries:		
Residential:		
One- to four-family	-	-
Home equity loans and lines of credit	-	-
Construction	-	-
Commercial real estate	-	-
Commercial and industrial	-	-
Consumer and other	-	-
Total recoveries	-	-
Net charge-offs	169	9
Provision for loan losses	90	10
Balance at end of period	$ 1,155	$ 1,242
Ratios:		
Net charge-offs to average loans outstanding	0.10%	0.01%
Allowance for loan losses to non-performing loans at end of period	181.60%	175.92%
Allowance for loan losses to total loans at end of period	0.70%	0.88%

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and proceeds from calls, maturities, and sales of securities. We also have the ability to borrow from the FHLBNY. At June 30, 2019, we had a $73.4 million line of credit with the FHLBNY and a $2.5 million line of credit with Zions Bank. At June 30, 2019, we had $33.9 million in outstanding borrowings from the FHLBNY. We have not borrowed against the line of credit with Zions Bank during the six months ended June 30, 2019.

The Board and Directors is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of June 30, 2019.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents, which includes cash and due from banks. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. At June 30, 2019, cash and cash equivalents totaled $3.7 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $25.8 million at June 30, 2019.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year at June 30, 2019, totaled $61.2 million, or 41.4%, of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and FHLBNY advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

At June 30, 2019, we exceeded all of our regulatory capital requirements, and we were categorized as well capitalized at June 30, 2019. Management is not aware of any conditions or events since the most recent notification that would change our category.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At June 30, 2019, we had outstanding commitments to originate loans of $2.3 million. We anticipate that we will have sufficient funds available to meet our current lending commitments.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Impact of Inflation and Changing Price

The consolidated financial statements and related data presented herein have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution’s performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information relating to this item.

Item 4 – Controls and Procedures

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

As of June 30, 2019, the Company is not currently a named party in a legal proceeding, the outcome of which would have a material effect on the financial condition or results of operations of the Company.

Item 1A – Risk Factors

A smaller reporting company is not required to provide the information relating to this item.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides certain information with regard to shares repurchased by the Company during the three months ended June 30, 2019.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
April 1 — April 30, 2019	15,521	$ 8.60	15,521	65,964
May 1 — May 31, 2019	4,527	$ 8.61	20,048	61,437
June 1 — June 30, 2019	7,000	$ 8.77	27,048	54,437
Total	27,048		27,048	

(1) The Company's Board of Directors authorized its first stock repurchase program on October 21, 2018 acquire up to 98,946 shares, or 5.0% of the Company's then outstanding common stock. Repurchases will be made from time to time depending on market conditions and other factors, and will be conducted through open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. There is no guarantee as to the exact number of shares to be repurchased by the Company.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 – Other Information

None.

Item 6 – Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
32	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer
101	The following materials from Seneca Financial Corp. Form 10-Q for the three and six months ended June 30, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Financial Condition (iii) the Consolidated Statements of Comprehensive Income (loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related notes

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SENECA FINANCIAL CORP.
(registrant)

August 14, 2019	/s/ Joseph G. Vitale Joseph G. Vitale President and Chief Executive Officer
August 14, 2019	/s/ Vincent J. Fazio Vincent J. Fazio Executive Vice President and Chief Financial Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph G. Vitale, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seneca Financial Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the entity, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are

reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2019

/s/ Joseph G. Vitale
Joseph G. Vitale
President and Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Vincent J. Fazio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seneca Financial Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the entity, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2019

/s/ Vincent J. Fazio
Vincent J. Fazio
Executive Vice President and Chief Financial Officer

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Section 4: EX-32 (EXHIBIT 32)

EXHIBIT 32 Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Seneca Financial Corp. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

August 14, 2019	/s/ Joseph G. Vitale Joseph G. Vitale President and Chief Executive Officer
August 14, 2019	/s/ Vincent J. Fazio Vincent J. Fazio Executive Vice President and Chief Financial Officer

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