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

TABLE OF CONTENTS

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

FORM 10-K

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

For the Year Ended December 31, 2018

OR

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

For the transition period from to

Commission File Number: **000-55853**

Seneca Financial Corp.

(Exact Name of Registrant as Specified in its Charter)

Federal	**82-3128044**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
35 Oswego Street, Baldwinsville, New York	**13027**
(Address of principal executive offices)	(Zip code)

(315) 638-0233

(Registrant's telephone number including area code)

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

Title of each class	Name of exchange on which registered
None	**None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 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 (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 the 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 ☒

The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock of $8.55 as of June 30, 2018, was $16.9 million.

As of March 20, 2019 there were 1,961,703 shares outstanding of the registrant’s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2019 Annual Meeting of Stockholders. (Part III)

TABLE OF CONTENTS

PART I		1
ITEM 1.	Business	1
ITEM 1A.	Risk Factors	30
ITEM 1B.	Unresolved Staff Comments	30
ITEM 2.	Properties	31
ITEM 3.	Legal Proceedings	31
ITEM 4.	Mine Safety Disclosures	31
PART II		32
ITEM 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
ITEM 6.	Selected Financial Data	33
ITEM 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	35
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	45
ITEM 8.	Financial Statements and Supplementary Data	45
ITEM 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	98
ITEM 9A.	Controls and Procedures	98
ITEM 9B.	Other Information	99
PART III		100
ITEM 10.	Directors, Executive Officers and Corporate Governance	100
ITEM 11.	Executive Compensation	100
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	100
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	100
ITEM 14.	Principal Accountant Fees and Services	100
ITEM 15.	Exhibits and Financial Statement Schedules	101
ITEM 16.	Form 10-K Summary	102

PART I

ITEM 1. Business

Forward Looking Statements

This annual report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "assume," "plan," "seek," "expect," "will," "may," "should," "indicate," "would," "contemplate," "continue," "potential," "target" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Accordingly, you should not place undue reliance on such statements. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this annual report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected, or the failure or breaches of information technology security systems;
- the inability of third-party providers to perform as expected;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;
- our ability to enter new markets successfully and capitalize on growth opportunities;

- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Seneca Financial Corp.

Seneca Financial Corp., a federal corporation that was organized in 2017, is a savings and loan holding company headquartered in Baldwinsville, New York. Seneca Financial Corp.'s common stock is quoted on the OTC Pink Marketplace operated by OTC Markets Group under the symbol "SNNF." Seneca Financial Corp. conducts its operations primarily through its wholly-owned subsidiary, Seneca Savings, a federally-chartered savings association. Seneca Financial Corp. manages its operations as one unit, and thus does not have separate operating segments. At December 31, 2018, Seneca Financial Corp. had total consolidated assets of $195.3 million, loans net of allowance of $154.7 million, deposits of $144.0 million, and stockholders' equity of $19.4 million.

Seneca Financial Corp. was formed as part of the mutual holding company reorganization of Seneca Savings, which was completed in October 2017. In connection with the reorganization, Seneca Financial Corp. sold 910,305 shares of common stock to the public at $10.00 per share, representing 46% of its outstanding shares of common stock. Seneca Financial MHC has been organized as a mutual holding company under the laws of the United States and owned the remaining 54% of the outstanding shares of common stock of Seneca Financial Corp. at the time of the completion of the reorganization.

The executive offices of Seneca Financial Corp. are located at 35 Oswego Street, Baldwinsville, New York 13027, and its telephone number is (315) 638-0233. Seneca Financial Corp. is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

Seneca Financial, MHC

Seneca Financial MHC was formed as a federal mutual holding company and will, for as long as it is in existence, own a majority of the outstanding shares of Seneca Financial Corp.'s common stock.

Seneca Financial, MHC's principal assets are the common stock of Seneca Financial Corp. it received in the reorganization and offering and $100,000 cash in initial capitalization. Presently, it is expected that the only business activity of Seneca Financial MHC will be to own a majority of Seneca Financial Corp.'s common stock. Seneca Financial MHC is authorized, however, to engage in any other business activities that are permissible for mutual holding companies under federal law, including investing in loans and securities.

Seneca Savings

Seneca Savings is a federally-chartered savings association headquartered in Baldwinsville, New York. Seneca Savings was originally chartered in 1928 as a New York-chartered mutual savings and loan association under the name "The Baldwinsville Savings & Loan Association." In 1936, we converted to a federal charter under the name "Baldwinsville Federal Savings & Loan Association." In 1958, the name was changed to "Seneca Federal Savings and Loan Association." Following completion of the reorganization, the association's legal name became Seneca Savings.

We conduct our business from our main office and two branch offices. All of our banking offices are located in Onondaga County, northwest of Syracuse, New York. Our primary market area currently consists of Onondaga County, New York and the contiguous counties.

Our business consists primarily of taking deposits from the general public and, historically, investing those deposits, together with funds generated from operations, in one- to four-family residential real estate loans, and, to a lesser extent, commercial real estate loans, home equity lines of credit, commercial and industrial loans, residential construction loans, and consumer loans. Subject to market conditions, we expect to increase our focus on originating commercial real estate loans and commercial and industrial loans in an effort to diversify our overall loan portfolio, increase the overall yield earned on our loans and assist in managing interest rate risk. We plan to sell in the secondary market the majority of the fixed-rate conforming one- to four-family residential real estate loans that we originate with terms of 20 years or greater. We also invest in securities, which have historically consisted primarily of mortgage-backed securities issued by U.S. government sponsored enterprises, municipal securities, corporate bonds and Federal Home Loan Bank (FHLB) of New York stock. We offer a variety of deposit accounts, including demand accounts, NOW accounts, savings accounts, money market accounts and certificate of deposit accounts.

Our executive office is located at 35 Oswego Street, Baldwinsville, New York 13027, and our telephone number at this address is (315) 638-0233. Our website address is www.senecasavings.com. Information on our website is not and should not be considered a part of this annual report.

Market Area

We conduct our business from our main office and two branch offices. All of our banking offices are located in Onondaga County, northwest of Syracuse, New York. Onondaga County, New York represents our primary geographic market area for deposits, while we make loans in Onondaga County and the contiguous counties.

Baldwinsville, New York is a village located in Onondaga County and is 15 miles northwest of Syracuse, New York. Baldwinsville has an estimated population of 7,885 and an estimated median household income of $41,143. Anheuser-Busch, the world's largest beer maker, has a plant on a 370-acre site located in Baldwinsville. We view Onondaga County, which is part of the Syracuse, New York Metropolitan Statistical Area and is more populous than the other contiguous counties, as a primary area for growth, particularly for commercial lending and deposit areas. Onondaga county includes a high concentration of office, medical, retail, industrial, mixed use and multi-family real estate buildings and businesses. Other large employers in Onondaga County include Carrier Corporation, Lockheed Martin, Syracuse University, Upstate University Health System and St. Joseph's Hospital Health Center. There are approximately 11,700 businesses operating in Onondaga County.

Onondaga County's total population is estimated at 465,398. The unemployment rate at December 2018, for Onondaga County was 3.6%, and lower than 4.5% for the State of New York, and 4.0% for the United States. The median household income in Onondaga County was approximately $56,991, which is lower than the New York state median of $62,909 and the national median household income of $59,039.

We believe that we have developed products and services that will meet the financial needs of our current and future customer base; however, we plan, and believe it is necessary, to expand the range of products and services that we offer to be more competitive in our market area. Marketing strategies focus on the strength of our knowledge of local consumer and small business markets, as well as expanding relationships with current customers and reaching out to develop new, profitable business relationships. Our close proximity to Syracuse provides us access to a relatively large population for our products and services.

Competition

We face competition within our market area both in making loans and attracting deposits. Our market area has a concentration of financial institutions that include large money center and regional banks, community banks and credit unions. We also face competition from savings institutions, mortgage banking firms, consumer finance companies and credit unions and, with respect to deposits, from money market funds, brokerage firms, mutual funds, insurance companies and credit unions. As of June 30, 2018 (the most recent date for which data is available), our market share of deposits represented 1.35% of Federal Deposit Insurance Corporation-insured deposits in Onondaga County, ranking us 13th in market share of deposits out of 15 institutions operating in the county.

Lending Activities

General. Our historical principal lending activity has been originating one- to four-family residential real estate loans and, to a lesser extent, commercial real estate loans, commercial and industrial loans, home equity lines of credit, residential construction and consumer loans. More recently, we have sought to increase our commercial real estate and commercial and industrial lending in an effort to diversify our overall loan portfolio, increase the overall yield earned on our loans and assist in managing interest rate risk. Historically, we have not sold a significant amount of loans, but beginning in 2015, we started to regularly sell a portion of our fixed-rate one- to four-family residential real estate loans in order to manage the duration and time to repricing of our loan portfolio, and to generate fee income.

Our strategic plan continues to focus on residential real estate lending and to gradually increase our commercial lending. We generally retain in our portfolio adjustable-rate or shorter-term fixed-rate residential real estate mortgage loans. Beginning in 2015, we have started regularly selling loans in the secondary market. Loans that we sell into the secondary market consist of long-term (20 years or greater), conforming fixed-rate residential real estate mortgage loans, which we primary sell to the FHLB of New York's Mortgage Partnership Finance program, and beginning in 2017, to Freddie Mac. These loans are sold without recourse. We generally retain the servicing rights on all conforming fixed-rate residential mortgage loans that we sell. We may experience declines in the residential mortgage loan portfolio during 2019 if interest rates increase. Our commercial lending efforts will focus on the small-to-medium sized business market, targeting borrowers with outstanding loan balances of between $250,000 to $1,000,000. We will focus primarily on commercial real estate loans and on commercial and industrial loans in our market area. As part of the commercial loan strategy, we will seek to use our commercial relationships to grow our commercial transactional deposit accounts.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loans at the dates indicated.

	At December 31,			
	2018		2017	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Residential:				
One- to four-family	$102,617	66.0%	$ 95,697	67.5%
Home equity loans and lines of credit	9,212	5.9%	7,706	5.4%
Construction	3,500	2.3%	5,978	4.2%
Commercial real estate	23,409	15.1%	21,673	15.3%
Commercial and industrial	14,134	9.1%	8,312	5.9%
Consumer and other	2,519	1.6%	2,443	1.7%
Total loans receivable	155,391	100.0%	141,809	100.0%
Deferred loan costs	493		582	
Allowance for loan losses	(1,234)		(1,241)	
Total loans receivable, net	$154,650		$141,150	

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2018. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in the year ending December 31, 2019. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

	One- to four-family	Home equity loans and lines of credit	Residential Construction	Commercial Real Estate	Commercial and Industrial	Consumer and other	Total
				(Dollars in Thousands)			
Due During the Years Ending December 31,							
2019	$ 25	$ —	$ —	$ 158	$ 2,861	$ 92	$ 3,136
2020	203	6	—	—	109	97	415
2021	182	14	—	—	1,755	168	2,119
2022 to 2023	1,251	18	—	95	3,230	690	5,284
2024 to 2028	5,779	179	—	872	4,696	326	11,852
2029 to 2033	13,947	696	—	3,845	—	622	19,110
2034 and beyond	81,230	8,299	3,500	18,439	1,483	524	113,475
Total	$102,617	$9,212	$ 3,500	$ 23,409	$14,134	$ 2,519	$155,391

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2018 that are contractually due after December 31, 2019.

	Due After December 31, 2019		
	Fixed	Adjustable	Total
		(In thousands)	
Residential:			
One- to four-family	$ 98,357	$ 4,235	$102,592
Home equity loans and lines of credit	463	8,749	9,212
Construction	—	3,500	3,500
Commercial real estate	968	22,283	23,251
Commercial and industrial	5,151	6,122	11,273
Consumer and other	2,427	—	2,427
Total	$107,366	$ 44,889	$152,255

One- to Four-Family Residential Real Estate Lending. Our primary lending activity is the origination of one- to four-family residential real estate mortgage loans. At December 31, 2018, $102.6 million, or 66.0%, of our total loan portfolio consisted of one- to four-family residential real estate mortgage loans. We offer conforming and non-conforming, fixed-rate and adjustable-rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $484,350. Our adjustable-rate mortgage loans provide an initial fixed interest rate for one, five, seven or ten years and then adjust annually thereafter. They amortize over a period of up to 30 years.

One- to four-family residential real estate mortgage loans are generally underwritten according to Freddie Mac guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate both fixed-rate and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Office of Federal Housing Enterprise Oversight, which at December 31, 2018 was $424,100 for single-family homes in our market area. Loans that exceed that limit are considered “jumbo loans.” At December 31, 2018, we had only $5.8 million in jumbo loans. For first mortgage loans with loan-to-value ratios in excess of 80%, we require private mortgage insurance. We do not have any loans in our loan portfolio that are considered sub-prime, or Alt-A. At December 31, 2018, we had $5.2 million in non-owner occupied one- to four-family residential real estate mortgage loans.

We currently offer several adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period ranging from one year to ten years. After the initial fixed period, the interest rate on adjustable-rate mortgage loans is generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities, adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board, subject to periodic and lifetime limitations on interest

rate changes. All of our traditional adjustable-rate mortgage loans with initial fixed-rate periods of one, five, seven or ten years have initial and periodic caps of two percentage points on interest rate changes, with a cap of six percentage points for the life of the loan. Many of the borrowers who select these loans have shorter-term credit needs than those who select long-term, fixed-rate mortgage loans. We do not offer “Option ARM” loans, where borrowers can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. At December 31, 2018, we had $4.2 million in adjustable-rate one- to four-family residential real estate mortgage loans.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default.

We require title insurance on all of our one- to four-family residential real estate mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. A majority of our residential real estate mortgage loans have a mortgage escrow account from which disbursements are made for real estate taxes and flood insurance. We do not conduct environmental testing on residential real estate mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan. If we identify an environmental problem on land that will secure a loan, the environmental hazard must be remediated before the closing of the loan.

Home Equity Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity lines of credit that are secured by the borrower’s primary or secondary residence. At December 31, 2018, we had $9.2 million, or 5.9%, of our total loan portfolio in home equity lines of credit and home equity loans. Unused commitments related to home equity lines of credit at December 31, 2018 were $5.3 million. Beginning in 2015, we stopped originating home equity loans and have a remaining balance of $463,000 at December 31, 2018.

Home equity lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity lines of credit may be underwritten with a loan-to-value ratio of up to 80% (or 90% if we hold the first mortgage) when combined with the principal balance of the existing first mortgage loan. Our home equity lines of credit are originated with adjustable-rates based on the prime rate of interest and require interest paid monthly with terms of up to 25 years. For the first ten years during the draw period only interest is required to be paid. Home equity lines of credit are generally available in amounts between $50,000 and $150,000.

Home equity lines of credit secured by junior mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. At December 31, 2018, $3.6 million of our home equity loans and lines of credit were in a junior lien position, nearly all of which were second mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure, after repayment of the senior mortgages, if applicable. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity lines of credit, decreases in real estate values could adversely affect our ability to fully recover the loan balance in the event of a default.

Commercial Real Estate Loans. In recent years, we have sought to increase our commercial real estate loans. Our commercial real estate loans are secured primarily by office buildings, industrial facilities, retail facilities, motels and other commercial properties, substantially all of which are located in our primary market area. At December 31, 2018, we had $23.4 million in commercial real estate loans, representing 15.1% of our total loan portfolio. This amount included $4.5 million of multi-family residential real estate loans. At December 31, 2018, we had $6.9 million in non-owner occupied commercial real estate loans (excluding multi-family residential real estate loans). At December 31, 2018, our commercial real estate loans had an average balance of $260,000.

We generally originate adjustable-rate commercial real estate loans with maximum terms of up to 25 years. Adjustable-rate commercial real estate loans are tied to the five-year FHLB of New York advance rate plus a margin, subject to an interest rate floor. The maximum loan-to-value ratio of our commercial real estate loans is generally 80% (75% for non-owner occupied). All of our commercial real estate loans are subject to our underwriting procedures and guidelines. At December 31, 2018, our largest commercial real estate loan totaled $1.5 million and was secured by a hotel located in our primary market area. At December 31, 2018, this loan was performing in accordance with its terms.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower (including credit history), profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower’s experience in owning or managing similar property and the borrower’s payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service and the ratio of the loan amount to the appraised value of the mortgaged property. All commercial real estate loans are generally appraised by outside independent appraisers approved by the board of directors. Personal guarantees are obtained from commercial real estate borrowers.

Loans secured by commercial real estate generally are larger than one- to four-family residential loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

Commercial and Industrial Loans. We make commercial and industrial loans, primarily in our market area, to a variety of professionals, sole proprietorships and small businesses. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At December 31, 2018, commercial and industrial loans were $14.1 million, or 9.1% of our total loan portfolio. As part of our relationship-driven focus, we encourage our commercial borrowers to maintain their primary deposit accounts with us, which enhances our interest rate spread and margin.

Commercial lending products include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either adjustable or fixed rates of interest. Adjustable rates and fixed rates are based on the prime rate as published in *The Wall Street Journal*, plus a margin. We are focusing our efforts on experienced, growing small- to medium-sized, privately-held companies with solid historical and projected cash flow that operate in our market areas.

When making commercial and industrial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral. The debt service coverage ratio (the ratio of net operating income to debt service) must generally be at least 120.0% of the monthly debt service. Commercial and industrial loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment, and are supported by personal guarantees. Depending on the collateral used to secure the loans, commercial and industrial loans are made in amounts of up to 75.0% of the value of the collateral securing the loan, or 90.0% of the value on new equipment purchases. We generally do not make unsecured commercial and industrial loans.

Commercial and industrial loans generally have greater credit risk than residential real estate loans. Unlike residential real estate loans, which generally are made on the basis of the borrower’s ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial and industrial loans generally are made on the basis of the borrower’s ability to repay the loan from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We seek to minimize these risks through our underwriting standards. At December 31, 2018, our largest commercial and industrial loan was a $1.5 million loan to an adult long-term care facility. This loan was performing according to its original terms at December 31, 2018.

Residential Construction Loans. We make construction loans, primarily to individuals for the construction of their primary residences and to contractors and builders of single-family homes. At December 31, 2018, our construction loans totaled $3.5 million, representing 2.3% of our total loan portfolio. At that date, we also had $2.7 million of construction loans in process. At December 31, 2018, all our single-family construction loans were to individuals.

Most of our residential construction loans are interest-only loans that provide for the payment of interest during the construction phase, which is usually up to six months. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be paid in full. Construction loans generally can be made with a maximum loan-to-value ratio of 90% of the estimated appraised market value upon completion of the project. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser and title insurance. We also generally require inspections of the property before disbursements of funds during the term of the construction loan.

At December 31, 2018, our largest construction and land loan was for $981,000, all of which was outstanding. This loan was originated in 2018 and is secured by a one- to four-family residential property. This loan was performing according to its terms at December 31, 2018.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the loan.

Consumer Loans. We offer a limited range of consumer loans, principally to customers residing in our primary market area with other relationships with us and with acceptable credit ratings. Our consumer loans generally consist of loans secured by manufactured homes, deposit accounts, loans on new and used automobiles and unsecured personal loans. At December 31, 2018, consumer and other loans were $2.5 million, or 1.6% of our total loan portfolio. The largest portion of our consumer loan portfolio was manufactured home loans which totaled $1.4 million at December 31, 2018.

Consumer loans may entail greater risk than residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as motor vehicles. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower’s continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Originations, Purchases and Sales of Loans

Lending activities are conducted by our loan personnel operating at our main and branch office locations. We also obtain referrals from existing or past customers and from real estate brokers, builders and attorneys. All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate Freddie Mac underwriting guidelines to the extent applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment, which typically results in decreased loan demand.

We generally do not purchase whole loans from third parties. However, from time to time, we may purchase or sell participation interests in loans. We underwrite our participation interest in the loan that we are purchasing according to our own underwriting criteria and procedures. At December 31, 2018, we had $1.5 million of loan participation interests that we purchased, and at that date, we had no loans for which we had sold participation interests.

Historically, we have not sold a significant amount of loans, but beginning in 2015, we started to regularly sell a portion of our fixed-rate one- to four-family residential real estate loans into the secondary market in order to manage the duration and time to repricing of our loan portfolio, and to generate fee income. Loans that we sell into the secondary market consist of long-term (20 years or greater), conforming fixed-rate residential real estate mortgage loans, which we primary sell to the FHLB of New York's Mortgage Partnership Finance program, and beginning in 2017, to Freddie Mac. These loans are sold without recourse. We generally retain the servicing rights on all conforming fixed-rate residential mortgage loans that we sell. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremediated defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We retain a portion of the interest paid by the borrower on the loans we service as consideration for our servicing activities.

Loan Approval Procedures and Authority

Pursuant to federal law, the aggregate amount of loans that Seneca Savings is permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of Seneca Savings' unimpaired capital and surplus (25% if the amount in excess of 15% is secured by "readily marketable collateral"). At December 31, 2018, based on the 15% limitation, Seneca Savings' loans-to-one-borrower limit was approximately $3.0 million. Seneca Savings' internal limit at December 31, 2018 was $1.7 million. On the same date, Seneca Savings had no borrowers with outstanding balances in excess of this amount. At December 31, 2018, our largest loan relationship with one borrower was for $1.5 million, which was secured by a hotel in our primary market area, and the underlying loan was performing in accordance with its terms on that date.

Our lending is subject to written underwriting standards and origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower, credit histories that we obtain, and property valuations (consistent with our appraisal policy) prepared by outside independent licensed appraisers approved by our board of directors as well as internal evaluations, where permitted by regulations. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and the more significant items on the application are verified through use of credit reports, bank statements and tax returns.

Residential mortgage loans up to $424,100 (the current conforming loan limit) may be approved by underwriters. Each of our President and Chief Executive Officer, Vice President of Residential Lending and Vice President of Commercial Lending has individual authorization to approve residential loans up to $500,000. Residential loans greater than $500,000 and up to $1,000,000 must be approved by our loan committee while loans over $1,000,000 must be approved by our loan committee and the board of directors. Our loan committee consists of our President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President of Commercial Lending, Vice President of Residential lending and two outside board members.

Commercial loans up to $100,000 may be approved by commercial loan officers and up to $200,000 by the Vice President of Commercial Lending. The President and Chief Executive Officer has individual authority to approve a commercial loan up to $250,000. These individuals can combine their authority to approve commercial loans up to $400,000. Our loan committee can approve commercial loans up to $1,000,000 in the aggregate. Commercial loans in excess of $1,000,000 require the approval of both the loan committee and our board of directors.

We require title insurance on our mortgage loans as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan.

Delinquencies and Asset Quality

Delinquency Procedures. System-generated late notices are mailed to borrowers after the late payment "grace period," which is 15 days in the case of all loans secured by residential or commercial real estate and 10 days in the case of commercial and industrial and most consumer loans. A second notice will be mailed to borrowers if the loan remains past due after 30 days, and we attempt to contact the borrower and develop a plan of repayment. By the 90th day of delinquency, we will have our attorneys issue a demand letter. The demand letter will require the borrowers to bring the loan current within 30 days in order to avoid the beginning of foreclosure proceedings for loans secured by real estate. A report of all loans 30 days or more past due is provided to the board of directors monthly.

Loans Past Due and Non-Performing Assets. Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable that at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower or the value of the underlying collateral if the loan is collateral dependent. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan losses is based on present value of expected future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Non-accrual loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received on a cash basis or cost recovery method.

When we acquire real estate as a result of foreclosure, the real estate is classified as real estate owned. The real estate owned is recorded at the lower of carrying amount or fair value, less estimated costs to sell. Any excess of the recorded value of the loan satisfied over the market value of the property is charged against the allowance for loan losses, or, if the existing allowance is inadequate, charged to expense of the current period. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

A loan is classified as a troubled debt restructuring if, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months. At December 31, 2018 and 2017, we had two commercial real-estate loans considered to be troubled debt restructurings and were accruing, totaling $1.0 million.

Delinquent Loans. The following table sets forth our loan delinquencies by type and by amount at the dates indicated.

	Loans Delinquent For			
	30 to 59 Days	60 to 89 Days	90 Days and Over	Total
	Amount	Amount	Amount	Amount
	(In Thousands)			
At December 31, 2018				
Residential:				
One- to four-family	$ 1,331	$ 628	$ 670	$ 2,629
Home equity loans and lines of credit	—	—	—	—
Construction	—	—	462	462
Commercial real estate	—	364	—	364
Commercial and industrial	—	—	—	—
Consumer and other	3		13	16
Total	$ 1,334	$ 992	$ 1,145	$ 3,471
At December 31, 2017				
Residential:				
One- to four-family	$ 740	$ 121	$ 1,177	$ 2,038
Home equity loans and lines of credit	—	—	—	—
Construction	—	—	—	—
Commercial real estate	247	—	—	247
Commercial and industrial	—	—	—	—
Consumer and other	29	8	—	37
Total	$ 1,016	$ 129	$ 1,177	$ 2,322

Total delinquent loans increased $1.2 million to $3.5 million at December 31, 2018 from $2.3 million at December 31, 2017, due primarily to an increase in one- to four-family residential loans. Delinquent loans increased during the year ended December 31, 2018 due to a larger one-to four-family loan portfolio.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At December 31,	
	2018	2017
	(Dollars in Thousands)	
Non-Accrual		
Residential:		
One- to four-family	$ 739	$1,177
Home equity loans and lines of credit	—	—
Construction	462	—
Commercial real estate	—	—
Commercial and industrial	—	—
Consumer and other	13	—
Total	$1,214	$1,177

	At December 31, 2018	At December 31, 2017
	(Dollars in Thousands)	
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	—	—
Total accruing loans 90 days or more pass due	—	—
Total non-performing loans	1,214	1,177
Real estate owned	—	—
Other non-performing assets	—	—
Total non-performing assets	$1,214	$1,177
Total accruing troubled debt restructured loans	$1,020	$1,020
Ratios:		
Total non-performing loans to total loans	0.78%	0.83%
Total non-performing loans to total assets	0.62%	0.67%
Total non-performing assets to total assets	0.62%	0.67%

For the years ended December 31, 2018 and 2017, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $79,000 and $61,000, respectively. No interest income was recognized on such loans for the years ended December 31, 2018 or 2017.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the Office of the Comptroller of the Currency to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention” by our management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

In connection with the filing of our call reports with the Office of the Comptroller of the Currency and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets and assets designated as special mention as of December 31, 2018 and 2017. The classified assets total at December 31, 2018 includes no non-performing loans.

	At December 31,	
	2018	**2017**
	(In Thousands)	
Classification of Assets:		
Substandard	$2,396	$1,979
Doubtful	—	—
Loss	—	—
Total Classified Assets	$2,396	$1,979
Special Mention	$ —	$ 77
Total Classified and Criticized Assets	$2,396	$2,056

Allowance for Loan Losses

We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are 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 doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. 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.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management considers the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment disclosures.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. As an integral part of their examination process, the Office of the Comptroller of the Currency 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 the process for 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.

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

	At or For the Years Ended December 31,	
	2018	2017
	(Dollars in Thousands)	
Balance at beginning of year	$ 1,241	$ 1,170
Charge-offs:		
Residential:		
One- to four-family	—	52
Home equity loans and lines of credit	—	—
Construction	—	—
Commercial real estate	—	12
Commercial and industrial	8	61
Consumer and other	9	—
Total charge-offs	17	125
Recoveries:		
Residential:		
One- to four-family	—	13
Home equity loans and lines of credit	—	—
Construction	—	—
Commercial real estate	—	—
Commercial and industrial	—	3
Consumer and other	—	—
Total recoveries	—	16
Net charge-offs	17	109
Provision for loan losses	10	180
Balance at end of year	$ 1,234	$ 1,241
Ratios:		
Net charge-offs to average loans outstanding	0.01%	0.08%
Allowance for loan losses to non-performing loans at end of year	101.65%	105.44%
Allowance for loan losses to total loans at end of year	0.79%	0.88%

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2018			2017		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in Thousands)					
Residential:						
One- to four-family	$ 688	55.7%	66.0%	$ 646	52.1%	67.5%
Home equity loans and lines of credit	55	4.5%	2.3%	44	3.5%	5.4%
Construction	12	1.0%	5.9%	19	1.5%	4.2%
Commercial real estate	178	14.4%	15.1%	161	13.0%	15.3%
Commercial and industrial	132	10.7%	9.1%	116	9.3%	5.9%
Consumer and other	17	1.4%	1.6%	5	0.4%	1.7%
Total allocated allowance	1,082	87.7%	100.0%	991	79.9%	100.0%
Unallocated allowance	152	12.3%	—	250	20.1%	—
Total allowance for loan losses	$ 1,234	100.0%	100.0%	$ 1,241	100.0%	100.0%

Investment Activities

General. Our board of directors is responsible for approving and overseeing our investment policy. The investment policy is reviewed at least annually by management and any changes to the policy are recommended to the board of directors and are subject to its approval. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns and consistency with our interest rate risk management strategy. Our asset/liability management committee, which consists of our President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President of Commercial Lending, AVP of Operations, VP Regional Branch Manager and two board members, oversees our investing activities and strategies. All transactions are formally reviewed by the board of directors at least monthly.

Our current investment policy authorizes us to invest in debt securities issued by the U.S. government and its agencies or government sponsored enterprises. The policy also permits investments in mortgage-backed securities, including pass-through securities, issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as investments in federal funds and deposits in other insured institutions. In addition, management is authorized to invest in investment grade state and municipal obligations and corporate debt obligations within regulatory parameters. We do not engage in any investment hedging activities or trading activities, nor do we purchase any high-risk mortgage derivative products, corporate junk bonds, and certain types of structured notes.

Debt and equity securities investment accounting guidance requires that, at the time of purchase, we designate a security as held to maturity, available for sale, or trading, depending on our ability and intent. At all dates below, we have only a securities available for sale portfolio which is reported at fair value.

The following table sets forth the amortized cost and fair value of our securities portfolio (excluding FHLB of New York common stock) at the dates indicated.

	At December 31,			
	2018		2017	
	Amortized Costs	Fair Value	Amortized Costs	Fair Value
	(Dollars in Thousands)			
Municipal securities	$ 9,850	$ 9,679	$ 9,157	$ 9,038
Mortgage-backed securities	4,228	4,170	1,821	1,802
Collateralized mortgage obligations	6,794	6,609	8,557	8,414
Corporate securities	5,853	5,716	2,823	2,843
Total securities available for sale	$ 26,725	$26,174	$ 22,358	$22,097

Portfolio Maturities and Yields. The composition and maturities of the available-for-sale securities portfolio at December 31, 2018 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Tax-equivalent yields are presented and calculated to maturity. All the securities at this date were held as available-for-sale.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Municipal securities	$500	4.99%	$ 548	1.78%	$4,452	2.72%	$ 4,350	2.88%	$ 9,850	$ 9,679	2.98%
Mortgage-backed securities	—	—%	—	—%	—	—%	4,228	2.74%	4,228	4,170	2.73%
Collateralized mortgage obligations	—	—%	109	1.30%	—	—%	6,685	2.35%	6,794	6,609	2.32%
Corporate securities	—	—%	2,824	2.34%	3,029	2.94%	—	—%	5,853	5,716	3.50%
Total securities available for sale	$500	4.99%	$3,481	2.44%	$7,481	2.81%	$15,263	2.61%	$26,725	$26,174	2.90%

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also use borrowings, primarily FHLB of New York advances, to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and manage the cost of funds. In addition, we receive funds from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. Our deposits are generated primarily from our primary market area. We offer a selection of deposit accounts, including demand accounts, NOW accounts, savings accounts, money market accounts and certificates of deposit and retirement accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. At December 31, 2018, we had $10.5 million in CDARS deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. We rely upon personalized customer service, long-standing relationships with customers, and the favorable reputation of Seneca Savings in the community to attract and retain deposits. We also seek to obtain deposits from our commercial loan customers.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions.

The following table sets forth the distribution of our average total deposit accounts, by account type, for the years indicated.

	For the Years Ended December 31,					
	2018			2017		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in Thousands)					
Deposit type:						
NOW accounts	$ 13,892	10.3%	0.15%	$ 11,944	9.0%	0.15%
Regular savings and demand club accounts	21,417	15.9	0.06%	22,888	17.1	0.06%
Money market accounts	13,554	10.0	0.56%	13,822	10.4	0.56%
Certificates of deposit and retirement accounts	73,034	54.0	1.26%	69,553	52.1	1.26%
Non-interest-bearing deposits	13,269	9.8	—%	15,228	11.4	—%
Total deposits	$135,166	100.0%	0.74%	$133,435	100.0%	0.74%

As of December 31, 2018, the aggregate amount of our outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $52.2 million. The following table sets forth the maturity of those certificates as of December 31, 2018.

	At December 31, 2018
	(In Thousands)
Three months or less	$ 7,127
Over three months through six months	8,807
Over six months through one year	21,437
Over one year to three years	14,733
Over three years	120
Total	$52,224

Borrowings. Our borrowings consist of advances from the FHLB of New York. At December 31, 2018, we had the ability to borrow approximately $80.1 million under our credit facilities with the FHLB of New York, of which $28.4 million was advanced. Borrowings from the FHLB of New York are secured by our investment in the common stock of the FHLB of New York as well as by a blanket pledge of our mortgage portfolio not otherwise pledged.

The following table sets forth information concerning balances and interest rates on our borrowings at and for the years shown:

	At or For the Years Ended December 31,	
	2018	2017
	(Dollars in Thousands)	
Balance at end of year	$ 28,350	$ 24,500
Average balance during year	$ 30,112	$ 24,045
Maximum outstanding at any month end	$ 36,340	$ 29,300
Weighted average interest rate at end of year	2.39%	2.06%
Average interest rate during year	2.17%	1.88%

Financial Services Activities and Subsidiary

Financial Quest, a division of Seneca Savings, offers asset management, financial planning, insurance, annuities and other financial products in partnership with Cetera Financial Services, a registered broker dealer. We have dedicated investment representatives who evaluate the needs of clients to determine suitable investment and insurance solutions to meet their short and long-term wealth management goals. At December 31, 2018, we had $50.9 million of assets held under management. Seneca Savings Insurance Agency, Inc., our subsidiary, collects fee income on fixed annuities and life insurance from legacy relationships. We are not actively using this subsidiary to generate new business.

Personnel

As of December 31, 2018, we had 42 full-time employees and four part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good working relations with our employees.

TAXATION

Seneca Savings, Seneca Financial MHC and Seneca Financial Corp. are subject to federal and state income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state taxation is intended only to summarize material income tax matters and is not a comprehensive description of the tax rules applicable to Seneca Financial MHC, Seneca Financial Corp. and Seneca Savings.

Our federal and state tax returns have not been audited for the past five years. A desk audit of our New York state mortgage recording tax refund was performed for years 2016 and 2017.

Federal Taxation

Method of Accounting. For federal income tax purposes, Seneca Savings currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal income tax returns. Seneca Financial Corp. and Seneca Savings will file a consolidated federal income tax return. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for income taxes on bad debt reserves by savings institutions. For taxable years beginning after 1995, Seneca Savings has been subject to the same bad debt reserve rules as commercial banks. It currently utilizes the specific charge-off method under Section 582(a) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”).

Net Operating Loss Carryovers. Generally, a financial institution may carry forward net operating losses indefinitely to offset up to 80% of federal taxable income. At December 31, 2018, Seneca Savings had no federal net operating loss carryforwards.

Capital Loss Carryovers. A corporation cannot recognize capital losses in excess of capital gains generated. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which it is carried and is used to offset any capital gains. Any undeducted loss remaining after the five-year carryover period is not deductible. At December 31, 2018, Seneca Savings had no capital loss carryovers.

Corporate Dividends. Seneca Financial Corp. may generally exclude from its income 100% of dividends received from Seneca Savings as a member of the same affiliated group of corporations.

State Taxation

New York State Taxation. Effective January 1, 2015, banking corporations are taxed under the New York State General Business Corporation Franchise Tax provisions. The New York State tax rate on “entire net income” has been reduced from 7.1% to 6.5% effective January 1, 2016, and various modifications are available to community banks (defined as banks with less than $8 billion in average total assets) regarding deductions associated with interest income.

SUPERVISION AND REGULATION

General

As a federal savings association, Seneca Savings is subject to examination and regulation by the Office of the Comptroller of the Currency, and is also subject to examination by the Federal Deposit Insurance Corporation. The federal system of regulation and supervision establishes a comprehensive framework of activities in which Seneca Savings may engage and is intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation's Deposit Insurance Fund. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance fund and depositors, and not for the protection of security holders. Seneca Savings also is a member of and owns stock in the Federal Home Loan Bank of New York, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. These ratings are inherently subjective and the receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as Seneca Savings or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a savings and loan holding company, Seneca Financial Corp. is required to comply with the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. Seneca Financial Corp. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Securities and Exchange Commission or Congress, could have a material adverse impact on the operations and financial performance of Seneca Financial Corp. and Seneca Savings.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to Seneca Savings and Seneca Financial Corp. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Seneca Savings and Seneca Financial Corp.

Dodd-Frank Act

The Dodd-Frank Act made significant changes to the regulatory structure for depository institutions and their holding companies. However, the Dodd-Frank Act's changes go well beyond that and affect the lending, investments and other operations of all depository institutions. The Dodd-Frank Act required the Federal Reserve Board to set minimum capital levels for both bank holding companies and savings and loan holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital for holding companies were restricted to capital instruments that were then currently considered to be Tier 1 capital for insured depository institutions. Subsequent regulations issued by the Federal Reserve Board generally exempted from these requirements bank and savings and loan holding companies of less than $1 billion of consolidated assets (which has been increased to $3.0 billion as noted below). The legislation also established a floor for capital of insured depository institutions, and directed the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Seneca Savings, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets continue to be examined for compliance by their applicable bank regulators. The new legislation also weakened the federal preemption available for national banks and federal savings associations, and gave state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The legislation also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank and savings and loan holding company executives, regardless of whether the company is publicly traded. Further, the legislation required that originators of securitized loans retain a percentage of the risk for transferred loans, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage originations.

The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018

On May 24, 2018, The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the “EGRRCPA”) was enacted, which repeals or modifies certain provisions of the Dodd-Frank Act and eases regulations on all but the largest banks. The EGRRCPA’s provisions include, among other things: (i) exempting banks with less than $10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) not requiring appraisals for certain transactions valued at less than $400,000 in rural areas; (iii) exempting banks that originate fewer than 500 open-end and 500 closed-end mortgages from HMDA’s expanded data disclosures; (iv) clarifying that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the Federal Deposit Insurance Corporation’s brokered-deposit regulations; (v) raising eligibility for the 18-month exam cycle from $1 billion to banks with $3 billion in assets; (vi) providing federal savings associations with less than $20.0 billion in consolidated assets with the option to elect to operate under the same powers as a national bank; and (vii) simplifying capital calculations by requiring regulators to establish for institutions under $10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements for determining well-capitalized status. In addition, the law required the Federal Reserve Board to raise the asset threshold under its Small Bank Holding Company Policy Statement from $1 billion to $3 billion for bank or savings and loan holding companies that are exempt from consolidated capital requirements, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, Seneca Savings may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. The Dodd-Frank Act authorized, for the first time, the payment of interest on commercial checking accounts. Seneca Savings may also establish, subject to specified investment limits, service corporation subsidiaries that may engage in certain activities not otherwise permissible for Seneca Savings, including real estate investment and securities and insurance brokerage.

Examinations and Assessments. Seneca Savings is primarily supervised by the Office of the Comptroller of the Currency. Seneca Savings is required to file reports with and is subject to periodic examination by the Office of the Comptroller of the Currency. Seneca Savings is required to pay assessments to the Office of the Comptroller of the Currency to fund the agency's operations.

Capital Requirements. Federal regulations require FDIC-insured depository institutions, including federal savings associations, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and Total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. The regulations also establish a minimum required leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI") such as Seneca Savings, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, an institution's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risk deemed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one- to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations 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 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented at 2.5% on January 1, 2019.

Notwithstanding the foregoing, pursuant to the EGRRCPA, the Office of the Comptroller of the Currency proposed a rule that establishes a community bank leverage ratio (tangible equity to average consolidated assets) at 9% for institutions under $10 billion in assets that such institutions may elect to utilize in lieu of the general applicable risk-based capital requirements under Basel III. Such institutions that meet the community bank leverage ratio and certain other qualifying criteria will automatically be deemed to be well-capitalized. Until the Office of the Comptroller of the Currency's proposed rule is finalized, the Basel III risk-based and leverage ratios remain in effect.

At December 31, 2018, Seneca Savings' capital exceeded all applicable requirements.

Loans to One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by "readily marketable collateral," which generally includes certain financial instruments (but not real estate). As of December 31, 2018, Seneca Savings was in compliance with the loans-to-one borrower limitations.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Prompt Corrective Action. Under the federal Prompt Corrective Action statute, the Office of the Comptroller of the Currency is required to take supervisory actions against undercapitalized institutions under its jurisdiction, the severity of which depends upon the institution's level of capital. An institution that has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a common equity Tier 1 ratio of less than 4.5% or a leverage ratio of less than 4% is considered to be "undercapitalized." A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a common equity Tier 1 ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized." A savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized."

As noted above, the EGRRCPA has eliminated the Basel III requirements for banks with less than $10.0 billion in assets who elect to follow the community bank leverage ratio once the Office of the Comptroller of the Currency's rule is finalized. The Office of the Comptroller of the Currency's proposed rule provides that Seneca Savings will be well-capitalized with a community bank leverage ratio of 9% or greater, adequately capitalized with a community bank leverage ratio of 7.5% or greater, undercapitalized if Seneca Savings' community bank leverage ratio is less than 7.5% and greater than 6% and significantly undercapitalized if Seneca Savings' community bank leverage ratio is less than 6%. The definition of critically undercapitalized is unchanged from the current regulations.

Generally, the Office of the Comptroller of the Currency is required to appoint a receiver or conservator for a federal savings association that becomes "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the Office of the Comptroller of the Currency within 45 days of the date that a federal savings association is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Any holding company of a federal savings association that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5.0% of the savings association's assets at the time it was deemed to be undercapitalized by the Office of the Comptroller of the Currency or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the Office of the Comptroller of the Currency notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Institutions that are undercapitalized become subject to certain mandatory measures such as restrictions on capital distributions and asset growth. The Office of the Comptroller of the Currency may also take any one of a number of discretionary supervisory actions against undercapitalized federal savings associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2018, Seneca Savings met the criteria for being considered "well capitalized," which means that its total risk-based capital ratio exceeded 10%, its Tier 1 risk-based ratio exceeded 8.0%, its common equity Tier 1 ratio exceeded 6.5% and its leverage ratio exceeded 5.0%

Qualified Thrift Lender Test. As a federal savings association, Seneca Savings must satisfy the qualified thrift lender, or "QTL," test. Under the QTL test, Seneca Savings must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of every 12-month period. "Portfolio assets" generally means total assets of a savings association, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

Alternatively, Seneca Savings may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code.

A savings association that fails the QTL test must operate under specified restrictions set forth in the Home Owners' Loan Act. The Dodd-Frank Act made noncompliance with the QTL test subject to agency enforcement action for a violation of law. At December 31, 2018, Seneca Savings satisfied the QTL test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the savings association's capital account. A federal savings association must file an application with the Office of the Comptroller of the Currency for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a savings and loan holding company, such as Seneca Savings, must file a notice with the Federal Reserve Board at least 30 days before the board of directors declares a dividend.

An application or notice related to a capital distribution may be disapproved if:

- the federal savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement.

Community Reinvestment Act and Fair Lending Laws. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings association, the Office of the Comptroller of the Currency is required to assess the federal savings association's record of compliance with the Community Reinvestment Act. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of the Comptroller of the Currency, as well as other federal regulatory agencies and the Department of Justice.

The Community Reinvestment Act requires all institutions insured by the FDIC to publicly disclose their rating. Seneca Savings received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with an insured depository institution such as Seneca Savings. Seneca Financial Corp. will be an affiliate of Seneca Savings because of its control of Seneca Savings. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Seneca Savings' authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Seneca Savings' capital.

In addition, extensions of credit in excess of certain limits must be approved by Seneca Savings' board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The Office of the Comptroller of the Currency has primary enforcement responsibility over federal savings associations and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings association. Formal enforcement action by the Office of the Comptroller of the Currency may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution to the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1.0 million per day. The FDIC also has the authority to terminate deposit insurance or recommend to the Office of the Comptroller of the Currency that enforcement action be taken with respect to a particular savings association. If such action is not taken, the FDIC has authority to take the action under specified circumstances.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Seneca Savings. Deposit accounts in Seneca Savings are insured by the FDIC generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Assessments for most institutions are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund reserve ratio achieving 1.15%, the assessment range (inclusive of possible adjustments) was reduced for most banks and savings associations to 1.5 basis points to 30 basis points. The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC was required to seek to achieve the 1.35% ratio by September 30, 2020. The FDIC indicated that the 1.35% ratio was exceeded in November 2018. Insured institutions of less than $10 billion of assets will receive credits for the portion of their assessments that contributed to the reserve ratio between 1.15% and 1.35%. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation, and the FDIC has exercised that discretion by establishing a long-range fund ratio of 2%.

In addition to the FDIC assessments, the Financing Corporation (“FICO”) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2019. For the quarter ended December 31, 2018, the annualized FICO assessment was equal to 0.32 of a basis point.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Seneca Savings. Seneca Savings cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Federal Home Loan Bank System. Seneca Savings is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLB of New York, Seneca Savings is required to acquire and hold shares of capital stock in the FHLB of New York. As of December 31, 2018, Seneca Savings was in compliance with this requirement. While Seneca Savings’ ability to borrow from the FHLB of New York provides an additional source of liquidity, Seneca Savings has historically used FHLB of New York advances to fund its operations in addition to deposits.

Other Regulations

Interest and other charges collected or contracted for by Seneca Savings are subject to state usury laws and federal laws concerning interest rates. Seneca Savings’ operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and

- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Seneca Savings also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- The USA PATRIOT Act, which requires savings associations to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. Seneca Financial Corp. and Seneca Financial MHC are non-diversified savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, Seneca Financial Corp. and Seneca Financial MHC are registered with the Federal Reserve Board and subject to the regulation, examination, supervision and reporting requirements applicable to savings and loan holding companies. In addition, the Federal Reserve Board has enforcement authority over Seneca Financial Corp., Seneca Financial MHC and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. Under present law, the business activities of Seneca Financial Corp. and Seneca Financial MHC are generally limited to those activities permissible for financial holding companies under Section 4 (k) of the Bank Holding Company Act of 1956, as amended, provided certain conditions are met and financial holding company status is elected, or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to regulatory approval, and certain additional activities authorized by federal regulations. Seneca Financial Corp. and Seneca Financial MHC have not elected financial holding company status.

Federal law prohibits a savings and loan holding company, including Seneca Financial Corp. and Seneca Financial MHC, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or savings and loan holding company, without prior Federal Reserve Board approval. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board considers factors such as the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

- the approval of interstate supervisory acquisitions by savings and loan holding companies; and
- the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

Capital. Savings and loan holding companies have historically not been subjected to consolidated regulatory capital requirements. The Dodd-Frank Act required the Federal Reserve Board to establish for all bank and savings and loan holding companies minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. However, pursuant to legislation passed in December 2014, the Federal Reserve Board extended to savings and loan holding companies the applicability of the “Small Bank Holding Company” exception to its consolidated capital requirements and increased the threshold for the exception from $500 million of assets to $1.0 billion, effective May 15, 2015. As noted above, the EGRRCPA increased the threshold for the exception to $3.0 billion in consolidated assets. As a result, savings and loan holding companies with less than $3.0 billion in consolidated assets are generally not subject to the capital requirements unless otherwise advised by the Federal Reserve Board.

Source of Strength. The Dodd-Frank Act extended the “source of strength” doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all savings and loan holding companies serve as a source of strength to their subsidiary depository institutions.

Dividends and Stock Repurchases. The Federal Reserve Board has issued a policy statement regarding the payment of dividends by holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall supervisory financial condition. Separate regulatory guidance provides for prior consultation with Federal Reserve Bank staff concerning dividends in certain circumstances such as where the company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate or earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary savings association becomes undercapitalized. The regulatory guidance also states that a savings and loan holding company should inform Federal Reserve Bank supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the savings and loan holding company is experiencing financial weaknesses or the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Seneca Financial Corp. to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Waivers of Dividends by Seneca Financial MHC. Seneca Financial Corp. may pay dividends on its common stock to public stockholders. If it does, it is also required to pay dividends to Seneca Financial MHC, unless Seneca Financial MHC elects to waive the receipt of dividends. Under the Dodd-Frank Act, Seneca Financial MHC must receive the approval of the Federal Reserve Board before it may waive the receipt of any dividends from Seneca Financial Corp. The Federal Reserve Board has issued an interim final rule providing that it will not object to dividend waivers under certain circumstances, including circumstances where the waiver is not detrimental to the safe and sound operation of the savings association and a majority of the mutual holding company’s members have approved the waiver of dividends by the mutual holding company within the previous twelve months. In addition, for a “non-grandfathered” mutual holding company such as Seneca Financial MHC, each officer or director of Seneca Financial Corp. and Seneca Savings, and any tax-qualified stock benefit plan or non-tax-qualified stock benefit plan in which such individual participates that holds any shares of stock to which the waiver would apply, must waive the right to receive any such dividend declared. In addition, any dividends waived by Seneca Financial MHC must be considered in determining an appropriate exchange ratio in the event of a conversion of the mutual holding company to stock form.

Conversion of Seneca Financial, MHC to Stock Form. Federal Reserve Board regulations permit Seneca Financial MHC to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the board of directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction, a new stock holding company would be formed as the successor to Seneca Financial Corp. (the "New Holding Company"), Seneca Financial MHC's corporate existence would end, and certain depositors and borrowers of Seneca Savings would receive the right to subscribe for shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than Seneca Financial MHC ("Minority Stockholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in Seneca Financial Corp. immediately prior to the Conversion Transaction. The total number of shares of common stock held by Minority Stockholders after a Conversion Transaction also would be increased by any purchases by Minority Stockholders in the stock offering conducted as part of the Conversion Transaction. Any Conversion Transaction would be subject to approvals by Minority Stockholders and members of Seneca Financial MHC. Minority Stockholders will not be able to force a Conversion Transaction without the consent of Seneca Financial MHC since such transaction also requires, under federal corporate law, the approval of a majority of all of the outstanding voting stock, which can only be achieved if Seneca Financial MHC voted to approve such transaction.

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

Federal Securities Laws

Seneca Financial Corp. common stock is registered with the Securities and Exchange Commission. Seneca Financial Corp. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in Seneca Financial Corp.'s public offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of Seneca Financial Corp. may be resold without registration.

Shares purchased by an affiliate of Seneca Financial Corp. are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Seneca Financial Corp. meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of Seneca Financial Corp. that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Seneca Financial Corp., or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Seneca Financial Corp. may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Emerging Growth Company Status

Seneca Financial Corp. is an emerging growth company under the JOBS Act. We will cease to be an emerging growth company upon the earliest of: (i) the end of the fiscal year following the fifth anniversary of the completion of our initial stock offering, (ii) the first fiscal year after our annual gross revenues are $1.07 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than $1.07 billion in non-convertible debt securities or (iv) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year. We expect to lose our status as an emerging growth company in April 2022, five years after the completion of our stock offering.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, Seneca Financial Corp. will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "smaller reporting company" under Securities and Exchange Commission regulations (generally a company with less than $250 million of voting and non-voting common equity held by non-affiliates). Finally, an emerging growth company may elect to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, but must make such election when the company is first required to file a registration statement. Seneca Financial Corp. has elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our consolidated financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

ITEM 1A. Risk Factors

Not applicable, as Seneca Financial Corp. is a "smaller reporting company."

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

As of December 31, 2018, the net book value of our office properties was $3.0 million, and the net book value of our furniture, fixtures and equipment was $452,000. The following table sets forth information regarding our offices.

Location	Leased or Owned	Year Acquired	Net Book Value of Real Property
Main Office:			
35 Oswego Street Baldwinsville, New York 13027	Owned	1964	$1.4 million
Other Properties:			
Liverpool Branch 7799 Oswego Road Liverpool, New York 13089	Owned	2015	$ 793,000
North Syracuse Branch 201 North Main Street North Syracuse, New York 13212	Owned	1973	$ 745,000

We believe that current facilities are adequate to meet our present and foreseeable needs, subject to possible future expansion.

ITEM 3. Legal Proceedings

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At December 31, 2018, we are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is quoted on the OTC Pink Marketplace operated by OTC Markets Group under the symbol "SNNF." As of March 15, 2019, we had 169 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 1,978,923 shares of common stock outstanding. Market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

We have never paid a dividend. The payment and amount of any dividend payments will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of stockholders; tax considerations; the Federal Reserve Board's current regulations restricting the waiver of dividends by mutual holding companies; and general economic conditions.

The Federal Reserve Board has issued a policy statement providing that dividends should be paid only out of current earnings and only if our prospective rate of earnings retention is consistent with our capital needs, asset quality and overall financial condition. Regulatory guidance also provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the holding company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the holding company's overall rate or earnings retention is inconsistent with its capital needs and overall financial condition. In addition, Seneca Savings' ability to pay dividends will be limited if it does not have the capital conservation buffer required by the current capital rules, which may limit our ability to pay dividends to stockholders. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future. Special cash dividends, stock dividends or returns of capital, to the extent permitted by regulations and policies of the Federal Reserve Board and the Office of the Comptroller of the Currency, may be paid in addition to, or in lieu of, regular cash dividends.

If Seneca Financial Corp. pays dividends to its stockholders, it will likely pay dividends to Seneca Financial MHC. The Federal Reserve Board's current regulations significantly restrict the ability of mutual holding companies organized after December 1, 2009 to waive dividends declared by their subsidiaries. Accordingly, we do not currently anticipate that Seneca Financial MHC will waive dividends paid by Seneca Financial Corp.

There were no sales of unregistered securities or repurchase of shares of common stock during the year ended December 31, 2018.

ITEM 6. Selected Financial Data

The summary information presented below at each date or for each of the years presented is derived in part from the audited consolidated financial statements of Seneca Financial Corp. and Seneca Savings. The financial condition data at December 31, 2018 and 2017, and the operating data for the years ended December 31, 2018, and 2017, were derived from the audited consolidated financial statements of Seneca Financial Corp. included elsewhere in this annual report. The information at and for the year ended December 31, 2016 and 2015 was derived in part from audited consolidated financial statements that are not included in this annual report. The following information is only a summary and should be read in conjunction with our consolidated financial statements and notes included in this annual report.

	At December 31,			
	2018	2017	2016	2015
	(Dollars in Thousands)			
Selected Financial Condition Data:				
Total assets	$ 195,307	$ 176,174	$ 161,411	$ 137,359
Cash and due from banks	3,470	4,375	1,762	4,045
Available-for-sale securities	26,174	22,097	19,450	22,664
Loans, net	154,650	141,150	132,364	105,257
FHLB stock, at cost	2,622	2,340	2,090	1,247
Total liabilities	175,896	157,772	150,631	127,263
Deposits	143,975	129,596	119,542	108,672
FHLB advances and borrowings	28,350	24,500	28,000	15,500
Total equity	19,411	18,402	10,780	10,096

	For the Years Ended December 31,			
	2018	2017	2016	2015
	(Dollars in Thousands)			
Selected Data:				
Interest income	$ 7,702	$ 6,828	$5,844	$5,167
Interest expense	1,918	1,437	992	681
Net interest income	5,784	5,391	4,852	4,486
Provision for loan losses	10	180	247	8
Net interest income after provision for loan losses	5,774	5,211	4,605	4,478
Non-interest income	597	626	794	723
Non-interest expense	5,340	5,049	4,808	4,783
Earnings before provision for income taxes	1,031	788	591	418
Provision for income taxes	181	264	64	22
Net income	$ 850	$ 524	$ 527	396
Earnings per common share	$ 0.45	$ 0.28	N/A	N/A

	At or For the Years Ended December 31,			
	2018	2017	2016	2015
Selected Financial Ratios and Other Data:				
Performance Ratios:				
Return on average assets	0.46%	0.31%	0.35%	0.30%
Return on average equity	4.67%	4.14%	5.19%	4.14%
Interest rate spread[(1)]	3.04%	3.17%	3.30%	3.42%
Net interest margin[(2)]	3.23%	3.30%	3.42%	3.51%
Efficiency ratio[(3)]	83.69%	83.91%	85.16%	91.82%
Non-interest expense to average total assets	2.87%	2.96%	3.26%	3.64%
Average interest-earning assets to average interest-bearing liabilities	118%	115%	117%	119%
Asset Quality Ratios:				
Non-performing assets as a percent of total assets	0.62%	0.67%	1.07%	1.35%
Non-performing loans as a percent of total loans	0.78%	0.83%	1.28%	1.76%
Allowance for loan losses as a percent of non-performing loans	101.65%	105.44%	68.31%	71.94%
Allowance for loan losses as a percent of total loans	0.79%	0.88%	0.88%	1.15%
Net charge-offs to average outstanding loans during the period	0.01%	0.08%	0.25%	—
Capital Ratios[(4)]:				
Common equity tier 1 capital (to risk weighted assets)	16.48%	17.39%	14.32%	16.72%
Tier 1 leverage (core) capital (to adjusted tangible assets)	10.27%	10.70%	8.65%	9.67%
Tier 1 risk-based capital (to risk weighted assets)	16.48%	17.39%	14.32%	16.72%
Total risk-based capital (to risk weighted assets)	17.51%	18.53%	15.56%	17.98%
Average equity to average total assets	9.79%	7.42%	6.88%	7.28%
Other Data:				
Number of full-service offices	3	3	3	3
Number of full-time equivalent employees	46	40	40	39

(1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.

(3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

(4) Capital ratios are for Seneca Savings.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflect our audited consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the audited consolidated financial statements, which appear elsewhere in this annual report. You should read the information in this section in conjunction with the other business and financial information provided in this annual report.

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, realized gains on sales of loans and securities and other income. 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 year ended December 31, 2018, we had net income of $850,000 compared to net income of $524,000 for the year ended December 31, 2017. The year over year $326,000 increase in net income was primarily attributable to an increase in net interest income of $563,000, a decrease in the provision for loan losses of $170,000, a decrease in the provision for income taxes of $83,000, partially offset by a decrease in non-interest income of $29,000 and an increase in non-interest expense of $291,000.

At December 31, 2018, we had $195.3 million in consolidated assets, an increase of $19.1 million, or 10.9%, from $176.2 million at December 31, 2017. During 2018, we continued to focus on loan production, particularly with respect to residential mortgage loans as well as commercial loans.

Business Strategy

We intend to operate as a well-capitalized and profitable community bank dedicated to providing exceptional personal service to our individual and business customers. We believe that we have a competitive advantage in the markets we serve because of our knowledge of the local marketplace and our long-standing history of providing superior, relationship-based customer service. Our current executive management team is comprised of individuals with strong banking backgrounds who have joined Seneca Savings beginning in 2013. In October 2013, we appointed Joseph G. Vitale as our President and Chief Executive Officer. Shortly thereafter, we hired Vincent J. Fazio as Executive Vice President and Chief Financial Officer. The new management team has significant banking experience with our two executives each having approximately 20 years or more of banking experience. The management team has worked to revise our business strategy and position Seneca Savings for future growth and profitability.

Our current business strategy consists of the following:

- ***Continuing to emphasize one- to four-family residential mortgage loans while selling the majority of our newly originated longer-term, fixed-rate residential loans.*** We have been and will continue to be a significant one- to four-family residential mortgage lender to borrowers in our market area. As of December 31, 2018, $102.6 million, or 52.5%, of our total assets consisted of one- to four-family residential mortgage loans. We historically have held all of our loan originations, including our fixed-rate one- to four-family residential mortgage loans, in our loan portfolio. However, beginning in 2015, we started regularly selling loans in the secondary market. Loans that we sell into the secondary market consist of long-term (20 years or greater), conforming fixed-rate residential real estate mortgage loans, which we primarily sell to the FHLB of New York's

Mortgage Partnership Finance program, and beginning in 2017, to Freddie Mac. We intend to increase the amount of sales of longer-term fixed-rate one- to four-family residential mortgage loans into the secondary market and retain the shorter-term one- to four-family residential mortgage loans in our portfolio.

- ***Increasing commercial real estate and commercial and industrial lending***. In order to increase the yield on our loan portfolio and reduce the term to repricing, our new management team began to increase our commercial real estate and commercial and industrial loan portfolios while maintaining what we believe are conservative underwriting standards. We focus our commercial lending to small businesses located in our market area, targeting owner-occupied businesses such as manufacturers and professional service providers. Our commercial real estate portfolio has grown from $21.7 million at December 31, 2017 to $23.4 million at December 31, 2018. Our commercial and industrial loan portfolio has increased from $8.3 million at December 31, 2017 to $14.1 million at December 31, 2018. The Bank acquired sixteen commercial and industrial loans totaling $2.4 million originated by an unrelated financial institution in the third quarter of 2018 subject to the Bank's underwriting standards. The Bank owns 100% of the loans and retains no recourse. The loans are located outside the Bank's market area and have maturities of one to five years. The additional capital raised in our initial public offering will increase our commercial lending capacity by enabling us to originate more loans that we intend to retain in our portfolio.

- ***Increasing our lower-cost core deposits***. NOW, Demand, savings and money market accounts are a lower cost source of funds than time deposits, and we have made a concerted effort to increase these lower-cost transaction deposit accounts. For instance, we partnered with Haberfeld and Associates to increase the number of retail checking accounts. We plan to continue to market our core transaction accounts, emphasizing our high-quality service and competitive pricing of these products. We also offer the convenience of technology-based products, such as mobile deposit capture, bill pay, card valet, internet and mobile banking. We have become a participating bank with ZRent, a leading vendor of rent payment technology, to create a free deposit account which will provide rent payment technology to our landlord and property management clients.

- ***Managing credit risk to maintain a low level of non-performing assets.*** We believe strong asset quality is a key to our long-term financial success. Our strategy for credit risk management focuses on having an experienced team of credit professionals, well-defined policies and procedures, appropriate loan underwriting criteria and active credit monitoring. Our non-performing assets to total assets ratio was 0.62% at December 31, 2018 compared to 0.67% at December 31, 2017. The majority of our non-performing assets have historically related to one- to four-family residential real estate loans. At December 31, 2018, we had no non-performing commercial loans.

- ***Offering a wide selection of non-deposit investment products and services.*** Financial Quest, a division of Seneca Savings, offers asset management, financial planning, annuities, insurance and other financial products. We have dedicated investment representatives who evaluate the needs of clients to determine suitable investment and insurance solutions to meet their short and long-term wealth management goals. At December 31, 2018, our assets under management were $50.9 million.

- ***Growing organically and through opportunistic branch acquisitions.*** We expect to consider both organic growth as well as acquisition opportunities that we believe would enhance the value of our franchise and yield potential financial benefits for our stockholders. We expect to focus our growth in Onondaga County with specific considerations to optimizing our scale. We will consider expanding our branch network through the opening of additional branches or the acquisition of branches if the right opportunity occurs. We may also help fund improvements in our operating facilities and customer delivery services in order to enhance our competitiveness.

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. The Tax Act was signed into law in December 2017 which reduced the corporate federal statutory tax rate from 34% to 21%. U.S. GAAP requires the impact of the Tax Act to be accounted for in the period of enactment. As such, Seneca Financial Corp. was required to write down the value of its net deferred tax asset by $546,000 to $3.3 million as of December 31, 2017 to reflect the reduction in the corporate tax rate for future periods.

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 return 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. See Note 10 to the Audited Consolidated Financial Statements, "Employee Benefit Plans," for information on this plan and the assumptions used.

Average balances and yields. The following table sets forth average balance sheets, average yields and costs, and certain other information for the years 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 but have been reflected in the table 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 Year Ended December 31,					
	2018			2017		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
	(In Thousands)					
Interest-earning assets:						
Loans[1]	$ 148,129	$ 6,889	4.65%	$ 138,185	$ 6,284	4.55%
Available-for-sale securities	26,453	611	2.31%	21,453	407	1.90%
FHLB Stock	2,600	168	6.46%	2,126	116	5.46%
Other interest-earning assets	1,899	34	1.79%	1,687	21	1.24%
Total interest-earning assets	179,081	$ 7,702	4.30%	163,451	$ 6,828	4.18%
Noninterest-earning assets	6,986			7,258		
Total assets	$ 186,067			$ 170,709		
Interest-bearing liabilities:						
NOW accounts	$ 13,892	$ 24	0.17%	$ 11,944	$ 18	0.15%
Regular savings and demand club accounts	21,417	15	0.07%	22,888	14	0.06%
Money market accounts	13,554	76	0.56%	13,822	78	0.56%
Certificates of deposit and retirement accounts	73,034	1,149	1.57%	69,553	876	1.26%
Total interest-bearing deposits	121,897	1,264	1.04%	118,207	986	0.83%
FHLB Borrowings	30,112	654	2.17%	24,045	451	1.88%
Total interest-bearing liabilities	152,009	$ 1,918	1.26%	142,252	$ 1,437	1.01%
Noninterest-bearing deposits	13,269			15,228		
Other non-interest bearing liabilities	2,569			559		
Total liabilities	167,847			158,039		
Stockholders' equity	18,220			12,670		
Total liabilities and stockholders' equity	$ 186,067			$ 170,709		
Net interest income		$ 5,784			$ 5,391	
Net interest rate spread[2]			3.04%			3.17%
Net interest-earning assets[3]	$ 27,072			$ 21,199		
Net interest margin[4]			3.23%			3.30%
Average interest-earning assets to average interest-bearing liabilities	118%			115%		

(1) Includes loans held for sale.

(2) Interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.

(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years 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.

	Year Ended December 31, 2018 vs. 2017		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in Thousands)		
Interest-earning assets:			
Loans[1]	$ 452	$ 153	$ 605
Available-for-sale securities	95	109	204
FHLB Stock	26	26	52
Other interest-earning assets	3	10	13
Total interest-earning assets	$ 576	$ 298	$ 874
Interest-bearing liabilities:			
NOW accounts	$ —	$ 6	$ 6
Regular savings and demand club accounts	—	1	1
Money market accounts	—	(2)	(2)
Certificates of deposit and retirement accounts	2	271	273
Total deposits	2	276	278
FHLB Borrowings	50	153	203
Total interest-bearing liabilities	52	429	481
Change in net interest income	$ 524	$(131)	$ 393

(1) Includes loans held for sale.

Comparison of Financial Condition at December 31, 2018 and December 31, 2017

Total assets increased $19.1 million, or 10.9%, to $195.3 million at December 31, 2018 from $176.2 million at December 31, 2017. The increase in assets was due to increases in loans and securities available-for-sale.

Loans, net increased $13.5 million, or 9.6%, to $154.7 million at December 31, 2018 from $141.2 million at December 31, 2017, reflecting increases in residential and commercial loans. One- to four-family residential real estate mortgage loans increased $6.9 million, or 7.2%, to $102.6 million at December 31, 2018 from $95.7 million at December 31, 2017. Commercial real estate loans increased $1.7 million, or 8.0%, to $23.4 million at December 31, 2018 from $21.7 million at December 31, 2017. Commercial and industrial loans increased $5.8 million, or 70.0%, to $14.1 million at December 31, 2018 from $8.3 million at December 31, 2017. Throughout the year of 2018, we increased our portfolio of commercial loans to increase earnings and to continue to manage interest rate risk. The Bank purchased through an unrelated third party, sixteen commercial and industrial loans totaling $2.5 million outside our market area in the first quarter of 2018. The weighted average yield of the loans is 4.92% with a maturity of 5 years or less.

Securities available-for-sale increased by $4.4 million, or 19.7%, to $26.7 million at December 31, 2018 from $22.1 million at December 31, 2017. The increase was primarily due to the purchase of securities of $7.0 million, partially offset by principal repayments of $2.4 million. The growth in securities was to conform to our policy of 10% of securities to total assets and to take advantage of higher yielding securities in a rising interest rate environment. A portion of our securities portfolio is used to collateralize FHLB advances.

Total deposits increased $14.4 million, or 11.1%, to $144.0 million at December 31, 2018 from $129.6 million at December 31, 2017. The increase was primarily due to an increase in certificates of deposit, which increased $8.3 million, or 11.7%, to $79.2 million at December 31, 2018 from $70.9 million at December 31, 2017. This increase was primarily due to a special certificate of deposit rate promotion during the first quarter of 2018 and the increase of $2.2 million in CDARS deposits at December 31, 2018 compared to December 31, 2017. Additionally, we experienced an increase in NOW accounts of $2.0 million, or 15.5%, to $14.9 million at December 31, 2018 from $12.9 million at December 31, 2017. The increase in NOW accounts was primarily due to the addition of new commercial deposit accounts and increased marketing efforts to increase transaction accounts in our primary market area. We are offering new products and services to attract new commercial checking accounts in 2019. Business online internet banking, ACH origination and wire services, remote deposit capture, mobility business services, check free small business bill payment and delivery and mobile source capture are products targeting the growth of our business deposit accounts. Additionally, we have approval from the state of New York to open a branch in Bridgeport through the Banking Development District Program. The program helps to give incentives for banks to open branches in communities with underserved banking resources. The Bridgeport branch will allow us to market our deposit products in Madison county and is tentatively scheduled to be open in the later part of 2019.

Total borrowings from the FHLB of New York increased $3.9 million, or 15.9%, to $28.4 million at December 31, 2018 from $24.5 million at December 31, 2017 to fund loan growth.

Total stockholders' equity increased $1.0 million, or 5.4%, to $19.4 million at December 31, 2018 from $18.4 million at December 31, 2017. The increase was due to the combined effect of our net income of $850,000, and an increase in accumulated other comprehensive loss of $136,000.

Comparison of Operating Results for the Years Ended December 31, 2018 and 2017

General. Net income increased $326,000, or 62.2%, to $850,000 for the year ended December 31, 2018, compared to $524,000 for the year ended December 31, 2017. The increase was due to an increase in net interest income and decreases in the provision for loan losses and the provision for income tax, partially offset by an increase in non-interest expense and a decrease in non-interest income.

Interest Income. Interest income increased $874,000, or 12.8%, to $7.7 million for the year ended December 31, 2018 from $6.8 million for the year ended December 31, 2017. Our average balance of interest-earning assets increased $15.6 million, or 9.5%, to $179.1 million for the year ended December 31, 2018 from $163.5 million for the year ended December 31, 2017 due primarily to the increase in the average balance of loans. Our average yield of interest-earning assets increased twelve basis points to 4.30% for the year ended December 31, 2018 from 4.18% for the year ended December 31, 2017.

Interest income on loans increased $605,000, or 9.6%, to $6.9 million for the year ended December 31, 2018 from $6.3 million for the year ended December 31, 2017 due primarily to the increase in the average balance of loans. Our average balance of loans increased $9.9 million, or 7.2%, to $148.1 million for the year ended December 31, 2018 from $138.2 million for the year ended December 31, 2017. The increase in the average balance of loans resulted from our continued emphasis on growing our one- to four-family residential real estate portfolio and our recent increased focus on commercial lending. Our average yield on loans increased by ten basis points to 4.65% for the year ended December 31, 2018 from 4.55% for the year ended December 31, 2017, as higher-yielding loans have been originated during the year as well as an increase in yield on our adjustable rate loans. Additionally the Bank purchased thru an unrelated third party, sixteen commercial and industrial loan totaling $2.5 million outside our market area in the first quarter of 2018. The weighted average yield of the loans is 4.92% with a maturity of 5 years or less.

Interest income on securities increased $256,000, or 48.9%, to $779,000 for the year ended December 31, 2018 from $523,000 for the year ended December 31, 2017. The average balance of available-for-sale securities increased $5.0 million, or 23.3%, to $26.5 million in 2018 from $21.5 million in 2017 due to securities purchases. The average yield we earned on available-for-sale securities increased by 41 basis points to 2.31% for the year ended December 31, 2018 from 1.90% for the year ended December 31, 2017 as yields on available-for- sale securities increased with new purchases at higher yields and increases in yield on our adjustable rate securities in our portfolio as a result of the rising interest rate environment.

Interest Expense. Interest expense increased $481,000, or 33.5%, to $1.9 million for the year ended December 31, 2018 from $1.4 million for the year ended December 31, 2017, due to increases in interest expense on deposits of $278,000 and $203,000 in interest expense on borrowings. Our average balance of interest-bearing liabilities increased $9.8 million, or 6.9%, to $152.0 million for the year ended December 31, 2018 from $142.3 million for the year ended December 31, 2017 due primarily to increases in the average balances of certificates of deposit and FHLB of New York borrowings. Our average rate on interest-bearing liabilities increased 25 basis points to 1.26% for the year ended December 31, 2018 from 1.01% for the year ended December 31, 2017 as a result of increases in the average rates on certificates of deposit and FHLB of New York borrowings.

Interest expense on deposits increased $278,000, or 28.2%, to $1.3 million for 2018 from $986,000 for 2017 due to increases in the average rate paid on deposits and the average balance of deposits. The average rate paid on deposits increased to 1.04% for 2018 from 0.83% for 2017, primarily reflecting higher rates paid on promotional certificates of deposit and CDARS certificates of deposit. The average rate of certificates of deposit increased by 31 basis points to 1.57% in 2018 from 1.26% in 2017. In addition, the average balance of certificates of deposit increased by $3.4 million to $73.0 million in 2018 from $69.6 million in 2017, which reflected the majority of the growth in the average balance of deposits.

Interest expense on borrowings increased $203,000, or 45.0%, to $654,000 for the year ended December 31, 2018 from $451,000 for the year ended December 31, 2017. The increase in interest expense on borrowings reflected a $6.1 million increase in our average balance of borrowings with the FHLB of New York to $30.1 million for 2018 from $24.0 million for 2017, and an increase in the average rate of these borrowings to 2.17% in 2018 from 1.88% in 2017. The average balance on borrowings with the FHLB of New York increased in 2018 as compared to 2017 due to increased borrowings throughout the year to fund loan growth. The average rate on borrowings increased due to extending the FHLB of New York borrowing terms in order to manage interest rate risk in a rising rate environment.

Net Interest Income. Net interest income increased $393,000, or 7.3%, to $5.8 million for the year ended December 31, 2018 from $5.4 million for the year ended December 31, 2017, primarily as a result of the greater growth in the average balance of our interest-earning assets as compared to our interest-bearing liabilities and the purchase of higher yielding securities. Our net interest-earning assets increased 27.4% to $27.1 million for the year ended December 31, 2018, from $21.0 million for the year ended December 31, 2017, due to the increase in the average balance of loans and securities. Our net interest rate spread decreased by 13 basis points to 3.04% for the year ended December 31, 2018 from 3.17% for the year ended December 31, 2017, and our net interest margin decreased by seven basis points to 3.23% for the year ended December 31, 2018 from 3.30% for the year ended December 31, 2017 as the percentage increase of interest expense on interest bearing liabilities outpaced the percentage increase of interest income on interest earning assets.

Provision for Loan Losses. We establish a provision for loan losses which is charged to operations in order 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 estimable at the consolidated balance sheet date. 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 in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a $10,000 provision to the allowance for loan losses for the year ended December 31, 2018 compared to a $180,000 provision for loan losses for the year ended December 31, 2017. The decrease in the provision for 2018 was the result of decreased net charge-offs. Net charge-offs decreased to $17,000 in 2018 as compared to $125,000 in 2017. The allowance for loan losses was $1.2 million, or 0.79% of net loans outstanding at December 31, 2018 as compared to 0.87% of net loans outstanding at December 31, 2017.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at December 31, 2018 and December 31, 2017. 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 decreased $29,000, or 4.6%, to $597,000 for the year ended December 31, 2018 from $626,000 for the year ended December 31, 2017. The decrease was primarily due to reduced income of $113,000 from sales of one-to four family mortgage loans during the year ended December 31, 2018 as compared to the prior year. The decline in income on the sale of one-to four family mortgages was because less loans were originated in 2018. Contributing to the decline in non-interest income was a decrease in gain on sales of securities of $2,000 and a decrease in gain on foreclosed real-estate of $8,000. Partially offsetting the decrease in non-interest income was an increase in servicing fees of $24,000 due to reoccurring income from the servicing of mortgages, checking, and savings accounts. The increase in financial services income of $45,000 was due to an increase in assets under management and an increase in commission on annuity sales. Our service fees increased in 2018, due to an increase in our mortgage servicing portfolio, and the growth of our deposits. We sell and service approximately 40% of the mortgages we originate to mitigate interest rate risk and to increase other non-interest income. During the year 2017, we disposed of obsolete passbook printers with underappreciated values that were recorded as a loss.

Non-Interest Expense. Non-interest expense increased by $291,000, or 5.8%, to $5.3 million for the year ended December 31, 2018 as compared to $5.0 million for the year ended December 31, 2017. The increase was due primarily to an increase in compensation and employee benefits expense of $354,000, an increase in core processing of $134,000, an increase in premises and equipment of $63,000, an increase in advertising expense of $34,000, and an increase in other expenses of $121,000. Partially offsetting the increase in non-interest expense was a decrease in professional fees of $112,000, a decrease in postage and office supplies of $14,000, a decrease in FDIC insurance of $91,000 and a decrease in NYS mortgage recording tax of $198,000. The increase in compensation and employee benefits expense was due to the hiring of two commercial lenders as well as an increase in health insurance and other employee benefits. Core processing increased as we outsourced our call center to our core processor and added new products and services. Premises and equipment increased as we updated and modernized our offices and equipment. Advertising expense increased due to printed advertising campaigns in our local market and an increased focus of advertising on social media. Other expenses increased due to fees related to Securities and Exchange Commission quarterly filings as well as printing fees for the annual report on Form 10-K. Additionally, other expense increased due to greater Deluxe check printing expense as we grew our transactional accounts as well as Visa debit card chargeback losses. Professional fees decreased due to the elimination of audit and accounting fees related to the preparation for our public offering in 2017, as well as a decrease in postage and office supplies. FDIC insurance expense decreased due to our additional capital raised in the prior year. Mortgage recording tax decreased due to tax refunds for the year 2016 and 2015 received in 2018 from NYS Department of Taxation.

Income Tax Expense. We incurred income tax expense of $181,000 and $264,000 for the years ended December 31, 2018 and 2017, respectively, resulting in effective rates of 17.56% and 33.50%, respectively. The decrease in income tax expense resulted from the reduction in the corporate tax rate as provided for in the Tax Act for future periods. The Tax Act was signed into law in December 2017 which reduced the corporate federal statutory tax rate from 34.0% to 21.0%.

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 are able to borrow from the FHLB of New York. At December 31, 2018, we had a $80.1 million line of credit with the FHLB of New York and $2.5 million line of credit with Zions Bank. At December 31, 2018, we had outstanding borrowings of $28.4 million from the FHLB of New York. We have not borrowed against the line of credit with Zions Bank during the years ended December 31, 2018, and 2017.

The board of 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 December 31, 2018.

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 December 31, 2018, cash and due from banks totaled $3.5 million. Securities classified as available-for-sale, which provide additional sources of liquidity, had a total market value of $26.2 million at December 31, 2018.

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 of December 31, 2018, totaled $54.7 million, or 38.0%, 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 FHLB of New York 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.

We have obtained an irrevocable letter of credit with the Federal Home Loan Bank of New York to collateralize New York state deposits for the New York, Banking Development District program. The Banking Development District program through incentives encourages banks to open branches in communities that are underserved in banking services. The program has approved our new location in Bridgeport, located in Madison county. New York State will deposit a below market rate, certificate of deposit in the new location after the branch is completed. The Bank will in turn make loans to small businesses located in the market area with the proceeds. We expect the completion of the branch late in the year 2019.

At December 31, 2018, we exceeded all of our regulatory capital requirements, and we were categorized as well capitalized at December 31, 2018 and at December 31, 2017. Management is not aware of any conditions or events since the most recent notification that would change our category. See Note 13 to our consolidated financial statements for more information.

Off-Balance Sheet Arrangements and 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 December 31, 2018, we had outstanding commitments to originate loans of $2.7 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.

Recent Accounting Pronouncements

Please refer to Note 2 to our consolidated financial statements for a description of recent accounting pronouncements that may affect our financial condition and results of operations.

Impact of Inflation and Changing Price

The 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 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable, as Seneca Financial Corp. is a "smaller reporting company."

ITEM 8. Financial Statements and Supplementary Data

SENECA FINANCIAL CORP. AND SUBSIDIARIES

Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

SENECA FINANCIAL CORP. AND SUBSIDIARIES

TABLE OF CONTENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	48 – 49
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Condition at December 31, 2018 and 2017	50
Consolidated Statements of Income for the years ended December 31, 2018 and 2017	51
Consolidated Statements of Comprehensive Income for the years ended December 31, 2018 and 2017	52
Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2018 and 2017	53
Consolidated Statements of Cash Flows for the years Ended December 31, 2018 and 2017	54
Notes to Consolidated Financial Statements	55

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Seneca Financial Corp.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Seneca Financial Corp. (the Company) as of December 31, 2018 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of their operations and their cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2018.

/s/ Bonadio & Co., LLP
Syracuse, New York
April 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Seneca Financial Corp. and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of Seneca Financial Corp. and Subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows, for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Baker Tilly Virchow Krause, LLP

We served as the Company's auditor from 2016 to 2018

Pittsburgh, Pennsylvania
April 2, 2018

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands)

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 3,470	$ 4,375
Securities, available-for-sale	26,174	22,097
Loans, net of allowance for loan losses of $1,234 and $1,241	154,650	141,150
Federal Home Loan Bank of New York stock, at cost	2,622	2,340
Accrued interest receivable	771	666
Premises and equipment, net	3,445	2,626
Bank owned life insurance	2,438	2,381
Pension asset	1,250	—
Other assets	487	539
Total assets	$ 195,307	$ 176,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 13,201	$ 11,357
Interest bearing	130,774	118,239
Total Deposits	143,975	129,596
Federal Home Loan Bank advances	28,350	24,500
Advances from borrowers for taxes and insurance	2,127	1,957
Pension liability	—	55
Other liabilities	1,444	1,664
Total liabilities	175,896	157,772
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value, 1,000,000 shares authorized and unissued	—	—
Common stock, $.01 par value, 19,000,000 shares authorized, 1,978,923 shares issued and outstanding at December 31, 2018 and 2017	9	9
Additional paid-in capital	7,846	7,846
Retained earnings	15,487	14,637
Unearned ESOP shares, at cost	(747)	(770)
Accumulated other comprehensive loss	(3,184)	(3,320)
Total stockholders' equity	19,411	18,402
Total liabilities and stockholders' equity	$ 195,307	$ 176,174

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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except for share data)

	Years Ended December 31, 2018	Years Ended December 31, 2017
INTEREST INCOME		
Loans, including fees	$ 6,889	$ 6,284
Securities	779	523
Other	34	21
Total interest income	7,702	6,828
INTEREST EXPENSE		
Deposits	1,264	986
Advances and borrowings	654	451
Total interest expense	1,918	1,437
Net interest income	5,784	5,391
PROVISION FOR LOAN LOSSES	10	180
Net interest income after provision for loan losses	5,774	5,211
NON-INTEREST INCOME		
Service fees	132	108
Income from financial services	193	148
Fee income	183	159
Earnings on bank-owned life insurance	56	61
Net gains on sale of residential mortgage loans	30	143
Net gains on sales of available-for-sale securities	—	2
Net (loss) on sale of fixed assets	—	(4)
Gain on sale of foreclosed real estate	—	8
Other	3	1
Total non-interest income	597	626
NON-INTEREST EXPENSE		
Compensation and employee benefits	3,009	2,655
Core processing	798	664
Premises and equipment	483	420
Professional fees	295	407
Postage & office supplies	118	132
FDIC premiums	37	128
Advertising	191	157
Mortgage recording tax	(120)	78
Director fees	131	126
Other	398	282
Total non-interest expenses	5,340	5,049
Income before provision for income taxes	1,031	788
PROVISION FOR INCOME TAXES	181	264
Net income	$ 850	$ 524
Net income per common shares – basic	$ 0.45	$ 0.28
Weighted average number of common shares outstanding – basic	1,904,516	1,901,356

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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,	
	2018	**2017**
NET INCOME	$ 850	$ 524
OTHER COMPREHENSIVE INCOME, BEFORE TAX		
Available-for-sale securities:		
Unrealized holding (losses) gains arising during period	(290)	155
Less reclassification adjustment for net gains included in net income	—	(2)
Net unrealized (losses) gains on available-for-sale securities	(290)	153
Defined benefit pension plan:		
Net gains (losses) arising during the period	253	(335)
Less reclassification of amortization of net losses recognized in net pension expense	209	203
Net changes in defined benefit pension plan	462	(132)
OTHER COMPREHENSIVE INCOME, BEFORE TAX	172	21
Tax effect	36	8
OTHER COMPREHENSIVE INCOME, NET OF TAX	136	13
TOTAL COMPREHENSIVE INCOME	$ 986	$ 537

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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Equity
BALANCE, JANUARY 1, 2017	$ —	$ —	$ 13,567	$ —	$ (2,787)	$10,780
Proceeds from issuance of common stock net of $1.2 million in offering costs	9	7,846	—	—	—	7,855
Net income	—	—	524	—	—	524
Purchase of 77,754 of ESOP shares	—	—	—	(776)	—	(776)
Other comprehensive income	—	—	—	—	13	13
Reclassification adjustment – tax rate change(1)	—	—	546	—	(546)	—
ESOP shares committed to be released (581 shares)	—	—	—	6	—	6
BALANCE, DECEMBER 31, 2017	$ 9	$ 7,846	$ 14,637	$ (770)	$ (3,320)	$18,402
Net income	—	—	850	—	—	850
Other comprehensive income	—	—	—	—	136	136
ESOP shares committed to be released (2,586 shares)	—	—	—	23	—	23
BALANCE, DECEMBER 31, 2018	$ 9	$ 7,846	$ 15,487	$ (747)	$ (3,184)	$19,411

(1) The Company adopted ASU 2018-02. See Note 2 for additional information.

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)

	Year Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 850	$ 524
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	199	175
Provision for loan losses	10	180
Net amortization of premiums and discounts on securities	254	266
Gain on sale of residential mortgage loans	(30)	(143)
Proceeds from sale of residential mortgage loans	4,912	10,968
Loans originated and sold	(4,882)	(9,901)
Gain on sale of foreclosed assets	—	(8)
Loss on sale of premises and equipment	—	4
Gain on sale of available-for-sale securities	—	(2)
Amortization of deferred loan fees	89	20
ESOP compensation expense	23	6
Earnings on investment in bank owned life insurance	(56)	(61)
Increase in accrued interest receivable	(105)	(36)
Increase (Decrease) in other assets	52	(385)
(Decrease) in pension liability	(55)	(194)
(Increase) in pension asset	(824)	—
(Decrease) increase in other liabilities	(220)	832
Net cash flow (used in) provided by operating activities	217	2,245
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES:		
Activity in securities available-for-sale		
Proceeds from calls and maturities	—	825
Proceeds from sales	—	2,345
Principal repayments	2,422	2,170
Purchases	(7,043)	(8,098)
Purchase of Federal Home Loan Bank of New York stock	(1,479)	(1,246)
Redemption of Federal Home Loan Bank of New York stock	1,197	996
Purchase of bank owned life insurance	—	(180)
Loan originations and principal collections, net	(13,600)	(9,695)
Proceeds from sales of foreclosed assets	—	424
Purchases or premises and equipment	(1,018)	(756)
Proceeds from sale of premises and equipment	—	1
Net cash flow used in investing activities	(19,521)	(13,214)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	14,379	10,054
Increase (decrease) in advances from borrowers for taxes and insurance	170	(51)
Net proceeds from stock offering	—	7,855
Purchase of ESOP shares	—	(776)
Repayments on long-term FHLB advances	(2,100)	(8,500)
Proceeds from long-term FHLB advances	2,350	9,000
Increase (decrease) in short-term FHLB advances	3,600	(4,000)
Net cash flow provided by financing activities	18,399	13,582
Net change in cash and cash equivalents	(905)	2,613
CASH AND CASH EQUIVALENTS – beginning of year	4,375	1,762
CASH AND CASH EQUIVALENTS – end of year	$ 3,470	$ 4,375
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest on deposits and borrowed funds	$ 1,918	$ 1,402
Income taxes	$ 30	$ 5
Transfer of loans to other real estate owned	$ —	$ 451

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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. THE ORGANIZATION

Seneca Financial Corp. (the "Company") is a federally chartered mid-tier stock holding company and was formed in connection with the conversion of Seneca Federal Savings and Loan Association (the "Bank") into the mutual holding company form of organization in October 2017, and it is a subsidiary of Seneca Financial MHC (the "Mutual Holding Company"), a federally chartered mutual holding company. The Mutual Holding Company owns 1,068,618 shares, or 54.0%, of the Company's issued stock at the time of the reorganization. In connection with the reorganization, Seneca Financial Corp. sold 910,305 shares of common stock to the public at $10.00 per share, representing 46% of its outstanding shares of common stock at the time of the reorganization. The Mutual Holding Company activity is not included in the accompanying consolidated financial statements. Seneca Savings, formerly known as Seneca Federal Savings and Loan Association, is a wholly owned subsidiary of the Company. The same directors and officers, who manage the Bank, also manage the Company and the Mutual Holding Company.

Seneca Savings maintains its executive offices and main branch in Baldwinsville, New York, with branches in Liverpool and North Syracuse, New York. The Bank is a community-oriented savings and loan institution whose business primarily consists of accepting deposits from customers within its market area and investing those funds primarily in residential mortgage loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and the Bank's 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. All significant intercompany transactions and balances have been eliminated in consolidation. The Company, as used in the consolidated financial statements, refers to the consolidated group.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and our defined benefit program, are reported as a separate component of the equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive income (loss).

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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 revenue and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, deferred tax assets, the assumptions used in the actuarial valuation and the estimation of fair values for accounting and disclosure purposes.

The Company is subject to the regulations of various governmental agencies. The Company also undergoes periodic examinations by the regulatory agencies which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions resulting from the regulators' judgements based on information available to them at the time of their examinations.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

Emerging Growth

The Company, as an emerging growth company, has elected 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.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and amounts due from banks and interest-bearing deposits in the Federal Home Loan Bank of New York with original maturities of three months or less.

Securities

The Company classifies investment securities as available-for-sale. The Company does not hold any securities considered to be trading or held to maturity. Available-for-sale securities are reported at fair value, with net unrealized gains and losses reflected as a separate component of stockholders' equity, net of the applicable income tax effect.

Gains or losses on investment security transactions are based on the amortized cost of the specific securities sold. Premiums and discounts on securities are amortized and accreted into income using the interest method over the period to maturity or earliest call date.

When the fair value of an available-for-sale security is less than its amortized cost basis, an assessment is made at the balance sheet date as to whether other-than-temporary impairment ("OTTI") is present. The Company considers numerous factors when determining whether potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis or carrying value.

For debt securities, credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). Credit-related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis or carrying value. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost, or carrying value, less any credit-related losses recognized. For securities classified as held-to-maturity, the amount of OTTI recognized in other comprehensive income (loss) is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Federal Home Loan Bank of New York Stock

Federal law requires a member institution of the Federal Home Loan Bank System to hold stock of its district Federal Home Loan Bank (“FHLB”) according to a predetermined formula. This restricted stock is carried at cost.

Management’s determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of its cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential mortgage loans in Onondaga County located in Upstate New York. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate market and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their unpaid principal balances, less the allowance for loan losses and net deferred fees or costs on originated loans. Interest income is generally recognized when income is earned using the interest method. Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized over the life of the loan using the interest method, resulting in a constant effective yield over the loan term. Deferred fees are recognized in income and deferred costs are charged to income immediately upon prepayment of the related loan.

The loans receivable portfolio is segmented into mortgage loans on real estate, commercial and industrial loans, and consumer loans. The mortgage loans on real estate segment consists of the following classes of loans: one-to-four family first-lien residential mortgages, residential construction, home equity loans and lines of credit, and commercial loans. Consumer loans includes home equity lines of credit on real estate, loans with junior liens and other consumer loans.

Mortgage loans on real estate:

- One- to four-family first-lien residential — are loans secured by first lien collateral on residential real estate primarily held in the Western New York region. These loans can be affected by economic conditions and the value of underlying properties. Western New York’s housing market has consistently demonstrated stability in home prices despite economic conditions. Furthermore, the Company has conservative underwriting standards and its residential lending policies and procedures ensure that its one- to four-family residential mortgage loans generally conform to secondary market guidelines.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

- Home equity loans and lines of credit — are loans or lines of credit secured by first or second liens on owner-occupied residential real estate primarily held in the Western New York region. These loans can also be affected by economic conditions and the values of underlying properties.

  Home equity loans may have increased risk of loss if the Company does not hold the first mortgage resulting in the Company being in a secondary position in the event of collateral liquidation. The Company does not originate interest only home equity loans.

- Commercial — are loans used to finance the purchase of real property, which generally consists of developed real estate that is held as first lien collateral for the loan. These loans are secured by real estate properties that are primarily held in the Western New York region. Commercial real estate lending involves additional risks compared with one- to four-family residential lending, because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan, and repayment of such loans may be subject to adverse conditions in the real estate market or economic conditions to a greater extent than one- to four-family residential mortgage loans. Also, commercial real estate loans typically involve relatively large loan balances to single borrowers or groups of related borrowers. Accordingly, the nature of these types of loans make them more difficult for the Company to monitor and evaluate.

- Residential Construction — are loans to finance the construction of either one- to four-family owner occupied homes or commercial real estate. At the end of the construction period, the loan automatically converts to either a one- to four-family or commercial mortgage, as applicable. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion compared to the actual cost of construction. The Company limits its risk during construction as disbursements are not made until the required work for each advance has been completed and an updated lien search is performed. The completion of the construction progress is verified by a Company loan officer or inspections performed by an independent appraisal firm. Construction delays may impair the borrower’s ability to repay the loan.

Commercial and industrial loans:

Includes business installment loans, lines of credit, and other commercial loans. Most of the Company’s commercial loans have fixed interest rates and are for terms generally not in excess of 5 years.

Whenever possible, the Company collateralizes these loans with a lien on business assets and equipment and require the personal guarantees from principals of the borrower. Commercial loans generally involve a higher degree of credit risk because the collateral underlying the loans may be in the form of intangible assets and/or inventory subject to market obsolescence. Commercial loans can also involve relatively large loan balances to a single borrower or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation of the commercial business and the income stream of the borrower. Such risks can be significantly affected by economic conditions. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default may be an insufficient source of repayment because the equipment or other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the credit worthiness of the borrowers (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Consumer loans:

Consist of loans secured by collateral such as an automobile or a deposit account, unsecured loans, and lines of credit. Consumer loans tend to have a higher credit risk due to the loans being either unsecured or secured by rapidly depreciable assets. Furthermore, consumer loan payments are dependent on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan in the consolidated statements of income. We had no loans held for sale at December 31, 2018 and 2017.

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 consolidated statement of financial 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. Non-residential consumer loans are generally charged off no later than 180 days past due on a contractual basis, unless productive collection efforts are providing results. Consumer loans may be charged off earlier in the event of bankruptcy, or if there is an amount that is deemed uncollectible. 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 the Company's 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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

- 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
- Quality of the Company’s loan review system and the degree of oversight by the Company’s 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.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length and reason for the delay, the borrower’s prior payment record and the amount of shortfall in relation to what is owed. Impairment is measured by either the present value of the expected future cash flows discounted at the loan’s effective interest rate or the fair value of the underlying collateral if the loan is collateral dependent.

An allowance for loan loss is established for an impaired loan if it’s carrying value exceeds its estimated fair value. The estimated fair values of substantially all the Company’s impaired loans are measured based on the estimated fair value of the loan’s collateral.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal, and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower’s financial statements, inventory reports, account receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity and other consumer loans for impairment disclosures, unless such loans are related to borrowers with impaired commercial loans or they are the subject to a troubled debt restructuring agreement.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in the interest rate or an extension of a loan's stated maturity date. Loans classified as troubled debt restructurings are designated as impaired and evaluated as discussed above.

The allowance estimation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of the collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise on all loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. See Note 4 for a description of these regulatory classifications.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Income Recognition on Impaired and Nonaccrual Loans

For residential and commercial classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. For other loan classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest is reversed and charged to interest income. Interest received on non-accrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

For non-accrual loans, when future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to earnings, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The Company did not have foreclosed real estate at December 31, 2018 and December 31, 2017. The Company had residential real estate loans in the process of foreclosure of $444,000 and $257,000 at December 31, 2018 and 2017, respectively.

Premises and Equipment

Land is carried at cost. Land improvements, buildings and building improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are generally seven to 39 years for buildings and building improvements and three to 10 years for furniture, fixtures, and equipment.

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.

The Company’s Federal and New York State tax returns, constituting the returns of the major taxing jurisdictions, are subject to examination by the authorities for 2015, 2016 and 2017 as prescribed by applicable statute. No waivers have been executed that would extend the period subject to examination beyond the period prescribed by statute.

Advertising

The Company charges the costs associated with advertising to expense as incurred. Advertising expenses charged to operations for the years ended December 31, 2018 and 2017 was $191,000 and $157,000, respectively.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial lines of credit. Such financial instruments are recorded when they are funded. The Company does not engage in the use of derivative financial instruments.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Revenue Recognition

The Company recognizes revenue in the consolidated statements of income as it is earned and when collectability is reasonably assured. The primary source of revenue is interest income from interest earning assets, which is recognized on the accrual basis of accounting using the effective interest method. The recognition of revenues from interest earning assets is based upon formulas from underlying loan agreements, securities contracts, or other similar contracts. Non-interest income is recognized on the accrual basis of accounting as services are provided or as transactions occur. Non-interest income includes earnings on bank-owned life insurance, fees from brokerage and advisory service, deposit accounts, merchant services, ATM and debit card fees, mortgage banking activities, and other miscellaneous services and transactions. See Note 15 for more informaiton regarding the Company's non-interest income.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located primarily in Onondaga County of New York State. A large portion of the Company's portfolio is centered in residential and commercial real estate. The Company closely monitors real estate collateral values and requires additional reviews of commercial real estate appraisals by a qualified third party for commercial real estate loans more than $249,999. All residential loan appraisals are reviewed by an individual or third party who is independent of the loan origination or approval process and was not involved in the approval of appraisers or selection of the appraiser for the transaction, and has no direct or indirect interest, financial or otherwise in the property or the transaction. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Bank-owned life insurance

The Company invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the life insurance policies, and as such, the investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in noninterest income in the consolidated statements of income. The BOLI policies are an asset that can be liquidated, if necessary, with associated tax costs. However, the Company intends to hold these policies and, accordingly, has not provided for deferred income taxes on the earnings from the increases in cash surrender value.

Pension and Postretirement Plans

The Company sponsors qualified defined benefit pension plan and supplemental executive retirement plan (SERP). The qualified defined benefit pension plan is funded with trust assets invested in a diversified portfolio of debt and equity securities. Accounting for pensions and other postretirement benefits 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, the Company makes extensive use of assumptions about inflation, investment returns, mortality, turnover, and discount rates. The Company has 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 the Company's net periodic pension costs and adversely affect the Company's results of operations. A significant increase in the Company's contribution requirements with respect to the Company's qualified defined benefit pension plan could have an adverse impact on the

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Company's cash flow. Changes in the key actuarial assumptions would impact net periodic benefit expense and the projected benefit obligation for the Company's defined benefit and other postretirement benefit plan. See Note 10, "Employee Benefit Plans," for information on these plans and the assumptions used.

Employee Stock Ownership Plan ("ESOP")

Compensation expense is recognized based on the current market price of shares committed to be released to employees. All shares released and committed to be released are deemed outstanding for purposes of earnings per share calculations. Dividends declared and paid on allocated shares held by the ESOP are charged to retained earnings. The value of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of stockholders' equity. Dividends declared on unallocated shares held by the ESOP are recorded as a reduction of the ESOP's loan payment to the Company.

Federal Home Loan Bank of New York Letter (FHLBNY) of Credit (LOC)

The Bank has secured a LOC from the FHLBNY to collateralize New York state deposits related to the Banking Development District Program. The program helps to give incentives for banks to open branches in communities with underserved banking resources. The Bridgeport branch will allow us to market our deposit products in Madison county and is tentatively scheduled to be open in the later part of 2019. The LOC is collateralized by one-to four- mortgage loans pledged to the FHLBNY.

Earnings per Common Share

Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has a simple capital structure as it has not granted any restricted stock awards or stock options and, during the year ended December 31, 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.

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform with the 2018 presentation format. These classifications are immaterial and had no effect on net income or stockholders' equity for the periods presented herein.

New Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 is an amendment to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the Act). ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption of the amendment in this update is permitted, including adoption in any interim period. The Company elected to early adopt the standard effective December 31, 2017. The stranded tax effect of the deferred tax assets related to securities available for sale within Accumulated Other Comprehensive Loss ("AOCL") of $546,308 was reclassified to retained earnings within the consolidated statements of stockholders' equity in 2017.

In March 2017, the FASB issued ASU 2017-08, *Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchases Callable Debt Securities*. ASU 2017-08 amends guidance on the amortization period of premiums on certain purchases callable debt securities. The amendments shorten the amortization period of premiums on certain purchases callable debt securities to the earliest call date. ASU 2017-08 is effective for public business entities that are SEC filers for annual periods beginning after December 15, 2018, and interim periods within those annual periods, for public entities that are not SEC filers for annual periods beginning after December 15, 2019 and for all other entities for annual periods beginning after December 15, 2020 with early adoption permitted. The Company amortizes to the call date and therefore the adoption will not have any impact on the Company's financial condition or 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*. This ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses measured at amortized cost and certain other instruments, including loans, held-to-maturity debt securities, net investments in leases, and off-balance sheet credit exposures. The Update is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is assessing the potential impact on its consolidated financial statements; however, due to the significant differences in the revised guidance from existing GAAP, the implementation of this guidance may result in material changes in our accounting for credit losses on financial instruments.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 is intended to improve financial reporting about leasing transactions by requiring organizations that lease assets — referred to as "lessees" — to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The amendments will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to all public business entities for annual and interim periods after December 15, 2018, and for all other entities for annual periods beginning after December 15, 2019 and interim periods beginning after December 15, 2020 with early adoption permitted. The Company does not currently lease buildings or equipment and after evaluating provisions of ASU 2016-02, will not have to report increased assets or liabilities.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries under GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. ASU 2014-09 specifies that an entity shall recognize revenue when, or as, the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when, or as, the customer obtains control of the asset. Entities are required to disclose qualitative and quantitative information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. The guidance allows an entity to apply the new standard either retrospectively or through a cumulative effect adjustment as of January 1, 2018. This guidance does not apply to revenue associated with financial instruments, including loans, securities, and derivatives that are accounted for under other GAAP guidance. For that reason, we do not expect it to have a material impact on our consolidated results of operations for elements of the statement of income associated with financial instruments, including securities gains, interest income and interest expense. The Company does believe the new standard will result in new disclosure requirements. Based on the Company's evaluation under the current guidance, management estimates that substantially all of the Company's interest income and non-interest income will not be impacted by the adoption of ASU 2014-09 because either the revenue from those contracts with customers is covered by other guidance in GAAP or the revenue recognition outcomes anticipated with the adoption of ASU 2014-09 will likely be similar to the Company's current revenue recognition practices. The Company evaluated certain noninterest revenue streams, including,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

deposit related fees, service and interchange fees, and Financial Quest income to determine the potential impact of the guidance on the Company's consolidated financial statements. The Company has included additional financial statement disclosures of non-interest income revenue streams and associated internal controls to be implemented, after reviewing our business processes, systems and controls. See Note 15 for more information regarding the Company's Non-Interest Income.

In May 2018, the FASB issued ASU No. 2018-06, Codification Improvements to Topic 942, Financial Services — Depository and Lending. This update superseded outdated guidance related to the Office of the Comptroller of the Currency's Banking Circular 202, Accounting for Net Deferred Tax Charges. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This update expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. As a result, nonemployee share-based payment awards will be measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the service has been rendered, subject to the probability of satisfying performance conditions when applicable. For public entities, this update is effective for fiscal years beginning after December 15, 2018. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This update clarifies the guidance about whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. In addition, the guidance clarifies the determination of whether a transaction is conditional. For public entities, this update is effective for contributions made in fiscal years beginning after December 15, 2018.

In July 2018, the FASB issued ASU No. 2018-09, Codification Improvements to address stakeholder suggestions for minor corrections and clarifications within the codification. The transition and effective date guidance are based on the facts and circumstances of each amendment. Some of the amendments in this update do not require transition guidance and will be effective upon issuance of this update. However, many of the amendments in this update do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. The Company does not expect the new guidance to have a material impact on the consolidated financial statements. The Company does not expect the new guidance to have a material impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842. Leases to address certain narrow aspects of the guidance issued in ASU No. 2016-02. 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 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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

In October 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes, which adds the SOFR OIS as a benchmark rate that businesses can use to designate hedges of interest rate risk. This update adds to U.S. GAAP a new interest rate from the market for U.S. Treasury repurchase contracts to the list of accepted benchmark rates for hedge accounting. The SOFR is calculated by the Fed based on the interest rates banks charge one another in the overnight market for loans they make to one another, typically called repurchase agreements. In introducing the new rate, the Fed said that because it is based on transactions in the open market, it is more reflective of market conditions than LIBOR, which relies more on judgment. Adding the SOFR OIS as an acceptable hedge accounting benchmark for U.S. GAAP is considered a critical step in helping it gain more acceptance in the market. FASB ASC 815 provides guidance on the risks associated with financial assets or liabilities that are allowed to be hedged. Among those risks is the risk of changes in fair values or cash flows of existing or forecasted issuances or purchases of fixed-rate financial assets or liabilities attributable to a designated benchmark interest rate. U.S. GAAP considers a benchmark rate as a rate that is widely recognized, commonly referenced, and quoted in an active financial market. FASB ASC 815 lists three rates as benchmarks: the rate on direct Treasury obligations of the U.S. government, the Fed Funds Effective Swap Rate (Overnight Index Swap Rate), and the LIBOR swap rate. In 2017, the FASB added a fourth rate, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate when it published ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which made several other changes to simplify hedge

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

accounting and expand its use. The FASB wants businesses and organizations to adopt the amendments in ASU No. 2018-16 at the same time they adopt the changes in ASU No. 2017-12. For public companies that have adopted ASU No. 2017-12, the new amendments are effective for fiscal years beginning after December 15, 2018 and interim periods.

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:				
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
December 31, 2017:				
Municipal securities	$ 9,157	$ 9	$ (128)	$ 9,038
Mortgage-backed securities and collateralized mortgage obligations	10,378	7	(169)	10,216
Corporate securities	2,823	20	—	2,843
	$ 22,358	$ 36	$ (297)	$22,097

Mortgage backed securities and collateralized mortgage obligations consist of securities that are issued by Fannie Mae (“FNMA”), Freddie Mac (“FHLMC”), Ginnie Mae (“GNMA”), and Small Business Administration (“SBIC”) and are collateralized by residential mortgages. Municipal securities consist of government obligation and revenue bonds. Corporate securities consist of fixed and variable rate bonds with large financial institutions.

Investment securities with carrying amounts of $9.8 million and $9.2 million were pledged to secure deposits and for other purposes required or permitted by law for the years ended December 31, 2018 and 2017, respectively.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

	December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due in one year or less	$ 500	$ 501	$ —	$ —
Due after one year through five years	3,372	3,313	783	783
Due after five years through ten years	7,481	7,357	6,523	6,512
Due after ten years	4,350	4,224	4,674	4,586
Mortgage-backed securities and collateralized mortgage obligations	11,022	10,779	10,378	10,216
	$ 26,725	$ 26,174	$ 22,358	$ 22,097

During the year ended December 31, 2018, the Company did not sell available-for-sale securities. During the year ended December 31, 2017, the Company sold available-for-sale securities with gross realized gains of $6,000 and gross realized losses of $4,000.

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.

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)			
December 31, 2018:				
Municipal securities	$ (7)	$ 1,786	$ (174)	$ 6,636
Mortgage-backed securities and collateralized mortgage obligations	(19)	3,249	(224)	7,530
Corporate Securities	(137)	5,716	—	—
	$ (163)	$ 10,751	$ (398)	$ 14,166
December 31, 2017:				
Municipal securities	$ (22)	$ 3,335	$ (106)	$ 4,545
Mortgage-backed securities and collateralized mortgage obligations	(68)	6,282	(101)	3,420
	$ (90)	$ 9,617	$ (207)	$ 7,965

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For the years ended December 31, 2018 and 2017, the Company did not record an other-than-temporary impairment (OTTI) charge.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

3. SECURITIES — (Continued)

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 2018, five municipal obligations, two collateralized mortgage obligations, three mortgage backed securities, and ten corporate securities were at a loss for less than one year.

At December 31, 2017, five collateralized mortgage obligations and twelve municipal securities were in a continuous loss position for more than twelve months. At December 31, 2017, nine municipal securities, three mortgage-backed securities and seven collateralized mortgage obligations 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. 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 for the period December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
	(Dollars in Thousands)	
Mortgage loans on real estate:		
One-to-four family first lien residential	$ 102,617	$ 95,697
Residential construction	3,500	5,978
Home equity loans and lines of credit	9,212	7,706
Commercial	23,409	21,673
Total mortgage loans on real estate	138,738	131,054
Commercial and industrial	14,134	8,312
Consumer loans	2,519	2,443
Total loans	155,391	141,809
Allowance for credit losses	(1,234)	(1,241)
Net deferred loan origination costs	493	582
Net loans	$ 154,650	$ 141,150

Residential real estate loans serviced for others by the Company totaled $27.3 million and $24.9 million at December 31, 2018 and 2017, respectively.

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.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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, manufactured housing, commercial and home equity loans, comprise approximately and 90% and 92% of the portfolio at December 31, 2018 and 2017, respectively. Loans secured by real estate provide the best 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 the loan has demonstrated signs of weakness as indicated by the ratings below:

- Special Mention: The relationship is protected but are 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.

- 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. See further discussion of risk ratings in Note 2.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

4. LOANS — (Continued)

The following table presents 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 December 31, 2018 and 2017:

	December 31, 2018				
	Pass	Special Mention	Substandard	Loss	Total
	(Dollars in Thousands)				
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

	December 31, 2017				
	Pass	Special Mention	Substandard	Loss	Total
	(Dollars in Thousands)				
Mortgage loans on real estate:					
One-to-four family first lien residential	$ 95,697	$—	$ —	$—	$ 95,697
Residential construction	5,978	—	—	—	5,978
Home equity loans and lines of credit	7,706	—	—	—	7,706
Commercial	19,985	—	1,688	—	21,673
Total mortgage loans on real estate	129,366	—	1,688	—	131,054
Commercial and industrial	7,944	77	291	—	8,312
Consumer loans	2,443	—	—	—	2,443
Total loans	$139,753	$ 77	$ 1,979	$—	$141,809

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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:

	December 31, 2018					
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans Receivable
	(Dollars in Thousands)					
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

	December 31, 2017					
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Past Due	Current	Total Loans Receivable
	(Dollars in Thousands)					
Mortgage loans on real estate:						
One-to-four family first lien residential	$ 740	$121	$ 1,177	$ 2,038	$ 93,659	$ 95,697
Residential construction	—	—	—	—	5,978	5,978
Home equity loans and lines of credit	—	—	—	—	7,706	7,706
Commercial	247	—	—	247	21,426	21,673
Total mortgage loans on real estate	987	121	1,177	2,285	128,769	131,054
Commercial and industrial	—	—	—	—	8,312	8,312
Consumer loans	29	8	—	37	2,406	2,443
Total loans	$ 1,016	$129	$ 1,177	$ 2,322	$139,487	$ 141,809

At December 31, 2018 and 2017 there were no loans over 90 days that are still accruing. Nonaccrual loans, segregated by class of loan as of December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
	(Dollars in Thousands)	
Mortgage loans on real estate	$ 1,201	$1,177
Commercial and industrial loans	—	—
Consumer loans	13	—
Total nonaccrual loans	$ 1,214	$1,177

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

4. LOANS — (Continued)

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 that 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.

The Company had no loans that had been modified as TDRs during the year ended December 31, 2018. During the year ended December 31, 2017, the Company modified two commercial mortgage loans valued at $1.0 million that are considered TDRs.. We modified the terms to interest only for a two-year period. These loans are paying according to their modified terms and are classified as substandard and impaired. The post-modification recorded investment balance was the same as the pre-modification recorded investment balance, as there were no charge-offs as a result of the restructuring. There has been no subsequent default on said restructure.

The following table summarizes impaired loans information by portfolio class:

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

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
With an allowance recorded:			
Mortgage loans on real estate	$ 318	$ 318	$ 7
	318	318	7
With no allowance recorded:			
Mortgage loans on real estate	1,640	1,640	—
	1,640	1,640	—
Total	$ 1,958	$1,958	$ 7

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

4. LOANS — (Continued)

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

	December 31, 2018	December 31, 2017
	(Dollars in Thousands)	
Mortgage loans on real estate	$2,026	$1,556
Commercial and industrial loans	—	177
Total	$2,026	$1,733

The following table presents interest income recognized on impaired loans for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
	(Dollars in Thousands)	
Mortgage loans on real estate	$38	$11
Commercial and industrial loans	—	47
Total	$38	$58

Changes in the allowance for loan losses for the years ended December 31, 2018 and 2017 are as follows:

	December 31, 2018				
	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
	(Dollars in Thousands)				
Allowance for loan losses:					
Beginning balance	$ 870	$ 116	$ 5	$ 250	$ 1,241
Charge-offs	—	(8)	(9)	—	(17)
Recoveries	—	—	—	—	—
Provision	63	24	21	(98)	10
Ending balance	$ 933	$ 132	$ 17	$ 152	$ 1,234
Ending balance: individually evaluated for impairment	38	—	—	—	38
Ending balance: collectively evaluated for impairment	895	132	17	152	1,196
Ending balance	$ 933	$ 132	$ 17	$ 152	$ 1,234
Loans receivable balance:					
Ending balance: individually evaluated for impairment	2,093	—	—	—	2,093
Ending balance: collectively evaluated for impairment	136,645	14,134	2,519	—	153,298
Ending balance	$ 138,738	$ 14,134	$ 2,519	$ —	$155,391

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

4. LOANS — (Continued)

	December 31, 2017				
	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
	(Dollars in Thousands)				
Allowance for loan losses:					
Beginning balance	$ 862	$ 180	$ 5	$ 123	$ 1,170
Charge-offs	(64)	(61)	—	—	(125)
Recoveries	13	3	—	—	16
Provision	59	(6)	—	127	180
Ending balance	$ 870	$ 116	$ 5	$ 250	$ 1,241
Ending balance: individually evaluated for impairment	7	—	—	—	7
Ending balance: collectively evaluated for impairment	863	116	5	250	1,234
Ending balance	$ 870	$ 116	$ 5	$ 250	$ 1,241
Loans receivable balance:					
Ending balance: individually evaluated for impairment	1,958	—	—	—	1,958
Ending balance: collectively evaluated for impairment	129,096	8,312	2,443	—	139,851
Ending balance	$131,054	$ 8,312	$ 2,443	$ —	$141,809

In the ordinary course of business, the Company makes loans to its directors and officers, including their families and companies in which certain directors are principal owners. All such loans were made on substantially the same terms including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated persons. Loans to directors and officers are listed below and are included in loans on the statement of financial condition.

	December 31,	
	2018	2017
	(Dollars in Thousands)	
Balance, beginning of period	$367	$204
Payments	(10)	(39)
Proceeds	63	202
Balance, end of period	$420	$367

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2018 and 2017 are summarized as follows:

	December 31, 2018	December 31, 2017
	(Dollars in Thousands)	
Building and building improvements	$ 3,390	$ 3,386
Construction in progress	993	—
Furniture, fixture and equipment	1,491	1,470
	$ 5,874	$ 4,856
Accumulated depreciation	(2,429)	(2,230)
Total	$ 3,445	$ 2,626

Depreciation expense for the years ended December 31, 2018 and 2017 was $199,000 and $175,000, respectively.

6. DEPOSITS

The components of deposits for the years ended December 31, 2018 and 2017 consist of the following:

	December 31, 2018	December 31, 2017
	(Dollars in Thousands)	
Demand deposit	$ 13,201	$ 11,357
NOW accounts	14,901	12,871
Regular savings and demand clubs	21,536	21,404
Money markets	15,134	13,099
Certificates of deposit and retirement accounts	79,203	70,865
	$ 143,975	$ 129,596

As of December 31, 2018, certificates of deposit and retirement accounts have scheduled maturities as follows (dollars in thousands):

2019	$ 54,686
2020	16,347
2021	6,850
2022	1,001
2023	319
Thereafter	—
	$ 79,203

The aggregate amount of time deposits in denominations of $250,000 or more were $14.4 million and $10.6 million at December 31, 2018 and 2017, respectively. Under the Dodd-Frank Act, deposit insurance per account owner is $250,000.

Interest expense on deposits for the years ended December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
	(Dollars in Thousands)	
NOW accounts	$ 24	$ 18
Regular savings and demand clubs	16	14
Money markets	77	78
Certificates of deposit and retirement accounts	1,147	876
	$1,264	$986

The aggregate amount of related party transactions is immaterial for the years ended December 31, 2018 and 2017.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

7. BORROWINGS

Advances from the Federal Home Loan Bank of New York ("FHLBNY") reflect advances borrowed from the FHLBNY. The FHLBNY charges a substantial prepayment penalty for early payoff of an advance. The unamortized balances on advances at December 31, 2018 and 2017 are summarized as follows:

	December 31,	
	2018	2017
	(Dollars in Thousands)	
Term Advances:		
Advanced March 2, 2011 – Due March 2, 2018 – bearing interest at 3.51% fixed rate	$ —	$ 1,000
Advanced June 8, 2011 – Due June 8, 2018 – bearing interest at 2.87% fixed rate	—	1,000
Advanced December 29, 2014 – Due December 30, 2019 – bearing interest at 3.593% and 2.483% at December 31, 2018 and 2017, respectively adjustable rate	3,000	3,000
Advanced March 30, 2015 – Due April 1, 2019 – bearing interest at 1.64% fixed rate	4,000	4,000
Advanced September 28, 2015 – Due September 28, 2020 – bearing interest at 1.91% fixed rate	1,000	1,000
Advanced March 29, 2016 – Due March 29, 2021 – bearing interest at 1.81% fixed rate	2,000	2,000
Advanced December 9, 2016 – Due December 9, 2020 – bearing interest at 2.10% fixed rate	1,500	1,500
Advanced March 30, 2017 – Due March 30, 2022 – bearing interest at 2.33% fixed rate	3,000	3,000
Advanced June 29, 2017 – Due June 29, 2022 – bearing interest at 2.22% fixed rate	1,000	1,000
Advanced September 7, 2017 – Due September 7, 2018 – bearing interest at 1.54% fixed rate	—	100
Advanced September 7, 2017 – Due September 9, 2019 – bearing interest at 1.67% fixed rate	250	250
Advanced September 7, 2017 – Due September 7, 2022 – bearing interest at 2.03% fixed rate	1,650	1,650
Advanced December 21, 2017 – Due January 4, 2018 – bearing interest at 1.52% fixed rate	—	2,000
Advanced December 29, 2017 – Due December 30, 2019 – bearing interest at 2.25% fixed rate	2,000	2,000
Advanced December 29, 2017 – Due December 29, 2020 – bearing interest at 2.36% fixed rate	1,000	1,000
Advanced March 5, 2018 – Due March 5, 2021 – bearing interest at 2.74% fixed rate	1,250	—
Advanced September 26, 2018 – Due September 26, 2023 – bearing interest at 3.37% fixed rate	1,100	—
Advanced December 27, 2018 – Due January 3, 2019 – bearing interest at 2.63% fixed rate	5,600	—
Total	$28,350	$24,500

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

7. BORROWINGS — (Continued)

The contractual maturities and weighted average rates of advances from FHLBNY at December 31, 2018 are as follows (dollars in thousands):

2019	$ 14,850	2.49%
2020	3,500	2.12%
2021	3,250	2.17%
2022	5,650	2.22%
2023	1,100	3.37%
	$ 28,350	2.39%

The Company has access to FHLBNY advances, under which it can borrow at various terms and interest rates. Residential mortgage loans of $70.3 million and $67.4 million at December 31, 2018 and 2017, respectively, and investment securities of $9.8 million and $9.2 million, respectively, have been pledged by the Company under a blanket collateral agreement to secure the Company's borrowings. The total outstanding indebtedness under borrowing facilities with the FHLBNY cannot exceed the total value of the assets pledged under the blanket collateral agreement. The Company has also pledged a $372,000, government agency bond to a local municipality collateralizing their deposits. The Company has a $2.5 million dollar line of credit with a correspondent bank that is available on an unsecured basis.

8. INCOME TAXES

Income tax expense for the years ended December 31 is summarized as follows (in thousands):

	December 31,	
	2018	**2017**
	(Dollars in Thousands)	
Current:		
Federal	$ 8	$ (79)
State	4	4
	12	(75)
Deferred:		
Federal	169	339
State	—	—
	169	339
Total provision for income taxes	$181	$264

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 34 percent to 21 percent; (2) elimination of the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; and (3) changing rules related to usage and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017. As a result of the reduction in the U.S. corporate income tax rate from 34% to 21% under the Tax Act, the Company revalued its ending net deferred tax assets at December 31, 2017. The Company recognized a $116,000 net tax expense in the Company's Consolidated Statements of Income for the year ended December 31, 2017 as a result of the Tax Act, of which the expense recorded is primarily attributable to the revaluation of net deferred tax assets.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

8. INCOME TAXES — (Continued)

The Company's deferred federal and state income tax and related valuation accounts represents the estimated impact of temporary differences between how we recognize our assets and liabilities under GAAP and how such assets and liabilities are recognized under federal and state tax law. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse.

Deferred tax assets/liabilities (DTA/DTL) related to available for sale (AFS) securities gains/(losses) that were revalued as of December 31, 2017 noted above created "stranded tax effects" in Accumulated Other Comprehensive Loss (AOCL). In February 2018, FASB issued ASU 2018-02. The Company early adopted the provisions of ASU 2018-02 in 2017 and recorded a one-time reclassification of $546,000 from AOCL to retained earnings for stranded tax effects related to AFS securities and Pension Plan assets resulting from the newly enacted corporate tax rate. The amount of the reclassification was the difference between the 34 percent historical corporate tax rate and the newly enacted 21 percent corporate tax rate. See consolidated statement of stockholders' equity for details of the reclassification.

The components of the net deferred tax assets, included in other assets in the consolidated statements of financial condition, are as follows:

	December 31,	
	2018	**2017**
	(Dollars in Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 320	$ 475
Net operating loss carryforward	278	203
Charitable contributions	—	22
Nonaccrual interest	21	38
Net unrealized loss on securities available-for-sale	116	89
Other	67	74
Total deferred tax assets	802	901
Deferred tax liabilities:		
Net retirement plans	(471)	(128)
Deferred loan fees	(94)	(162)
Depreciation	(115)	(219)
Other	—	(2)
Total deferred tax liabilities	(680)	(511)
Valuation allowance	(138)	(86)
Net deferred tax assets	$ (16)	$ 304

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

8. INCOME TAXES — (Continued)

Items that give rise to differences between income tax expense included in the statements of income and taxes computed by applying the statutory federal tax at a rate of 21% for the periods below included the following:

	Years Ended December 31,	
	2018	2017
	(Dollars in Thousands)	
Computed at the statutory rate	$216	$268
Change in valuation allowance	35	(80)
State deferred taxes	(35)	80
Nontaxable interest and dividend	(37)	(48)
Income from bank owned life insurance	(12)	(21)
Deferred tax revaluation due to Tax Act		116
Other items	14	(51)
Income tax provision	$181	$264

New York State (NYS) tax law changes were enacted in 2015 that resulted in the Company generating a significant deduction, ultimately putting the Company in a NYS net operation loss position for tax purposes that will persist for the foreseeable future. It is anticipated that mortgage recording tax generated each year will reduce the NYS capital base to the fixed dollar minimum tax. Therefore, in 2015, the Company recorded a valuation allowance against its net New York deferred tax asset as of December 31, 2015 as it is unlikely this deferred tax asset will impact the Company’s New York tax liability in future years, primarily mortgage recording tax credit carryforward. The Company also de-recognized state deferred tax liabilities as a result of NYS law changes.

At December 31, 2018 and 2017, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

Under current income tax laws, the base-year reserves would be subject to recapture if the Company pays a cash dividend in excess of earnings and profits or liquidates. The Bank does not expect to take any actions in the foreseeable future that would require the recapture of any Federal reserves. As a result, a deferred tax liability has not been recognized with respect to the Federal base-year reserve of $2,188,157 at December 31, 2018 and 2017, because the Bank does not expect that this amount will become taxable in the foreseeable future. The unrecognized deferred tax liability with respect to the Federal base-year reserve was $459,513 at December 31, 2018. It is more likely than not that this liability will never be incurred because, as noted above, the Bank does not expect to take any action in the future that would result in this liability being incurred.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

9. COMPREHENSIVE LOSS

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

	For the year ended December 31, 2018		
	Unrealized (Losses) on Available-for Sale Securities	Net Gain (Loss) on Pension Plan	Accumulated Other Comprehensive (Loss)
	(Dollars in Thousands)		
Beginning balance	$(207)	$(3,113)	$ (3,320)
Other comprehensive (loss) income	(229)	365	136
Ending balance	$(436)	$(2,748)	$ (3,184)

	For the year ended December 31, 2017		
	Unrealized Gains (Losses) on Available for Sale Securities	Net (Losses) on Pension Plan	Accumulated Other Comprehensive Income (Loss)
	(Dollars in Thousands)		
Beginning balance	$(273)	$(2,514)	$ (2,787)
Other comprehensive income (loss)	100	(87)	13
Reclassification adjustment – tax rate change (ASU 2018-02)	(34)	(512)	(546)
Ending balance	$(207)	$(3,113)	$ (3,320)

The amounts of income tax (expense) benefit allocated to each component of other comprehensive loss are as follows:

	For the years ended					
	December 31, 2018			December 31, 2017		
	Before Tax Amount	Tax (Expense) Benefit	Net	Before Tax Amount	Tax (Expense) Benefit	Net
	(Dollars in Thousands)					
Available for sale securities:						
Unrealized holding (loss) gains arising during period	$(290)	$ 61	$(229)	$ 155	$ (53)	$ 102
Reclassification adjustment for net gains included in net income	—	—	—	(2)	—	(2)
Net unrealized gains on available-for-sale securities	(290)	61	(229)	153	(53)	100
Defined Benefit Pension Plan:						
Net gains arising during the period	253	(53)	200	(335)	114	(221)
Less reclassification of amortization of net losses recognized in net pension expense	209	(44)	165	203	(69)	134
Net changes in defined benefit pension plan	462	(97)	365	(132)	45	(87)
Other Comprehensive Income	$ 172	$ (36)	$ 136	$ 21	$ (8)	$ 13

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

9. COMPREHENSIVE LOSS — (Continued)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss (AOCL):

	Amount Reclassified from AOCL		
	For the years ended		
	December 31, 2018	December 31, 2017	Affected line item in the Statement of Income
	(Dollars in Thousands)		
Available for sale securities:			
Realized gains on sale of available for sale securities	$ —	$ 2	Net realized gains on sales of available-for-sale securities
Tax effect	—	—	Provision for income taxes
	—	2	Net income
Defined benefit pension plan:			
Retirement plan net losses recognized in net period pension cost	(209)	(203)	Compensation and employee benefits
Tax effect	44	69	Benefit for income taxes
	$(165)	$(134)	Net income

10. EMPLOYEE BENEFIT PLANS

Supplemental Executive Retirement Plan (SERP)

Beginning in 2016, the Company instituted 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 December 31, 2018 and 2017, the Company recorded $83,367 and $49,771, respectively, for the SERP in other liabilities on the consolidated statements of financial condition. Expenses for the SERP are included in compensation and employee benefits on the consolidated statements of income and were $33,596 and $31,996, respectively, for the years ended December 31, 2018 and 2017.

Defined Benefit Plan

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

On October 13, 2017, the Compensation Committee elected to soft-freeze the defined benefit pension plan effective January 1, 2018. All employees hired after that date will not be eligible to participate in the defined benefit pension plan; they will, however, be able to participate in a 401k plan that the Company will match up to 50% of the employee elected contribution amount capped at 3% of the employee’s earnings.

All plan provisions and actuarial methods used in 2018 are the same as those used in 2017, with the exception of the discount rate which increased to 5.00% from 3.75%. The mortality tables used in 2018 were RP-2014 (adjusted) with MP-2018 mortality improvements. The Company used the Asset Smoothing method to calculate return on investment on a four-year average for the assumptions used in the 2018 calculation.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

10. EMPLOYEE BENEFIT PLANS — (Continued)

Information pertaining to the activity in the Pension Plan for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
	(Dollars in Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$11,273	$10,233
Service cost	335	252
Interest cost	412	423
Actuarial (gain) loss	(1,669)	928
Benefits paid	(563)	(563)
Benefit obligation at end of year	9,788	11,273
Change in plan assets:		
Fair value of plan assets at beginning of year	$11,219	$ 9,984
Actual (loss) return on plan assets	(617)	1,298
Employer contributions	1,000	500
Benefits paid	(563)	(563)
Fair value of plan assets at end of year	11,039	11,219
Net amount recognized, funded status	$ 1,250	$ (54)

The accumulated benefit obligation was $9.3 million and $10.6 million at December 31, 2018 and 2017, respectively.

The assumptions used to determine the benefit obligation at December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	5.00%	3.75%
Rate of increase in compensation levels	3.00%	3.00%

The components of net periodic pension cost and amounts recognized in other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
	(Dollars in Thousands)	
Service cost	$ 335	$ 252
Interest cost	412	423
Expected return on assets	(799)	(705)
Amortization of unrecognized loss	209	203
Net periodic pension cost	157	173
Total of amounts recognized in other comprehensive (income) loss	(462)	132
Total recognized in net periodic pension cost and other comprehensive (income) loss	$ (305)	$ 305

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

10. EMPLOYEE BENEFIT PLANS — (Continued)

The estimated net actuarial loss of $209,000 will be amortized from accumulated other comprehensive loss into net periodic pension cost during the next fiscal year.

The assumptions used to determine net periodic pension cost for the years ended December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
Discount rate	3.75%	4.25%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of increase in compensation levels	3.00%	3.00%

The long-term rate of return on assets assumption was set based on historical returns earned by the asset allocation of the investments currently used by the Pension Plan, which are expected to continue in the future.

Pension Plan assets are invested in diversified funds under the advice of Edgewater Advisors, Ltd. The investment funds include a series of mutual funds, each with its own investment objectives, investment strategies and risks.

The fair values of the Company's pension plan assets at December 31 by asset category are as follows (dollars in thousands):

	Market Value of Assets — December 31, 2018		
Asset Category	Total	Level 1	Level 2
Equities & Commodities:			
(1) Select Fundamental Value	$ 514	$—	$ 514
(2) Select S&P 500 Index	2,078	—	2,078
(3) Select Blue Chip Growth	536	—	536
(4) Select S&P Mid Cap Index	1,212	—	1,212
(5) Select Small Cap Index	989	—	989
(6) Premier Strategic Emerging Markets	577	—	577
(7) Oppenheimer Real Estate	338	—	338
Total Equities & Commodities	6,244		6,244
Fixed Income:			
(8) Premier Short-Duration Bond	1,194	—	1,194
(9) Northern Bond Index	1,223	—	1,223
(10) Select Western Strategic Bond	1,214	—	1,214
(11) Premier Inflation Protected & Income Fund	598	—	598
(12) Premier Babson High Yield Bond	566	—	566
Total Fixed Income	4,795		4,795
Total Market Value	$11,039	$—	$11,039

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

10. EMPLOYEE BENEFIT PLANS — (Continued)

	Market Value of Assets — December 31, 2017		
Asset Category	**Total**	**Level 1**	**Level 2**
Equities & Commodities:			
(1) Select Fundamental Value	$ 570	$ —	$ 570
(2) Select S&P 500 Index	2,300	—	2,300
(3) Select Blue Chip Growth	573	—	573
(4) Select S&P Mid Cap Index	1,375	—	1,375
(5) Select Small Cap Index	1,113	—	1,113
(6) Premier Strategic Emerging Markets	565	—	565
(7) Oppenheimer Real Estate	333	—	333
Total Equities & Commodities	6,829	—	6,829
Fixed Income:			
(8) Premier Short-Duration Bond	1,095	—	1,095
(9) Northern Bond Index	1,098	—	1,098
(10) Select Western Strategic Bond	1,096	—	1,096
(11) Premier Inflation Protected & Income Fund	554	—	554
(12) Premier Babson High Yield Bond	547	—	547
Total Fixed Income	4,390	—	4,390
Total Market Value	$11,219	$ —	$11,219

Level 1 — Quoted Prices in Active Markets for Identical Assets
Level 2 — Significant Observable Inputs
Level 3 — Significant Unobservable Inputs

Fund Descriptions:

(1) Select Fundamental Value — This fund invests in stocks of financially sound but temporarily out of-favor companies providing above-average total return potential and selling at below average projected P/E multiples.

(2) Select S&P 500 Index — Seeks to match the performance of the S&P 500 by investing in a representative sample of the stocks in that index. The ability to match investment performance to the S&P 500 is affected by daily cash flow and expenses.

(3) Select Blue Chip Growth — Invests at least 65% of assets in stocks of blue chip companies. These companies have a market capitalization of at least $200 million if included in the S&P 500 or the Dow Jones Industrial Average or $1 billion for companies not in these indices.

(4) Select S&P Mid Cap Index — The investment seeks to provide investment results approximating (before fees and expenses) the aggregate price and dividend performance of the securities included in the Standard & Poor’s Midcap 400® Index.

(5) Select Small Cap Index — The investment seeks to provide investment results approximating (before

fees and expenses) the aggregate price and dividend performance of the securities included in the Russell 2000® Index.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

10. EMPLOYEE BENEFIT PLANS — (Continued)

(6) Premier Strategic Emerging Markets — The investment seeks long-term capital growth. The fund mainly invests in common stocks of issuers in developing and emerging markets throughout the world and at times it may invest up to 100% of its total assets in foreign securities. It will invest at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in equity securities of issuers whose principal activities are in a developing (or emerging) market, i.e. are in a developing market or are economically tied to a developing market country. The fund will invest in at least three developing markets. It focuses on companies with above-average earnings growth.

(7) Oppenheimer Real Estate — The investment seeks total return. The fund invests at least 80% of its net assets (including borrowings for investment purposes) in common stocks and other equity securities of real estate companies. The advisor considers a real estate company to be one that derives at least 50% of its revenues from, or invests at least 50% of its assets in, the ownership, construction, financing, management or sale of commercial, industrial or residential real estate. It primarily invests in real estate investment trusts (REITs) but may also invest in real estate operating companies (REOCs) and other real estate related securities. The fund is non-diversified.

(8) Premier Short-Duration Bond — The investment seeks to achieve a high total rate of return primarily from current income while minimizing fluctuations in capital values.

(9) Northern Bond Index — The investment seeks to provide investment results approximating the overall performance of the securities included in the Barclays U.S. Aggregate Bond Index. The fund will invest substantially all (and at least 80%) of its net assets in bonds and other fixed income securities included in the index in weightings that approximate the relative composition of securities contained in the index. The index measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities asset-backed securities, and commercial mortgage-backed securities.

(10) Select Western Strategic Bond — The investment seeks maximum total return, consistent with preservation of capital and prudent investment management. Under normal circumstances, the fund invests at least 80% of its net assets in a diversified portfolio of investment grade fixed income securities (rated Baa3 or higher by Moody's, BBB or higher by Standard & Poor's, BBB- or higher by Fitch, or A-2 by S&P, P-2 by Moody's, or F-2 by Fitch for short-term debt obligations, or, if unrated, determined by the fund's sub-adviser, Metropolitan West Asset Management, LLC, to be of comparable quality).

(11) Premier Inflation Protected & Income Fund — The investment seeks to achieve as high a total rate of real return on an annual basis as is considered consistent with prudent investment risk and the preservation of capital. The fund invests at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in inflation-indexed bonds and other income producing securities. It may also invest in other income-producing securities of any kind. The advisor generally intends to maintain a dollar-weighted average credit quality of A or better. The fund may invest up to 15% of its total assets in securities that are not denominated in U.S. dollars.

(12) Premier Babson High Yield Bond — The investment seeks to achieve a high level of total return, with an emphasis on current income, by investing primarily in high yield debt and related securities. The fund invests primarily in lower rated U.S. debt securities, including securities in default. It invests at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in lower rated fixed income securities (rated below Baa3 by Moody's, below BBB- by Standard & Poor's or the equivalent by any NRSRO (using the lower rating) or, if unrated, determined to be of below investment grade quality by the fund's sub-adviser.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

10. EMPLOYEE BENEFIT PLANS — (Continued)

The fair values of mutual funds are based upon quoted prices of each fund's underlying securities. The Company is not required to make any contributions to its defined benefit pension plan in 2019 but will make a $500,000 contribution in the 1st quarter of 2019.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows (dollars in thousands):

2019	$ 563
2020	$ 555
2021	$ 542
2022	$ 571
2023	$ 599
2024 – 2028	$ 3,287

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 on the open market at an average 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 at a fixed interest rate of 4.25%. 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 are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized $22,548 of compensation expense related to this plan for the year ended December 31, 2018 and $5,809 for the year ended December 31, 2017. 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.

11. 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.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

11. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS — (Continued)

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.

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:				
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	$ —
December 31, 2017:				
Municipal securities	$ 9,038	$ —	$ 9,038	$ —
Mortgage-backed securities and collateralized mortgage obligations	10,216	—	10,216	—
Corporate securities	2,843	—	2,843	—
	$22,097	$ —	$22,097	$ —

There were no securities transferred out of level 2 securities available-for-sale during the twelve months ended December 31, 2018 and 2017.

Required disclosures include fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, 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.

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 December 31, 2018 and 2017.

Cash and due from banks

The carrying amounts of these assets approximate their fair values.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

11. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS — (Continued)

Securities Available-For-Sale

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, Net

The fair values of loans held in portfolio are estimated using discounted cash flow analyses, using market rates at the balance sheet 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.

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 FHLB

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

	Fair Value Hierarchy	Carrying Amount	Fair Value
	(In Thousands of Dollars)		
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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

11. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS — (Continued)

	Fair Value Hierarchy	Carrying Amount	Fair Value
	(In Thousands of Dollars)		
Accrued interest receivable	Level 1	771	771
Financial liabilities:			
Deposits	Level ½	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
December 31, 2017:			
Financial assets:			
Cash and due from banks	Level 1	4,375	4,375
Securities available-for-sale	Level 2	22,097	22,097
Investment in FHLB stock	Level 2	2,340	2,340
Loans, net	Level 3	141,150	139,178
Accrued interest receivable	Level 1	666	666
Financial liabilities:			
Deposits	Level ½	129,596	127,610
Advances and borrowings from FHLB	Level 2	24,500	24,500
Accrued interest payable	Level 1	62	62
Advances from borrowers for taxes and insurance	Level 1	1,957	1,957

The carrying amounts and estimated fair values of the Company’s financial instruments at December 31, 2018 and December 31, 2017 are as follows:

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.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

11. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS — (Continued)

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 and 2017 were as follows:

	Total	Level 1	Level 2	Level 3
	(In Thousands of Dollars)			
December 31, 2018:				
Impaired loans	$ 742	$ —	$ —	$ 742
December 31, 2017:				
Impaired loans	$2,384	$ —	$ —	$ 2,384

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%
		Costs to sell	10%
Foreclosed real estate	Market valuation of property	Costs to sell	10%

At December 31, 2018 and 2017, the fair value consists of loan balances of $780,000 and $2,384,000, respectively, net of a valuation allowance of $38,000 and $7,000, respectively.

At December 31, 2018 and 2017, there was no foreclosed real estate whose value was written down utilizing Level 3 inputs.

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 December 31, 2018 and 2017, the Company did not have foreclosed real estate.

12. COMMITMENTS AND CONTINGENCIES

The Company is at times, and in the ordinary course of business, subject to legal actions. Management believes that losses, if any, resulting from current legal actions will not have a material adverse effect on the Company’s consolidated financial condition or results of operations.

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.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

12. COMMITMENTS AND CONTINGENCIES — (Continued)

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

	December 31,	
	2018	2017
	(In Thousands of Dollars)	
Commitments to Grant Loans	$2,698	$1,489
Unfunded Commitments Under Lines of Credit	$5,349	$4,020

Commitments to extend credit are agreements to lend to a customer if there is no violation of any conditions 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.

13. REGULATORY CAPITAL REQUIREMENTS

The Company 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company'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 Company on January 1, 2015 with full compliance with all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019.

The Company'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 Company 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 December 31, 2018 and 2017, that the Bank met all capital adequacy requirements to which it is subject.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

13. REGULATORY CAPITAL REQUIREMENTS — (Continued)

As of December 31, 2018, the most recent notification from the Office of the Comptroller of the Currency categorized the Company 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 Company's category. The Company's actual capital amounts and ratios as of December 31, 2018 and 2017, are as follows:

	Actual		Capital Adequacy Purposes		To be Well Capitalized Under Prompt and Corrective Action Provisions		Minimum Capital Adequacy with Buffer Fully Phased in 2019	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(In Thousands of Dollars)							
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%
As of December 31, 2017:								
Total core capital to risk weighted assets	$ 20,154	18.53%	$ 8,700	8.00%	$ 10,875	10.00%	$ 11,418	10.50%
Tier 1 capital to risk weighted assets	18,913	17.39%	6,525	6.00%	8,700	8.00%	9,243	8.50%
Tier 1 common equity to risk weighted assets	18,913	17.39%	4,894	4.50%	7,068	6.50%	7,612	7.00%
Tier 1 capital to assets	18,913	10.70%	7,071	4.00%	8,838	5.00%	8,838	5.00%

14. 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 twelve months ended December 31, 2018 and 2017, 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.

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

14. EARNINGS PER SHARE COMMON — (Continued)

The following table sets forth the calculation of basic earnings per share.

	Year ended December 31,	
	2018	2017
	(In thousands of dollars except per share data)	
Basic earnings per common share:		
Net income available to common stockholders	$ 850	$ 524
Weighted average common shares outstanding	1,904,516	1,901,356
	$ 0.45	$ 0.28

15. NON-INTEREST INCOME

During the twelve months ended December 31, 2018, the Company adopted the amendments of ASU 2014-09 — Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606. The Company has included the following tables regarding the Company's non-interest income for the periods presented.

	For the year ended December 31,	
	2018	2017
	(Dollars in Thousands)	
Service fees		
Deposit related fees	$ 47	$ 43
Loan servicing income	85	65
Total service fees	132	108
Income from financial services		
Securities commission income	176	133
Insurance commission income	17	15
Total insurance and securities commission income	193	148
Card income		
Debit card interchange fee income	81	67
ATM fees	12	8
Insufficient fund fees	70	65
Total card and insufficient funds income	163	140
Realized gain on sale of residential mortgage loans and available-for-sale securities		
Realized gain on sales of available-for-sale securities	—	2
Realized gain on sales of residential mortgage loans	30	143
Realized gain on sales of foreclosed real estate	—	8
Realized loss on disposal of fixed assets	—	(4)
Total gain on sale of loans and securities	30	149
Bank owned life insurance	56	61
Other miscellaneous income	23	20
Total non-interest income	$597	$626

SENECA FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

15. NON-INTEREST INCOME — (Continued)

The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. 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.

16. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following condensed financial statements summarize the financial position and results of operations and cash flows of the parent savings and loan holding company, Seneca Financial Corp., as of December 31, 2018, and for the year then ended.

Parent Only Condensed Balance Sheets

	December 31,	
	2018	**2017**
	(In thousands)	
Assets		
Cash in bank subsidiary	$ 1,895	$ 2,079
Investments in subsidiaries, at underlying equity	16,710	15,593
Loan receivable – ESOP	759	773
Other assets	47	10
Total assets	$ 19,411	$ 18,455
Liabilities and Stockholders' Equity		
Liabilities:		
Other liabilities	$ —	$ 53
Total liabilities	—	53
Stockholders' equity:		
Total stockholders' equity	19,411	18,402
Total liabilities and stockholders' equity	$ 19,411	$ 18,455

SENECA FINANCIAL CORP. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

16. PARENT COMPANY ONLY FINANCIAL INFORMATION — (Continued)

Parent Only Condensed Statements of Income

	Year Ended December 31,	
	2018	2017
	(In Thousands of Dollars)	
Interest income:		
Income on ESOP loan	$ 31	$ 7
Total interest income	31	7
Non-interest expenses:		
Professional fees	75	—
Other non-interest expense	86	75
Total non-interest expense	161	75
Loss before taxes	(130)	(68)
Income tax benefit	21	23
Loss before equity in undistributed earnings of Bank	(109)	(45)
Equity in undistributed earnings of Bank	959	569
Net income	$ 850	$524

Parent Only Statement of Cash Flows

	Year Ended December 31,	
	2018	2017
	(In Thousands of Dollars)	
Cash flows from operating activities:	$ 850	$ 524
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of Bank	(959)	(569)
Increase in other assets	(36)	(10)
Decrease in other liabilities	(53)	48
Net used in operating activities	(198)	(7)
Cash flows from investing activities:		
Capital injection into the Bank from stock offering	—	(5,000)
Payments received on ESOP loan	14	7
Net cash used in investing activities	14	(4,993)
Cash flows from financing activities:		
Proceeds from issuance of common stock net of expenses	—	7,755
Initial capitalization of MHC	—	100
Funding of ESOP	—	(776)
Net cash provided by financing activities	—	7,079
Net change in cash and cash equivalents	(184)	2,079
Cash and cash equivalents – beginning of year	2,079	—
Cash and cash equivalents – end of year	$1,895	$ 2,079

ITEM 9. <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>

None.

ITEM 9A. <u>Controls and Procedures</u>

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgement in evaluating the benefits of possible controls and procedures relative to their costs.

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 December 31, 2018. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2018, 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 Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, 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. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflects the transactions and disposition of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2018.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There has been no change in the Company's internal control over financial reporting during the fourth quarter of the fiscal year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Seneca Financial Corp. has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions. A copy of the Code is available on Seneca Financial Corp.'s website at www.senecasavings.com under "Resources — Investor Relations — Overview — Governance Documents."

The information contained under the sections captioned "Proposal I — Election of Directors" in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

ITEM 11. Executive Compensation

The information contained under the section captioned "Proposal I — Election of Directors — Executive Compensation" in the definitive Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Securities Authorized for issuance under Stock-Based Compensation Plans

As of December 31, 2018, we did not have any compensation plans (other than our Employee Stock Ownership Plan) under which equity securities of the Company are authorized for issuance.

(b) Security Ownership of Certain Beneficial Owners

The information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders" in the Proxy Statement.

(c) Security Ownership of Management

The information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders" in the Proxy Statement.

(d) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned "Proposal I — Election of Directors — Transactions with Certain Related Persons," "— Board Independence" and "— Meetings and Committees of the Board of Directors" of the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "Proposal II — Ratification of Appointment of Independent Registered Public Accounting Firm" of the Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

3.1	Charter of Seneca Financial Corp. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)
3.2	Bylaws of Seneca Financial Corp. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Seneca Financial Corp. (File No. 000-55853), filed with the Securities and Exchange Commission on August 28, 2018)
4	Form of Common Stock Certificate of Seneca Financial Corp. (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)
10.1	Employment Agreement by and between Seneca Federal Savings and Loan Association and Joseph G. Vitale (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)
10.2	Employment Agreement by and between Seneca Federal Savings and Loan Association and Vincent J. Fazio (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)†
10.3	Supplemental Executive Retirement Agreement by and between Seneca Federal Savings and Loan Association and Joseph G. Vitale (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)†
10.4	Supplemental Executive Retirement Agreement by and between Seneca Savings and Vincent J. Fazio (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)†
10.5	Executive Split Dollar Life Insurance Agreement by and between Seneca Savings and Joseph G. Vitale (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)†
10.6	Executive Split Dollar Life Insurance Agreement by and between Seneca Savings and Vincent J. Fazio (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 of Seneca Financial Corp. (File No. 333-218749), initially filed with the Securities and Exchange Commission on June 14, 2017)†
16	Letter regarding change in certifying accountant (incorporated by reference to Exhibit 16.1 to the Current Report on Form 8-K of Seneca Financial Corp. (File No. 000-55853, filed with the Securities and Exchange Commission on April 4, 2018)
21	Subsidiaries of Registrant
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101	The following materials from the Company's Annual Report on Form 10-K, formatted in XBRL: (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements

† Management contract or compensation plan or arrangement.

ITEM 16. Form 10-K Summary

Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: April 1, 2019

By: /s/ Joseph G. Vitale

Joseph G. Vitale
President, Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Joseph G. Vitale Joseph G. Vitale	President, Chief Executive Officer and Director (Principal Executive Officer)	April 1, 2019
/s/ Vincent J. Fazio Vincent J. Fazio	Executive Vice President, Chief Financial Officer and director (Principal Financial and Accounting Officer)	April 1, 2019
/s/ William Le Beau William Le Beau	Chairman of the Board	April 1, 2019
/s/ William J. Gould William J. Gould	Director	April 1, 2019
/s/ James Hickey James Hickey	Director	April 1, 2019
/s/ Francis R. Marlowe Francis R. Marlowe	Director	April 1, 2019
/s/ Kenneth Major Kenneth Major	Director	April 1, 2019
/s/ Robert Savicki Robert Savicki	Director	April 1, 2019

Section 2: EX-21 (EXHIBIT 21)

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation	Ownership Percentage
Seneca Savings	Federal	100%
Seneca Savings Agency Services, Inc.*	New York	100%

* Subsidiary of Seneca Savings

(Back To Top)

Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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 annual report on Form 10-K 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 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.

Date: April 1, 2019

/s/ Joseph G. Vitale

Joseph G. Vitale
President and Chief Executive Officer

(Back To Top)

Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

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 annual report on Form 10-K 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 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; and

   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; and

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.

Date: April 1, 2019	/s/ Vincent J. Fazio
	Vincent J. Fazio Executive Vice President and Chief Financial Officer

(Back To Top)

Section 5: EX-32 (EXHIBIT 32)

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Joseph G. Vitale, President and Chief Executive Officer of Seneca Financial Corp., (the "Company") and Vincent J. Fazio, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that they have reviewed the annual report on Form 10-K for the year ended December 31, 2018 (the "Report") and that to the best of their knowledge:

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.

Date: April 1, 2019	/s/ Joseph G. Vitale
	Joseph G. Vitale President and Chief Executive Officer
Date: April 1, 2019	/s/ Vincent J. Fazio
	Vincent J. Fazio Executive Vice President and Chief Financial Officer

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.

A signed original of this written statement required by Section 906 has been provided to Seneca Financial Corp. and will be retained by Seneca Financial Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)