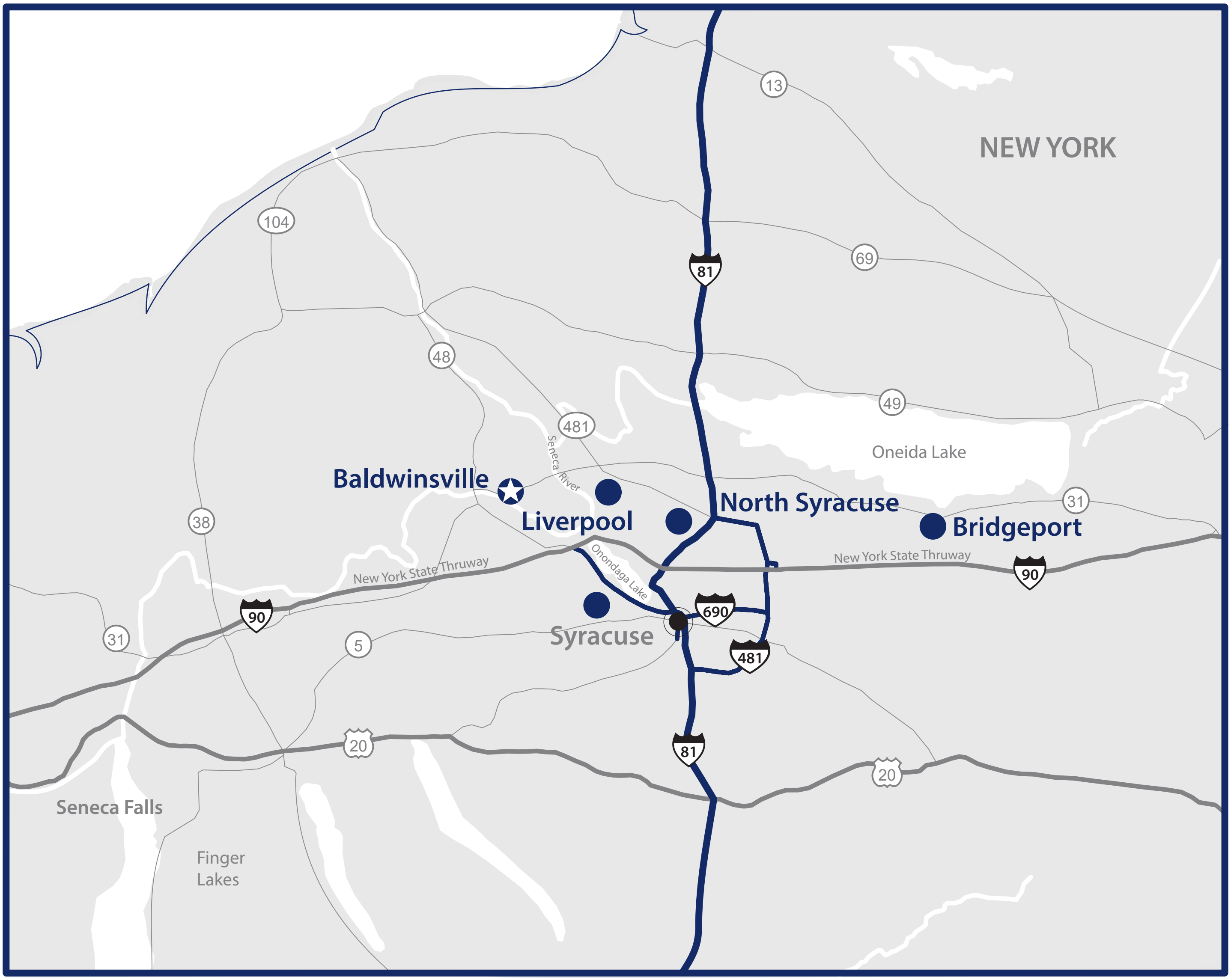
SENECA FINANCIAL CORP.

2023 Annual Report



SENECA SAVINGS

Main Office:
35 Oswego Street
Baldwinsville, New York 13027

Other Properties:

Liverpool Branch
7799 Oswego Road
Liverpool, New York 13089

North Syracuse Branch
201 North Main Street
North Syracuse, New York 13212

Bridgeport Branch
584 NY Rt. 31
Bridgeport, NY 13030

Financial Quest Seneca Savings
Insurance Agency
925 State Fair Blvd
Syracuse, NY 13209

Seneca Savings President's Letter for March 2024

In early March 2023, three regional banks failed in just a few weeks. These banks: Silicon Valley Bank, Signature Bank and First Republic Bank were among the largest banks to fail in U.S. history. Although 2023 was a challenging year for the banking industry, Seneca Savings remained resilient providing banking services to the communities we serve.

During 2023, total assets increased 9.5% to $256.7 million at December 31, 2023. Loans net of allowance for credit losses, increased 13.7% or $23.7 million to $196.5 million at December 31, 2023. Deposits increased 5.1% or $9.7 million to $193.7 million at December 31, 2023.

Net income decreased by $868,000, or 53.5%, to $755,000 for the year ended December 31, 2023 from $1.6 million for the year ended December 31, 2022 primarily due to an increase in noninterest expense and a decrease in net interest income. Earnings per share basic decreased to $0.42 at December 31, 2023, from $0.90 at December 31, 2022. The increase in noninterest expense was primarily due to an increase in compensation and employee benefits as we added a director of human resources, a senior credit analyst, a V.P. of commercial lending and a marketing officer. These key members of our team will be instrumental in our future growth. The decrease in net interest income was primarily due to the rising interest rate environment which increased our cost of funds during 2023.

For 95 years, Seneca Savings has listened, learned and responded to the needs of our customers. The continued re-emergence of ‘the new normal for 2023’ since Covid, brought us leaning in further to gain greater understanding so we could offer relevant support. As a Community Bank, our mission is to serve, guide and support every person in our Central New York communities.

As a result, we researched and introduced new services, new technology and expanded expertise in existing departments to ensure we continue to be the #1 resource you turn to for every chapter in your journey.

Starting with the continued commitment to teach our children financial literacy, we added resources to our **Everfi Program**, which brings financial education into the high schools of our communities. Our 2023-2024 partnership with EverFi provided 6 schools, 647 hours of financial literacy learning in the classroom, including Syracuse schools, with over 1,294 modules of completion. This impacted over 350 students in the community. We believe that a better life will be built when our children understand the importance of building a strong financial portfolio of savings and debt management. Our entire community will thrive as they grow and embrace new life experiences.

In response to increased demand for services, we purchased a parcel of land in Manlius, NY and are expecting to **open our 5th Full Service Bank Branch** in the 4th quarter of 2024. You asked for us and we’re on our way! We’re excited to go back to our roots and become a trusted resource again in the Fayetteville/Manlius communities and look forward to supporting the business, nonprofits and community members.

At Seneca Savings, we believe in supporting not just our business customers but also the individuals who contribute to their success, enriching our community's financial well-being. We are excited to announce the **Bank at Work program**, now available to employees of businesses that bank with Seneca Savings. This initiative is designed to provide substantial financial benefits and resources to our valued community members. Participants in the Bank at Work program will have access to a multitude of offerings, including enhanced savings products that aim to boost your financial growth, attractive discounts on loans to make your dreams more attainable, and a Benefits Checking account, complimentary for one year, ensuring a prosperous banking experience.

Our **Residential Mortgage and Consumer Lending** team booked a total of 202 loans, slightly up from 2022, totaling $20 million. It consisted of Mortgages, Home Equity Lines of Credit and Consumer Loans (personal, auto, RV, etc.). This year we are expanding our consumer lending products to include a program to finance even more personal loans and streamline our underwriting process. Seneca Savings was happy to partner with First Credit Corp and Home Headquarters to provide $8.7 million in mortgages for 90 homes. We look forward to continuing these partnerships in 2024.

Commercial Loans and Deposits remain robust and we will steer our efforts to continue growth in this sector. We recognize and celebrate that local businesses drive the success of our economy and we're always looking for ways to support small business owners. We were able in 2023 to bring on a lender with over 35 years of banking experience in the communities we serve. Our commercial lending team was able to provide over $23 million in funding to support small businesses right here in Central New York.

A pivotal program we added in 2023 for our commercial clients is our **Positive Pay** program. This program ensures that our business clients mitigate check fraud. We are all connected, so when a business is confident in the stability of their finances, our whole community benefits!

Every financial institution needs a diverse portfolio of investment options, and 2023 was an important year to grow our **Treasury Management** offerings and services. This area has grown nicely and has brought positive results for all who contributed.

Speaking of investment strategies, 2023 was an exciting year of growth for Financial Quest. Financial Quest continues to focus on helping our clients achieve their most cherished goals through definitive goals-based planning and the creation of portfolios that are individually designed to reach those goals. In October of 2023 we purchased a retirement planning business and formed a new entity, **Financial Quest Retirement Plan Services**. We can now offer 401k plans for business clients. We currently advise and manage over $130 million of retirement plan investments for over 1,700 employees throughout Central New York. This creates synergies throughout our organization to bring experience and guidance to our valued clients.

As we focus on every stage of life's journey, we'd be remiss if we didn't lend a helping hand to all of the caring charitable organizations who support those in need. Being able to **reinvest thousands of dollars back into the communities** we serve is a mission we take seriously. It brings great joy to us and our employees to band together and support these wonderful organizations: The American Heart Association, Jack's Place, Paige's Butterfly Run, CNY Diaper Bank, Pretty Princesses CNY, and many more.

In summary, after 95 years of service, Seneca Savings continues to be agile, connected and strategic in offering well-researched resources to accommodate our customer's most pressing needs.

It is our great pleasure to serve, guide and support you. We are all connected. It is only when our customers, employees, and communities prosper, that we prosper. Thank you for placing your trust in us!

Sincerely,

Joseph G. Vitale

President, CEO & Director

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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, 2023 and 2022, and the operating data for the years ended December 31, 2023, and 2022, were derived from the audited consolidated financial statements of Seneca Financial Corp. included elsewhere in this annual report. The information at and for the years ended December 31, 2021, 2020 and 2019 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,				
	2023	2022	2021	2020	2019
			(Dollars in Thousands)		
Selected Financial Condition Data:					
Total assets	$ 256,725	$ 234,471	$ 215,164	$ 221,525	$ 210,238
Cash and due from banks	3,920	4,427	3,526	3,977	3,094
Available-for-sale securities	35,440	39,066	43,800	41,264	27,959
Loans, net	196,457	172,722	150,042	159,888	164,388
FHLB stock, at cost	2,998	2,477	2,619	2,884	2,820
Total liabilities	234,076	213,440	190,807	198,647	189,169
Deposits	193,713	184,247	160,067	155,918	151,911
FHLB advances and borrowings	35,500	25,000	24,950	38,096	32,900
Total stockholders' equity	22,649	21,031	24,357	22,878	21,069

	For the Years Ended December 31,				
	2023	2022	2021	2020	2019
			(Dollars in Thousands except per share data)		
Selected Data:					
Interest income	$ 11,357	$ 8,909	$ 8,511	$ 8,750	$ 8,769
Interest expense	3,595	1,038	940	1,830	2,573
Net interest income	7,762	7,871	7,571	6,920	6,196
Provision for credit losses loans	228	20	300	730	242
Provision for credit losses investments	47	-	-	-	-
Net interest income after provision for credit losses	7,487	7,851	7,271	6,190	5,954
Noninterest income	1,448	1,404	1,158	1,004	855
Noninterest expense	8,041	7,305	6,277	6,131	5,420
Earnings before provision for income taxes	894	1,950	2,152	1,063	1,389
Provision for income taxes	139	327	372	161	272
Net income	$ 755	$ 1,623	$ 1,780	$ 902	$ 1,117
Earnings per common share - basic	$ 0.42	$ 0.90	$ 0.97	$ 0.49	$ 0.60
Earnings per common share - dilutive	$ 0.42	$ 0.89	$ 0.97	$ 0.49	$ 0.60

At or For the Years Ended December 31,

	2023		2022		2021		2020		2019	
Selected Financial Ratios and Other Data:										
Performance Ratios:										
Return on average assets	0.31	%	0.73	%	0.80	%	0.40	%	0.54	%
Return on average equity	3.52	%	7.45	%	7.73	%	4.19	%	5.76	%
Interest rate spread(1)	2.95	%	3.62	%	3.55	%	3.08	%	2.93	%
Net interest margin(2)	3.30	%	3.74	%	3.66	%	3.25	%	3.17	%
Efficiency ratio(3)	87.30	%	78.76	%	71.91	%	77.37	%	76.87	%
Noninterest expense to average total assets	3.28	%	3.27	%	2.84	%	2.71	%	2.64	%
Average interest-earning assets to average interest-bearing liabilities	123	%	124	%	125	%	120	%	118	%
Asset Quality Ratios:										
Non-performing assets as a percent of total assets	0.53	%	0.10	%	0.15	%	0.56	%	0.92	%
Non-performing loans as a percent of total loans	0.21	%	0.06	%	0.18	%	0.34	%	1.18	%
Allowance for credit losses as a percent of non-performing loans	491.59	%	2,124.72	%	697.06	%	294.43	%	63.94	%
Allowance for credit losses as a percent of total loans	1.03	%	1.08	%	1.25	%	1.02	%	0.75	%
Net charge-offs to average outstanding loans during the period	0.04	%	0.02	%	0.03	%	0.19	%	0.14	%
Capital Ratios(4):										
Common equity tier 1 capital (to risk weighted assets)	N/A	%	N/A	%	N/A	%	N/A	%	15.42	%
Tier 1 leverage (core) capital (to adjusted tangible assets)	10.19	%	11.03	%	11.18	%	10.25	%	10.1	%
Tier 1 risk-based capital (to risk weighted assets)	N/A	%	N/A	%	N/A	%	N/A	%	15.42	%
Total risk-based capital (to risk weighted assets)	N/A	%	N/A	%	N/A	%	N/A	%	16.32	%
Average equity to average total assets	8.77	%	9.77	%	10.41	%	9.50	%	9.46	%

(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 (See Footnote 13). In 2020, Seneca Savings elected to follow the Community Bank Leverage Ratio (Tier 1 leverage (core) capital (to adjusted tangible assets)) and no longer is required to comply with the other general regulatory capital requirements.

Management's Discussion and Analysis of Financial Condition and Results of Operation

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.

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 Years Ended December 31,								
	2023			2022			2021		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
				(Dollars in thousands)					
Interest-earning assets:									
Loans	$ 183,579	$ 9,627	5.24%	$ 160,827	$ 7,528	4.68%	$ 160,880	$ 7,573	4.71%
Available-for-sale securities	40,879	1,168	2.86%	43,849	1,182	2.70%	40,230	811	2.02%
FHLB Stock	2,707	236	8.72%	2,459	144	5.86%	2,733	124	4.54%
Other interest-earning assets	7,929	326	4.11%	3,265	55	1.68%	2,839	3	0.11%
Total interest-earning assets	235,094	11,357	4.83%	210,400	8,909	4.23%	206,682	8,511	4.12%
Noninterest-earning assets	9,752			12,759			14,512		
Total assets	$ 244,846			$ 223,159			$ 221,194		
Interest-bearing liabilities:									
NOW accounts	$ 25,746	$ 25	0.10%	$ 28,103	$ 28	0.10%	$ 25,369	$ 28	0.11%
Regular savings and demand club accounts	25,833	16	0.06%	29,940	21	0.07%	28,542	18	0.06%
Money market accounts	44,785	808	1.80%	39,421	132	0.33%	46,836	72	0.15%
Certificates of deposit and retirement accounts	64,203	1,720	2.68%	49,621	402	0.81%	33,545	263	0.78%
Total interest-bearing deposits	160,567	2,569	1.60%	147,085	583	0.40%	134,292	381	0.28%
FHLB advances	30,909	1,026	3.32%	22,930	455	1.98%	30,407	559	1.84%
Total interest-bearing liabilities	191,476	3,595	1.88%	170,015	1,038	0.61%	164,699	940	0.57%
Noninterest-bearing deposits	28,008			26,050			27,804		
Other noninterest-bearing liabilities	3,893			5,295			5,671		
Total liabilities	223,377			201,360			198,174		
Stockholders' equity	21,469			21,799			23,020		
Total liabilities and stockholders' equity	$ 244,846			$ 223,159			$ 221,194		
Net interest income		$ 7,762			$ 7,871			$ 7,571	
Net interest rate spread (1)			2.95%			3.62%			3.55%
Net interest-earning assets (2)	$ 43,618			$ 40,385			$ 41,983		
Net interest margin (3)			3.30%			3.74%			3.66%
Average interest-earning assets to average interest-bearing liabilities	123%			124%			125%		

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

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, 2023 vs. 2022			Year Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Loans	$ 1,065	$ 1,034	$ 2,099	$ (2)	$ (43)	$ (45)
Available-for-sale securities	(80)	66	(14)	73	298	371
FHLB Stock	15	77	92	(12)	32	20
Other interest-earning assets	79	192	271	0	52	52
Total interest-earning assets	$ 1,079	$ 1,369	$ 2,448	$ 59	$ 339	$ 398
Interest-bearing liabilities:						
NOW accounts	$ (2)	$ (1)	$ (3)	$ 3	$ (3)	$ -
Regular savings and demand club accounts	(3)	(2)	(5)	1	2	3
Money market accounts	18	658	676	(11)	71	60
Certificates of deposit and retirement accounts	118	1,200	1,318	126	13	139
Total deposits	131	1,855	1,986	119	83	202
FHLB and PPLF Borrowings	158	413	571	(137)	33	(104)
Total interest-bearing liabilities	289	2,268	2,557	(19)	116	98
Change in net interest income	$ 790	$ (899)	$ (109)	$ 77	$ 223	$ 300

Comparison of Financial Condition at December 31, 2023 and December 31, 2022

Total assets increased $22.2 million, or 9.5%, to $256.7 million at December 31, 2023 from $234.5 million at December 31, 2022. The increase in assets was primarily due to increases in loans, pension assets and the purchase of a 401K book of business that created intangible assets and goodwill of $1.2 million, partially offset by a decrease in cash and cash equivalents and securities available-for-sale.

Securities available-for-sale decreased by $3.6 million, or 9.3%, to $35.4 million at December 31, 2023 from $39.1 million at December 31, 2022. The decrease was primarily due to, principal repayments of $669,000, maturities and calls of $255,000, net amortization of premium and discounts of $144,000 and proceeds from sales of $3.7 million partially offset by the unrealized gain on the investment portfolio of $1.2 million. A portion of our securities portfolio is used to collateralize FHLB advances.

Loans, net of allowance for credit losses, increased $23.7 million, or 13.7%, to $196.5 million at December 31, 2023 from $172.7 million at December 31, 2022, reflecting increases in one- to four-family residential real estate mortgage loans, commercial real estate loans and commercial and industrial loans and consumer loans. One- to four-family residential real estate mortgage loans increased $8 million, or 4.9%, to $102.8 million at December 31, 2023 from $94.8 million at December 31, 2022. Commercial real estate loans increased $6.7 million, or 14.8%, to $51.9 million at December 31, 2023 from $45.2 million at December 31, 2022. Commercial and industrial loans increased $5.0 million, or 26%, to $24.2 million at December 31, 2023 from $19.2 million at December 31, 2022. Consumer loans increased $0.9 million, or 30.0%, to $3.9 million at December 31, 2023 from $3 million at December 31, 2022. Throughout the year of 2023, we increased our portfolio of one- to four- family residential real estate, commercial real estate, commercial and industrial loans, and installment loans to increase earnings and to continue to manage interest rate risk.

Total deposits increased $9.7 million, or 5.1%, to $193.7 million at December 31, 2023 from $184.2 million at December 31, 2022. The increase was primarily due to increases in demand deposit accounts, money market accounts and certificates of deposit. Demand deposit accounts increased $4.1 million, or 15.9%, to $29.6 million at December 31, 2023 from $25.5 million at December 31, 2022. The increase in demand deposit accounts is the result of our continued focus on commercial deposit relationships. Money market accounts increased $9.1 million, or 22.1%, to $50.5 million at December 31, 2023 from $41.4 million at December 31, 2022. The increase in money market accounts was the result of our continued focus on commercial deposit relationships and several promotions throughout the year as market conditions changed in a rising rate environment. Certificates of deposit increased $4.9 million, or 8.0%, to $65.6 million at December 31, 2023 from $60.8 million at December 31, 2022 due to several promotions as market conditions changed in a rising rate environment.

Total borrowings from the FHLB of New York increased $10.5 million, or 42.0%, from $25.0 million at December 31, 2022 to $35.5 million at December 31, 2023.

Total stockholders' equity increased $1.6 million, or 7.7%, to $22.6 million at December 31, 2023 from $21.0 million at December 31, 2022. The increase was due to the combined effect of an decrease in accumulated other comprehensive loss of $1.2 million as a result of the decrease in interest rates and an increase in net income of $755,000 an increase in the stock-based compensation valuation of $76,000 and an increase in the unearned ESOP shares of $26,000 partially offset by the purchases of treasury stock of $448,000,

Comparison of Operating Results for the Years Ended December 31, 2023 and 2022

General. Net income decreased $868,000, or 53.5%, to $755,000 for the year ended December 31, 2023, compared to $1.6 million for the year ended December 31, 2022. The decrease was primarily due to an decrease in net interest income, increase in the provision for credit losses and increase in noninterest expense, partially offset by increases in noninterest income.

Interest Income. Interest income increased $2.4 million, or 27.5%, to $11.4 million for the year ended December 31, 2023 from $8.9 million for the year ended December 31, 2022. Our average balance of interest-earning assets increased $24.7 million, or 11.7%, to $235.1 million for the year ended December 31, 2023, from $210.4 million for the year ended December 31, 2022, due primarily to an increase in the average balance of loans. Our average yield of interest-earning assets increased 60 basis points to 4.83%, for the year ended December 31, 2023 from 4.23% for the year ended December 31, 2022 as a result the increase in market interest rates.

Interest income on loans increased $2.1 million or 27.9%, to $9.6 million for the year ended December 31, 2023 from $7.5 million for the year ended December 31, 2022 due primarily to an increase in the average balance and average yield on loans. Our average balance of loans increased $22.8 million, or 14.2%, to $183.6 million for the year ended December 31, 2023 from $160.8 million for the year ended December 31, 2022. The increase in the average balance of loans resulted from our continued focus on small business lending. Our average yield on loans increased by 56 basis points to 5.24% for the year ended December 31, 2023, from 4.68% for the year ended December 31, 2022, primarily due to the increase in market rates.

Interest income on securities increased $78,000, or 5.8%, to $1.4 million for the year ended December 31, 2023 from $1.3 million for the year ended December 31, 2022. The average balance of available-for-sale securities decreased $3.0 million, or 6.8%, to $40.9 million in 2023 from $43.8 million in 2022 due to securities sales. The average yield we earned on available-for-sale securities increased by 16 basis points to 2.86% for the year ended December 31, 2023 from 2.70% for the year ended December 31, 2022 as yields on available-for-sale securities increased in a rising rate environment.

Interest Expense. Interest expense increased $2.6 million, or 246.3%, to $3.6 million for the year ended December 31, 2023 from $1.0 million for the year ended December 31, 2022, due to an increase in interest expense on deposits and an increase of interest expense on borrowings. Our average balance of interest-bearing liabilities increased $21.5 million, or 12.6%, to $191.5 million for the year ended December 31, 2023 from $170.0 million for the year ended December 31, 2022 due primarily to an increase in the average balance of certificates of deposit and money market accounts partially offset by a decrease in the average balances of now accounts and regular savings and club accounts. Our average rate on interest-bearing liabilities increased 1.27% for the year ended December 31, 2023 from 0.61% for the year ended December 31, 2022 to 1.88% for the year ended 2023, as a result of increases in the average rates on certificates of deposit, money market accounts and FHLB of New York borrowings.

Interest expense on deposits increased $2.0 million, or 340.6%, to $2.6 million for 2023 from $583,000 for 2022 due to an increase in the average rate paid and average balance of deposits. The average rate paid on deposits increased to 1.60% for 2023 from 0.40% for 2022, primarily reflecting higher rates paid on money market accounts and certificates of deposit. The average rate of money market accounts increased by 1.47% to 1.80% in 2023 from 0.33% in 2022. The average rate of certificates of deposit increased by 1.87% to 2.68% in 2023 from 0.81% in 2022. The average balance of deposits increased $13.5 million or 9.2%, to $160.5 million for the year ended December 31, 2023 from $147.1 million for the year ended December 31, 2022 due primarily to the increase in the average balance of certificates of deposit which increased by $14.6 million to $64.2 million in 2023 from $49.6 million in 2020 and reflected the majority of the growth in the average balance of deposits. The average balance of money market accounts increased by $5.3 million to $44.8 million in 2023 from $39.4 million in 2022.

Interest expense on borrowings increased $571,000, or 125.5%, to $1.0 million for the year ended December 31, 2023 from $455,000 for the year ended December 31, 2022. The increase in interest expense on borrowings reflected an increase in the average balance of borrowings. The average balance of borrowings increased $8.0 million, or 34.8%, from 22.9 million in 2022 to $30.9 million in 2022. The average rate on borrowings increased 1.34% to 3.32% in 2023 as compared to the prior year due to the rising rate environment.

Net Interest Income. Net interest income decreased $109,000, or 1.38%, to $7.8 million for the year ended December 31, 2023 from $7.9 million for the year ended December 31, 2022. Our net interest rate spread decreased by 67 basis points to 2.95% for the year ended December 31, 2023 from 3.62% for the year ended December 31, 2022. Our net interest margin decreased by 44 basis points to 3.30% for the year ended December 31, 2023 from 3.74% for the year ended December 31, 2022.

Provision for Credit Losses Loans Receivable. We establish a provision for credit losses which is charged to operations in order to maintain the allowance for credit losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably and supportable forecasts at the consolidated balance sheet date. In determining the level of the allowance for credit losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, including the impact of, 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 credit losses on a quarterly basis and make provisions for credit losses in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a $228,000 provision to the allowance for credit losses for the year ended December 31, 2023 compared to a $20,000 provision for credit losses for the year ended December 31, 2022. The increase in the provision for 2023 was the result of increased market uncertainty of credit quality and a decrease in net charge-offs. Net charge-offs decreased to $75,000 in 2023 as compared to $86,000 in 2022. The decrease in charges was due to increased credit quality in our loan portfolio. The allowance for credit losses was $2.0 million at December 31, 2023 or 1.03% of total loans and $1.9 million, or 1.08% of total loans at December 31, 2022.

To the best of our knowledge, we have recorded all credit losses that are both probable and reasonable to estimate at December 31, 2023 and December 31, 2022. 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 credit 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 credit losses, and as a result of such reviews, we may have to adjust our allowance for credit losses. However, regulatory agencies are not directly involved in establishing the allowance for credit losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

Noninterest Income. Noninterest income increased $44,000, or 3.13%, to $1.4 million for the year ended December 31, 2023 from $1.4 million for the year ended December 31, 2022. The increase was primarily due to an increase in fee income and net gain on sale of residential mortgages offset by a loss on sale of available for sale securities, a decrease in financial services income and decrease in service fees.

Noninterest Expense. Noninterest expense increased by $736,000, or 10.01%, to $8.0 million for the year ended December 31, 2023 as compared to $7.3 million for the year ended December 31, 2022. The increase was due primarily to increases in compensation and employee benefits of $379,000 and an increase in core processing expenses of $225,000. Additionally, the increase in noninterest expense was due to increases in FDIC premiums and director fees. The increase in compensation and employee benefit expense was due to the hiring of a Director of Human Resources, a Marketing Officer, and an Information Technology Coordinator/Security

Officer. Director fees have increased as we added a member to our Board. Additional increases in compensation and employee benefits were attributed to salary increases. Core processing expenses increased as we continued to focus on network security, added new software to increase our efficiencies and expanded our digital channels.

Income Tax Expense. We incurred income tax expense of $139,000 and $372,000 for the years ended December 31, 2023 and 2022, respectively, resulting in effective tax rates of 15.55% and 16.77%, respectively. The decrease in income tax expense resulted from the decrease in income before tax.

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 28, 2024

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

Opinion

We have audited the accompanying consolidated financial statements of Seneca Financial Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seneca Financial Corp. and subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

432 North Franklin Street, #60
Syracuse, New York 13204
p (315) 476-4004
f (315) 254-2384

www.bonadio.com

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the Annual Report. The other information comprises the President's Letter, Selected Consolidated Financial and Other Data, and Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Bonadio & Co., LLP

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except per share data)

	Years Ended December 31, 2023	2022
ASSETS		
Cash and cash equivalents	$ 3,920	$ 4,427
Securities, available-for-sale	35,440	39,066
Loans, net of allowance for credit losses of $2,045 and $1,891	196,457	172,722
Federal Home Loan Bank of New York stock, at cost	2,998	2,477
Premises and equipment, net	5,849	5,645
Foreclosed real estate	-	125
Bank owned life insurance	2,673	2,633
Pension assets	6,340	5,600
Accrued interest receivable	1,158	1,042
Intangible assets and goodwill	1,151	-
Other assets	739	734
Total assets	$ 256,725	$ 234,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 29,557	$ 25,501
Interest-bearing	164,156	158,746
Total Deposits	193,713	184,247
Federal Home Loan Bank advances	35,500	25,000
Advances from borrowers for taxes and insurance	2,386	2,387
Other liabilities	2,477	1,806
Total liabilities	234,076	213,440
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 1,000,000 shares authorized and unissued	-	-
Common stock, $0.01 par value, 19,000,000 shares authorized, 2,002,923 shares issued and 1,848,278 shares outstanding at December 31, 2023 and 1,990,923 shares issued and 1,885,977 shares outstanding at December 31, 2022	9	9
Additional paid-in capital	8,045	7,969
Treasury stock, at cost (154,645 shares at December 31, 2023 and 104,946 at December 31, 2022)	(1,487)	(1,039)
Retained earnings	21,665	20,910
Unearned ESOP shares, at cost	(629)	(655)
Accumulated other comprehensive loss	(4,954)	(6,163)
Total stockholders' equity	22,649	21,031
Total liabilities and stockholders' equity	$ 256,725	$ 234,471

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, 2023	2022
INTEREST INCOME		
Loans, including fees	$ 9,627	$ 7,528
Securities	1,404	1,326
Other	326	55
Total interest income	11,357	8,909
INTEREST EXPENSE		
Deposits	2,569	583
Advances and borrowings	1,026	455
Total interest expense	3,595	1,038
Net interest income	7,762	7,871
Provision for credit losses available for sale securities	47	-
Provision for credit losses loans receivable	228	20
Net interest income after provision for credit losses	7,487	7,851
NONINTEREST INCOME		
Service fees	118	129
Income from financial services	594	601
Fee income	690	604
Foreclosed real estate income	-	20
Earnings on bank-owned life insurance	41	40
Net (loss) gain on sales of available-for-sale securities	(51)	8
Net gains on sale of residential mortgage loans	56	2
Total noninterest income	1,448	1,404
NONINTEREST EXPENSE		
Compensation and employee benefits	4,258	3,879
Core processing	1,398	1,173
Premises and equipment	763	811
Professional fees	211	243
Postage & office supplies	171	166
FDIC premiums	87	54
Advertising	341	361
Director fees	168	132
Other	644	486
Total noninterest expense	8,041	7,305
Income before provision for income taxes	894	1,950
PROVISION FOR INCOME TAXES	139	327
Net income	$ 755	$ 1,623
Net income per common shares - basic	$ 0.42	$ 0.90
Net income per common shares - diluted	$ 0.42	$ 0.89

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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Years Ended December 31, 2023	2022
NET INCOME	$ 755	$ 1,623
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX		
Available-for-sale securities:		
Unrealized holding gains (losses) arising during period	1,145	(5,715)
Less reclassification adjustment for net losses (gains) included in net income	51	(8)
Net unrealized gains (losses) on available-for-sale securities	1,196	(5,723)
Defined benefit pension plan:		
Net gains (losses) arising during the period	335	(725)
Less reclassification of amortization of net losses recognized in net pension expense	-	172
Net changes in defined benefit pension plan	335	(553)
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX	1,531	(6,276)
Tax effect	322	(1,318)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1,209	(4,958)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 1,964	$ (3,335)

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, 2023 AND 2022
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Equity
BALANCE, JANUARY 1, 2022	$ 9	$ 7,917	$ (969)	$ 19,287	$ (682)	$ (1,205)	$ 24,357
Net income	-	-	-	1,623	-	-	1,623
Other comprehensive loss	-	-	-	-	-	(4,958)	(4,958)
ESOP shares committed to be released (2,586 shares)	-	-	-	-	27	-	27
Stock-based compensation	-	52	-	-	-	-	52
Purchase of treasury shares at cost (6,000 shares)	-	-	(70)	-	-	-	(70)
BALANCE, DECEMBER 31, 2022	$ 9	$ 7,969	$ (1,039)	$ 20,910	$ (655)	$ (6,163)	$ 21,031
Net income	-	-	-	755	-	-	755
Other comprehensive income	-	-	-	-	-	1,209	1,209
ESOP shares committed to be released (2,586 shares)	-	-	-	-	26	-	26
Stock-based compensation	-	76	-	-	-	-	76
Purchase of treasury shares at cost (49,699 shares)	-	-	(448)	-	-	-	(448)
BALANCE, DECEMBER 31, 2023	$ 9	$ 8,045	$ (1,487)	$ 21,665	$ (629)	$ (4,954)	$ 22,649

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, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 755	$ 1,623
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	423	430
Provision for credit losses	275	20
Net amortization of premiums and discounts on securities	144	222
Gain on sale of residential mortgage loans	(56)	(2)
Proceeds from sale of residential mortgage loans	2,976	154
Loans originated and sold	(2,920)	(152)
Deferred income tax expense	259	265
Loss (gain) on sale of available-for-sale securities	51	(8)
Amortization of deferred loan fees	(568)	(695)
ESOP compensation expense	26	27
Stock based compensation expense	76	52
Earnings on investment in bank owned life insurance	(41)	(41)
Increase in accrued interest receivable	(116)	(121)
(Increase) decrease in other assets	(5)	168
Loss (gain) on sale of foreclosed real estate	2	(20)
Increase in pension assets	(405)	(1,187)
Decrease in other liabilities	(355)	(815)
Net cash flow provided by operating activities	521	(80)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available-for-sale:		
Proceeds from calls and maturities	255	2,200
Proceeds from sales	3,656	3,504
Principal repayments	669	1,239
Purchases	-	(8,145)
Proceeds from sale of foreclosed real estate	123	119
Purchase of Federal Home Loan Bank of New York stock	(1,232)	(1,555)
Redemption of Federal Home Loan Bank of New York stock	711	1,697
Cash paid for acquisitions	(714)	-
Loan originations and principal collections, net	(23,395)	(22,189)
Purchases of premises and equipment	(588)	(274)
Net cash flow used in investing activities	(20,515)	(23,404)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	9,466	24,180
(Decrease) increase in advances from borrowers for taxes and insurance	(1)	225
Purchase of treasury stock	(448)	(70)
Payments on acquisition contingent consideration	(30)	-
Repayment of long-term FHLB advances	(7,500)	(8,650)
Proceeds from long-term FHLB advances	16,000	10,000
Increase (decrease) in short-term FHLB advances	2,000	(1,300)
Net cash flow provided by financing activities	19,487	24,385
Net change in cash and cash equivalents	(507)	901
CASH AND CASH EQUIVALENTS - beginning of year	4,427	3,526
CASH AND CASH EQUIVALENTS - end of year	$ 3,920	$ 4,427
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest on deposits and borrowed funds	$ 3,595	$ 1,038
Income taxes	$ -	$ -
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer of loans to foreclosed real estate	$ -	$ 184
Acquisition contingent consideration payable	$ 476	$ -

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

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 owned 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, North Syracuse and Bridgeport, 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 and commercial loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

Allowance for Credit Losses – Available-For-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. Accrued interest receivable totaled $867,812 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection.

Consumer and credit card loans continue to accrue interest until they are charged off no later than 90 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan, but generally applies when a payment is outstanding greater than 90 days. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted to the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using the weighted-average remaining maturity (WARM) method using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as difference in local economy changes and forecasts, changes in the nature and volume of the portfolio and in the terms of loans, concentrations of credit exposure, changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off and recovery practices, changes in the experience, ability and depth of lending management and relevant staff.

Management considers forward-looking information that is both reasonable and supportable and relevant to assessing the collectability of cash flows. The model calculates forward-looking adjustments for each loan category which is based on regression analysis run utilizing various national and state-level economic variables, indices and leading indicators (contained in the St. Louis FRB "FRED" data base) compared against loan category loss rates of the Bank's specific peer group. The regression analysis for the variable that results in the highest statistical correlation with the peer-bank losses is utilized for the forward-looking adjustment. The regression analysis is run on various lagged methods (economic variable or index precedes the loss by any six-month interval between one year and three years). The adjusted loss reverts back to the historical loss rates for periods beyond the reasonable and supportable forecast period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

The allowance for credit losses is measured on a collective pool basis with receivables that have similar risk characteristics. The Company feels that given the size of the loan portfolio, less complex mix of loan products, low historic loss-rate levels, and overall credit risk profile of the loan profiles, that it is appropriate to segment the portfolio into loan categories identified by FFIEC Call Report codes and further segment by risk rating.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation. A collateral-dependent asset is a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management’s assessment, is experiencing financial difficulty. The allowance for credit loss for a collateral dependent financial asset is measured using the fair value of collateral. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

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.

Modifications for Debtors Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses and because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. The company did not modify loans to borrowers experiencing financial difficulty in the year ending December 31, 2023.

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 accordance 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, and such differences may be significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

<u>Mortgage loans on real estate:</u>

- <u>One- to four-family first-lien residential</u> — are loans secured by first lien collateral on residential real estate primarily held in the Central New York region. These loans can be affected by economic conditions and the value of underlying properties. Central 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.

- <u>Residential Construction</u> — 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.

- <u>Home equity loans and lines of credit</u> — are loans or lines of credit secured by first or second liens on owner-occupied residential real estate primarily held in the Central 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

- 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 Central 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.

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.

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, 2023 and at December 31, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Allowance for Loan Losses, prior to the adoption of ASC-326 Credit Losses

The allowance for credit losses represents management's estimate of losses inherent in the loan portfolio as of the date of the consolidated statements of financial condition and it is recorded as a reduction of loans. The allowance is increased by the provision for credit 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 homogeneous 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
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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 credit loss is established for an impaired loan if its 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, accounts 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Income Recognition for 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. For the years ended December 31, 2023 and 2022, $0 and $64,000, respectively, was charged to the allowance for loan losses for foreclose real estate. 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 had foreclosed real estate of $0 and $125,000 at December 31, 2023 and December 31, 2022 respectively. The Company had $50,000 of residential real estate loans in the process of foreclosure at December 31, 2023. The Company did not have residential real estate in the process of foreclosure at December 31, 2022.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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 2021, 2022 and 2023 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, 2023 and 2022 was $341,000 and $361,000, 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.

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 information 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 $500,000. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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 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.

Intangible Assets and Goodwill

On October 6, 2023, the Company, through its subsidiary, Seneca Savings Insurance Agency, Inc., completed the acquisition of a retirement plan book of business. The Company paid an aggregate of $714,500 in cash and recorded $475,500 in contingent consideration payable to acquire the assets and recorded a $778,000 customer list intangible asset and goodwill in the amount of $412,000 in conjunction with the acquisition. $30,000 of contingent consideration was paid during the year ended December 31, 2023. The above referenced acquisition was made to expand the Company's wealth management services activities.

The excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, is recorded as goodwill. Goodwill is carried at its acquired value and is reviewed annually for impairment, or when events or changes in circumstances indicate that carrying amounts may be impaired.

Acquired identifiable intangible assets that have finite lives are amortized over their useful economic life. The customer relationship intangibles is amortized over five years based upon the projected discounted cash flows of the accounts acquired. Acquired identifiable intangible assets that are amortized are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may be impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

Stock-Based Compensation

Compensation costs related to share-based payments transactions are recognized based on the grant-date fair value of the stock-based compensation issued. Compensation costs are recognized over the period that an employee provides service in exchange for the award. Compensation costs related to the employee stock ownership plan are dependent upon the average stock price and the shares committed to be released to the plan participants through the period in which income is reported.

Federal Home Loan Bank of New York advances

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 allows us to market our deposit products in Madison County. 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 granted 2,000 stock options to directors and officers during the year ended December 31, 2023 and had 3,008 of potentially dilutive common stock equivalents. The Company granted 15,900 stock options to directors and officers during the year ended December 31, 2022 and had 6,228 of 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 (See footnote 14).

Reclassifications

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform with the 2023 presentation format. These classifications are immaterial and had no effect on net income or stockholders' equity for the periods presented herein.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 28, 2024, which is the date the consolidated financial statements were available to be issued.

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	Allowance for Credit Losses	Fair Value
			(In thousands)		
Available-for-sale securities:					
December 31, 2023:					
U.S. Treasury securities	$ 2,981	$ -	$ (209)	$ -	$ 2,772
U.S. Government Agency securities	1,000	-	(165)		835
Municipal securities	17,334	3	(2,126)	(47)	15,164
Mortgage-backed securities and collateralized mortgage obligations	7,664	-	(1,097)		6,567
Corporate securities	10,705	4	(607)		10,102
	$ 39,684	$ 7	$ (4,204)	$ (47)	$ 35,440
December 31, 2022:					
U.S. Treasury securities	$ 2,973	$ -	$ (298)	$ -	$ 2,675
U.S. Government Agency securities	1,000	-	(200)		800
Municipal securities	21,388	2	(2,976)		18,414
Mortgage-backed securities and collateralized mortgage obligations	8,345	-	(987)		7,358
Corporate securities	10,753	-	(934)		9,819
	$ 44,459	$ 2	$ (5,395)	$ -	$ 39,066

Government agency and U.S. Treasury securities include notes and bonds with fixed rates. 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 $10.5 million and $9.8 million were pledged to secure deposits and for other purposes required or permitted by law for the years ended December 31, 2023 and 2022, respectively.

3. SECURITIES — (Continued)

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

	December 31, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ -	$ -	$ 1,203	$ 1,004
Due after one year through five years	16,960	15,943	14,494	13,437
Due after five years through ten years	7,323	6,678	11,447	10,209
Due after ten years	7,739	6,252	8,970	7,058
Mortgage-backed securities and collateralized mortgage obligations	7,664	6,567	8,345	7,358
	$ 39,686	$ 35,440	$ 44,459	$ 39,066

During the year ended December 31, 2023, the Company sold $3.7 million of available-for-sale securities with a gross realized loss of $51,000. During the year ended December 31, 2022, the Company sold $3.5 million of available-for-sale securities with a gross realized gain of $17,000 and gross realized loss of $9,000.

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		Twelve Months and Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2023:				
U.S. Treasury securities	$ -	$ -	$ (209)	$ 2,772
U.S. Government Agency securities	-	-	(165)	835
Municipal securities	-	-	(2,126)	13,475
Mortgage-backed securities and collateralized mortgage obligations	-	-	(1,097)	6,567
Corporate securities	(7)	893	(600)	8,716
	$ (7)	$ 893	$ (4,197)	$ 32,365
December 31, 2022:				
U.S. Treasury securities	$ -	$ -	$ (298)	$ 2,675
U.S. Government Agency securities	-	-	(200)	800
Municipal securities	(679)	8,939	(2,297)	7,959
Mortgage-backed securities and collateralized mortgage obligations	(152)	3,177	(835)	4,181
Corporate securities	(734)	8,291	(200)	1,528
	$ (1,565)	$ 20,407	$ (3,830)	$ 17,143

Unrealized losses on U.S. treasury securities, government agency securities, mortgage-backed securities, collateral mortgage obligations, corporate securities, and municipal securities, have not been recognized into income because these losses are 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.

3. SECURITIES — (Continued)

At December 31, 2023, one corporate securities was at a loss position for less than one year. At December 31, 2023, one government agency, one U.S. Treasury, thirty five municipal securities, four mortgage-backed, ten collateralized mortgage obligation securities and thirteen corporate securities were in a continuous loss position for more than twelve months.

At December 31, 2022, twenty two municipal securities, two mortgage-back securities, seven collateralized mortgage obligations and thirteen corporate securities were in a loss position for less than one year. At December 31, 2022, one government agency, one U.S. Treasury, twenty two municipal securities two mortgage-backed, three collateralized mortgage obligation securities and two corporate securities were in a continuous loss position for more than twelve months.

Allowance for Credit Losses for Debt Securities:

The following table presents the allowance for credit losses on available-for-sale debt securities.

	Municipal Securities
	(In thousands)
December 31, 2023:	
Balance, beginning of period	$ -
Provision for credit losses, not previously recorded	47
Balance, end of period	$ 47

Accrued interest receivable on available-for-sale debt securities totaled $234,812 at December 31, 2023 and is excluded from the estimate of credit losses.

At December 31, 2023, the fair value of available-for-sale securities in an unrealized loss position for which an allowance for credit losses has been recorded was $35 thousand, including unrealized losses of $12 thousand, and allowance for credit losses of $47 thousand. This comprised of Madison County Capital Resource Corp. (Cazenovia College) bond that is in default at December 31, 2023. The bond is collateralized with all the assets and real estate of the issuer which will be monetized to satisfy bond holders.

4. LOANS

Net loans for the period December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
Mortgage loans on real estate:		
One-to four-family first lien residential	$ 102,779	$ 94,838
Residential construction	3,356	1,502
Home equity loans and lines of credit	10,733	9,697
Commercial	51,917	45,256
Total mortgage loans on real estate	168,785	151,293
Commercial and industrial	24,205	19,232
Consumer loans	3,904	3,048
Total loans	196,894	173,573
Allowance for credit losses	(2,045)	(1,891)
Net deferred loan origination (fees) and costs	1,608	1,040
Net loans	$ 196,457	$ 172,722

Residential real estate loans serviced for others, not included in net loans, by the Company totaled $26.9 million and $26.5 million at December 31, 2023 and 2022, 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.

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 86% and 87% of the portfolio at December 31, 2023 and 2022, 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.

4. LOANS — (Continued)

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.
- Doubtful/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.

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, 2023 and 2022:

	December 31, 2023 (In thousands)				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 102,779	$ -	$ -	$ -	$ 102,779
Residential construction	3,356	-	-	-	3,356
Home equity loans and lines of credit	10,733	-	-	-	10,733
Commercial	49,053	439	2,425	-	51,917
Total mortgage loans on real estate	165,921	439	2,425	-	168,785
Commercial and industrial	23,650	66	489	-	24,205
Consumer loans	3,904	-	-	-	3,904
Total loans	$ 193,475	$ 505	$ 2,914	$ -	$ 196,894

	December 31, 2022 (In thousands)				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 94,838	$ -	$ -	$ -	$ 94,838
Residential construction	1,502	-	-	-	1,502
Home equity loans and lines of credit	9,697	-	-	-	9,697
Commercial	42,558	1,072	1,626	-	45,256
Total mortgage loans on real estate	140,186	1,072	1,626	-	151,293
Commercial and industrial	19,141	91	-	-	19,232
Consumer loans	3,048	-	-	-	3,048
Total loans	$ 170,784	$ 1,163	$ 1,626	$ -	$173,573

Two commercial real estate loan relationships aggregating $626,000 were downgraded from special mention to substandard during the year ended December 31, 2023. Substandard loans increased from $1.6 million at December 31, 2022 to $2.9 million at December 31, 2023. Special mention loans decreased to $505,000 at December 31, 2023 from $1.2 million at December 31, 2022. These commercial loan relationships were classified from pass to substandard and special mention due to insufficient cash flows at the time of their annual reviews. All commercial loan relationships are current and paying as agreed.

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, 2023 (In thousands)					
	30-59 Days Past-Due	60-89 Days Past-Due	90 Days Past-Due	Total Past-Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
One-to four-family first lien residential	$ 588	$ 344	$ 323	$ 1,255	$ 101,524	$ 102,779
Residential construction	-	-	-	-	3,356	3,356
Home equity loans and lines of credit	33	-	93	126	10,607	10,733
Commercial	914	-	-	914	51,003	51,917
Total mortgage loans on real estate	1,535	344	416	2,295	166,490	168,785
Commercial and industrial	-	-	-	-	24,205	24,205
Consumer loans	-	-	-	-	3,904	3,904
Total loans	$ 1,535	$ 344	$ 416	$ 2,295	$ 194,599	$ 196,894

	December 31, 2022 (In thousands)					
	30-59 Days Past-Due	60-89 Days Past-Due	90 Days Past-Due	Total Past-Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
One-to four-family first lien residential	$ 1,190	$ 103	$ 47	$ 1,340	$ 93,498	$ 94,838
Residential construction	-	-	-	-	1,502	1,502
Home equity loans and lines of credit	-	90	4	94	9,603	9,697
Commercial	-	-	42	42	45,214	45,256
Total mortgage loans on real estate	1,190	193	93	1,476	141,424	151,293
Commercial and industrial	-	-	-	-	19,232	19,232
Consumer loans	-	-	-	-	3,048	3,048
Total loans	$ 1,190	$ 193	$ 93	$ 1,476	$172,097	$ 173,573

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4. LOANS — (Continued)

At December 31, 2023, we did not have loans past-due 90 days and still accruing and at December 31, 2022, we had $51,000 of loans past-due and still accruing. Nonaccrual loans, segregated by class of loan as of December 31, 2023 and 2022 are as follows:

December 31, 2023 (In thousands)	Nonaccrual loans	Nonaccrual loans without related allowance for credit losses	Recognized interest income
Mortgage loans on real estate:			
One-to four-family first lien	$ 315	$ 113	$ -
Residential construction	-	-	-
Home equity loans and lines of credit	93	89	
Commercial	-	-	-
Consumer loans	8	-	-
Total nonaccrual loans	$ 416	$ 202	$ -

Collateral-dependent loans

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the operation or sale of the collateral. Loans considered collateral-dependent were as follows:

December 31, 2023	Amortized cost (In thousands)	Collateral type
Real estate:		
Residential 1-4 family	$ 811	Residential real estate property
Home equity line of credit	126	Residential real estate property
Total real estate	$ 937	

4. LOANS — (Continued)

The following table summarizes impaired loans information by portfolio class:

	December 31, 2022 (In thousands)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate	$ 271	$ 271	$ 41
	271	271	41
With no allowance recorded:			
Mortgage loans on real estate	98	98	-
	98	98	-
Total	$ 369	$ 369	$ 41

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

	December 31, 2022 (In thousands)
Mortgage loans on real estate	$ 433
Total	$ 433

Interest income was recognized on impaired loans for the year ended December 31, 2022, was approximately $11,000.

4. LOANS — (Continued)

Changes in the allowance for loan losses for the years ended December 31, 2023 and 2022 are as follows:

	December 31, 2023 (In thousands)				
	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance, prior to adoption of ASC 326	$ 1,448	$ 203	$ 35	$ 205	$ 1,891
Impact of adoption of ASC 326	(141)	133	68	(60)	-
Charge-offs	-	(67)	(8)	-	(75)
Recoveries	-	-	1	-	1
Provision	(89)	56	(3)	264	228
Ending balance	$ 1,218	$ 325	$ 93	$ 409	$ 2,045

	December 31, 2022 (In thousands)				
	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 1,447	$ 197	$ 17	$ 235	$ 1,896
Charge-offs	(78)	(8)	-	-	(86)
Recoveries	31	30	-	-	61
Provision	48	(16)	18	(30)	20
Ending balance	$ 1,448	$ 203	$ 35	$ 205	$ 1,891
Ending balance: individually evaluated for impairment	41	-	-	-	41
Ending balance: collectively evaluated for impairment	1,407	203	35	205	1,850
Ending balance	$ 1,448	$ 203	$ 35	$ 205	$ 1,891
Loans receivable balance:					
Ending balance: individually evaluated for impairment	369	-	-	-	369
Ending balance: collectively evaluated for impairment	142,515	19,232	11,457	-	173,204
Ending balance	$ 142,884	$ 19,232	$ 11,457	$ -	$ 173,573

4. LOANS — (Continued)

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, 2023	December 31, 2022
	(In thousands)	
Balance, beginning of period	$ 1,035	$ 1,469
Proceeds	46	-
Payments	(157)	(434)
Balance, end of period	$ 924	$ 1,035

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2023 and 2022 are summarized as follows:

Construction in progress is composed of ongoing improvements to existing branches and construction of a new branch. Depreciation expense for the years ended December 31, 2023 and 2022 was $384,000 and $430,000, respectively.

	December 31, 2023	December 31, 2022
	(Dollars in Thousands)	
Building and building improvements	$ 6,980	$ 6,980
Construction in progress	548	-
Furniture, fixtures and equipment	2,410	2,374
	9,938	9,354
Accumulated depreciation	(4,089)	(3,709)
Total	$ 5,849	$ 5,645

6. DEPOSITS

The components of deposits for the years ended December 31, 2023 and 2022 consist of the following:

	December 31, 2023	December 31, 2022
	(In thousands)	
Demand deposits	$ 29,557	$ 25,501
NOW accounts	24,383	27,501
Regular savings and demand clubs	23,644	29,116
Money markets	50,487	41,357
Certificates of deposit and retirement accounts	65,642	60,772
	$ 193,713	$ 184,247

6. DEPOSITS — (Continued)

As of December 31, 2023, certificates of deposit and retirement accounts have scheduled maturities as follows (dollars in thousands):

	December 31, 2023
2024	$ 53,289
2025	6,264
2026	930
2027	2,717
2028	2,442
Thereafter	-
	$ 65,642

The aggregate amount of time deposits in denominations of $250,000 or more were $28.5 million and $25.5 million at December 31, 2023 and 2022, respectively. Under the Dodd-Frank Act, deposit insurance per account owner is $250,000.

Interest expense on deposits for the years ended December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
	(Dollars in Thousands)	
NOW accounts	$ 25	$ 28
Regular savings and demand clubs	16	21
Money markets	808	132
Certificates of deposit and retirement accounts	1,720	402
	$ 2,569	$ 583

Related party deposits for the years ended December 31, 2023, and 2022 were $1.7 million.

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, 2023 and 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
	(Dollars in Thousands)	
Term Advances:		
Advanced January 8, 2019 - Due January 8, 2024 - bearing interest at 2.97% fixed rate	2,000	2,000
Advanced May 29, 2019 - Due May 30, 2023 - bearing interest at 2.38% fixed rate	-	1,500
Advanced September 25, 2019 - Due September 25, 2023 - bearing interest at 1.89% fixed rate	-	2,000
Advanced December 27, 2019 - Due December 27, 2024 - bearing interest at 1.98% fixed rate	1,000	1,000
Advanced December 30, 2019 - Due January 2, 2024 - bearing interest at 1.91% fixed rate	3,000	3,000
Advanced February 25, 2020 - Due February 25, 2025 - bearing interest at 1.52% fixed rate	1,000	1,000
Advanced March 5, 2020 - Due March 5, 2025 - bearing interest at 1.12% fixed rate	3,500	3,500
Advanced March 12, 2020 - Due March 12, 2025 - bearing interest at 1.42% fixed rate	1,000	1,000
Advanced June 23, 2022 - Due June 23, 2023 - bearing interest at SOFR adjustable rate	-	4,000
Advanced November 30, 2022 - Due November 30, 2027 - bearing interest at 4.24% fixed rate	2,000	2,000
Advanced December 30, 2022 - Due December 30, 2025 - bearing interest at 4.54% fixed rate	2,000	2,000
Advanced December 30, 2022 - Due December 30, 2026 - bearing interest at 4.42% fixed rate	2,000	2,000
Advanced January 12, 2023 - Due January 12, 2028 - bearing interest at 3.85% fixed rate	2,000	-
Advanced March 10, 2023 - Due March 10, 2028 - bearing interest at 3.85% fixed rate	6,000	-
Advanced July 19, 2023 - Due July 19, 2027 - bearing interest at 4.49% fixed rate	1,000	-
Advanced September 11, 2023 - Due September 11, 2028 - bearing interest at 4.72% fixed rate	3,000	-
Advanced September 13, 2023 - Due September 14, 2026 - bearing interest at 4.61% fixed rate	2,000	
Advanced September 26, 2023 - Due September 28, 2026 - bearing interest at 5.18% fixed rate	2,000	-
Total Term Advances	33,500	25,000
Repurchase Advances:		
Advanced December 29, 2023 - Due January 5, 2024 - bearing interest at 5.56% fixed rate	2,000	-
Total Advances	$ 35,500	$ 25,000

The contractual maturities and weighted average rates of advances from FHLBNY at December 31, 2023 are as follows (dollars in thousands):

2024	$ 8,000	3.10%
2025	7,500	2.13%
2026	6,000	4.74%
2027	3,000	4.32%
2028	11,000	4.38%
	$ 35,500	3.73%

7. BORROWINGS — (Continued)

The Company has access to FHLBNY advances, under which it can borrow at various terms and interest rates. Residential and commercial mortgage loans of $63.5 million and $72.0 million at December 31, 2023 and 2022 respectively, and investment securities of $9.3 million and $9.8 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 a municipal letter of credit (MULOC) with the FHLBNY collateralizing a $10.0 million certificate of deposit with the State of New York Banking Development District. The New York State certificate was deposited after the Company opened its fourth location in Bridgeport, New York. The Company has also pledged a collateralized mortgage obligation with a book value of $190,000 and a market value of $174,000 to a local municipality collateralizing their deposits. The Company has pledged a New York municipal bond with a book value of $339,000 and a market value of $297,000 to the link deposit program. The Company also has a $4.0 million dollar line of credit with a correspondent bank that is available on an unsecured basis and has no draws on the line of credit.

8. INCOME TAXES

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

	December 31, 2023	December 31, 2022
	(Dollars in thousands)	
Current:		
Federal	$ (124)	$ 59
State	4	3
	(120)	62
Deferred:		
Federal	259	265
State	-	-
	259	265
Total provision for income taxes	$ 139	$ 327

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.

The components of the net deferred tax assets, included in other liabilities at December 31, 2023 and other assets at December 31, 2022 in the consolidated statements of financial condition, are as follows:

	December 31,	
	2023	2022
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 538	$ 487
Net operating loss carryforward	778	546
Nonaccrual interest	2	2
Net unrealized loss on securities available-for-sale	881	1,132
Other	56	51
Total deferred tax assets	2,255	2,218
Deferred tax liabilities:		
Net retirement plans	(1,681)	(1,514)
Depreciation	(351)	(320)
Deferred loan fees	(414)	(80)
Other	(1)	(1)
Total deferred tax liabilities	(2,447)	(1,915)
Valuation allowance	(342)	(260)
Net deferred tax (liabilities) assets	$ (534)	$ 43

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,	
	2023	2022
	(Dollars in thousands)	
Computed at the statutory rate	$ 188	$ 409
Change in valuation allowance	82	14
State deferred tax liability	(82)	(14)
Nontaxable interest and dividend	(35)	(59)
Income from bank owned life insurance	(9)	(8)
Other items	(5)	(15)
Income tax provision	$ 139	$ 327

8. INCOME TAXES (Continued)

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. The decrease in valuation allowance at December 31, 2023 from December 31, 2022 was due to the increase in NYS deferred tax assets.

At December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022. 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.

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, 2023		
	Unrealized (Losses) Gains on Available-for-Sale Securities	Net Loss on Pension Plan	Accumulated Other Comprehensive (Loss) Income
		(In thousands)	
Beginning balance	$ (4,261)	$ (1,902)	$ (6,163)
Other comprehensive income	946	263	1,209
Ending balance	$ (3,315)	$ (1,639)	$ (4,954)

	For the year ended December 31, 2022		
	Unrealized Gains (Loss) on Available-for-Sale Securities	Net (Loss) Gain on Pension Plan	Accumulated Other Comprehensive (Loss) Gain
		(In thousands)	
Beginning balance	$ 260	$ (1,465)	$ (1,205)
Other comprehensive income (loss)	(4,521)	(437)	(4,958)
Ending balance	$ (4,261)	$ (1,902)	$ (6,163)

9. COMPREHENSIVE LOSS — (Continued)

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

	For the years ended					
	December 31, 2023			December 31, 2022		
	Before Tax Amount	Tax (Expense) Benefit	Net	Before Tax Amount	Tax (Expense) Benefit	Net
	(In thousands)					
Available-for-sale securities:						
Unrealized holding gains (losses) arising during period	$ 1,145	$ (240)	$ 905	$ (5,715)	$ 1,201	$ (4,514)
Reclassification adjustment for net losses (gains) included in net income	51	(10)	41	(8)	1	(7)
Net unrealized loss on available-for-sale securities	1,196	(250)	946	(5,723)	1,202	(4,521)
Defined Benefit Pension Plan:						
Net gains (losses) arising during the period	335	(72)	263	(725)	152	(573)
Less reclassification of amortization of net losses recognized in net pension expense	-	-	-	172	(36)	136
Net changes in defined benefit pension plan	335	(72)	263	(553)	116	(437)
Other Comprehensive Income (Loss)	$ 1,531	$ (322)	$ 1,209	$ (6,276)	$ 1,318	$ (4,958)

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		Affected line item in the
	2023	2022	Statement of Income
	(In thousands)		
Available-for-sale securities:			
Realized gains on sale of available for sale securities	$ (51)	$ 8	Net realized gains on sales of available-for-sale securities
Tax effect	10	(1)	Provision for income taxes
	(41)	7	Net income
Defined benefit pension plan:			
Retirement plan net losses recognized in net period pension cost	-	(172)	Compensation and employee benefits
Tax effect	-	36	Benefit for income taxes
	$ -	$ (136)	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, 2023 and 2022, the Company recorded $170,000 and $149,000, 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 $21,512 and $19,848, respectively, for the years ended December 31, 2023 and 2022.

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 5% of the employee's earnings. Expense for the 401k is included in the compensation and employee benefits on the consolidated statement of income and was $34,919 and $30,226, respectively for the years ended December 31, 2023 and 2022.

All plan provisions and actuarial methods used in 2023 are the same as those used in 2022, with the exception of the discount rate used to determine the benefit obligation which increased to 5.84% from 6.04%. The mortality table used in 2023 was RP-2014 (adjusted) with MP-2021 mortality improvements.

Information pertaining to the activity in the Pension Plan for the years ended December 31, 2023 and 2022 is as follows:

	December 31, 2023	December 31, 2022
	(Dollars in Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 8,741	$ 11,557
Service cost	211	326
Interest cost	512	424
Actuarial loss (gain)	482	(3,061)
Benefits paid	(1,131)	(505)
Benefit obligation at end of year	8,815	8,741
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 14,341	$ 16,523
Actual return on plan assets	1,945	(2,677)
Employer contributions	-	1,000
Benefits paid	(1,131)	(505)
Fair value of plan assets at end of year	15,155	14,341
Net amount recognized, funded status	$ 6,340	$ 5,600

10. EMPLOYEE BENEFIT PLANS — (Continued)

The accumulated benefit obligation was $8.2 million at December 31, 2023 and 2022.

The assumptions used to determine the benefit obligation at December 31, 2023 and 2022 are as follows:

	2023	2022
Discount rate	5.84%	6.04%
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, 2023 and 2022 are as follows:

	December 31,	
	2023	2022
	(Dollars in Thousands)	
Service cost	$ 211	$ 326
Interest cost	512	424
Expected return on assets	(1,127)	(1,109)
Amortization of unrecognized loss	-	172
Net periodic pension (benefit) cost	(404)	(187)
Total of amounts recognized in other comprehensive (income) loss	(335)	553
Total recognized in net periodic pension cost and other comprehensive income	$ (739)	$ 366

The assumptions used to determine net periodic pension cost for the years ended December 31, 2023 and 2022 are as follows:

	December 31,	
	2023	2022
Discount rate	6.04%	3.75%
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.

10. EMPLOYEE BENEFIT PLANS — (Continued)

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, 2023		
	Asset Category	**Total**	**Level 1**	**Level 2**
	Equities & Commodities:			
(1)	Blackrock Dividend Equity	$ 764	$ -	$ 764
(2)	Select S&P 500 Index	3,011	-	3,011
(3)	Select Blue Chip Growth	790	-	790
(4)	Select S&P Mid Cap Index	1,859	-	1,859
(5)	Select Small Cap Index	1,604	-	1,604
(6)	Premier Strategic Emerging Markets	739	-	739
(7)	Oppenheimer Real Estate	473	-	473
	Total Equities and Commodities	9,240		9,240
	Fixed Income:			
(8)	Premier Short-Duration Bond	1,445	-	1,445
(9)	Northern Bond Index	1,480	-	1,480
(10)	Select Western Strategic Bond	1,493	-	1,493
(11)	Premier Inflation Protected & Income Fund	724	-	724
(12)	Premier Babson High Yield Bond	742	-	742
(13)	Liquid Asset Separate Account	31		31
	Total Fixed Income	5,915		5,915
	Total Market Value	$ 15,155	$ -	$ 15,155

		Market Value of Assets - December 31, 2022		
	Asset Category	**Total**	**Level 1**	**Level 2**
	Equities & Commodities:			
(1)	Blackrock Dividend Equity	$ 760	$ -	$ 760
(2)	Select S&P 500 Index	2,918	-	2,918
(3)	Select Blue Chip Growth	726	-	726
(4)	Select S&P Mid Cap Index	1,762	-	1,762
(5)	Select Small Cap Index	1,444	-	1,444
(6)	Premier Strategic Emerging Markets	747	-	747
(7)	Oppenheimer Real Estate	434	-	434
	Total Equities and Commodities	8,791		8,791
	Fixed Income:			
(8)	Premier Short-Duration Bond	1,368	-	1,368
(9)	Northern Bond Index	1,386	-	1,386
(10)	Select Western Strategic Bond	1,389	-	1,389
(11)	Premier Inflation Protected & Income Fund	687	-	687
(12)	Premier Babson High Yield Bond	706	-	706
(13)	Liquid Asset Separate Account	14		14
	Total Fixed Income	5,550		5,550
	Total Market Value	$ 14,341	$ -	$ 14,341

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

There were no Level 3 plan assets as of December 31, 2023 and 2022.

10. EMPLOYEE BENEFIT PLANS — (Continued)

Fund Descriptions:

(1) Blackrock Dividend Equity— The fund seeks to achieve its objective by investing primarily in a diversified portfolio of equity securities. Under normal circumstances, it will invest at least 80% of its assets in equity securities and at least 80% of its assets in dividend paying securities. The fund may invest in securities of the companies with any market capitalization, but will generally focus on large cap securities.

(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.

(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).

10. EMPLOYEE BENEFIT PLANS — (Continued)

(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).

(13) The investment seeks as high a level of current income as it considered consistent with preservation of principal and maintenance of liquidity. It invests in a portfolio of high-quality, short-term investments. The investments are in U.S.are in U.S dollar denominations securities which the sub-advisor believes present minimal credit risk. The sub-advisor maintains a dollar weighted average portfolio maturity of 60 days or less.

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 2023 and 2022, but made a $1.0 million contribution in the 1st quarter of 2022.

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

2024	$ 490
2025	$ 487
2026	$ 573
2027	$ 569
2028	$ 611
2029-2033	$ 3,402

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 approximately $27,000 of compensation expense related to this plan for the year ended December 31, 2023 and December 31, 2022. At December 31, 2023, there were 62,874 shares not yet released having an aggregate market value of approximately $465,268. Participant vesting provisions for the ESOP are 20% per year and will be fully vested upon completion of six years of credited service. Eligible employees who were employed with the Bank shall receive credit for vesting purposes for each year of continuous employment prior to adoption of the ESOP.

10. EMPLOYEE BENEFIT PLANS — (Continued)

STOCK BASED COMPENSATION

In August of 2019, the board of directors of the Company approved the grant of stock option awards to its directors and executive officers under the 2019 Equity Plan that had 96,967 shares authorized for option awards. A total of 47,500 stock option awards were granted to five directors and nine officers of the Company at an exercise price of $9.20 per share. The awards will vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or September 2029. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions: risk-free interest rate of 1.5%; volatility factors of the expected market price of the Company's common stock of 21.23%; weighted average expected lives of the options of 7.5 years. Based upon these assumptions, the weighted average fair value of options granted was $2.52. In May of 2020, the board of directors of the Company approved the grant of stock option awards to it executive officers under the 2019 Stock Option Plan. A total of 5,000 stock option awards were granted to five officers of the Company at an exercise price of $6.52. The awards will vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or June 2030. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model used the following weighted average assumptions for the options granted in May of 2020: risk-free interest rate of 0.49%; volatility factors of the expected market price of the Company's common stock of 34.21%; weighted average expected lives of the options of 6.5 years. Based upon these assumptions, the weighted average fair value of options granted was $2.27. In June of 2021, the board of directors of the Company approved the grant of stock option awards to it executive officers and directors under the 2019 Stock Option Plan. A total of 15,900 stock option awards were granted to directors and executive officers of the Company at an exercise price of $9.75. The awards will vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or July 2031. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. In May 2022, the board of directors of the Company approved the grant of stock option awards to it executive officers and directors under the 2019 Stock Option Plan. A total of 4,800 stock option awards were granted to directors and executive officers of the Company at an exercise price of $11.25. The awards will vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or June 2032. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model. In May 2023, the board of directors of the Company approved the grant of stock option awards to it executive officers and directors under the 2019 Stock Option Plan. A total of 2,000 stock option awards were granted to directors and executive officers of the Company at an exercise price of $8.83. The awards will vest ratably over five years (20% per year for each year of the participant's service with the Company) and will expire ten years from the date of the grant, or June 2033. The fair value of each option grant was established at the date of grant using the Black-Scholes option pricing model.

The Black-Scholes model used the following weighted average assumptions for the options granted in May of 2023: risk-free interest rate of 3.53%; volatility factors of the expected market price of the Company's common stock of 29.22%; weighted average expected lives of the options of 6.5 years. Based upon these assumptions, the weighted average fair value of options granted was $2.93.

10. EMPLOYEE BENEFIT PLANS — (Continued)

A summary of the Company's stock option activity and related information for its equity incentive plan for the years ended December 31, 2023 and 2022 is as follows:

	For the year ended December 31,			
	2023		2022	
	Options	Weighted Average Exercise Price Per Share	Options	Weighted Average Exercise Price Per Share
Outstanding at the beginning of the period	69,200	$ 9.27	64,400	$ 9.12
Grants:	2,000	8.83	4,800	11.25
Exercised	-	-	-	-
Outstanding at period end	71,200	$ 9.26	69,200	$ 9.27

The grants to senior management and directors vest over a five-year period in equal installments, with the first installment vesting on the anniversary date of the grant and succeeding installments on each anniversary thereafter, through 2028.

The compensation expense of the awards is based on the fair value of the instruments on the date of the grant and no options are available to be exercised at each year end.

The Company recorded compensation expense in the amount of approximately $42,800 for the year ended December 31, 2023 and approximately $37,000 for the year ended December 31, 2022. The Company has $56,437 of compensation expense remaining to be recognized at December 31, 2023.

Compensation costs related to share-based payments transactions are recognized based on the grant-date fair value of the stock-based compensation issued. Compensation costs are recognized over the period that an employee provides service in exchange for the award. Compensation costs related to the employee stock ownership plan are dependent upon the average stock price and the shares committed to be released to the plan participants through the period in which income is reported.

In May 2023 and 2022 the Company awarded 12,000 shares of restricted stock awards to senior management respectively. The restricted stock vests 20% per year on the specified vesting date, until 100% vested on the specified vesting date of the fifth year after the after the restricted stock was granted. The Company recorded compensation expense in the amount of $36,396 for the year ended December 31, 2023 and $15,750 for the year ended December 31, 2022. The Company has $176,814 of compensation expenses remaining to be recognized at December 31, 2023.

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.

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:

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

There were no securities transferred out of Level 2 securities available-for-sale during the twelve months ended December 31, 2023 and 2022.

	Total	Level 1	Level 2	Level 3
		(In thousands)		
Available-for-sale Securities:				
December 31, 2023:				
U.S. Treasury securities	$ 2,772	$ -	$ 2,772	$ -
U.S. Government Agency securities	835	-	835	-
Municipal securities	15,164	-	15,164	-
Mortgage-backed securities and collateralized mortgage obligations	6,567	-	6,567	-
Corporate securities	10,102	-	10,102	-
	$ 35,440	$ -	$ 35,440	$ -
December 31, 2022:				
U.S. Treasury securities	$ 2,675		$ 2,675	
U.S. Government Agency securities	800	$ -	800	$ -
Municipal securities	18,414	-	18,414	-
Mortgage-backed securities and collateralized mortgage obligations	7,358	-	7,358	-
Corporate securities	9,819	-	9,819	-
	$ 39,066	$ -	$ 39,066	$ -

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, 2023 and 2022.

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

Cash and cash equivalents

The carrying amounts of these assets approximate their fair values.

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.

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

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2023 and 2022 are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
		(In thousands)	
December 31, 2023:			
Financial assets:			
Cash and cash equivalents	Level 1	$ 3,920	$ 3,920
Securities available-for-sale	Level 2	35,440	35,440
Investment in FHLB stock	Level 2	2,998	2,998
Loans, net	Level 3	196,457	177,906
Accrued interest receivable	Level 1	1,158	1,111
Financial liabilities:			
Deposits	Level 1/2	193,713	177,922
Advances and borrowings from FHLB	Level 2	35,500	35,500
Accrued interest payable	Level 1	100	100
Advances from borrowers for taxes and insurance	Level 1	2,386	2,386
December 31, 2022:			
Financial assets:			
Cash and due from banks	Level 1	$ 4,427	$ 4,427
Securities available-for-sale	Level 2	39,066	39,066
Investment in FHLB stock	Level 2	2,477	2,477
Loans, net	Level 3	172,722	165,160
Accrued interest receivable	Level 1	1,042	1,042
Financial liabilities:			
Deposits	Level 1/2	184,247	164,830
Advances and borrowings from FHLB and PPLF	Level 2	25,000	25,000
Accrued interest payable	Level 1	46	46
Advances from borrowers for taxes and insurance	Level 1	2,387	2,387

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.

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

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

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, 2023 and 2022 were as follows:

	Total	Level 1	Level 2	Level 3
		(In thousands)		
December 31, 2023:				
Collateral-dependent loans	$ 890	$ -	$ -	$ 890
	$ 890	$ -	$ -	$ 890
December 31, 2022:				
Impaired loans	$ 328	$ -	$ -	$ 328
Foreclosed real estate	125	-	-	125
	$ 453	$ -	$ -	$ 453

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	5%-30%
Foreclosed real estate	Market valuation of property	Costs to sell	5%
	Lower of appraisal of collateral or asking price less selling costs	Appraisal adjustments	3%-7%

At December 31, 2023 and 2022, the fair value consists of loan balances of $937,000 and $369,000, respectively, net of a valuation allowance of $47,000 and $41,000, respectively.

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.

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

	December 31,	
	2023	2022
	(In thousands)	
Commitments to Grant Loans	$ 805	$ 3,081
Financial Standby Letters of Credit	$ 171	$ 327
Unfunded Commitments Under Lines of Credit	$ 21,264	$ 15,679

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

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

13. REGULATORY CAPITAL REQUIREMENTS — (Continued)

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios set forth in the table below of total, Tier 1, and Tier 1 common equity capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which it is subject.

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

As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies were required to develop a "Community Bank Leverage Ratio" (the ratio of a Bank's Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. A financial institution can elect to be subject to this new definition. The federal banking agencies set the minimum capital for the Community Bank Leverage Ratio at 9.00%. Pursuant to the CARES Act, the federal banking agencies in April 2020 issued interim final rules to set the Community Bank Leverage Ratio at 8% beginning in the second quarter of 2020 through the end of 2020. Beginning in 2021, the Community Bank Leverage Ratio increased to 8.5% for the calendar year. Beginning January 1, 2022, the Community Bank Leverage Ratio requirement returned to 9%. The Bank elected to adopt the Community Bank Leverage Ratio as of June 30, 2020.

As of December 31, 2023, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain a minimum Tier 1 leverage ratios (Community Bank Leverage Ratio) as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022, are as follows:

	Actual		Capital Adequacy Purposes		To be Well Capitalized Under Prompt and Corrective Action Provisions		Minimum Capital Adequacy with Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
				(In thousands)				
As of December 31, 2023:								
Tier 1 capital to assets	$ 25,466	10.19%	$ 19,991	8.00%	$ 22,489	9.00%	N/A	N/A
As of December 31, 2022:								
Tier 1 capital to assets	$ 25,697	11.03%	$ 18,636	8.00%	$ 20,965	9.00%	N/A	N/A

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 granted 71,200 stock options to Directors and Officers as of December 31, 2023. During the twelve months ended December 31, 2023, the Company had 3,008 potentially dilutive common stock equivalents. During the twelve months ended December 31, 2022, the Company had 6,228 of potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

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

(Dollars in Thousands Except per Share Data)	Year ended December 31, 2023	2022
Basic earnings per common share:		
Net income available to common stockholders	$ 755	$ 1,623
Weighted average common shares outstanding basic	1,786,740	1,813,200
Weighted average common shares outstanding dilutive	1,789,478	1,819,428
Earnings per share basic	$ 0.42	$ 0.90
Earnings per share dilutive	$ 0.42	$ 0.89

15. NON-INTEREST INCOME

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

	For the years ended December 31, 2023	2022
	(In thousands)	
Service fees		
Deposit related fees	$ 39	$ 37
Loan servicing income	79	92
Total service fees	118	129
Income from financial services		
Securities commission income	569	575
Insurance commission income	25	26
Total insurance and securities commission income	594	601
Card income		
Debit card interchange fee income	300	269
ATM fees	29	27
Insufficient fund fees	293	254
Total card and insufficient funds income	622	550
Realized gain (loss) on sale of residential mortgage loans, available for sale securities and fixed assets		
Realized gain on sales of residential mortgage loans	56	2
Realized net (loss) gain on available-for-sales securities	(51)	8
Income from foreclosed real estate	-	20
Bank owned life insurance	41	40
Other miscellaneous income	68	54
Total non-interest income	$ 1,448	$ 1,404

15. NON-INTEREST INCOME — (Continued)

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.

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, 2023, and 2022 and for the years then ended.

Parent Only Condensed Balance Sheets

	December 31, 2023	December 31, 2022
	(In Thousands of Dollars)	
Assets		
Cash in bank subsidiary	$ 256	$ 751
Investments in subsidiaries, at underlying equity	21,664	19,534
Loan receivable - ESOP	684	700
Other assets	45	46
Total assets	$ 22,649	$ 21,031
Liabilities and Stockholders' Equity		
Liabilities:		
Other liabilities	$ -	$ -
Total liabilities	-	-
Stockholders' equity:		
Total stockholders' equity	22,649	21,031
Total liabilities and stockholders' equity	$ 22,649	$ 21,031

16. PARENT COMPANY ONLY FINANCIAL INFORMATION — (Continued)

Parent Only Condensed Statements of Income

	Year Ended December 31 2023	Year Ended December 31 2022
	(In Thousands of Dollars)	
Interest income:		
Income on ESOP loan	$ 28	$ 29
Total interest income	28	29
Non-interest expenses:		
Professional fees	92	108
Other non-interest expense	75	52
Total non-interest expense	167	160
Loss before taxes	(139)	(131)
Income tax expense	(29)	(1)
Earnings before equity in undistributed earnings of Bank	(168)	(132)
Equity in undistributed earnings of Bank	923	1,755
Net income	$ 755	$ 1,623

Parent Only Statement of Cash Flows

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(In Thousands of Dollars)	
Cash flows from operating activities:		
Net income	$ 755	$ 1,623
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of Bank	(923)	(1,755)
Decrease (increase) in other assets	29	(45)
Stock based compensation expense	76	51
Net used in operating activities	(63)	(125)
Cash flows from investing activities:		
Payments received on ESOP loan	16	17
Net cash used in investing activities	16	17
Cash flows from financing activities:		
Dividend from Bank subsidiary	-	200
Repurchase of shares into treasury stock	(448)	(71)
Net cash provided by financing activities	(448)	129
Net change in cash and cash equivalents	(495)	21
Cash and cash equivalents -beginning of year	751	730
Cash and cash equivalents - end of year	$ 256	$ 751

Corporate and Shareholder Information

CORPORATE HEADQUARTERS

35 Oswego St,
Baldwinsville, NY 13027
Phone: 315-638-0233
Fax: 315-638-9871
www.senecasavings.com

SUBSIDIARIES

Seneca Savings
Financial Quest

TRANSFER AGENT

EQ
PO BOX 500
Newark, NJ 07101
E-mail: helpAST@equiniti.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Bonadio Group
432 North Franklin St. #60
Syracuse, NY 13204

SEC COUNSEL

Luse Gorman, PC
5335 Wisconsin Ave. N.W. Suite 780
Washington, D.C. 20015

STOCK EXCHANGE

Over the - Counter Bulletin Board (OTCBB)

INVESTOR AND SHAREHOLDER INFORMATION

Requests for company information or to receive a copy of this Annual Report to Shareholders without charge may be sent to:

Seneca Financial Corp.
Investor Relations
35 Oswego Street
Baldwinsville, NY 13027

Directors and Executive Management

Seneca Financial Corp.

Directors

William Le Beau

Kimberly Boynton

Daniel Coholan

Vincent Fazio

James Hickey

Robert Savicki

Joseph G. Vitale

Mark Zames, Chairman

Seneca Savings

Senior Management

Joseph G. Vitale
President & Chief Executive Officer

Vincent Fazio
EVP & Chief Financial Officer

Angelo Testani
SVP Commercial Lending

Laurie L. Ucher
SVP Retail Banking

Jamie Nastri
SVP Operations

Gregory Boshart
SVP Financial Quest

ANNUAL MEETING OF SHAREHOLDERS

Tuesday, May 24, 2024
10:00 AM EST
Seneca Financial Corp.
35 Oswego Street
Baldwinsville, NY 13027

SENECA
FINANCIAL CORP.